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If you have sold or otherwise transferred all your Collins Stewart Tullett Shares, please send this document and the accompanying documents to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee. If you have sold or transferred only part of your holding of Collins Stewart Tullett Shares, you should retain this document and the accompanying documents and consult the bank, stockbroker or agent through whom the sale was effected.

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Collins Stewart Tullett Share Owners should read the whole of this document.

Lehman Brothers, which is authorised and regulated in the UK by The Financial Services Authority, is acting exclusively for Collins Stewart Tullett plc, Collins Stewart plc and New CST plc as Sponsor and financial adviser in connection with the Demerger Proposals and as Sponsor in connection with the Acquisition and for no one else and will not be responsible to anyone other than Collins Stewart Tullett plc, Collins Stewart plc and New CST plc for providing the protections afforded to its clients, for the content of this document, or for providing advice in relation to the Demerger Proposals and the Acquisition.

Lehman Brothers makes no representation, express or implied, with respect to the accuracy or completeness of any information contained in this document and accepts no responsibility for, nor does it authorise, the contents of this document.

Your attention is drawn to the letter from the Chairman of Collins Stewart Tullett plc in Part 1 of this document, which contains the unanimous recommendation of your Board that you vote in favour of the Demerger Proposals at both the Court Meeting and the Extraordinary General Meeting and in favour of the Acquisition and the Share Plans Proposals at the Extraordinary General Meeting. A letter from Lehman Brothers explaining the Demerger Proposals is set out in Part 2 of this document.

Collins Stewart Tullett plc

(Incorporated in England and Wales under the Companies Act 1985, with Registered Number 3904126)

Recommended proposals (including a scheme of arrangement pursuant to the Companies Act 1985) for the Demerger of Collins Stewart from Collins Stewart Tullett plc

Proposed acquisition of Hawkpoint

Issue of 35,074,221 New Collins Stewart Shares as consideration for the proposed acquisition of Hawkpoint

Notices of Court Meeting and Extraordinary General Meeting

Copies of the New CST Prospectus and the Collins Stewart Group Prospectus, prepared in accordance with the Prospectus Rules of the UK Listing Authority made under section 73A of the Financial Services and Markets Act 2000, have been filed with the FSA in accordance with the Prospectus Rules.

No New CST Shares, Collins Stewart Shares or New Collins Stewart Shares have been marketed to, nor are any New CST Shares, Collins Stewart Shares or New Collins Stewart Shares available for purchase by, the public in the United Kingdom or elsewhere in connection with the introduction of the New CST Shares, Collins Stewart Shares and New Collins Stewart Shares to the Official List. This document does not constitute an offer or an invitation to any person to subscribe for or to purchase any securities in New CST plc or Collins Stewart plc.

Application will be made to the UK Listing Authority for the New CST Shares, Collins Stewart Shares and New Collins Stewart Shares to be admitted to the Official List and to trading on the London Stock Exchange's market for listed securities. It is expected that dealings in Collins Stewart Tullett Shares will continue until the close of business on 14 December 2006 and that Admission of New CST Shares and Collins Stewart Shares will become effective and that dealings in New CST Shares and Collins Stewart Shares will commence on the London Stock Exchange at 8.00 a.m. on 19 December 2006. It is further expected that, subject to the conditions (other than the conditions relating to the admission of the New Collins Stewart Shares) to the Acquisition being satisfied or, where permitted, waived, and subject also to the timing of the satisfaction or, where

permitted, waiver of the conditions, Admission of the New Collins Stewart Shares will become effective and that dealings in New Collins Stewart Shares will commence on the London Stock Exchange at 8.00 a.m. on 22 December 2006.

Notices of the Court Meeting and of the Extraordinary General Meeting of Collins Stewart Tullett plc to be held on 23 November 2006, commencing respectively at 12 noon and 12.15 p.m. (or as soon thereafter as the Court Meeting concludes or is adjourned), are set out in Part 12 and Part 13 respectively of this document.

Whether or not you intend to be present at the meetings, please complete and return the forms of proxy accompanying this document to the Registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU as soon as possible and in any event so as to arrive by not later than 48 hours before the time appointed for the relevant meeting (although the white form of proxy for the Court Meeting may be handed to the Chairman at the Court Meeting). If you hold Collins Stewart Tullett Shares in uncertificated form, you may also appoint a proxy for each meeting by completing and transmitting a CREST proxy instruction in accordance with the procedures set out in the CREST manual and ensuring that it is received by Capita Registrars (quoting CREST Participant ID RA10) by no later than 48 hours before the time appointed for the relevant meeting. **A summary of the action to be taken by Collins Stewart Tullett Share Owners is set out on pages 19 and 34.**

Securities may not be offered or sold in the United States unless they are registered under the Securities Act or are exempt from such registration requirements. Any securities issued pursuant to the Scheme or the Demerger have not been and will not be registered under the Securities Act but will be issued in reliance on an exemption. The New CST Shares and Collins Stewart Shares referred to in this document have not been approved or disapproved by the United States Securities and Exchange Commission, any US State Securities commission or any other regulatory authority in the United States, nor have any of the foregoing authorities passed on or endorsed the merits of the Scheme or the accuracy or adequacy of the information contained in this document. Any representation to the contrary is a criminal offence in the United States.

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT, ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

Any securities issued to or for the benefit of any resident of Canada pursuant to the Scheme or the Demerger will not be qualified for sale under the securities laws of any province or territory of Canada and will be subject to resale restrictions.

A copy of each of the New CST Prospectus and the Collins Stewart Group Prospectus is being posted to Collins Stewart Tullett Share Owners and are also obtainable up until Admission, free of charge, from the registered office of Collins Stewart Tullett plc (being 9th Floor, 88 Wood Street, London EC2V 7QR). A copy of either Prospectus may also be inspected as described in paragraph 14 of the Summary and in paragraph 15 of Part 9 of this document.

Collins Stewart Tullett plc and/or New CST plc and/or Collins Stewart plc may include forward looking statements in oral or written public statements issued by or on behalf of Collins Stewart Tullett plc and/or New CST plc and/or Collins Stewart plc. These forward looking statements may include, among other things, plans, objectives, projections and anticipated future economic performance based on assumptions and the like that are subject to risks and uncertainties. As such, actual results or outcomes may differ materially from those discussed in the forward looking statements. Important factors which may cause actual results to differ include but are not limited to: the unanticipated loss of a material client or key personnel, the actions of competitors, shifts in industry rates of compensation, government compliance costs or litigation, natural disasters or acts of terrorism, and the overall level of economic activity in Collins Stewart Tullett plc's major markets. In light of these and other uncertainties, the forward looking statements included in the document should not be regarded as a representation by Collins Stewart Tullett plc, New CST plc or Collins Stewart plc that Collins Stewart Tullett plc, New CST plc or Collins Stewart plc's plans and objectives will be achieved.

Neither Collins Stewart Tullett plc, New CST plc nor Collins Stewart plc undertakes any obligation to update the forward looking statements to reflect actual results, or any change in events, conditions or assumptions or other factors, unless required to do so by the Prospectus Rules, the Listing Rules or the Disclosure Rules.

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EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Latest time and date for receipt by the Registrars of white forms of proxy for the Court Meeting ⁽¹⁾	12 noon on 21 November 2006
Latest time and date for receipt by the Registrars of blue forms of proxy for the Extraordinary General Meeting	12.15 p.m. on 21 November 2006
Voting record time (in respect of the Court Meeting and the Extraordinary General Meeting)	6.00 p.m. on 21 November 2006
Court Meeting	12 noon on 23 November 2006
Extraordinary General Meeting ⁽²⁾	12.15 p.m. on 23 November 2006
Court hearing of petition to sanction the Scheme	11 December 2006
Conditional dealings in New CST Shares and Collins Stewart Shares commence on the London Stock Exchange ⁽³⁾	14 December 2006
Court hearing of petition to confirm reduction of capital of Collins Stewart Tullett plc provided for under the Scheme	14 December 2006
Last day of dealings in Collins Stewart Tullett Shares ⁽⁴⁾	14 December 2006
Record time and date in order to participate in the Demerger Proposals ⁽⁴⁾	6.00 p.m. on 14 December 2006
Scheme becomes effective and New CST plc becomes the ultimate holding company of Collins Stewart Tullett plc ⁽⁴⁾	Shortly prior to 8.00 a.m. on 15 December 2006
Delisting of Collins Stewart Tullett Shares ⁽⁴⁾	8.00 a.m. on 15 December 2006
Court hearing of the petition to confirm the New CST Reduction of Capital to effect the Demerger ⁽⁴⁾	18 December 2006
New CST Reduction of Capital occurs and the Demerger is completed ⁽⁴⁾	Shortly prior to 8.00 a.m. on 19 December 2006
Trading in New CST Shares and Collins Stewart Shares commences on the London Stock Exchange ⁽⁴⁾	8.00 a.m. on 19 December 2006
Crediting of New CST Shares and Collins Stewart Shares to CREST accounts ⁽⁴⁾	19 December 2006
Court hearing of the petition to confirm the Collins Stewart Group Reduction of Capital ⁽⁴⁾	21 December 2006
Collins Stewart Group Reduction of Capital becomes effective ⁽⁴⁾	22 December 2006
Expected date of completion of the Acquisition and commencement of dealings in New Collins Stewart Shares on the London Stock Exchange ⁽⁴⁾	22 December 2006
Despatch of certificates for New CST Shares and Collins Stewart Shares ⁽⁴⁾	By 5 January 2007

All times are London times.

- (1) Forms of proxy for the Court Meeting not returned by this time may be handed to the Chairman of the Court Meeting at that meeting.
- (2) To commence at the time fixed or, if later, immediately following the conclusion or adjournment of the Court Meeting.
- (3) It should be noted that if Admission of both New CST plc and Collins Stewart plc does not occur, all conditional dealings will be of no effect and any such dealings are at the sole risk of the parties concerned.
- (4) These dates are indicative only and will depend, *inter alia*, on the date upon which the Court sanctions the Scheme.

The dates given are based on the Directors' current expectations and may be subject to change. If the scheduled date of the Court Hearing to sanction the Scheme or of the Collins Stewart Tullett Reduction Court Hearing to sanction the Collins Stewart Tullett Reduction of Capital is changed then Collins Stewart Tullett plc will give adequate notice of the change by issuing an announcement through a Regulatory Information Service. All Collins Stewart Tullett Share Owners have the right to attend the Court Hearing to sanction the Scheme and the Collins Stewart Tullett Reduction Court Hearing to sanction the Collins Stewart Tullett Reduction of Capital.

SUMMARY

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to the action you should take, you are recommended to seek your own personal financial advice immediately from your stockbroker, bank manager, solicitor, accountant, or other independent financial adviser, who, if you are taking advice in the United Kingdom, is duly authorised under the Financial Services and Markets Act 2000.

The Demerger Proposals, the Acquisition and the Share Plans Proposals described in this document are complicated and you may have a number of questions. Set out below are some key questions and answers.

The Demerger Proposals

1. What is being proposed?

The demerger of the Stockbroking Business from Collins Stewart Tullett plc, resulting in two separate businesses operating under two new listed companies:

- the Stockbroking Business, Collins Stewart, whose parent company will be Collins Stewart plc; and
- the Continuing Group whose activities will comprise those of Tullett Prebon, the inter-dealer broker and whose parent company will be New CST plc (which will be renamed Tullett Prebon plc).

This is referred to in the document as the “Demerger”.

2. Why are you proposing the Demerger?

The Directors believe that the Demerger will enable New CST plc to operate with a more efficient capital structure and that both New CST plc and Collins Stewart plc will benefit from having separate management teams which will be able to focus fully on the development opportunities available to them.

3. What will I receive?

When the Demerger becomes effective you will receive one New CST Share and one Collins Stewart Share in place of every existing Collins Stewart Tullett Share held at the Scheme Record Time (this time is expected to be 6.00 p.m. (London time) on 14 December 2006). If you hold your Collins Stewart Tullett Shares in a CREST account, the New CST Shares and Collins Stewart Shares will be credited to your CREST account and if you hold your Collins Stewart Tullett Shares in certificated form, share certificates will be sent to you in due course.

4. When will I receive my new shares?

The Demerger will only happen once all the necessary approvals have been obtained. The new shares in New CST plc and Collins Stewart plc are expected to be listed, and therefore capable of being traded, from 19 December 2006. Your new share certificates are expected to be dispatched to you by 5 January 2007 if you hold your shares in the form of a share certificate.

5. Do I have to pay anything?

No. All New CST Shares and Collins Stewart Shares arising as a result of the Scheme and the Demerger are being issued to Collins Stewart Tullett Share Owners in return for their existing Collins Stewart Tullett Shares. No additional payment is required.

6. Do I need to change my existing instructions so far as the payment of dividends is concerned?

Your present dividend instructions will be continued for New CST plc and Collins Stewart plc after the Scheme and Demerger become effective, unless and until you revoke or amend them.

7. What do I do with my old share certificates?

When the Scheme and Demerger become effective, your holding of existing Collins Stewart Tullett Shares will be replaced by your new holding of New CST Shares and Collins Stewart Shares. **Thus, all your certificates for shares in Collins Stewart Tullett plc will cease to be valid. Upon receipt of your share certificates for shares in New CST plc and Collins Stewart plc, your share certificates in Collins Stewart Tullett plc should be destroyed.**

8. Will I have to pay any tax as a result of the Scheme?

There should generally be no tax liabilities for UK resident Collins Stewart Tullett Share Owners arising from the Scheme.

Details of the UK and US tax treatments are set out respectively in the sections entitled “UK taxation” and “US taxation” in Part 9 of this document.

If you are in any doubt about your tax position, you should consult a professional adviser.

9. What if I participate in a Collins Stewart Tullett Share Plan?

Collins Stewart Tullett plc will be writing to you separately advising you of the impact of the Demerger Proposals on, and the courses of action open to you with respect to, any rights you may have under a Collins Stewart Tullett Share Plan.

10. What if I am resident outside the UK?

You should refer to the section entitled “Overseas share owners” in Part 2 of this document.

11. What if I hold my Collins Stewart Tullett Shares in a PEP or an ISA?

If you hold your Collins Stewart Tullett Shares in a PEP or an ISA, you should be able to hold your New CST Shares or Collins Stewart Shares in the PEP or ISA, depending on the PEP/ISA terms and conditions. If you require further details, you should contact your PEP/ISA manager.

If you do not currently hold Collins Stewart Tullett Shares in a PEP or ISA, the New CST Shares and Collins Stewart Shares should qualify for inclusion in the stocks and shares component of an ISA.

12. What is the estimated cost of implementing the Demerger Proposals?

The total cost (exclusive of any value added tax) payable by Collins Stewart Tullett plc in connection with the Demerger Proposals is estimated to amount to approximately £6.5 million.

The Acquisition

13. What is being proposed?

The acquisition of Hawkpoint, the corporate finance advisory firm, by Collins Stewart is being proposed. The total consideration for the Acquisition will be satisfied by the issue of 35,074,221 New Collins Stewart Shares, representing approximately 14.2 per cent. of the enlarged issued share capital of Collins Stewart plc after the Demerger and the issue of the New Collins Stewart Shares, £40 million of cash at Completion (with a loan note alternative) and an additional cash consideration equivalent to the surplus cash in Hawkpoint at 31 December 2006. Approximately 82 per cent. of the New Collins Stewart Shares will be subject to lock-up undertakings for a period of one year from the date of Completion and 49 per cent. of the New Collins Stewart Shares will be subject to lock-up undertakings for a period of two years from the date of Completion.

The proposed Acquisition is conditional on, amongst other matters, the Scheme and Demerger becoming effective and the approval of the Collins Stewart Tullett Share Owners. Therefore, if the Scheme and Demerger are not effected then the Acquisition will not proceed.

Further details of the benefits of, and background to, the proposed Acquisition are set out in paragraphs 4 and 5 of Part 1 of this document and a summary of the key terms of the Acquisition is set out in Part 3 of this document.

General

14. Why am I being sent this document together with other documents?

The Demerger Proposals require Collins Stewart Tullett Share Owners to vote on certain matters at the Court Meeting. The Demerger Proposals, the Acquisition and the Share Plans Proposals also require Collins Stewart Tullett Share Owners to vote on certain matters at the EGM. This document contains information to assist you in your voting decision. The accompanying forms of proxy are for your use in the voting process.

The New CST Prospectus and Collins Stewart Group Prospectus, which contain prescribed information relating to New CST plc and Collins Stewart plc respectively, are being sent to you. A copy of each document may also be viewed at the Document Viewing Facility of the Financial Services Authority, 25 North Colonnade, London E14 5HS or at the offices of Allen & Overy LLP, One Bishops Square, London E1 6AO for a period of twelve months from the date of publication of this document during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted). A copy of both Prospectuses will also be available for inspection at the Court Meeting and the Extraordinary General Meeting.

15. Why are there two meetings and do I need to attend?

There are two meetings, the Court Meeting and the Extraordinary General Meeting, which are being called for different purposes.

The sole purpose of the Court Meeting is to seek the approval of Collins Stewart Tullett Share Owners for the Scheme.

The EGM, which will be held immediately after the Court Meeting, is being called to enable Collins Stewart Tullett Share Owners to vote on approving:

- (i) elements of the Scheme and various related matters;
- (ii) elements of the Demerger and various related matters;
- (iii) the Acquisition; and
- (iv) the adoption of new employee share plans by both New CST plc and Collins Stewart plc,

each as described in more detail in the section entitled “Meetings and consents” in Part 2 of this document. **Eight separate resolutions will be voted on at the EGM, three dealing with the Demerger Proposals, one dealing with the Acquisition and the others dealing with the Share Plans Proposals.**

The meetings will be held on 23 November 2006.

If you hold Collins Stewart Tullett Shares you are entitled and encouraged to attend the Court Meeting and the EGM. If you do not attend, you are still entitled to vote at both meetings by appointing a proxy – see paragraphs 16 and 17 below.

16. Do I need to vote?

It is important that as many Collins Stewart Tullett Share Owners as possible cast their votes. This applies to both the Court Meeting and the EGM. **In particular, it is important to demonstrate that there is a fair representation of Collins Stewart Tullett Share Owner opinion.**

The proposed resolution at the Court Meeting will be decided by way of a poll and, pursuant to the Collins Stewart Tullett Articles, the special resolutions proposed at the EGM will also be decided by way of a poll. In accordance with the Collins Stewart Tullett Articles, the ordinary resolutions proposed at the EGM would ordinarily be voted on by a show of hands. However, in accordance with the Collins Stewart Tullett Articles, the Chairman will require them to be put to a poll so that the Collins Stewart Tullett Share Owners’ views

can be fully represented and so that the same procedure is used for all the resolutions under consideration. On the poll, each Collins Stewart Tullett Share Owner present in person or by proxy will have one vote for each Collins Stewart Tullett Share held. **Your votes count.**

You are, therefore, strongly encouraged to complete, sign and return your forms of proxy as soon as possible. You will have been sent a white form of proxy for the Court Meeting and a blue form of proxy for the EGM.

If you do not wish, or are unable, to attend the Court Meeting and/or the EGM you may appoint someone (known as a “proxy”) to act on your behalf and vote on the poll. You may appoint your proxy by completing the forms of proxy and returning them in accordance with the instructions set out in the section entitled “Action to be taken” on page 19 and on the relevant form of proxy.

If you hold Collins Stewart Tullett Shares in uncertificated form you may also appoint a proxy by completing and transmitting a CREST proxy instruction in accordance with the procedures set out in the CREST manual ensuring that it is received (quoting CREST Participant ID RA10) by no later than 48 hours before the time appointed for the relevant meeting. The white form of proxy for use at the Court Meeting may also be handed to the Chairman at the Court Meeting.

Should you later change your mind and decide to attend the meetings in person, then returning the forms of proxy will not preclude you from doing so.

17. Do I need to take further action?

Collins Stewart Tullett Share Owners should read the whole of this document, and not just rely on this summary which should not be regarded as a substitute for reading the whole document.

It is important that you vote at the Court Meeting and the EGM. You are strongly encouraged to complete, sign and return your forms of proxy as soon as possible. See paragraph 16 above and the sections entitled “Action to be taken” in Parts 1 and 2 of this document.

Here is what you need to do now:

- **Review this document;**
- **In particular read the Chairman’s letter** in Part 1 of this document. This explains what is happening and why your Board recommends that you should vote for the Demerger Proposals, the Acquisition and the Share Plans Proposals;
- **Whether or not you propose to attend the Court Meeting and the EGM in person, return your white form of proxy (Court Meeting)**

AND

blue form of proxy (Extraordinary General Meeting)

as soon as possible and, in any event, by no later than 21 November 2006. The white form of proxy in respect of the Court Meeting only may also be handed to the Chairman of the Court Meeting at that meeting.

PART 1: CHAIRMAN'S LETTER

Collins Stewart Tullett plc

(Registered in England No. 3904126)

Registered Office:
9th Floor
88 Wood Street
London EC2V 7QR
31 October 2006

To the Collins Stewart Tullett Share Owners and, for information only, to participants in the Collins Stewart Tullett Share Plans

Dear Collins Stewart Tullett Share Owner

Recommended proposals for the demerger of the Stockbroking Business from Collins Stewart Tullett plc, the acquisition of Hawkpoint by the Stockbroking Business and the Share Plans Proposals

1. Introduction

I am writing to you today to ask for your support for the proposed demerger of the Collins Stewart stockbroking business from the Tullett Prebon inter-dealer broking business. On 20 March 2006 we announced our intention to demerge the Stockbroking Business and subsequently to return at least £300 million excess capital to shareholders. This will result in two separately listed companies, New CST plc (which will be renamed Tullett Prebon plc) and Collins Stewart plc and will deliver significant further value to shareholders. Due to the size and nature of the Demerger Proposals, the approval of Collins Stewart Tullett Share Owners is being sought.

The Board announced on 27 October 2006 that a subsidiary of the Company, Collins Stewart Europe Limited, had entered into a conditional agreement to acquire Hawkpoint, one of the leading independent corporate finance advisory firms in the UK. The Acquisition is conditional on, amongst other matters, the Demerger and hence Hawkpoint will be acquired by Collins Stewart only if the Demerger is effected.

The total consideration for the Acquisition will be satisfied by the issue of 35,074,221 New Collins Shares, representing approximately 14.2 per cent. of the enlarged issued share capital of Collins Stewart plc after the Demerger and the issue of the New Collins Stewart Shares, £40 million of cash at Completion (with a loan note alternative) and an additional cash consideration equivalent to the surplus cash in Hawkpoint at 31 December 2006. Approximately 82 per cent. of the New Collins Stewart Shares will be subject to lock-up undertakings for a period of one year from the date of Completion and 49 per cent. of the New Collins Stewart Shares will be subject to lock-up undertakings for a period of two years from the date of Completion.

The Acquisition will constitute a Class 1 transaction under the Listing Rules for Collins Stewart plc and accordingly, it is subject to the approval of shareholders which is to be sought at the Extraordinary General Meeting on 23 November 2006.

It is also proposed that, in connection with the Demerger Proposals subject to separate approval by Collins Stewart Tullett Share Owners, the directors of New CST plc and Collins Stewart plc be authorised to adopt certain new employee share plans (**the Share Plans Proposals**). Equity incentivisation has always been an important element of the remuneration policy and the Board believes it is important to establish new schemes to incentivise the staff of each of New CST plc and Collins Stewart plc. Further details are provided in section 15 of this letter.

The purpose of this document is:

- to provide you with full details of the Demerger Proposals, the Acquisition and the Share Plans Proposals;
- to explain why the Directors believe that the Demerger Proposals, the Acquisition and the Share Plans Proposals are in the best interests of the Company and Collins Stewart Tullett Share Owners;

- to explain to you the resolutions to be put to Collins Stewart Tullett Share Owners at the shareholder meetings of Collins Stewart Tullett plc, which will begin at 12 noon on 23 November 2006; and
- to recommend that you vote in favour of these resolutions.

You will find with this document Forms of Proxy for the two shareholder meetings. The first meeting is convened by an order of the Court (the **Court Meeting**), and the second is an extraordinary general meeting (the **Extraordinary General Meeting**), which will follow the Court Meeting. Both meetings will be held on 23 November 2006. The Court Meeting and the Extraordinary General Meeting are together referred to as the “Shareholder Meetings” in this document.

In order for the Demerger Proposals to be completed, it is important that there is sufficient shareholder support. I therefore urge you to vote at these two Shareholder Meetings. Details on how to do this are set out in paragraphs 14 and 18 of this letter and paragraph 15 of Part 2 of this document.

2. Background to and reasons for the Demerger Proposals

The Board announced on 20 March 2006 its intention to demerge the Collins Stewart stockbroking business, and subsequently to return at least £300 million excess capital to shareholders.

The Directors believe that the Demerger will enable New CST plc to operate with a more efficient capital structure and that both New CST plc and Collins Stewart plc will benefit from having separate management teams which will be able to focus fully on the development opportunities available to them.

Once the Demerger is completed the Board intends to return £300 million of capital to shareholders. The proposed return of capital is dependent on, amongst other matters, receipt of a waiver from the consolidated capital adequacy tests under the regulatory regime established by the Capital Requirements Directive, which will come into effect in the UK from January 2007. An “in principle” waiver has already been obtained from the FSA. The Board expects that the capital return will be effected by March 2007.

3. Effect of the Demerger Proposals

The Demerger Proposals will create two new holding companies, New CST plc (which will be the holding company of Tullett Prebon and which will be renamed Tullett Prebon plc) and Collins Stewart plc (which will be the holding company of the Stockbroking Business). Instead of holding shares in Collins Stewart Tullett plc, you will hold shares in New CST plc and shares in Collins Stewart plc. You will own the same proportion of New CST plc and Collins Stewart plc immediately after the implementation of the Demerger Proposals, but prior to the Acquisition, as you held in Collins Stewart Tullett plc before the implementation of the Demerger Proposals.

Prior to the Demerger there will be a group reorganisation to separate the stockbroking activities from the inter-dealer broker. This will also involve the transfer of all the stockbroking operations, including certain domestic US equities broking activities previously forming part of the Tullett Prebon business.

As a result of the Demerger, each Collins Stewart Tullett Share Owner will, in place of every one Collins Stewart Tullett Share owned by them, receive one New CST Share and one Collins Stewart Share.

A detailed description of the Demerger Proposals is set out in Part 2 of this document, and your approval is now being sought to effect the above steps to enable the Demerger to happen. The Demerger Proposals can only be implemented if there is sufficient support from Collins Stewart Tullett Share Owners at the two Shareholder Meetings. If they are implemented, you will be bound by the Demerger Proposals, whether or not you have voted in favour of them.

4. Background to the Acquisition

The Board announced on 27 October 2006 that a subsidiary of the Company, Collins Stewart Europe Limited, had entered into a conditional agreement to acquire Hawkpoint, one of the leading independent corporate finance advisory firms in the UK. It is intended that this agreement will be novated to Collins Stewart plc once the Demerger has become effective.

The total consideration for the Acquisition will be satisfied by the issue of 35,074,221 New Collins Stewart Shares representing approximately 14.2 per cent. of the enlarged issued share capital of Collins Stewart plc after the Demerger and the issue of the New Collins Stewart Shares, £40 million of cash at Completion (with a loan note alternative) and an additional cash consideration equivalent to the surplus cash in Hawkpoint at 31 December 2006. Approximately 82 per cent. of the New Collins Stewart Shares will be subject to lock-up undertakings for a period of one year from the date of Completion and 49 per cent. of the New Collins Stewart Shares will be subject to lock-up undertakings for a period of two years from the date of Completion.

The Acquisition is conditional on, amongst other matters, the Demerger becoming effective. It is expected that Completion will take place and the New Collins Stewart Shares will be issued on 22 December 2006.

A summary of the key terms of the Acquisition is set out in Part 3 of this document.

5. Benefits and effects of the Acquisition

Benefits of the Acquisition

The acquisition of Hawkpoint is consistent with Collins Stewart's strategy of creating a more broadly based financial services group and is expected to enhance its client offering and therefore its growth potential. Collins Stewart has a strong corporate broking capability, supported by extensive distribution and high quality research and trading. Hawkpoint has a respected independent corporate advisory practice and a growing international corporate network. The Directors expect that both businesses will be able to extend the services which they can offer as appropriate to their respective clients.

The highly complementary nature of their respective capabilities and client reach will particularly enhance the Enlarged Collins Stewart Group's ability to service international clients.

Financial effects

The Acquisition is expected to be broadly neutral in respect of earnings per share.

The cash consideration will be satisfied out of the stockbroking business' existing cash resources. Following the Acquisition, Collins Stewart will continue to have net funds.

Collins Stewart Group ordinary share capital following Completion

Upon Completion and following allotment and issue of the New Collins Stewart Shares, the enlarged share capital of Collins Stewart plc is expected to be 247,412,364 Collins Stewart Shares (assuming no issues of shares by Collins Stewart Tullett plc, New CST plc or Collins Stewart plc after 27 October 2006 (being the latest practicable date prior to the publication of this document) other than pursuant to the Scheme, the Demerger or the Acquisition). On this basis, the New Collins Stewart Shares will represent approximately 14.2 per cent. of the enlarged share capital of Collins Stewart plc.

6. Court and Shareholder approvals required

The Demerger Proposals require approval at a Court Meeting, immediately followed by an Extraordinary General Meeting. At the Court Meeting, you will be asked to approve the first step of the Demerger Proposals, a scheme of arrangement (referred to in this document as the **Scheme**). Under the Scheme, Collins Stewart Tullett Share Owners will receive shares in New CST plc in place of their shares in Collins Stewart Tullett plc. Consequently, the Scheme will insert New CST plc as a new holding company between Collins Stewart Tullett plc and Collins Stewart Tullett Share Owners.

At the Extraordinary General Meeting, you will be asked to approve:

- (i) a special resolution approving items necessary or desirable for the implementation of the Scheme, including a reduction in the capital of Collins Stewart Tullett plc pursuant to the Scheme (referred to as the **Collins Stewart Tullett Reduction of Capital** in this document), the Collins Stewart Group Transfer Agreement (as described below) and certain amendments to the Collins Stewart Tullett Articles (as described below);

- (ii) a special resolution approving items relating to the Demerger, including a reduction in capital in New CST plc (referred to as the **New CST Reduction of Capital** in this document), which is technically how the Demerger will be implemented;
- (iii) a special resolution approving a reduction in capital of Collins Stewart plc (referred to as the **Collins Stewart Group Reduction of Capital**);
- (iv) an ordinary resolution approving the Acquisition; and
- (v) four ordinary resolutions approving the adoption of new employee share plans by both New CST plc and Collins Stewart plc.

The amendments to the Collins Stewart Tullett Articles are being proposed in connection with the implementation of the Scheme to ensure that shares allotted after the passing of the relevant resolution and prior to the Scheme Record Time are covered by the Scheme, to ensure that, subject to the Scheme becoming effective, any shares issued by the Company after that time will automatically be compulsorily acquired by New CST plc, the proposed new immediate holding company of the Company, to authorise the Company to procure the transfer of Collins Stewart Tullett Shares held by overseas shareholders to a nominee in certain circumstances and to reclassify one Collins Stewart Tullett Share as a deferred share (referred to in paragraph 4 of Part 2 of this document).

Following the implementation of the Scheme, the companies comprising the Stockbroking Business will be transferred at book value, with the consideration being left outstanding, by the Company to New CST plc pursuant to the Collins Stewart Group Transfer Agreement. Pursuant to the Demerger, the Stockbroking Business will in turn be transferred to Collins Stewart plc.

More details of these approvals are set out in Part 2 of this document.

The Scheme and the Collins Stewart Tullett Reduction of Capital each need to be sanctioned by the Court (which will involve separate Court hearings) before the Scheme may become effective. In addition, each of the New CST Reduction of Capital and the Collins Stewart Group Reduction of Capital are subject to approval at separate Court hearings. Although it is expected that the Demerger Proposals will be implemented in full, as the Scheme, the Collins Stewart Tullett Reduction of Capital and the New CST Reduction of Capital require different approvals, it is possible (but unlikely) that the New CST Reduction of Capital will not be implemented despite the Scheme having become effective. If this were to happen, the Demerger would not take place and you would ultimately receive one New CST Share for every one Collins Stewart Tullett Share you own. In this case neither the Collins Stewart Group Reduction of Capital nor the Acquisition would proceed.

In order for the Demerger Proposals to be implemented, it is important that we get your support and you vote at both Shareholder Meetings. Paragraph 18 explains how to do this.

The Acquisition will only proceed if the resolutions approving the Scheme and the Demerger, as well as the Acquisition itself, are approved.

7. The Continuing Group – Tullett Prebon

Following the Demerger, the business activities of the Continuing Group will comprise those of Tullett Prebon, the world's second largest inter-dealer broker. Tullett Prebon acts as an intermediary in the wholesale financial markets, facilitating the trading activities of its clients, in particular commercial and investment banks, hedge funds and buy-side institutions.

In the year to 31 December 2005, Tullett Prebon reported revenues of £676 million and operating profit, before exceptional items, of £91.4 million¹.

Tullett Prebon operates in Europe, North America and Asia Pacific. Its principal offices are in London, New York, New Jersey, Hong Kong, Singapore and Tokyo.

¹ These figures include certain US equities activities which will be transferred to Collins Stewart prior to the Demerger

The business covers five major product groups:

- Fixed Income Securities
- Interest Rate Derivatives
- Treasury Products
- Equities
- Energy

Tullett Prebon brokes the above products on either a “name give up” basis (where the counterparties to a transaction settle directly with each other) or a “matched principal” basis (where Tullett Prebon is the counterparty to each leg of a transaction).

In addition, the Group has an established data sales business which collects, cleanses, collates and distributes real-time price information to data providers.

8. The Stockbroking Business

The activities of the Stockbroking Business, which trades as Collins Stewart, cover institutional and private client stockbroking, market making, corporate finance, fund management and the supply of on-line financial information through the quantitative research system, Quest™.

Collins Stewart is the largest independent stockbroking business in the United Kingdom. Collins Stewart had revenues of £148.7 million in the year ended 31 December 2005 and its operating profit was £43.0 million. Its revenues for the six months ended 30 June 2006 were £104.1 million and operating profit was £32.5 million. As at 31 December 2005, Collins Stewart had gross assets of £771 million and net assets of £98 million. These figures are extracted, without material adjustment, from the Accountant’s Report on the Collins Stewart Group in Part 5 of this document.

In the UK, Collins Stewart is a leading independent stockbroker in the smaller companies sector and one of the largest private client stockbrokers in the Channel Islands. It also has strong positions in a number of the niche sectors where it operates, such as market making in preference shares. The Larger Companies division owns and operates a leading company evaluation model and database called Quest™. This has taken over a decade to develop and, to date, only Collins Stewart’s much larger competitors amongst the major investment banks have been able to develop or acquire such systems. Prior to the Demerger, there will be a group reorganisation to separate the stockbroking activities from the interdealer broker. This will involve the transfer of all of the stockbroking operations including certain domestic US equities broking activities previously forming part of the Tullett Prebon business.

9. The Hawkpoint Group

Hawkpoint is a leading independent UK corporate advisory firm, operating from offices in London and Paris, with approximately 120 employees, of whom 70 are professional staff. Its clients principally comprise quoted and unquoted companies, private equity firms and entrepreneurs. Hawkpoint advises on a broad spectrum of strategic and transactional matters, including acquisitions, disposals, public offers and mergers, capital raisings and IPOs. It also provides capital markets advice and has an established debt and restructuring advisory capability. In the year ended 31 December 2005, Hawkpoint had revenues of approximately £36.3 million and profit before tax (before a charge for share based payments of £2.3 million) of £8.0 million. After the charge, which will not be incurred following the Acquisition, Hawkpoint’s profit before tax for the year ended 31 December 2005 was £5.7 million. Its revenues for the six months ended 30 June 2006 were £25.5 million and profit before tax was £7.9 million (before the charge for share based payments of £6.5 million). As at 30 June 2006, Hawkpoint had gross assets of £34.2 million. Collins Stewart Tullett Share Owners should read the whole document and not just rely on this summarised financial information. These figures are extracted, without material adjustment, from the Accountant’s Report on the Hawkpoint Group in Part 6 of this document.

Hawkpoint’s core philosophy is to establish long-term relationships with its clients based on high quality, unconflicted advice and extensive senior director involvement. It undertakes transactions in the UK and

across Europe for European and US corporates and private equity firms. Hawkpoint also has an extensive track record advising clients in most sectors. It has a substantial financial services advisory group and also focuses on a number of other sectors which include business and support services, leisure, retail, media, healthcare, defence and aerospace, electronics, general industrial, IT and utilities.

Hawkpoint has relationships with a large number of UK and Continental European private equity firms and is a leading adviser to the private equity community on a range of transactions.

Hawkpoint has won numerous awards over the past three years, including being named Financial Adviser of the Year at the BVCA/Real Deals Private Equity Awards in 2006 (for the second time in three years), UK Independent Corporate Finance House of the Year in 2006 at the Acquisitions Monthly Awards, Independent House of the Year in 2006 at the HG Capital Rainmaker Awards as well as being named the Best Performing Independent House over five years in 2004 and 2005. Hawkpoint was also chosen as Financial Adviser of the Year at the European Private Equity Summit & Awards in 2005.

Hawkpoint's senior management team has extensive and long experience of both domestic and international investment banking.

David Reid Scott has been Chairman of Hawkpoint since June 2001. He started his career with White Weld and Co in 1969 working in both London and New York, in institutional equity sales and capital markets. In 1983, he was appointed managing director of Merrill Lynch's UK investment banking activities and in 1984, he became a founding partner of Phoenix Securities. In 1997, the firm was sold to Donaldson Lufkin Jenrette (DLJ) and David became Vice-Chairman of European Investment Banking and Chairman of its Financial Institutions Group. After DLJ was acquired by Credit Suisse First Boston (CSFB) in 2000, David worked at CSFB as Vice Chairman before joining Hawkpoint as Chairman.

Paul Baines is Chief Executive and Managing Partner of Hawkpoint. After qualifying as a solicitor with Freshfields, he joined Antony Gibbs & Sons Limited, a UK merchant bank. In 1984, he joined Charterhouse Bank, where he became a director in 1988. He became Chief Executive of the corporate finance business in 1993. He joined Hawkpoint in 2000 and was appointed Chief Executive and Managing Partner in October 2003.

10. Current trading and prospects

In the interim results of Collins Stewart Tullett plc, announced on 18 September 2006, the following statements were made in relation to the Continuing Group:

“The Tullett Prebon business has continued to perform in line with our expectations since the half year and, given the current geopolitical uncertainties, volatility in most markets seems likely to continue. We expect to launch further products on TradeBlade™ before the end of the year.”

The Board reiterates the guidance on outlook for 2006 in respect of the Continuing Group as outlined in the interim results of Collins Stewart Tullett plc on 18 September 2006, as set out above.

In relation to the Enlarged Collins Stewart Group, the Collins Stewart corporate finance order book is sound for the second half of the year and Hawkpoint has recorded strong revenues and profits in the year to date compared to the same period last year. The board of Collins Stewart plc has a confident outlook for the Enlarged Collins Stewart Group's performance for the remainder of 2006.

11. Dividend policy

Following the Scheme, New CST plc will maintain an appropriate level of dividend cover whilst taking into account growth in earnings and future expansion plans. New CST plc will only seek to retain distributable profits when it expects to earn above average returns from the deployment of the funds retained.

12. Board

The board of directors of New CST plc (to be renamed Tullett Prebon plc) will be:

Keith Hamill	Chairman
Terry Smith	Chief Executive
Paul Mainwaring	Finance Director
Louis Scotto	Executive Director
David Clark	Non-executive Director
Michael Fallon	Non-executive Director
Richard Kilsby	Non-executive Director
Bernard Leaver	Non-executive Director
John Spencer	Non-executive Director

This is the same as the present board of directors of Collins Stewart Tullett plc, except Stephen Jack is currently a director of that company and has announced his intention to resign as a director prior to the completion of the Demerger. Paul Mainwaring joined the board of directors of Collins Stewart Tullett plc on 10 October 2006 and will be the Finance Director of New CST plc.

Terry Smith will become chairman of Collins Stewart plc to continue to guide the development of the business, provide support to the management team and to assist with client relationships. Richard Kilsby and I have agreed to join the board of Collins Stewart plc to maintain continuity and experience. Upon Admission of the Collins Stewart Shares, the board of directors of Collins Stewart plc will comprise:

Terry Smith	Chairman
Keith Hamill	Deputy Chairman
Joel Plasco	Chief Executive
Diana Dyer Bartlett	Finance Director
Richard Kilsby	Non-executive Director

Upon Completion it is proposed that one further executive director, Paul Baines, who is currently the Chief Executive and Managing Director of Hawkpoint will be appointed as an executive director. The board of Collins Stewart plc intends to appoint additional non-executive directors following Admission.

13. Tax

A general description of the UK and US tax consequences of the Demerger Proposals is contained in paragraphs 11 and 12 respectively of Part 9 of this document.

All shareholders are advised to consult a professional adviser. The absence of any reference to the tax consequences of the Demerger Proposals for shareholders who are subject to tax in any particular jurisdiction should not be taken to imply that the implementation of the Demerger Proposals might not have adverse tax consequences for such shareholders.

14. Meetings

Notices convening the Court Meeting, at which the approvals for the Demerger Proposals will be sought, and the Extraordinary General Meeting, at which the approvals for the Demerger Proposals, the Share Plans Proposals and the Acquisition will be sought, are set out in Parts 12 and 13 of this document. The Court Meeting and the Extraordinary General Meeting will both be held at 9th floor, 88 Wood Street, London EC2V 7QR.

15. Employee Share Plans

Equity incentivisation of staff has always been a cornerstone of Collins Stewart Tullett's strategy for the remuneration of its staff. This policy will continue to apply for each of New CST plc and Collins Stewart and accordingly shareholder approval is being sought at Collins Stewart Tullett's EGM on 23 November 2006 for the adoption of new employee share plans for each of New CST plc and Collins Stewart plc.

Arrangements are also being made in respect of existing employee share options.

Existing plans

As at 27 October 2006, the latest practicable date before the publication of this document, there were awards outstanding under the Tullett Liberty Equity Incentive Plan (the **EIP**) over approximately 4 million shares. The performance period relating to these awards extends to 31 December 2007 and to date approximately 50 per cent. of such awards have vested in terms of performance. The Directors continue to believe that these awards are an important incentive to staff and therefore awards outstanding under the EIP will be exchanged for equivalent awards over shares in New CST plc under the rules of the EIP. The turnover target applicable to the awards will be adjusted to reflect the proposed transfer of part of the US equities business to Collins Stewart plc on Demerger. However, the operating margin target for full vesting of 18 per cent. will continue to apply. New CST plc will adopt and be responsible for the operation of the EIP in respect of outstanding awards following the Demerger. No new awards will be granted under the EIP.

Options over approximately 4 million shares granted under other Collins Stewart Tullett plc share option schemes are either already exercisable or will become exercisable in accordance with their respective rules as a consequence of the Scheme. Appropriate proposals are being made to participants in respect of their rights under such option schemes. Staff holding options granted under discretionary schemes, which have become exercisable as a consequence of the Scheme, have agreed to exchange their options for equivalent options over shares in Collins Stewart plc or New CST plc as appropriate. Where such options are to be satisfied by the issue of new shares, such shares will count towards the new issue limits applicable to the respective company's employee share plans. No new awards will be granted under any of the old Collins Stewart Tullett plc share option schemes.

Future plans

Each of Collins Stewart plc and New CST plc propose to adopt new long term incentive plans (**LTIPs**). It is intended that the Collins Stewart plc LTIP should be operated immediately and details of proposed option grants under this plan are set out below. There are no current proposals to operate the New CST plc LTIP until the Tullett Liberty Equity Incentive Plan terminates at the end of 2007.

The LTIP is a discretionary plan which would be used for the incentivisation of senior staff. It provides for options to be granted at any or nil exercise price and subject to exercise periods which will normally be 3 to 10 years from the date of grant. For Collins Stewart plc, other than the Initial Options set out below, in any year no individual will receive an option grant in excess of 300 per cent. of basic pay. For New CST plc, initial awards of options will be limited to 200 per cent. of an individual's total remuneration. For subsequent awards, in any year no individual will receive an option grant in excess of 300 per cent. of basic pay. These individual limits give the companies' respective Remuneration Committees flexibility to deal with the large proportion of staff remuneration which is bonus. Grants are subject also to an overall limit on the use of new issue ordinary shares being limited in normal circumstances to 5 per cent. of the relevant company's issued share capital in any 10 year period under the LTIP or any other discretionary scheme, (subject to the overriding limit of 10 per cent. under all employee share plans).

It is also intended that the LTIPs should be used to encourage investment in the respective company's shares by senior staff. Some option grants may be conditional on the employee investing part or all of their annual bonus in ordinary shares. The Remuneration Committees of each company will be responsible for granting options under the LTIP and for setting any performance conditions that attach to such grants.

In addition to the above, it is proposed that each company should implement a share savings plan (SSP) to facilitate the investment by all staff in the Company's shares. This scheme is designed to enable staff to purchase shares out of their pre-tax income and will be subject to any limits imposed by local tax authorities in the countries where it is operated. In the UK it will operate within the terms for all employee share incentive plans under the Income Tax (Earnings and Pensions) Act 2003.

A summary of the principal terms of the LTIPs and the SSPs is set out in Part 8 of this document.

Grants under future plans

It is proposed that nil cost options (the **Initial Options**) should be granted under the Collins Stewart LTIP to the newly appointed Collins Stewart management team on Admission. The Initial Options are over approximately 5.3 million shares, representing 2.5 per cent. of Collins Stewart plc's issued share capital

(before taking account of the proposed share issue in connection with the acquisition of Hawkpoint). Members of the new management team currently hold options granted under existing share option schemes with an intrinsic value of approximately £4 million (based on the closing price of a Collins Stewart Tullett plc share on 27 October 2006, being the latest practicable date before the publication of this document). These options become exercisable as a consequence of the Scheme. In order to qualify for Initial Options, all members of the new management team will be exchanging their options for equivalent options over Collins Stewart plc's shares. Both the Collins Stewart Tullett and the Collins Stewart boards consider that it is important that the new management team's interests are closely aligned with those of shareholders and that the team is appropriately incentivised to drive the business forward in the new stage of Collins Stewart's development. This is a one-off grant to the new management team and any further grants will be within the annual limits described above.

It is proposed that the following Initial Options be granted to directors of Collins Stewart plc, with the remainder being allocated to the other members of the Collins Stewart management team:

<i>Director</i>	<i>No. of Collins Stewart Shares</i>	<i>Percentage of Collins Stewart's ordinary shares on Admission</i>	<i>Percentage of Collins Stewart's ordinary shares following Completion</i>
Joel Plasco	1,486,367	0.7%	0.6%
Diana Dyer Bartlett	637,014	0.3%	0.3%

To qualify for these Initial Options, Joel Plasco and Diana Dyer Bartlett will be exchanging options granted under Collins Stewart Tullett plc option schemes with an intrinsic value of £2.5 million and £0.6 million respectively (which have become exercisable as a consequence of the Scheme) for options over Collins Stewart plc's shares.

The table set out above assumes no issues of shares by Collins Stewart Tullett plc, New CST plc or Collins Stewart plc after 27 October 2006 (being the latest practicable date prior to the publication of this document) and before the date of grant of the Initial Options, other than in connection with the Scheme, the Demerger or the Acquisition.

The performance conditions attaching to the Initial Options require minimum return on capital employed throughout the performance period of 25 per cent. per annum. The level of vesting will depend on the degree to which Collins Stewart plc's total shareholder return outperforms the constituents of the FTSE General Financials Index. At median performance 10 per cent. of the options vest, with full vesting at upper quartile performance and straight line vesting in between. Assuming the performance conditions are met, one half of the options are exercisable 3 to 10 years from the date of grant and the balance 4 to 10 years from date of grant.

The performance conditions which will apply to options granted under the Tullett Prebon LTIP and to future grants under the Collins Stewart LTIP will be designed to ensure that full vesting only occurs on achievement of challenging performance criteria which create value for shareholders.

Future grants under both schemes will take account of market practice and the views of institutional shareholders.

16. Pensions

The Group's two UK defined benefit occupational pension schemes, the Tullett Liberty Pension Scheme (the **TL Scheme**) and the Prebon Yamane (Ex K-W) Pension Scheme (the **PY Scheme**) had an estimated unaudited deficit as at 30 June 2006 of £27.7 million in aggregate under International Accounting Standard 19. Where a defined benefit scheme is in deficit, the UK Pensions Regulator has power in some circumstances to make orders for additional funding support (a contribution notice issued to the employing company or financial support direction issued to another group company or entity leaving the group).

Agreement has been reached between Collins Stewart Tullett plc, the respective principal employers and the trustees of the TL Scheme and the PY Scheme that, conditional on the capital return proceeding, the Group will ensure that the deficits of the respective schemes, as measured under FRS17, will be eliminated by 31 December 2010. In addition, the trustees of the TL Scheme and the PY Scheme will together have a first ranking charge over £50 million of net assets of the Continuing Group's principal operating subsidiaries. Based on these agreements the Pensions Regulator has issued a Clearance Statement under sections 42 and 46 of the Pensions Act 2004 confirming that it does not believe that it would be reasonable for it to issue a contribution notice or financial support direction in respect of entities of the Continuing Group or the Collins Stewart Group as a result of either the Demerger or the proposed capital return.

17. Further information

The expected timetable for the Demerger Proposals and the Acquisition is set out on page 4 of this document.

Application will be made to the UK Listing Authority for the admission of up to 213,000,000 New CST Shares, up to 213,000,000 Collins Stewart Shares and 35,074,221 New Collins Stewart Shares to the Official List and for the New CST Shares, the Collins Stewart Shares and the New Collins Stewart Shares to be admitted to trading on the London Stock Exchange's market for listed securities. It is expected that dealings in New CST Shares and the Collins Stewart Shares will commence on a conditional basis on the London Stock Exchange on 14 December 2006. All dealings in New CST Shares and Collins Stewart Shares between the commencement of conditional dealings and Admission will be on a "when issued" basis and at the risk of the parties concerned. If Admission of both New CST plc and Collins Stewart plc does not take place, these dealings will not be settled and will be of no effect and will be at the sole risk of the parties concerned. The last day of dealings in Collins Stewart Tullett Shares is expected to be 14 December 2006. The last time for registration of transfers of Collins Stewart Tullett Shares is expected to be 6.00 p.m. on 14 December 2006, the Scheme Record Time. It is expected that the listing of Collins Stewart Tullett Shares will be cancelled at 8.00 a.m. on 15 December 2006. It is expected that the New CST Shares to be issued pursuant to the Scheme will be issued on 15 December 2006 and the Collins Stewart Shares to be issued pursuant to the Demerger will be issued on 19 December 2006. It is expected that Admission of both the New CST Shares and the Collins Stewart Shares will become effective and that dealings in New CST Shares and Collins Stewart Shares will commence on 19 December 2006.

Any of these dates may be deferred if it is necessary to adjourn any meeting required to approve the arrangements described in this document or if there is any delay in obtaining the Court's sanction of the Scheme, the Collins Stewart Tullett Reduction of Capital or the New CST Reduction of Capital. In the event of a delay, the application for the Collins Stewart Tullett Shares to be delisted will, if necessary, be deferred, so that the listing will not be cancelled until immediately before the Scheme becomes effective.

Subject to the satisfaction or, where permitted, waiver of all the conditions to the Acquisition, including the completion of the Demerger (as described in more detail in Part 3 of this document), save for that relating to Admission of the New Collins Stewart Shares, it is expected that Admission of the New Collins Stewart Shares will become effective and that dealings in New Collins Stewart Shares will commence on 22 December 2006.

With effect from (and including) the Scheme Effective Date, all share certificates representing the Collins Stewart Tullett Shares will cease to be valid and binding in respect of such holdings and should be destroyed.

The articles of association of New CST plc and Collins Stewart plc permit the holding of New CST Shares and Collins Stewart Shares respectively under the CREST system. New CST plc will apply for the New CST Shares and Collins Stewart plc will apply for the Collins Stewart Shares and the New Collins Stewart Shares to be admitted to CREST with effect from Admission. Accordingly, settlement of transactions in New CST Shares, Collins Stewart Shares and New Collins Stewart Shares following Admission of New CST Shares, Collins Stewart Shares or New Collins Stewart Shares (as the case may be) may take place within the CREST system. CREST is a voluntary system and holders of New CST Shares and Collins Stewart Shares who wish to receive and retain share certificates will be able to do so. Collins Stewart Tullett Share Owners may,

however, elect to receive New CST Shares and Collins Stewart Shares in uncertificated form if they are a system shareholder (as defined in the CREST Regulations) in relation to CREST.

For Collins Stewart Tullett Share Owners who hold their Shares in a CREST account at the Scheme Record Time, New CST Shares and Collins Stewart Shares are expected to be credited to the relevant CREST member account on 19 December 2006. For those holding shares in certificated form at the Scheme Record Time, definitive share certificates for New CST Shares and Collins Stewart Shares are expected to be despatched by 5 January 2007. In the case of joint holders, certificates will be despatched to the joint holder whose name appears first in the register. All certificates will be sent by pre-paid first class post at the risk of the person entitled to them. Pending the despatch of certificates for New CST Shares or Collins Stewart Shares (as the case may be), transfers of New CST Shares and Collins Stewart Shares will be certified against the register of members of New CST plc and Collins Stewart plc respectively. Temporary documents of title will not be issued in respect of New CST Shares or Collins Stewart Shares.

Collins Stewart Tullett Shares held in uncertificated form will be disabled in CREST on the Scheme Effective Date. New CST plc and Collins Stewart plc reserve the right to issue New CST Shares and Collins Stewart Shares respectively to any or all share owners in certificated form if, for any reason, either wishes to do so.

The New CST Shares to be issued pursuant to the Scheme will rank *pari passu* with all other New CST Shares in issue on the Scheme Effective Date including for all dividends and other distributions made, paid or declared after the Scheme Effective Date on the ordinary share capital of New CST plc. The Collins Stewart Shares to be issued pursuant to the Demerger will rank *pari passu* with all other Collins Stewart Shares in issue on the Demerger Effective Date including for all dividends and other distributions made, paid or declared after the Demerger Effective Date on the ordinary share capital of Collins Stewart plc.

All mandates in force at the Scheme Record Time relating to payment of dividends on Collins Stewart Tullett Shares and all instructions given relating to notices and other communications will, unless and until varied or revoked, be treated, from the Scheme Effective Date, as being valid and effective mandates or instructions to New CST plc in relation to the corresponding holding of New CST Shares.

All mandates in force at the Demerger Effective Time relating to payment of dividends on New CST Shares and all instructions given relating to notices and other communications will, unless and until varied or revoked, be treated, from the Demerger Effective Time, as being valid and effective mandates or instructions to Collins Stewart plc in relation to the corresponding holding of Collins Stewart Shares.

The New Collins Stewart Shares to be issued pursuant to the Acquisition will rank *pari passu* with all other Collins Stewart Shares in issue immediately prior to Completion including for all dividends and other distributions made, paid or declared after Completion on the ordinary share capital of Collins Stewart plc other than a final dividend in respect of the financial period ending 31 December 2006.

All documents, certificates, cheques or other communications sent by or to Collins Stewart Tullett Share Owners, or as such persons shall direct, will be sent at their own risk and may be sent by post.

A copy of either Prospectus may also be inspected as described in paragraph 15 of Part 9 of this document.

Further information regarding the Demerger Proposals is set out in Part 2 of this document.

18. Action to be taken

On 23 November 2006, the Court Meeting will be held to seek approval for the Demerger Proposals. Also, on 23 November 2006 the Extraordinary General Meeting will be held to seek approval for the Demerger Proposals, the Acquisition and the Share Plans Proposals. Notice of the Court Meeting is set out in Part 12 of this document. Notice of the Extraordinary General Meeting and the explanatory notes to the resolutions are set out in Part 13 of this document.

In order that the Court can be satisfied that the votes cast fairly represent the views of Collins Stewart Tullett Share Owners, it is important that as many votes as possible are cast at the Court Meeting. Collins Stewart Tullett Share Owners are therefore encouraged to attend the Court Meeting in person or by proxy.

The proposed resolution at the Court Meeting will be decided by way of a poll, as will the special resolutions proposed at the Extraordinary General Meeting. In accordance with the Collins Stewart Tullett Articles, the ordinary resolutions proposed at the Extraordinary General Meeting would ordinarily be voted on by a show of hands. However, in accordance with the Collins Stewart Tullett Articles, the Chairman will require them to be voted on by way of a poll so that Collins Stewart Tullett Share Owners' views can be fully represented and so that the same procedure is used for all the resolutions under consideration. On the poll each Collins Stewart Tullett Share Owner present in person or by proxy will have one vote for each Collins Stewart Tullett Share held.

Whether or not you propose to attend the meetings, you are requested to complete, sign and return to the Registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU the enclosed white form of proxy for use at the Court Meeting and blue form of proxy for use at the Extraordinary General Meeting. If you hold Collins Stewart Tullett Shares in uncertificated form you may also appoint a proxy by completing and transmitting a CREST proxy instruction in accordance with the procedures set out in the CREST manual ensuring that it is received by Capita Registrars (quoting CREST Participant ID RA10) by no later than 48 hours before the time appointed for the relevant meeting. The white form of proxy in respect of the Court Meeting may also be handed to the Chairman at the Court Meeting.

19. Recommendation

The Board of Collins Stewart Tullett plc, which has received financial advice from Lehman Brothers in relation to the Demerger Proposals, considers the Demerger Proposals, the Acquisition and the Share Plans Proposals set out in this document to be in the best interests of Collins Stewart Tullett Share Owners as a whole. In providing such advice to Collins Stewart Tullett plc, Lehman Brothers have relied upon the Directors' commercial assessments of the Demerger Proposals, the Share Plans Proposals and the Acquisition.

Accordingly, the Board unanimously recommends that you vote in favour of the Scheme at the Court Meeting and in favour of the resolutions to be proposed at the Extraordinary General Meeting, as the Directors intend to do in respect of their own beneficial shareholdings amounting in aggregate to 9,195,907 Collins Stewart Tullett Shares, representing approximately 4.33 per cent. of the existing issued ordinary share capital of the Company.

Yours faithfully

Keith Hamill
Chairman

PART 2: EXPLANATORY STATEMENT

(In compliance with section 426 of the Companies Act 1985)

Lehman Brothers
25 Bank Street
London E14 5LE

31 October 2006

To the Collins Stewart Tullett Share Owners and, for information only, to participants in the Collins Stewart Tullett Share Plans.

Dear Collins Stewart Tullett Share Owner

Recommended proposals for the demerger of the Stockbroking Business from Collins Stewart Tullett plc

1. Introduction

We are writing to you on behalf of Collins Stewart Tullett plc to explain the Demerger Proposals.

Your attention is drawn to the letter from the Chairman of Collins Stewart Tullett plc in Part 1 of this document setting out the reasons for the Demerger Proposals and including the unanimous recommendation of the Directors of Collins Stewart Tullett plc to Collins Stewart Tullett Share Owners to vote in favour of the Scheme itself at the Court Meeting and the resolutions relating to the Demerger Proposals to be proposed at the Extraordinary General Meeting. That letter and Parts 9 and 11 of this document form part of this Explanatory Statement.

The Directors have been advised by Lehman Brothers in connection with the Demerger Proposals. We have been authorised by the Directors to write to you to explain the terms of the Demerger Proposals and to provide you with other relevant information. The Scheme is set out in full in Part 10 of this document. The Notice of the Court Meeting at which approval for the Scheme will be sought and the Notice of the Extraordinary General Meeting at which resolutions relating to, amongst other matters, the Demerger Proposals will be proposed are set out in Parts 12 and 13 of this document respectively.

2. Background to and reasons for the Demerger Proposals

The background to and reasons for the Demerger Proposals are described in paragraph 2 of the Chairman's letter in Part 1 of this document.

3. Summary of the Demerger Proposals

If fully implemented, the Demerger Proposals will result in two new listed companies, New CST plc (which will be renamed Tullett Prebon plc) and Collins Stewart plc. Ultimately, New CST plc will be the holding company of Tullett Prebon and Collins Stewart plc will be the holding company for the Stockbroking Business. Collins Stewart Tullett Share Owners will hold New CST Shares and Collins Stewart Shares in place of Collins Stewart Tullett Shares on the following basis:

For each Collins Stewart Tullett Share One New CST Share and one Collins Stewart Share

On the Scheme becoming effective, your Collins Stewart Tullett Shares will be cancelled and your share certificates in relation to those shares can be destroyed.

In order to effect the Demerger Proposals in the most efficient way, it is proposed that they will be implemented in several steps as follows:

- (a) First, the Scheme. This will result in a new holding company (New CST plc) being placed on top of Collins Stewart Tullett plc. Collins Stewart Tullett Share Owners will receive one New CST Share in respect of every Collins Stewart Tullett Share held by them at the Scheme Record Time.

- (b) Next, Collins Stewart Tullett plc will transfer all of the issued shares of Collins Stewart Europe Limited, the holding company of the Collins Stewart Group, to New CST plc. The result of this part of the Demerger Proposals is that Collins Stewart Europe Limited will be owned by New CST plc directly rather than by Collins Stewart Tullett plc. The terms of this are covered in the Collins Stewart Group Transfer Agreement referred to in paragraph 4 below.
- (c) The Demerger will then take place. The Demerger will be effected by a reduction in the capital of New CST plc, which is a Court-approved process, which will be implemented by the transfer of Collins Stewart Europe Limited to Collins Stewart plc and the issue by Collins Stewart plc of shares to New CST Share Owners. The New CST Reduction of Capital is also expected to create distributable reserves. The New CST Reduction of Capital and the Demerger will take place as follows:
 - (i) the capital of New CST plc will be reduced by decreasing the nominal value of each New CST Share by an amount which, in aggregate, is expected to be equal to at least the market value (after the Collins Stewart Group Transfer) of all the shares of Collins Stewart Europe Limited held by New CST plc. To the extent such reduction exceeds, in aggregate, such market value the New CST Reduction of Capital will create distributable reserves. The distributable reserves would be available for future dividends and share repurchases at the discretion of the directors of New CST plc;
 - (ii) New CST plc will transfer Collins Stewart Europe Limited to Collins Stewart plc so that Collins Stewart plc becomes the holding company of the Stockbroking Business; and
 - (iii) the New CST Share Owners at the Demerger Record Time will be allotted and issued one Collins Stewart Share, credited as fully paid, for each New CST Share then held.
- (d) Collins Stewart plc will then carry out a reduction of capital to create distributable reserves.

The end result is that Collins Stewart Tullett Share Owners will hold one New CST Share and one Collins Stewart Share for every Collins Stewart Tullett Share held immediately prior to the implementation of the Demerger Proposals. If the Demerger Proposals are implemented in full, it will only be after all the steps have taken place that you will receive your new share certificates (or your CREST account will be credited if you hold your Collins Stewart Tullett Shares through CREST). If for any reason the Demerger does not take place after the Scheme has become effective, subject to what is said in paragraph 13 of this Part 2 below, you will receive share certificates in respect of your holding in New CST plc (which will have become the new holding company for Collins Stewart Tullett plc) or your CREST account will be credited with the shares if you hold your Collins Stewart Tullett Shares through CREST.

4. Detailed terms and conditions of the Demerger Proposals

US Reorganisation

Prior to the Demerger, and on the terms of certain US reorganisation agreements, which will be entered into prior to the Scheme becoming effective, there will be a transfer to Collins Stewart of certain domestic US equities broking activities previously forming part of the Tullett Prebon business.

The domestic US equities businesses transferring to Collins Stewart will be transferred from Tullett Liberty Securities Inc. to Collins Stewart Inc., subsequently Collins Stewart Inc. will be transferred to the ownership of the Collins Stewart Group through the following transactions: (a) Tullett Prebon Holdings Corp., a member of the Continuing Group, will redeem all the shares held in its capital by Collins Stewart Europe Limited in return for stock in Collins Stewart Inc.; (b) Tullett Prebon Holdings Corp. will redeem all the shares held in its capital by the Company in return for stock in Collins Stewart Inc.; (c) Tullett Prebon Holdings Corp. will redeem sufficient shares held in its capital by Tullett Prebon Limited, a member of the Collins Stewart Group, as is necessary to complete the distribution of Collins Stewart Inc.; (d) Tullett Prebon Limited will sell the stock it owns in Collins Stewart Inc. to the Company; and (e) the Company will sell all of its resulting holding of stock in Collins Stewart Inc. to Collins Stewart Europe Limited in return for an issue of shares by Collins Stewart Europe Limited to Collins Stewart Tullett plc.

The Scheme

The most efficient way of effecting the Demerger Proposals is to insert a new holding company over Collins Stewart Tullett plc. This is done pursuant to the Scheme, which is a Court-approved process under section 425 of the Companies Act 1985. Under the Scheme, Collins Stewart Tullett Share Owners will receive New CST Shares in place of their Collins Stewart Tullett Shares.

Under the Scheme:

- (a) all Collins Stewart Tullett Shares in issue will be cancelled pursuant to the Collins Stewart Tullett Reduction of Capital and the holders at the Scheme Record Time will be allotted one New CST Share, credited as fully paid for every Collins Stewart Tullett Share then held; and
- (b) because Collins Stewart Tullett Shares will have been cancelled, a credit will arise in the books of account of Collins Stewart Tullett plc, and this credit will be used to pay up in full at par new ordinary shares in Collins Stewart Tullett plc equal in number to the Collins Stewart Tullett Shares cancelled. These will be issued to New CST plc in return for the issue of New CST Shares to Collins Stewart Tullett Share Owners.

As a result, New CST plc will become the holding company of the Collins Stewart Tullett Group and all of its shares will be owned by former Collins Stewart Tullett Share Owners (other than two New CST Shares and 50,002 £1 redeemable deferred shares, held equally by the Initial Share Owners, which were issued to ensure that New CST plc meets certain company law requirements for its minimum share capital). Immediately following the Scheme Effective Date, all of the remaining share capital of New CST plc will be held by former Collins Stewart Tullett Share Owners. New CST plc intends to redeem the redeemable deferred shares as soon as is reasonably practicable following the Demerger.

At the Extraordinary General Meeting, Collins Stewart Tullett Shareholders will be asked to authorise the issue and allotment to New CST plc of one deferred share in Collins Stewart Tullett plc. This deferred share is required to be issued and allotted to New CST plc prior to the Scheme Effective Date in order to enable the steps outlined above to be taken whilst complying with all relevant legal technicalities.

Prior to the Scheme Effective Date, the issued and unissued New CST Shares will be consolidated into shares of a nominal value per share to be determined, by resolution of the Initial Share Owners, immediately prior to such consolidation. Further New CST Shares of one pence each may be allotted and issued prior to such consolidation in order to ensure that each of the New CST Shares then in issue can be consolidated into a whole New CST Share of the new nominal value and so as to ensure each of the Initial Share Owners will hold one New CST Share as a result of such consolidation.

The Collins Stewart Group Transfer

Following the implementation of the Scheme, the companies comprising the Stockbroking Business will be transferred by Collins Stewart Tullett plc to New CST plc at book value, with the consideration being left outstanding, pursuant to the terms of the Collins Stewart Group Transfer Agreement. It is expected that the Collins Stewart Group Transfer Agreement will be entered into by Collins Stewart Tullett plc and New CST plc shortly after the Scheme has become effective. The result of this step is that the Stockbroking Business will no longer be owned by Collins Stewart Tullett plc but will be owned directly by New CST plc.

The Court is being asked to sanction the terms of the Collins Stewart Group Transfer as part of the Scheme. Without this sanction, the Collins Stewart Group Transfer might involve unlawful financial assistance under technical provisions of English company law.

The Demerger

The Demerger will not proceed unless the Scheme and the Collins Stewart Group Transfer have occurred first. Assuming these steps have taken place and the other conditions to the Demerger explained below have been satisfied, Collins Stewart plc will then issue Collins Stewart Shares to the New CST Share Owners on the following basis

For each New CST Share held

One Collins Stewart Share

The Demerger will be effected by the New CST Reduction of Capital, which, like the Scheme, is a Court approved process. The New CST Reduction of Capital will take place as follows:

- (a) the capital of New CST plc will be reduced by reducing the nominal value of each New CST Share by an amount which, in aggregate, is expected to equal at least the market value (after the Collins Stewart Group Transfer) of all shares in Collins Stewart Europe Limited held by New CST plc;
- (b) New CST plc will transfer Collins Stewart Europe Limited to Collins Stewart plc (pursuant to the terms of the Demerger Agreement, as described below) so that Collins Stewart plc becomes the holding company of the Stockbroking Business; and
- (c) the New CST Share Owners at the Demerger Record Time will be allotted and issued one Collins Stewart Share, credited as fully paid, for each New CST Share held.

The end result will be that former Collins Stewart Tullett Share Owners will hold one New CST Share and one Collins Stewart Share for every Collins Stewart Tullett Share held prior to the implementation of the Scheme and Demerger.

The Demerger Agreement, Separation Agreement and transitional services agreement

It is anticipated that the Demerger Agreement will be entered into between New CST plc and Collins Stewart plc after the Collins Stewart Group Transfer. Once executed, the Demerger Agreement will terminate if the Demerger is not effected by 31 March 2007. Under the Demerger Agreement, New CST plc will give no warranties (other than as to due incorporation, capacity and authority) and will give no indemnities.

The Separation Agreement will govern the relationship between New CST plc and Collins Stewart plc following the Demerger. Under the Separation Agreement, New CST plc and Collins Stewart plc will agree to give each other certain customary indemnities on a reciprocal basis. It is intended that these indemnities will be given to protect Collins Stewart plc against liabilities which Collins Stewart plc may incur but which relate exclusively or predominately to the Continuing Group. In addition, New CST plc will indemnify Collins Stewart plc in respect of a proportion of certain contingent liabilities that do not relate exclusively or predominately to the Collins Stewart Group. This proportion will be calculated by reference to the relative market capitalisation of the two groups over the first five business days following Admission. The Separation Agreement contains standard arbitration provisions for an agreement of this type, which will apply in the event of an unresolved dispute between the parties.

The Separation Agreement will also contain provisions relating to the allocation of tax liabilities and the conduct of the tax affairs of the Collins Stewart Group relating to the period ending before the Demerger Effective Date.

New CST plc and Collins Stewart plc will enter into a transitional services agreement prior to the Demerger Effective Date. Transitional services are proposed in relation to tax compliance, advice and planning, human resources, payroll, information technology, internal audit, accounting services in the US and various other administrative matters, which may be provided up to the end of the twelve month period commencing from the Demerger. After the Demerger, both groups will make their own arrangements for the administration of the relevant services either internally, via outsourcing, or a combination of both.

The Collins Stewart Group Reduction of Capital

The Collins Stewart Group Reduction of Capital is being implemented to create distributable reserves in Collins Stewart plc. Collins Stewart Shares will initially have a nominal value of 150 pence per share (or such lower nominal value as the directors of Collins Stewart plc may decide before the date on which the Court is asked to sanction the New CST Reduction of Capital effecting the Demerger). However, shortly after the Demerger becomes effective, the capital of Collins Stewart plc will, subject to Court approval, be reduced by decreasing the nominal value of each Collins Stewart Share and each unissued share in the capital of Collins Stewart plc from 150 pence (or such lower nominal value as the directors of Collins Stewart plc shall decide before the date on which the Court is asked to sanction the New CST Reduction of Capital effecting the Demerger) to 25 pence.

At the Extraordinary General Meeting of Collins Stewart Tullett plc, the Collins Stewart Tullett Share Owners (who will become the share owners of Collins Stewart plc if the Scheme and Demerger become effective) will also be asked to approve the Collins Stewart Group Reduction of Capital.

The Collins Stewart Group Reduction of Capital will also require the confirmation of the Court at the proposed Collins Stewart Group Reduction Court Hearing (which is expected to be held on 21 December 2006) and, if so confirmed, will create distributable reserves of approximately £265 million (assuming a reduction of capital of 125 pence per share, and that no further shares of Collins Stewart Tullett plc, New CST plc or Collins Stewart plc are issued after 27 October 2006 other than in connection with the Scheme or the Demerger and that the Collins Stewart Group Reduction of Capital becomes effective prior to Completion). The creation of distributable reserves will provide flexibility and be available for future dividends and share repurchases at the discretion of the directors of Collins Stewart plc.

The Collins Stewart Group Reduction of Capital is expected to become effective on 22 December 2006.

5. Conditions of the Demerger Proposals

The implementation of the Scheme is conditional on the following:

- (a) the Scheme being approved by a majority in number, representing three fourths in value, of those Collins Stewart Tullett Share Owners present and voting, either in person or by proxy, at the Court Meeting;
- (b) the special resolution to approve the matters in connection with the Scheme being duly passed at the Extraordinary General Meeting by a majority of not less than three fourths of the votes cast;
- (c) the Scheme being sanctioned by the Court at the Court Hearing;
- (d) the Collins Stewart Tullett Reduction of Capital being sanctioned by the Court at the Collins Stewart Tullett Reduction Court Hearing; and
- (e) an office copy of the order of the Court sanctioning the Scheme under section 425 of the Companies Act 1985 having been delivered to the Registrar of Companies for registration and the minute confirming the Collins Stewart Tullett Reduction of Capital in relation to the Scheme being registered by the Registrar of Companies.

The directors of Collins Stewart Tullett plc will not take the necessary steps to implement the Scheme unless the above conditions have been satisfied or waived and, at the relevant time, they consider that it continues to be in Collins Stewart Tullett plc's and the Collins Stewart Tullett Share Owners' best interests that the Scheme should be implemented.

The implementation of the Demerger is conditional upon the following:

- (a) the Scheme becoming effective;
- (b) the special resolution to approve the matters in connection with the Demerger being duly passed at the Extraordinary General Meeting by a majority of not less than three fourths of the votes cast;
- (c) the Collins Stewart Group Transfer being completed;
- (d) the board of New CST plc resolving, following the Scheme and the Collins Stewart Group Transfer becoming effective, that the Demerger is in the best interests of New CST plc and its shareholders and approving the Demerger and the New CST Reduction of Capital;
- (e) the New CST Reduction of Capital being sanctioned by the Court at the New CST Reduction Court Hearing;
- (f) an office copy of the order of the Court sanctioning the New CST Reduction of Capital having been delivered to the Registrar of Companies for registration and the minute confirming the New CST Reduction of Capital being registered by the Registrar of Companies;

- (g) permission having been granted by the UK Listing Authority and the London Stock Exchange for the Admission of the New CST Shares and such permission not being withdrawn prior to the Demerger Effective Time; and
- (h) permission having been granted by the UK Listing Authority and the London Stock Exchange for the Admission of the Collins Stewart Shares to be issued pursuant to the Demerger subject only to allotment, and such permission not being withdrawn prior the Demerger Effective Time.

The directors of New CST plc and the directors of Collins Stewart plc will not take the necessary steps to implement the Demerger unless the above conditions have been satisfied or waived and, at the relevant time, they respectively consider that it continues to be in New CST plc's and the New CST Share Owners' (or, as the case may be, Collins Stewart plc's and Collins Stewart plc's shareholders') best interests that the Demerger should be implemented.

Clearance has been obtained from HMRC under section 138 of the Taxation of Chargeable Gains Act 1992 that each of the Scheme and Demerger should be treated as a scheme of reconstruction for the purposes of UK taxation of chargeable gains.

6. Timetable

The Court Meeting has been convened for 12 noon on 23 November 2006 pursuant to an order of the Court, at which meeting, or at any adjournment thereof, Collins Stewart Tullett Share Owners will consider and, if thought fit, approve the Scheme.

The Extraordinary General Meeting has been convened for 12.15 p.m. on 23 November 2006 (or, if later, immediately following the conclusion or adjournment of the Court Meeting). At the Extraordinary General Meeting, or at any adjournment thereof, Collins Stewart Tullett Share Owners (including New CST plc if it holds any Collins Stewart Tullett Shares) will consider and, if thought fit, pass resolutions covering various matters in connection with the Proposals.

Any changes to the proposed timetable will be announced via a Regulatory Information Service.

The Court Hearing to approve the Scheme is expected to be held on 11 December 2006. Collins Stewart Tullett Share Owners will have the right to attend the Court Hearing and to appear in person or be represented by counsel to support or oppose the sanction of the Scheme. The Court Hearing will be held at the Royal Courts of Justice, The Strand, London WC2A 2LL.

The Collins Stewart Tullett Reduction Court Hearing to approve the Collins Stewart Tullett Reduction of Capital is expected to be held on 14 December 2006. Collins Stewart Tullett Share Owners will have the right to attend the Collins Stewart Tullett Reduction Court Hearing and to appear in person or be represented by counsel to support or oppose the sanction of the Collins Stewart Tullett Reduction of Capital. The Collins Stewart Tullett Reduction Court Hearing will be held at the Royal Courts of Justice, The Strand, London WC2A 2LL.

The New CST Reduction Court Hearing to approve the New CST Reduction of Capital is expected to be held on 18 December 2006. New CST Share Owners will have the right to attend the New CST Reduction Court Hearing and to appear in person or be represented by counsel to support or oppose the sanction of the New CST Reduction of Capital. The New CST Reduction Court Hearing will also be held at the Royal Courts of Justice, The Strand, London WC2A 2LL.

The Scheme contains a provision for Collins Stewart Tullett plc and New CST plc jointly to consent, on behalf of all persons concerned, to any modification of or addition to the Scheme, or to any condition that the Court may think fit to approve or impose. The Court would be unlikely to approve or impose any modification of, or addition or condition to, the Scheme which might be material to the interests of Collins Stewart Tullett Share Owners unless Collins Stewart Tullett Share Owners were informed of any such modification, addition or condition. It will be a matter for the Court to decide, in its discretion, whether or not the consent of Collins Stewart Tullett Share Owners should be sought at a further meeting. Similarly, if a modification, addition or condition is put forward which in the opinion of the directors of Collins Stewart Tullett plc, is of such a nature or importance as to require the consent of the Collins Stewart Tullett Share

Owners at a further meeting, the directors of Collins Stewart Tullett plc will not take the necessary steps to enable the Scheme to become effective unless and until such consent is obtained.

If the relevant conditions set out in paragraph 5 are satisfied or waived, the Scheme is expected to become effective on 15 December 2006 and the Demerger on 19 December 2006. If the Scheme has not become effective by 31 March 2007 (or such later date as New CST plc and Collins Stewart Tullett plc may agree and the Court may allow), it will lapse and none of the Demerger Proposals will proceed and Collins Stewart Tullett Shares will continue to be listed on the Official List. If the Demerger has not occurred by that date, it will not proceed. In the event that, after the Scheme becomes effective, the conditions to the Demerger are not satisfied by the aforementioned date, the board of directors of New CST plc would nevertheless seek the Admission of the New CST Shares.

The Collins Stewart Group Reduction Court Hearing to approve the Collins Stewart Group Reduction of Capital is expected to be held on 21 December 2006. Collins Stewart Share Owners will have the right to attend the Collins Stewart Group Reduction Court Hearing and to appear in person or be represented by counsel to support or oppose the sanction of the Collins Stewart Group Reduction of Capital. The Collins Stewart Group Reduction Court Hearing will also be held at the Royal Courts of Justice, The Strand, London WC2A 2LL.

The Acquisition is conditional on, amongst other matters, the Demerger becoming effective (as described in more detail in Part 3 of this document). If the Demerger has not become effective by 31 December 2006 the Acquisition will not proceed, unless otherwise agreed by the parties to the Acquisition Agreement.

7. Terms of the Scheme

The full terms of the Scheme are set out in Part 10 of this document.

8. Directors' and other interests

The interests of the Directors in the share capital of Collins Stewart Tullett plc are set out in paragraph 5 of Part 9 of this document.

The Directors may be considered to be affiliates for purposes of the Securities Act and the shares issued to them pursuant to the Scheme and the Demerger may therefore be subject to the restrictions referred to in paragraph 13.

The Initial Share Owners will each hold one issued ordinary share in New CST plc. If the Demerger becomes effective, they will gift those shares to New CST plc, or New CST plc will repurchase them, and such ordinary shares will be cancelled. The Initial Share Owners will each hold one issued ordinary share in Collins Stewart plc. If the Demerger becomes effective, they will gift those shares to Collins Stewart plc, or Collins Stewart plc will repurchase them, and such ordinary shares will be cancelled.

Save as otherwise disclosed in this document, the effect of the Scheme on the interests of the Directors will not differ from its effect on the like interests of other Collins Stewart Tullett Share Owners.

The effect of the Scheme on the executive Directors' share options (which will be the same as its effect on other holders of options under the relevant Collins Stewart Tullett Share Plans) is described in paragraph 9 below.

Details of the proposed board of New CST plc upon Admission and their service agreements or letters of appointment are set out in paragraphs 3 and 4 of Part 9 of this document. Details of the proposed board of Collins Stewart plc upon Admission and their service agreements or letters of appointment are set out in paragraphs 3 and 4 of Part 9 of this document.

9. Employee Plans Proposals

Equity incentivisation of staff has always been a cornerstone of Collins Stewart Tullett's strategy for the remuneration of its staff. This policy will continue to apply for each of New CST plc and Collins Stewart plc

and accordingly shareholder approval is being sought at Collins Stewart Tullett's EGM on 23 November 2006 for the adoption of new employee share plans for each of New CST plc and Collins Stewart plc.

Arrangements are also being made in respect of existing employee share options.

Existing plans

As at 27 October 2006, the latest practicable date before the publication of this document, there were awards outstanding under the Tullett Liberty Equity Incentive Plan (the **EIP**) over approximately 4 million shares. The performance period relating to these awards extends to 31 December 2007 and to date approximately 50 per cent. of such awards have vested in terms of performance. The Directors continue to believe that these options are an important incentive to staff and therefore awards outstanding under the EIP will be exchanged for equivalent awards over shares in New CST plc under the rules of the EIP. The turnover target applicable to the awards will be adjusted to reflect the proposed transfer of part of the US equities business to Collins Stewart plc on Demerger. However, the operating margin target for full vesting of 18 per cent. will continue to apply. New CST plc will adopt and be responsible for the operation of the EIP in respect of outstanding awards following the Demerger. No new awards will be granted under the EIP.

Options over approximately 4 million shares granted under other Collins Stewart Tullett plc share option schemes are either already exercisable or will become exercisable in accordance with their respective rules as a consequence of the Scheme. Appropriate proposals are being made to participants in respect of their rights under such option schemes. Staff holding options granted under discretionary schemes, which have become exercisable as a consequence of the Scheme, have agreed to exchange their options for equivalent options over shares in Collins Stewart plc or New CST plc as appropriate. Where such options are to be satisfied by the issue of new shares, such shares will count towards the new issue limits applicable to the respective company's employee share plans. No new awards will be granted under any of the old Collins Stewart Tullett plc share option schemes.

Future plans

Each of Collins Stewart plc and New CST plc proposes to adopt new long term incentive plans (**LTIPs**). It is intended that the Collins Stewart plc LTIP should be operated immediately and details of proposed option grants under this plan are set out below. There are no current proposals to operate the New CST plc LTIP until the Tullett Liberty Equity Incentive Plan terminates at the end of 2007.

The LTIP is a discretionary plan which would be used for the incentivisation of senior staff. It provides for options to be granted at any or nil exercise price and subject to exercise periods which will normally be 3 to 10 years from the date of grant. For Collins Stewart plc, other than the Initial Options set out below, in any year no individual will receive an option grant in excess of 300 per cent. of basic pay. For New CST plc, initial awards of options will be limited to 200 per cent. of an individual's total remuneration. For subsequent awards, in any year no individual will receive an option grant in excess of 300 per cent. of basic pay. These individual limits give the companies' respective Remuneration Committees flexibility to deal with the large proportion of staff remuneration which is bonus. Grants are subject also to an overall limit on the use of new issue ordinary shares being limited in normal circumstances to 5 per cent. of the relevant company's issued share capital in any 10 year period under the LTIP or any other discretionary scheme, (subject to the overriding limit of 10 per cent. under all employee share plans).

It is also intended that the LTIPs should be used to encourage investment in the respective Company's shares by senior staff. Some option grants may be conditional on the employee investing part or all of their annual bonus in ordinary shares. The Remuneration Committee of each company will be responsible for granting options under the LTIP and for setting any performance conditions that attach to such grants.

In addition to the above, it is proposed that each company should implement a share savings plan (SSP) to facilitate the investment by all staff in the Company's shares. This scheme is designed to enable staff to purchase shares out of their pre-tax income and will be subject to any limits imposed by local tax authorities in the countries where it is operated. In the UK it will operate within the terms for all employee share incentive plans under the Income Tax (Earnings and Pensions) Act 2003.

A summary of the principal terms of the LTIPs and the SSPs is set out in Part 8 of this document.

Grants under future plans

It is proposed that nil cost options (the **Initial Options**) should be granted under the Collins Stewart LTIP to the newly appointed Collins Stewart management team on Admission. The Initial Options are over approximately 5.3 million shares, representing 2.5 per cent. of Collins Stewart plc's issued share capital (before taking account of the proposed share issue in connection with the acquisition of Hawkpoint). Members of the new management team currently hold options granted under existing share option schemes with an intrinsic value of approximately £4 million (based on the closing price of a Collins Stewart Tullett plc share on 27 October 2006, being the latest practicable date before the publication of this document)). These options become exercisable as a consequence of the Scheme. In order to qualify for Initial Options, all members of the management team will be exchanging their options for equivalent options over Collins Stewart plc's shares. Both the Collins Stewart Tullett and the Collins Stewart boards consider that it is important that the new management team's interests are closely aligned with those of shareholders and that the team is appropriately incentivised to drive the business forward in the new stage of Collins Stewart's development. This is a one-off grant to the new management team and any further grants will be within the annual limits described above.

It is proposed that the following Initial Options be granted to directors of Collins Stewart plc, with the remainder being allocated to the other members of the Collins Stewart management team:

<i>Director</i>	<i>No. of Collins Stewart Shares</i>	<i>Percentage of Collins Stewart's ordinary shares on Admission</i>	<i>Percentage of Collins Stewart's ordinary shares following Completion</i>
Joel Plasco	1,486,367	0.7%	0.6%
Diana Dyer Bartlett	637,014	0.3%	0.3%

To qualify for these Initial Options, Joel Plasco and Diana Dyer Bartlett will be exchanging options granted under Collins Stewart Tullett plc option schemes with an intrinsic value of £2.5 million and £0.6 million respectively (which have become exercisable as a consequence of the Scheme) for options over Collins Stewart plc's shares.

The table set out above assumes no issues of shares by Collins Stewart Tullett plc, New CST plc or Collins Stewart plc after 27 October 2006 (being the latest practicable date prior to the publication of this document) and before the date of grant of the Initial Options, other than in connection with the Scheme, the Demerger or the Acquisition.

The performance conditions attaching to the Initial Options require minimum return on capital employed throughout the performance period of 25 per cent. per annum. The level of vesting will depend on the degree to which Collins Stewart plc's total shareholder return outperforms the constituents of the FTSE General Financials Index. At median performance 10 per cent. of the options vest, with full vesting at upper quartile performance and straight line vesting in between. Assuming the performance conditions are met, one half of the options are exercisable 3 to 10 years from the date of grant and the balance 4 to 10 years from date of grant.

The performance conditions which will apply to options granted under the Tullett Prebon LTIP and to future grants under the Collins Stewart LTIP will be designed to ensure that full vesting only occurs on achievement of challenging performance criteria which create value for shareholders.

Future grants under both schemes will take account of market practice and the views of institutional shareholders.

10. Pensions

The Group's two UK defined benefit occupational pension schemes, the Tullett Liberty Pension Scheme (the **TL Scheme**) and the Prebon Yamane (Ex K-W) Pension Scheme (the **PY Scheme**) had an estimated unaudited deficit as at 30 June 2006 of £27.7 million in aggregate under International Accounting Standard 19. Where a defined benefit scheme is in deficit, the UK Pensions Regulator has power in some

circumstances to make orders for additional funding support (a contribution notice issued to the employing company or financial support direction issued to another group company or entity leaving the group).

Agreement has been reached between Collins Stewart Tullett plc, the respective Principal Employers and the trustees of the TL Scheme and the PY Scheme that, conditional on the capital return proceeding, the Group will ensure that the deficits of the respective schemes, as measured under FRS17, will be eliminated by 31 December 2010. In addition, the trustees of the TL Scheme and the PY Scheme will together have a first ranking charge over £50 million of net assets of the Continuing Group's principal operating subsidiaries. Based on these agreements the Pensions Regulator has issued a Clearance Statement under sections 42 and 46 of the Pensions Act 2004 confirming that it does not believe that it would be reasonable for it to issue a contribution notice or financial support direction in respect of entities of both the Continuing Group or the Collins Stewart Group as a result of either the Demerger or the proposed capital return.

11. Taxation

Certain UK tax and US federal income tax considerations relevant to UK resident (or, in the case of individuals, ordinarily resident) Collins Stewart Tullett Share Owners and US holders (as defined therein) are summarised in paragraphs 11 and 12 of Part 9 of this document.

12. Listing, dealings, share certificates and settlement

Application will be made to the UK Listing Authority for the admission of up to 213,000,000 New CST Shares, up to 213,000,000 Collins Stewart Shares and 35,074,221 New Collins Stewart Shares to the Official List and for the New CST Shares, the Collins Stewart Shares and the New Collins Stewart Shares to be admitted to trading on the London Stock Exchange's market for listed securities. The last day of dealings in Collins Stewart Tullett Shares is expected to be 14 December 2006. The last time for registration of transfers of Collins Stewart Tullett Shares is expected to be 6.00 p.m. on 14 December 2006, the Scheme Record Time. It is expected that the listing of Collins Stewart Tullett Shares will be cancelled at 8.00 a.m. on 15 December 2006. It is expected that dealings in New CST Shares and Collins Stewart Shares will commence on a conditional basis on the London Stock Exchange on 14 December 2006. All dealings in New CST Shares and Collins Stewart Shares between the commencement of conditional dealings and Admission will be on a "when issued" basis and at the risk of the parties concerned. If Admission of both New CST plc and Collins Stewart plc does not take place, these dealings will not be settled and will be of no effect and will be at the sole risk of the parties concerned. It is expected that Admission of both the New CST Shares and the Collins Stewart Shares will become effective and that dealings in New CST Shares and Collins Stewart Shares will commence on 19 December 2006.

Any of these dates may be deferred if it is necessary to adjourn any meeting required to approve the arrangements described in this document or if there is any delay in obtaining the Court's sanction of the Scheme, the Collins Stewart Tullett Reduction of Capital or the New CST Reduction of Capital. In the event of a delay, the application for the Collins Stewart Tullett Shares to be delisted will, if necessary, be deferred, so that the listing will not be cancelled until immediately before the Scheme becomes effective.

Subject to the satisfaction or, where permitted, waiver of the conditions to the Acquisition, including the completion of the Demerger, (as described in more detail in Part 3 of this document), save for that relating to Admission of the New Collins Stewart Shares, it is expected that Admission of the New Collins Stewart Shares will become effective and that dealings in New Collins Stewart Shares will commence on 22 December 2006.

With effect from (and including) the Scheme Effective Date, all share certificates representing the Collins Stewart Tullett Shares will cease to be valid and binding in respect of such holdings and should be destroyed.

The articles of association of New CST plc and Collins Stewart plc permit the holding of New CST Shares and Collins Stewart Shares respectively under the CREST system. New CST plc will apply for the New CST Shares and Collins Stewart plc will apply for the Collins Stewart Shares to be admitted to CREST with effect from Admission. Accordingly, settlement of transactions in New CST Shares and Collins Stewart Shares following Admission of New CST Shares or Collins Stewart Shares (as the case may be) may take place within the CREST system if any Collins Stewart Tullett Share Owner so wishes. CREST is a voluntary system and holders of New CST Shares and Collins Stewart Shares who wish to receive and retain share

certificates will be able to do so. Collins Stewart Tullett Share Owners may, however, elect to receive New CST Shares and Collins Stewart Shares in uncertificated form if they are a system shareholder (as defined in the CREST Regulations) in relation to CREST.

For Collins Stewart Tullett Share Owners who hold their Collins Stewart Tullett Shares in a CREST account at the Scheme Record Time, New CST Shares and Collins Stewart Shares are expected to be credited to the relevant CREST member account on 19 December 2006. For those holding shares in certificated form at the Scheme Record Time, definitive share certificates for New CST Shares and Collins Stewart Shares are expected to be despatched by 5 January 2007. In the case of joint holders, certificates will be despatched to the joint holder whose name appears first in the register. All certificates will be sent by pre-paid first class post at the risk of the person entitled to them. Pending the despatch of certificates for New CST Shares or Collins Stewart Shares (as the case may be), transfers of New CST Shares and Collins Stewart Shares will be certified against the register of members of New CST plc and Collins Stewart plc respectively. Temporary documents of title will not be issued in respect of New CST Shares or Collins Stewart Shares.

Collins Stewart Tullett Shares held in uncertificated form will be disabled in CREST on the Scheme Effective Date. New CST plc and Collins Stewart plc reserve the right to issue New CST Shares and Collins Stewart Shares respectively to any or all share owners in certificated form if, for any reason, they wish to do so.

All mandates in force at the Scheme Record Time relating to payment of dividends on Collins Stewart Tullett Shares and all instructions given relating to notices and other communications will, unless and until varied or revoked, be treated, from the Scheme Effective Date, as being valid and effective mandates or instructions to New CST plc in relation to the corresponding holding of New CST Shares.

All mandates in force at the Demerger Effective Time relating to payment of dividends on New CST Shares and all instructions given relating to notices and other communications will, unless and until varied or revoked, be treated, from the Demerger Effective Time, as being valid and effective mandates or instructions to Collins Stewart plc in relation to the corresponding holding of Collins Stewart Shares.

Collins Stewart plc will apply for the New Collins Stewart Shares to be admitted to CREST with effect from their Admission. The New Collins Stewart Shares to be issued pursuant to the Acquisition will rank *pari passu* with all other Collins Stewart Shares in issue immediately prior to Completion including for all dividends and other distributions made, paid or declared after Completion on the ordinary share capital of Collins Stewart plc, other than the final dividend in respect of the financial period ending 31 December 2006.

All documents, certificates, cheques or other communications sent by or to Collins Stewart Tullett Share Owners, or as such persons shall direct, will be sent at their own risk and may be sent by post.

A copy of either Prospectus may also be inspected as described in paragraph 15 of Part 9 of this document.

13. Overseas share owners

The implications of the Scheme and the Demerger for persons resident in, or citizens or nationals of, jurisdictions outside the United Kingdom (**overseas share owners**) may be affected by the laws of the relevant jurisdictions. Such overseas share owners should inform themselves about and observe all applicable legal requirements.

It is the responsibility of any person into whose possession this document comes to satisfy themselves as to their full observance of the laws of the relevant jurisdiction in connection with the Scheme and the Demerger, including the obtaining of any governmental, exchange control or other consents which may be required and/or compliance with other necessary formalities which are required to be observed and the payment of any issue, transfer or other taxes due in such jurisdiction.

It is proposed that changes are made to the Collins Stewart Tullett Articles and a provision is included in the Scheme so that if, in respect of any overseas shareholder, Collins Stewart Tullett plc or New CST plc is advised that the allotment and issue of New CST Shares pursuant to the Scheme or the issue of Collins Stewart Shares pursuant to the Demerger would or might infringe the laws of any jurisdiction outside the United Kingdom, or would or might require Collins Stewart Tullett plc, New CST plc or Collins Stewart plc to observe any governmental or other consent or any registration, filing or other formality with which any of

them cannot comply or compliance with which any of them consider unduly onerous, Collins Stewart Tullett plc or New CST plc (as appropriate) shall (unless such shareholder satisfies Collins Stewart Tullett plc or New CST plc (as appropriate) that no such infringement or requirement would apply) be entitled to appoint a person to execute as transferor an instrument of transfer of the Collins Stewart Tullett Shares or New CST Shares (as appropriate) held by such holder transferring such shares to a nominee to hold such shares on trust for that holder on terms that the nominee shall sell such shares or the New CST Shares and/or Collins Stewart Shares, if any, it receives pursuant to the Scheme and/or Demerger (as appropriate) in respect of such shares as soon as reasonably practicable thereafter at the best price which can reasonably be obtained at the time of sale, with the net proceeds of sale being remitted to the overseas shareholder. In the absence of bad faith or wilful default, none of Collins Stewart Tullett plc, New CST plc, Collins Stewart plc or any person appointed to sell such shares shall have any liability for any loss or damage arising as a result of the timing or terms of such sale.

Overseas share owners should consult their own legal and tax advisers with respect to the legal and tax consequences of the Scheme and the Demerger in their particular circumstances.

United States

The Collins Stewart Shares and the New CST Shares have not been, and will not be, registered under the Securities Act in reliance on the exemption from the registration requirements of the Securities Act provided by Section 3(a)(10) thereof. The Collins Stewart Shares and the New CST Shares have not been, and will not be registered under the securities laws of any state of the United States, and will be issued in the United States pursuant to the Scheme in reliance on available exemptions from such state law registration requirements.

For the purpose of qualifying for the exemption from the registration requirements of the Securities Act provided by Section 3(a)(10) thereof, Collins Stewart Tullett plc will advise the Court that its sanctioning of the Scheme and subsequent confirmation of the reduction of capital required to implement the Demerger will be relied on by Collins Stewart plc and New CST plc as an approval of the Scheme and Demerger following hearings on their fairness to Collins Stewart Tullett Share Owners, at which Court hearings all Collins Stewart Tullett Share Owners are entitled to attend in person or through counsel to support or oppose the sanctioning of the Scheme and with respect to which notification has been given to all such share owners.

A person who is entitled to receive securities pursuant to the Scheme and the Demerger and who is an affiliate of Collins Stewart Tullett plc prior to the implementation of the Scheme, or of Collins Stewart plc or New CST plc after the Scheme may not resell such securities without registration under the Securities Act except pursuant to the applicable resale provisions of Rule 145(d) under the Securities Act or another applicable exemption from registration or in a transaction not subject to registration. “Affiliates” of a company are generally defined as persons who directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, that company. Whether a person is an affiliate of a company for purposes of the Securities Act depends on the circumstances, but affiliates can include certain officers, directors and significant shareholders. Persons who believe they may be affiliates of Collins Stewart Tullett plc, Collins Stewart plc or New CST plc should consult their own legal advisers before any sale of securities received in the Scheme and Demerger.

Each of Collins Stewart Tullett plc, Collins Stewart plc and New CST plc is a public limited company incorporated under the laws of England and Wales. Most of their respective directors and officers reside outside of the United States. In addition, a substantial portion of the directly owned assets of such persons, of Collins Stewart Tullett plc, Collins Stewart plc and New CST plc are located outside of the United States. As a result, it may be difficult or impossible for investors to effect service of process within the United States against Collins Stewart Tullett plc, Collins Stewart plc, New CST plc or their respective directors and officers or to enforce against any of them judgments, including those obtained in original actions or in actions to enforce judgments of the U.S. courts, predicated upon the civil liability provisions of the federal securities laws of the United States.

For additional information relating to certain US tax considerations relevant to the Scheme and the Demerger, see paragraph 12 of Part 9 of this document.

Canada

Any securities issued to or for the benefit of any resident of Canada pursuant to the Scheme or the Demerger will not be qualified for sale under the securities law of any province or territory of Canada and will be subject to resale restrictions.

14. Meetings and consents

The Demerger Proposals will require the approval of Collins Stewart Tullett Share Owners at the Court Meeting held at the discretion of the Court and the passing by Collins Stewart Tullett Share Owners of Special Resolutions 1 and 2 set out in the notice convening the Extraordinary General Meeting both of which have been convened for 23 November 2006 at 12 noon (London Time) and 12.15 p.m. (London time) (or as soon thereafter as the Court Meeting shall have been concluded or adjourned) respectively and both of which will be held at 9th floor, 88 Wood Street, London EC2V 7QR.

Court Meeting

The Court Meeting has been convened for 12 noon (London time) on 23 November 2006 at 9th floor, 88 Wood Street, London EC2V 7QR pursuant to an order of the Court, to enable the Collins Stewart Tullett Share Owners to consider and, if thought fit, approve the Scheme.

At the Court Meeting, voting will be held by poll and each Collins Stewart Tullett Share Owner entitled to attend and who is present in person or by proxy will be entitled to one vote for each Collins Stewart Tullett Share held. The statutory majority required to approve the Scheme at the Court Meeting is a majority in number of the Collins Stewart Tullett Share Owners present and voting in person or by proxy, representing at least three-fourths in value of the Collins Stewart Tullett Shares held by them.

In order that the Court can be satisfied that the votes cast constitute a fair representation of the views of the Collins Stewart Tullett Share Owners, it is important that as many votes as possible are cast at the Court Meeting. Collins Stewart Tullett Share Owners are therefore urged to take the action referred to in paragraph 15 below.

If the Scheme is approved and becomes effective, it will be binding on all Collins Stewart Tullett Share Owners irrespective of whether they attended the Court Meeting or the way in which they voted.

Extraordinary General Meeting

The Extraordinary General Meeting has been convened for 23 November 2006 (the same day as the Court Meeting) at 12.15 p.m. (London time) (or as soon thereafter as the Court Meeting concludes or is adjourned) at 9th floor, 88 Wood Street, London EC2V 7QR to enable the Collins Stewart Tullett Share Owners to consider and, if thought fit, pass the resolutions set out in the Notice convening the meeting.

The purpose of the resolutions can be summarised as follows:

Resolution 1: to approve items relating to the Scheme, including:

- (a) the insertion of New CST plc as the new holding company of Collins Stewart Tullett plc and to assist this by making certain changes to the share capital of Collins Stewart Tullett plc (including increasing the authorised share capital of the Company to its former amount following the Collins Stewart Tullett Reduction of Capital in order to allow for the allotment and issue of new shares of Collins Stewart Tullett plc pursuant to the Scheme) and authorising the allotment and issue of new shares of Collins Stewart Tullett plc pursuant to the Scheme;
- (b) making amendments to the Collins Stewart Tullett Articles (to ensure that shares allotted after the passing of this resolution and prior to the Scheme Record Time are caught by the Scheme; to ensure that, subject to the Scheme becoming effective, any shares issued by Collins Stewart Tullett plc after that time can be compulsorily acquired by the immediate holding company of Collins Stewart Tullett plc;

- (c) to authorise Collins Stewart Tullett plc to procure the transfer of Collins Stewart Tullett Shares held by overseas shareholders to a nominee (in certain circumstances); and
- (d) authorising the issue of the deferred share referred to in paragraph 4 of this explanatory statement;

Resolution 2: to approve items relating to the Demerger, including the transfer of Collins Stewart Europe Limited, the holding company of the Collins Stewart Group, to New CST plc, and the New CST Reduction of Capital which will effect the Demerger;

Resolution 3: to approve the Collins Stewart Group Reduction of Capital;

Resolution 4: to approve the Acquisition;

Resolution 5: to approve the adoption by New CST plc of the rules of the New CST Long Term Incentive Plan;

Resolution 6: to approve the adoption by New CST plc of the rules of the New CST Share Savings Plan;

Resolution 7: to approve the adoption by Collins Stewart plc of the rules of the Collins Stewart Long Term Incentive Plan; and

Resolution 8: to approve the adoption by Collins Stewart plc of the rules of the Collins Stewart Share Savings Plan.

The majority required for the passing of each of Resolutions 1, 2 and 3 is not less than three-fourths in value of the votes cast. A simple majority is required for the passing of each of the other Resolutions. On a show of hands each Collins Stewart Tullett Share Owner present in person or by proxy will have one vote and on a poll each Collins Stewart Tullett Share Owner present in person or by proxy will have one vote for each Collins Stewart Tullett Share held.

15. Action to be taken

Forms of proxy are enclosed as follows:

- (a) for the Court Meeting, a white form of proxy; and
- (b) for the Extraordinary General Meeting, a blue form of proxy.

Whether or not you propose to attend the meetings in person you are requested to complete and sign both forms of proxy.

Completed forms of proxy should be returned in the reply paid envelope to the Registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU as soon as possible, and in any case so as to be received by the Registrars not later than 12 noon (London time) on 21 November 2006 in relation to the white form of proxy relating to the Court Meeting and 12.15 p.m. (London time) on 21 November 2006 in relation to the blue form of proxy relating to the EGM.

If you hold Collins Stewart Tullett Shares in uncertificated form you may also appoint a proxy by completing and transmitting a CREST proxy instruction in accordance with the procedures set out in the CREST manual ensuring that it is received by Capita Registrars (quoting CREST Participant ID RA10) by no later than 48 hours before the time appointed for the relevant meeting. The white form of proxy for use at the Court Meeting may also be handed to the Chairman at the Court Meeting.

The lodging of a form of proxy will not prevent you from attending either the Court Meeting or the Extraordinary General Meeting and voting in person should you decide to do so.

16. Further information

Your attention is drawn to the letter from your Chairman set out in Part 1 of this document, the Scheme (which is set out in full in Part 10 of this document) and the additional information set out in Part 9 of this document.

Yours faithfully

Stephen Pull
Managing Director
for and on behalf of
Lehman Brothers

PART 3: SUMMARY OF THE TERMS OF THE ACQUISITION

1. Introduction

The Acquisition Agreement is dated 27 October 2006 and the parties to it are: (1) Collins Stewart Europe Limited and (2) the Hawkpoint Shareholders. Under the Acquisition Agreement, Collins Stewart Europe Limited has conditionally agreed to purchase the entire issued share capital of Hawkpoint Holdings Limited.

2. Consideration

The consideration for the Acquisition is: (1) cash of £40 million payable to the Hawkpoint Shareholders on Completion (with a loan note alternative); (2) 35,074,221 New Collins Stewart Shares, which will be issued as fully paid to the Hawkpoint Shareholders on Completion; and (3) an amount equal to the surplus cash in the Hawkpoint Group at 31 December 2006, up to a maximum of £15,000,000. Shortly before Completion, the rights, benefits and obligations of Collins Stewart Europe Limited as purchaser under the Acquisition Agreement will be assumed by Collins Stewart plc.

The New Collins Stewart Shares to be issued pursuant to the Acquisition will rank *pari passu* with all other Collins Stewart Shares in issue immediately prior to Completion including for all dividends and other distributions made, paid or declared after Completion on the ordinary share capital of Collins Stewart plc other than the final dividend in respect of the financial period ending 31 December 2006.

3. Conditions to Completion

Completion is conditional upon, *inter alia*:

- (i) the successful completion of the Demerger;
- (ii) the passing of resolutions necessary to approve the Acquisition and to authorise the issue of the New Collins Stewart Shares;
- (iii) admission of the New Collins Stewart Shares to the Official List and to trading on the London Stock Exchange's market for listed securities; and
- (iv) there not having been a material adverse change in the business, operations, assets, position, profits or prospects of the Hawkpoint Group or the Collins Stewart Group or any event likely to result in such.

Completion will take place shortly after satisfaction of the above conditions precedent, which is currently expected to occur on 22 December 2006.

The Hawkpoint Shareholders have agreed that between the date of the Acquisition Agreement and Completion, the business of the Hawkpoint Group will be operated in the ordinary course and subject to certain specific restrictions which are usual in circumstances where there is a period between exchange and completion of legally binding contracts.

4. Warranties and Indemnities

Certain of the Hawkpoint Shareholders (the **Hawkpoint Warrantors**) (representing approximately 80 per cent. of the New Collins Stewart Shares) are providing warranties relating to the business and affairs of the Hawkpoint Group. The warranties are customary for transactions similar in nature and type to the Acquisition.

The Hawkpoint Warrantors will each be liable for any breach of the warranties up to a maximum amount equal to the value of 50 per cent. of the New Collins Stewart Shares issued to them, but will have no liability for a breach of warranty until the aggregate value of all claims exceeds £5,000,000. Individual claims of less than £100,000 will be disregarded. The liability of the Hawkpoint Warrantors will terminate on 31 March 2008 in respect of the warranties.

The Acquisition Agreement contains a warranty from Collins Stewart Europe Limited in favour of the Hawkpoint Shareholders in relation to the accuracy of the Collins Stewart Group Prospectus. It will have no liability for a breach of such warranty until the aggregate value of all claims exceeds £5,000,000. The

maximum liability is an amount equal to 50 per cent. of the value of the New Collins Stewart Shares issued to the Hawkpoint Shareholders. The liability will terminate on 31 March 2008.

The Hawkpoint Warrantors have also agreed to enter into a tax deed pursuant to which they will indemnify Collins Stewart plc against liabilities arising from certain taxation matters in terms customary for transactions similar in nature and type to the Acquisition. The maximum liability of the Hawkpoint Warrantors under the tax indemnity when aggregated with their liability for any breach of the warranties as above shall be an amount equal to 50 per cent. of the value of the New Collins Stewart Shares issued to them. There will be no liability until the aggregate value of all claims exceeds £100,000. Individual claims of less than £5,000 will be disregarded. The liability of the Hawkpoint Warrantors under the tax indemnity will terminate on 31 December 2009 other than in respect of employee payroll withholding taxes in respect of which liability will terminate on 31 December 2012.

The Hawkpoint Shareholders have agreed for a period of two years following the date of Completion not to solicit clients or employees of Hawkpoint should they leave the employment of the Enlarged Collins Stewart Group,

5. Lock-up undertakings

Subject to the provisions relating to claw back below and certain other limited exceptions, the Hawkpoint Warrantors and certain other of the Hawkpoint Shareholders (representing approximately 82 per cent. of the New Collins Stewart Shares) (i) may not dispose of any New Collins Stewart Shares until after the first anniversary of Completion, (ii) may dispose of up to 40 per cent. of their New Collins Stewart Shares after the first anniversary, but prior to and including the second anniversary of Completion and (iii) all of their New Collins Stewart Shares after the second anniversary of Completion shall be released from any restrictions on disposal. Any release from lock-up after the second anniversary of Completion shall be subject to any outstanding warranty or tax indemnity claims at such time.

6. Claw back

With certain limited exceptions, in the event that a Hawkpoint Shareholder ceases to be employed by Hawkpoint as a result of (i) his giving notice to resign from his employment, or (ii) his contract of employment being terminated as a result of his being convicted of a criminal offence, his being disqualified from being a director, his being guilty of fraud or his ceasing to be an “approved person” for the purposes of the Financial Services and Markets Act 2000, then, in most circumstances, some or all of the New Collins Stewart Shares held by such Hawkpoint Shareholder will be transferred by the relevant Hawkpoint Shareholder to an employee benefit trust on the following basis:

- (i) where the leaving date is on or before the first anniversary of Completion, 100 per cent. of the New Collins Stewart Shares held at the leaving date;
- (ii) where the leaving date is after the first anniversary but on or before the second anniversary of Completion, the relevant percentage is 60 per cent.; and
- (iii) where the leaving date is after the second anniversary, the relevant percentage is 0 per cent.

PART 4: RISK FACTORS

This Part 4 addresses risks to which the Continuing Group, the Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group are exposed, which could adversely affect the business, results of operations, cash flow, financial condition, turnover, profits, assets, liquidity and capital resources of the Continuing Group, the Collins Stewart Group or, following the Acquisition, the Enlarged Collins Stewart Group. Prior to voting on the Proposals, Collins Stewart Tullett Share Owners should consider these risks fully and carefully, together with all information set out in this document.

Additional risks and uncertainties currently unknown to the Company, or which the Company currently deems immaterial, may also have an adverse effect on the financial condition or business of the Continuing Group, and/or the Collins Stewart Group and/or, following the Acquisition, the Enlarged Collins Stewart Group.

1. Risk Factors in Relation to the Continuing Group

1.1 Market Risks

Changes in domestic and international market factors that reduce activity levels could significantly harm the Continuing Group.

The Continuing Group generates revenues primarily from commissions it earns from executing and clearing customer orders. These revenue sources are substantially dependent on customer trading volumes. The volume of transactions its customers conduct with it is directly affected by domestic and international market factors that are beyond the Continuing Group's control, including:

- Economic, political and market developments;
- Broad trends in industry and finance;
- Changes in levels of trading activity in the broader marketplace;
- Price levels and price volatility in the securities markets;
- Legislative and regulatory changes;
- Actions of competitors;
- Changes in government monetary policies;
- Foreign exchange rates; and
- Inflation.

Any material decrease in trading volumes would have a material adverse effect on the Continuing Group, its financial condition and operating results.

The securities and financial services industries are highly competitive and the Continuing Group expects that competition will intensify in the future.

The Continuing Group has numerous current and prospective competitors, both domestically and internationally. Some of its competitors and potential competitors have larger customer bases, more established name recognition and greater financial, marketing, technology and personnel resources than the Continuing Group has. These resources may enable them to, among other things:

- Develop services similar to the Continuing Group or new services that are preferred by the Continuing Group's customers;
- Provide access to trading in products or a range of products that the Continuing Group does not offer;
- Provide better execution and lower transaction costs;
- Offer better, faster and more reliable technology;

- Take greater advantage of new or existing acquisitions, alliances and other opportunities;
- More effectively market, promote and sell their services;
- Migrate products more quickly or effectively to electronic platforms which could move trading activity from the Continuing Group;
- Better leverage their relationships with their customers; and
- Offer better contractual terms to brokers.

In addition, new or existing competitors could gain access to markets or products in which the Continuing Group currently enjoys a competitive advantage. Even if new or existing competitors do not significantly erode the Continuing Group's market share, they may offer their services at lower prices, and the Continuing Group may then be required to reduce its commissions significantly to remain competitive, which could have a material adverse effect on its profitability. If the Continuing Group fails to compete effectively, its financial condition and operating results could be materially harmed.

A further consideration is that consolidation among the Continuing Group's clients may cause revenue to be dependent on a smaller number of clients and may result in additional pricing pressure. While no client accounted for a material part of the firm's total revenue for the year ended 31 December 2005, if its existing clients consolidate and new clients, such as national and regional banks and large hedge funds, do not generate offsetting volumes of transactions, then its revenues may become concentrated on a smaller number of clients. In that event, the Continuing Group's revenues may be dependent on its relationships with those clients to a material extent.

The Continuing Group operates in a regulated environment that imposes costs and significant compliance requirements on it. The failure to comply with the regulations could subject the Continuing Group to sanctions or oblige it to change the scope or nature of its operations.

Regulatory obligations require a commitment of resources. The Continuing Group's ability to comply with applicable laws, rules and regulations is largely dependent on its establishment and maintenance of compliance, control and reporting systems, as well as its ability to attract and retain qualified compliance and other risk management personnel. If it fails to establish effectively and maintain such compliance and reporting systems or fails to attract and retain personnel who are capable of designing and operating such systems, this will increase the likelihood that the Continuing Group will breach applicable laws and regulations exposing it to the risk of civil litigation and investigations by regulatory agencies. These agencies have broad powers to investigate and enforce compliance and punish non-compliance with applicable rules and regulations and any claims or actions by these agencies could adversely affect the Continuing Group.

The requirements imposed by the regulators are designed to ensure the integrity of the financial markets and to protect customers and other third parties who deal with the Continuing Group and are not designed to protect the Continuing Group's shareholders. Consequently, these regulations can serve to limit the Continuing Group's flexibility regarding capital structure. Customer protection and market conduct requirements may also impinge on the scope of the Continuing Group's activities.

The current regulatory regimes under which the Continuing Group operates, particularly that of the UK FSA, require it to maintain minimum levels of excess capital. The current capital requirements are expected to increase with effect from 1 January 2007 with implementation of the Capital Requirements Directive ("CRD"). Whilst the Continuing Group's management are confident that the Continuing Group has and will have sufficient capital to support the transition to CRD, any future changes in the Continuing Group's regulatory environment in the future could impact the Continuing Group's operations.

The securities trading and settlement process exposes the Continuing Group to risks that may have an impact on its liquidity and profitability. In addition, liability for unmatched trades could adversely affect its operating results and balance sheet.

The Continuing Group provides brokerage services by executing transactions for its clients. Transactions involving cash bonds and equities are executed on a “matched principal” basis whereby the Continuing Group acts as a “middleman” by serving as a counterparty to both a buyer and a seller in matching and reciprocal back-to-back trades.

In executing matched principal transactions, the Continuing Group is exposed to the risk that one of the counterparties to a transaction may fail to fulfil its obligations, either because it is not matched immediately or, even if matched, because one party fails to deliver the cash or securities it is obligated to deliver. Adverse movements in the prices of securities that are the subject of these transactions can increase the risk. In addition, widespread technological or communications failures, as well as actual or perceived credit difficulties or the insolvency of one or more large or visible market participants, could cause market-wide credit difficulties or other market disruptions. These failures, difficulties or disruptions could result in a large number of market participants not settling transactions or otherwise not performing their obligations.

The Continuing Group is subject to financing risk in these circumstances because if a transaction does not settle on a timely basis, the resulting unmatched position may need to be funded, either directly by it or through one of its clearing organisations at the Continuing Group’s expense. These charges may be recoverable from the failing counterparty, but sometimes are not. In instances where the unmatched failure to deliver is prolonged or widespread due to rapid or widespread declines in liquidity for an instrument, there may also be regulatory capital charges required to be taken by the Continuing Group, which, depending on their size and duration, could limit the Continuing Group’s flexibility to transact other business. Credit or settlement losses of this nature could adversely affect the Continuing Group’s financial condition or results of operations.

In the process of executing matched principal transactions, miscommunications and other errors by the Continuing Group’s clients or itself can arise whereby a transaction is not completed with one or more counterparties to the transaction, leaving it with either a long or short unmatched position. These unmatched positions are referred to as “out trades”, and they create a potential liability for the involved subsidiary of the Continuing Group. If an out trade is promptly discovered and there is a prompt disposition of the unmatched position, the risk to the Continuing Group is usually limited. If the discovery of an out trade is delayed, the risk is heightened by the increased possibility of intervening market movements prior to disposition. Although out trades usually become known at the time of, or later on the day of, the trade, it is possible that they may not be discovered until later in the settlement process. When out trades are discovered, the Continuing Group’s policy is to have the unmatched position disposed of promptly, whether or not this would result in a loss to the Continuing Group. The occurrence of out trades can increase with market volatility and, depending on their number and amount, such out trades have the potential to have an adverse effect on the Continuing Group’s financial condition and results of operations.

1.2 Credit Risks

Customers and counterparties that owe the Continuing Group money, securities or other assets may default on their obligations to the Continuing Group due to bankruptcy, lack of liquidity, operational failure or other reasons.

The Continuing Group often acts on behalf of its customers for trades consummated both on exchanges and in over-the-counter markets. Accordingly, it is responsible for its customers’ obligations with respect to these transactions, which exposes it to credit risk. Although the Continuing Group regularly reviews its credit exposure to specific customers and counterparties to address credit concerns, default risk may arise from events or circumstances that are difficult to detect or foresee. In addition, concerns about, or a default by, one institution could lead to significant liquidity problems, losses or defaults by other institutions, which in turn could adversely affect the Continuing Group. The Continuing Group may be adversely affected in the event of a significant default by its customers and counterparties.

1.3 *Operating Risks*

The Continuing Group's future success depends to a significant degree upon the continued contributions of its key personnel.

The Continuing Group's future success will depend greatly upon the expertise and continued services of certain key personnel, including its Directors. The Continuing Group has employment or service contracts with its key personnel, and has in place the existing equity incentive plans and proposes to introduce new employee share plans to grant options to employees. The Continuing Group cannot, however, guarantee the retention of such key personnel. The Directors believe they have taken reasonable steps, including the incorporation of minimum notice periods and non-compete provisions within service contracts, to lessen the impact of a departure of a key member of personnel, should he or she decide to leave the business. Nevertheless, the Continuing Group's business, its results or operations and financial condition may be adversely affected by the departure of one or more key members of personnel.

The Continuing Group may not be successful in its efforts to recruit and retain personnel.

The Continuing Group's future success depends upon the efforts of its qualified and highly trained personnel, and upon its ability to recruit, retain and motivate such personnel, particularly in light of the rapid pace of technological advances. The level of competition for such skilled individuals is intense. If the Continuing Group is not able to attract and retain highly skilled employees, or it incurs increased costs associated with attracting and retaining personnel, it could have a material adverse effect on its financial condition and operating results.

The Continuing Group may fail to provide its employees with adequate training to allow them to fulfil their roles competently and obtain required qualifications.

Background checks are conducted on new employees as a matter of course but there remains the possibility that some employees may have misrepresented their qualifications and experience. Training needs are assessed on a regular basis and tuition provided accordingly. There remains a risk that the Continuing Group will fail to assess the needs adequately. Should errors subsequently arise as a result of poor training and experience, this could lead to litigation and have an adverse effect on reputation.

The Continuing Group may fail to maintain its computer and communications systems and networks properly or to upgrade and expand such systems in response to technological change.

The Continuing Group needs to maintain the computer and communications systems and networks that it currently owns and operates. Its failure to maintain these systems and networks adequately could have a material effect on the performance and reliability of such systems and networks, which in turn could materially harm its business.

Further, the markets in which the Continuing Group competes are characterised by rapidly changing technology, evolving customer demand and uses of its services and the emergence of new industry standards and practices that could render its existing technology and systems obsolete. The Continuing Group's future success will depend in part on its ability to anticipate and adapt to technological advances, evolving customer demands and changing standards in a timely, cost-efficient and competitive manner and to upgrade and expand its systems accordingly. Any upgrades or expansions in technology and the use of technology may require significant expenditures of funds and may also increase the probability that it will suffer system degradations and failures. The Continuing Group may not have sufficient funds to update and expand its networks adequately, and any upgrade or expansion attempts may not be successful and accepted by the marketplace and its customers. Its failure to update and expand its systems and networks adequately or to adapt its systems and technology to evolving customer demands or emerging industry standards would have a material effect on the Continuing Group. Specifically, development by the Continuing Group's competitors of new electronic trade execution or market information products that gain acceptance in the market could give those competitors a "first mover" advantage that may be difficult for the Continuing Group to overcome with its own technology.

The secure transmission of confidential information over public networks is a critical element of the Continuing Group's operations. Its networks and those of the third-party service providers and counterparties with whom the Continuing Group trades and its customers may be vulnerable to unauthorised access, computer viruses and other security problems, including the Continuing Group's inadvertent dissemination of non-public information. Persons who circumvent security measures or gain access to customer information could wrongfully use the Continuing Group's own or customers' information or cause interruptions or malfunctions in the Continuing Group's operations, any of which could have a material adverse effect on the Continuing Group, its financial condition and operating results. Additionally, the Continuing Group's reputation could be damaged. If an actual, threatened or perceived breach of its or its security providers' security were to occur, or if the Continuing Group was inadvertently to release confidential customer information, the Group could be exposed to the risk of litigation and regulatory investigation or sanctions. In addition, the market perception of the effectiveness of the Continuing Group's security measures could be harmed and could cause customers to reduce or stop their use of the Continuing Group's services. The Continuing Group or its service providers may be required to expend significant resources to protect against the threat of any such security breaches or to alleviate problems, including reputational harm and litigation, caused by any breaches. Any security measures implemented by the Continuing Group or its service providers may prove to be inadequate and could result in incidental system failures and delays that could have an adverse effect on the Continuing Group's financial condition and operating results.

Systems or facilities failure, capacity constraints or external factors (including power outages or terrorist action) could limit the Continuing Group's ability to conduct its operations.

The Continuing Group is heavily dependent on the capacity and reliability of the computer and communications systems and facilities supporting its operations, whether owned and operated internally or by third parties. These computer and communications systems and facilities may suffer performance degradation or failure from any number of reasons, including loss of power, acts of war or terrorism, human error, natural disasters, fire, sabotage, hardware or software malfunctions or defects, computer viruses, intentional acts of vandalism, customer error or misuse, lack of proper maintenance or monitoring and similar events. If such a degradation or failure were to occur, it could cause:

- Unanticipated disruptions in service to the Continuing Group's customers;
- Slower response times;
- Delays in trade execution;
- Failed settlement of trades; and
- Incomplete or inaccurate accounting, recording or processing of trades.

Further, if the Continuing Group's disaster recovery plans do not operate effectively, they may not be adequate to correct or mitigate the effect of any of the above eventualities. In addition, the disaster recovery plans or personnel of its third-party service providers may not be adequate to correct or mitigate any of the above eventualities or be implemented properly. The occurrence of degradation or failure of the communications and computer systems and facilities on which the Continuing Group relies may lead to financial losses, litigation or arbitration claims filed by or on behalf of its customers. Any such degradation or failure could also have a negative effect on the Continuing Group's reputation, which in turn could cause it to lose existing customers to its competitors or make it more difficult for it to attract new customers in the future.

The Continuing Group may not detect or deter employee misconduct or errors.

There have been a number of highly publicised cases involving fraud or other misconduct by employees of financial services firms in recent years. Misconduct by the Continuing Group's employees could include hiding unauthorised activities from the Continuing Group, improper or unauthorised activities on behalf of customers, improper use of confidential information or use of improper marketing materials. Employee misconduct could subject the Continuing Group to financial losses or regulatory

sanctions and seriously harm its reputation. It is not always possible to deter employee misconduct, and the precautions the Continuing Group takes to prevent and detect such acts may not be effective in all cases. Employees may also commit errors that could expose the Continuing Group to the risk of financial claims for negligence or otherwise, as well as regulatory actions. This could seriously harm the Continuing Group's reputation and could adversely affect its financial condition and operating results.

The Continuing Group requires liquidity and new credit agreements will contain restrictive covenants which may limit the Continuing Group's working capital and corporate activities.

Ready access to cash is essential to the firm's business. Its liquidity could be impaired by an inability to access lines of credit, an inability to access funds from its subsidiaries or an inability to liquidate customer positions or otherwise sell assets. This situation may arise due to circumstances outside the Continuing Group's control, such as a general market disruption or an operational problem that affects third parties or itself. Further, the Continuing Group's ability to liquidate customer positions or otherwise sell assets may be impaired if other market participants are seeking to sell similar assets at the same time.

As part of the intended reorganisation of the Continuing Group's capital structure, the Continuing Group may enter into credit agreements which will impose operating and financial restrictions on it, including restrictions which may, directly or indirectly, limit its ability to:

- Merge, acquire or dispose of assets;
- Incur liens, indebtedness or contingent obligations;
- Make investments;
- Engage in certain transactions with affiliates and insiders;
- Enter into sale and leaseback transactions;
- Pay dividends and other distributions; and
- Enter into new lines of business that are substantially different to current lines of business.

In addition, these credit agreements will contain covenants that require the Continuing Group to maintain specified financial ratios and satisfy specified financial tests. As a result of these covenants and restrictions, the Continuing Group may be limited in how it conducts its business, and it may be unable to raise additional financing, to compete effectively or to take advantage of new business opportunities. The Continuing Group cannot guarantee that it will be able to remain in compliance with these covenants in the future. The credit agreements will also contain several events of default, including non-payment, certain bankruptcy events, covenant or representation breaches or a change in control.

The Continuing Group may be adversely affected if its reputation is harmed.

The Continuing Group's ability to attract and retain customers and employees and raise appropriate financing or capital may be adversely affected to the extent its reputation is damaged. If it fails, or appears to fail, to deal with various issues that may give rise to reputational risk, its reputation and in turn its business prospects may be harmed. These issues include, but are not limited to, appropriately dealing with potential conflicts of interest, legal and regulatory requirements, ethical issues, money-laundering, privacy, record-keeping, sales and trading practices, and the proper identification of the legal, reputational, credit, liquidity and market risks inherent in its business. Failure to address these issues appropriately could give rise to additional litigation and regulatory risk to the Continuing Group.

The Continuing Group is exposed to funding risks in relation to the defined benefits under its pension schemes.

Participating employers in the Continuing Group participate in either or both of the Continuing Group's UK defined benefit occupational pension schemes. The participating employers are obliged by law to

maintain a minimum funding level in relation to their ongoing obligation to provide current and future pension benefits for the members of the pensions trust who are entitled to defined benefits. The trustees of the pension schemes have a wide discretion under the respective trust deeds to decide the contributions payable by the participating employers. The size of the deficits in the defined benefit schemes may also increase due to a reduction in the value of the schemes' assets, or an increase in the schemes' liabilities due to changing mortality assumptions, changing discount rate assumptions, the expected rate of return on scheme assets, or other factors. Additionally, if either pension trust is wound up for any reason, the participating employers would become statutorily liable to make an immediate payment to the trustees of the relevant pension scheme to bring the funding of the defined benefits to a level that is higher than the minimum required by law. Additionally, if an employer is deemed to be "insufficiently resourced", the Pensions Regulator could issue a financial support direction that requires the relevant participating employers of the Continuing Group or an associated or connected company to put in place financial arrangements to support the pension liabilities, if it thinks it is reasonable to impose the direction on that company.

1.4 Risks relating to ordinary shares of New CST plc (to be renamed Tullett Prebon plc)

As a holding company, the ability of New CST plc to pay dividends will depend upon the level of distributions, if any, received from its operating subsidiaries, regulatory requirements and the successful conversion of operating profits into cash.

The payment of dividends is subject to New CST plc having sufficient distributable reserves for such purposes after the receipt of distributions from its subsidiaries. To create additional distributable reserves and thereby increase flexibility, at the Extraordinary General Meeting of Collins Stewart Tullett plc, Collins Stewart Tullett Share Owners will be asked to approve a reduction of New CST plc's share capital. New CST plc will apply to the Court before Admission for an order confirming the reduction (see paragraph 4 of Part 2 of this document). At this time, it is not possible to provide assurance that such application will be successful.

The payment of dividends is also subject to New CST plc, after payment of the dividend, continuing to meet such regulatory requirements as are stipulated by its lead regulator, the FSA. Distributions by subsidiaries to New CST plc are similarly affected by local regulatory requirements.

1.5 Risks relating to the Demerger

Any future return of value to shareholders is dependent on the successful implementation of the Demerger.

The ability of the Continuing Group to implement a return of excess capital to its shareholders in the near future will be heavily dependent on the successful implementation of the Demerger. The implementation of the Demerger is subject to various conditions and will not proceed unless those conditions are satisfied and the Scheme and the Collins Stewart Group Transfer have occurred first. If the Scheme becomes effective but the Demerger does not occur, New CST plc will be the new holding company of a group that will include Collins Stewart Europe Limited and its current subsidiaries. In that situation New CST plc is expected to be subject to regulatory capital requirements that will limit its ability to return or prevent it from returning excess capital to its shareholders. Whether or not the Demerger occurs, the proposed return of capital described in this document is subject to uncertainty as to its timing and amount and the form it might take. In particular, the proposed return of capital will not take place unless a waiver from the consolidated capital adequacy tests under the Capital Requirements Directive has been received, the Continuing Group has adequate funding in place and the board of New CST plc considers it to be in the best interests of New CST plc.

2. Risk Factors in Relation to the Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group

2.1 Market Risks

The Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group is materially affected by conditions in the financial markets and economic conditions generally, both in the United Kingdom and elsewhere.

As a financial services business, the Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group is materially affected by conditions particularly in the UK, but also in the global financial markets and economic conditions throughout the world. During periods of unfavourable market or economic conditions the volume and value of transactions may decrease, thereby reducing the demand for the Collins Stewart Group's and, following the Acquisition, the Enlarged Collins Stewart Group's services and increasing price competition among financial services companies. The Collins Stewart Group's and, following the Acquisition, the Enlarged Collins Stewart Group's results could be adversely affected by such reduction in the volume or value of transactions. In addition its profitability could be adversely affected if it were unable to scale back fixed costs within a time frame sufficient to match any decreases in revenue relating to changes in market and economic conditions. The future market and economic climate may deteriorate because of many factors, including rising interest rates or inflation, terrorism or political uncertainty.

The Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group is particularly exposed to the AIM and smaller companies markets. Volatility in these markets, or in the markets of particular companies or sectors within them, could have a significant impact on the Collins Stewart Group's and, following the Acquisition, the Enlarged Collins Stewart Group's performance. Underwriting and fund raising for companies in these markets form a material part of the Collins Stewart Group's and, following the Acquisition, the Enlarged Collins Stewart Group's business. Consequently any future downturn in this business would materially impact the Collins Stewart Group's and, following the Acquisition, the Enlarged Collins Stewart Group's results.

The securities and financial services industries are highly competitive and the Directors expect that competition will intensify in the future.

The Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group has numerous current and prospective competitors, many of whom are much larger than the Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group. Some of its competitors and potential competitors have larger customer bases, more established name recognition and greater financial, marketing, technology and personnel resources than the Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group has. These resources may enable them to, among other things:

- Develop services similar to those currently offered by the Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group or new services that are preferred by the Collins Stewart Group's and, following the Acquisition, the Enlarged Collins Stewart Group's customers;
- Provide access to trading in products or a range of products that the Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group does not offer;
- Provide better execution and lower transaction costs;
- Offer better, faster and more reliable technology;
- Take greater advantage of new or existing acquisitions, alliances and other opportunities;
- More effectively market, promote and sell their services; and
- Better leverage their relationships with their customers.

In addition, new or existing competitors could gain access to markets or products in which the Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group currently enjoys a competitive advantage. Even if new or existing competitors do not significantly erode the Collins

Stewart Group's and, following the Acquisition, the Enlarged Collins Stewart Group's market share, they may offer their services at lower prices, and the Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group may then be required to reduce its fees significantly to remain competitive, which could have a material adverse effect on its profitability. If the Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group fails to compete effectively, its financial condition and operating results could be materially harmed.

Changes in industry practice could also have a harmful effect on the Collins Stewart Group's and, following the Acquisition, the Enlarged Collins Stewart Group's results. This may include the potential impact of clients deciding to pay separately for trading and research services, a process known as "unbundling", in order to lower their costs of trading. Such changes could adversely impact the Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group by reducing commission rates and/or, requiring changes to the business models operated by parts of the Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group.

The Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group operates in a regulated environment that imposes costs and significant compliance requirements on it. The failure to comply with the regulations could subject the Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group to sanctions and oblige it to change the scope and nature of its operations.

Regulatory obligations require a significant commitment of resources. The Collins Stewart Group's and, following the Acquisition, the Enlarged Collins Stewart Group's ability to comply with applicable laws, rules and regulations is largely dependent on its establishment and maintenance of compliance, control and reporting systems, as well as its ability to attract and retain qualified compliance and other risk management personnel. If it fails to establish effectively and maintain such compliance and reporting systems or fails to attract and retain personnel who are capable of designing and operating such systems, this will increase the likelihood that the Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group will breach applicable laws and regulations exposing it to the risk of civil litigation and investigations by regulatory agencies. These agencies have broad powers to investigate and enforce compliance and punish non-compliance with applicable rules and regulations and any claims or actions by these agencies could adversely affect the Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group.

The requirements imposed by the regulators are designed to ensure the integrity of the financial markets and to protect customers and other third parties who deal with the firm and are not designed to protect the Collins Stewart Group's and, following the Acquisition, the Enlarged Collins Stewart Group's shareholders. Consequently, these regulations often serve to limit the Collins Stewart Group's and, following the Acquisition, the Enlarged Collins Stewart Group's flexibility regarding capital structure. Customer protection and market conduct requirements may also impinge on the Collins Stewart Group's and, following the Acquisition, the Enlarged Collins Stewart Group's activities.

The current regulatory regimes under which the Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group operates, particularly that of the UK FSA, require it to maintain minimum levels of excess capital. The current capital requirements are expected to increase with effect from 1 January 2007 with the implementation of the Capital Requirements Directive ('CRD'). Whilst the Collins Stewart Group's management are confident that the Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group has and will have sufficient capital to support the transition to CRD, any additional future changes in the Collins Stewart Group's and, following the Acquisition, the Enlarged Collins Stewart Group's regulatory environment could impact the Collins Stewart Group's and, following the Acquisition, the Enlarged Collins Stewart Group's operations.

The securities trading and settlement process exposes the Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group to risks that may have an impact on its liquidity and profitability. In addition, liability for unmatched trades could adversely affect its results of operations and balance sheet.

The Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group provides brokerage services by executing transactions for its clients. Some of these transactions are executed on a “matched principal” basis whereby the Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group acts as a “middleman” by serving as a counterparty to both a buyer and a seller in matching reciprocal back-to-back trades. In executing matched principal transactions, the Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group is exposed to the risk that one of the counterparties to a transaction may fail to fulfil its obligations, either because it is not matched immediately or, even if matched, one party fails to deliver the cash or securities it is obligated to deliver. In such circumstances, adverse movements in prices before the position can be closed may give rise to losses.

There may be inefficient markets in stocks in which the Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group acts as a market maker.

As a market maker, the Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group must always offer a price at which it is ready to buy and sell those shares in which it makes a market, irrespective of whether there is a third party ready to buy or sell a matching amount of stock. A number of the stocks in which the Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group is a market maker are substantially illiquid, hence the true market price is not always clearly identifiable and the bid-offer spread is typically much wider than for more liquid stocks. As there is not an efficient market in these illiquid stocks there is a chance that the Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group will misjudge where the true market lies and make a market at an inappropriate level. This could have an adverse effect on the Collins Stewart Group’s and, following the Acquisition, the Enlarged Collins Stewart Group’s result of operations.

The Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group may be adversely impacted by carrying significant underwriting positions.

The Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group regularly underwrites IPOs for clients. There is a risk that as a consequence it has to subscribe for a significant amount of stock for its own account. In such an event, it may not be possible to liquidate such a position quickly, or without incurring potentially significant losses. Accordingly, such underwriting positions can carry increased liquidity risk, and can adversely impact the Collins Stewart Group’s and, following the Acquisition, the Enlarged Collins Stewart Group’s profits and capital and financing requirements.

2.2 Credit Risks

Customers and counterparties indebted to the Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group in cash, securities or other assets may default on their obligations to the Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group due to bankruptcy, lack of liquidity, operational failure or other reasons.

The Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group acts as an intermediary between clients buying and selling securities. In the event that a client fails to deliver securities, the Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group is required to finance the failed trade, and in the event of customer default may be required to settle the trade by closing out in the open market. The Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group also incurs credit risk in such situations although this is limited to the impact of adverse price movements on failed trades in the event that client default forces the Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group to settle the position in the market. Although the Collins Stewart Group and, following the Acquisition,

the Enlarged Collins Stewart Group regularly reviews credit exposures to specific customers and counterparties to address credit concerns, default risk may arise from events or circumstances that are difficult to detect or foresee. The Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group may be materially and adversely affected in the event of a significant default by its customers and counterparties.

2.3 Operating Risks

The Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group may not be successful in its efforts to recruit and retain personnel.

The Collins Stewart Group's and, following the Acquisition, the Enlarged Collins Stewart Group's future success depends upon the efforts of its qualified, highly trained and experienced personnel, and upon its ability to recruit, retain and motivate such personnel. The level of competition for such skilled individuals is intense. If the Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group is not able to attract and retain highly skilled employees, or if it incurs increased costs associated with attracting and retaining personnel, it could have a material adverse effect on its financial condition and operating results.

The Collins Stewart Group's and, following the Acquisition, the Enlarged Collins Stewart Group's future success depends to a significant degree upon the continued contributions of its key personnel.

The Collins Stewart Group's and, following the Acquisition, the Enlarged Collins Stewart Group's future success will depend greatly upon the expertise and continued services of certain key personnel, including its directors and senior managers. The Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group has employment or service contracts with its key personnel, and has in place the existing employee share plans and proposes to introduce new employee share plans to grant options to employees. The Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group cannot, however, guarantee the retention of such key personnel. The Directors believe they have taken reasonable steps, including the incorporation of minimum notice periods and non-compete provisions within service contracts, to lessen the impact of a departure of a key member of personnel should he or she decide to leave the business. Nevertheless, the Collins Stewart Group's and, following the Acquisition, the Enlarged Collins Stewart Group's business, its results or operations and financial condition may be adversely affected by the departure of one or more key members of personnel.

The Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group may fail to provide its employees with adequate training to allow them to fulfil their roles competently and obtain required qualifications.

Background checks are conducted on new employees as a matter of course but there remains the possibility that some employees may have misrepresented to the Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group their qualifications and experience. Training needs are assessed on a regular basis and tuition provided accordingly. There remains a risk that the Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group will fail to assess the needs adequately. Should errors subsequently arise as a result of poor training and experience, this could lead to litigation and have an adverse effect on reputation.

The Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group may fail to maintain its computer and communications systems and networks properly or to upgrade and expand such systems in response to technological change. Systems failure or capacity constraints could limit the Collins Stewart Group's and, following the Acquisition, the Enlarged Collins Stewart Group's ability to conduct its operations.

The Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group needs to maintain the computer and communications systems and networks that it currently owns and operates. Its failure to maintain these systems and networks adequately could have a material effect on

the performance and reliability of such systems and networks, which in turn could materially harm its business.

The Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group is heavily dependent on the capacity and reliability of the computer and communications systems supporting its operations, whether owned and operated internally or by third parties. These computer and communications systems may suffer performance degradation or failure from any number of reasons, including loss of power, acts of war or terrorism, human error, natural disasters, fire, sabotage, hardware or software malfunctions or defects, computer viruses, intentional acts of vandalism, customer error or misuse, lack of proper maintenance or monitoring and similar events. If such a degradation or failure were to occur, it could cause:

- Unanticipated disruptions in service to the Collins Stewart Group's and, following the Acquisition, the Enlarged Collins Stewart Group's customers;
- Slower response times;
- Delays in trade execution;
- Failed settlement of trades; and
- Incomplete or inaccurate accounting, recording or processing of trades.

Further, if the Collins Stewart Group's and, following the Acquisition, the Enlarged Collins Stewart Group's disaster recovery plans do not operate effectively, they may not be adequate to correct or mitigate any of the above eventualities. The occurrence of degradation or failure of the communications and computer systems on which the Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group relies may lead to financial losses, litigation or arbitration claims filed by or on behalf of its customers. Any such degradation or failure could also have a negative effect on the Collins Stewart Group's and, following the Acquisition, the Enlarged Collins Stewart Group's reputation, which in turn could cause it to lose existing customers to its competitors or make it more difficult for it to attract new customers in the future.

The Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group may not detect or successfully deter employee misconduct or errors.

There have been a number of highly publicised cases involving fraud or other misconduct by employees of financial services firms in recent years. Misconduct by the Collins Stewart Group's and, following the Acquisition, the Enlarged Collins Stewart Group's employees could include hiding unauthorised activities from the Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group, improper or unauthorised activities on behalf of customers, improper use of confidential information or use of improper marketing materials.

Employee misconduct could subject the Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group to financial losses or regulatory sanctions and seriously harm its reputation. It is not always possible to deter employee misconduct, and the precautions the Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group takes to prevent and detect such acts may not be effective in all cases. Employees may also commit errors that could expose the Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group to the risk of financial claims for negligence or otherwise, as well as regulatory actions. This could seriously harm the Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group and could adversely affect its financial condition and operating results.

The Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group may be adversely affected if its reputation is harmed.

The Collins Stewart Group's and, following the Acquisition, the Enlarged Collins Stewart Group's ability to attract and retain customers and employees and raise appropriate financing or capital may be adversely affected to the extent its reputation is damaged. If it fails, or appears to fail, to deal with various issues that may give rise to reputational risk, its reputation and in turn its business prospects may be

harmed. These issues include, but are not limited to, appropriately dealing with potential conflicts of interest, legal and regulatory requirements, ethical issues, money-laundering, privacy, record-keeping, sales and trading practices, and the proper identification of the legal, reputational, credit, liquidity and market risks inherent in its business. Failure to address these issues appropriately could give rise to additional litigation and regulatory risk to the Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group.

2.4 Risks relating to ordinary shares of Collins Stewart plc

An active public market for the ordinary shares of Collins Stewart plc may not develop or be sustained.

Although Collins Stewart plc will apply for Admission, and it is expected that this application will be approved, it can give no assurance that an active trading market for its ordinary shares will develop or, if developed, will be sustained following Admission. If an active trading market is not developed or maintained, the liquidity and trading price of its ordinary shares could be adversely affected.

As a holding company, the ability of Collins Stewart plc to pay dividends will depend upon the level of distributions, if any, received from its operating subsidiaries and regulatory requirements.

The payment of dividends is subject to Collins Stewart plc having sufficient distributable reserves for such purposes after the receipt of distributions from its subsidiaries. To create additional distributable reserves and thereby increase flexibility, at the Extraordinary General Meeting of Collins Stewart Tullett plc, Collins Stewart Tullett Share Owners will be asked to approve a reduction of Collins Stewart plc's share capital. Collins Stewart plc will apply to the Court after Admission for an order confirming the reduction (see paragraph 4 of Part 2 of this document). At this time, it is not possible to provide assurance that such application will be successful.

The payment of dividends is also subject to Collins Stewart plc, after payment of the dividend, continuing to meet such regulatory requirements as are stipulated by its lead regulator, the FSA. Distributions by subsidiaries to Collins Stewart plc are similarly affected by local regulatory requirements.

2.5 Risks relating to the Demerger

Separation of the Collins Stewart Group from Collins Stewart Tullett may result in additional costs and disruption to the normal course of operations.

Demerging the Collins Stewart Group and its simultaneous conversion to a publicly traded company may result in increased administrative and regulatory costs and burdens that are not reflected in the historical financial statements of the Collins Stewart Group. Further, the Collins Stewart Group's and, following the Acquisition, the Enlarged Collins Stewart Group's systems, infrastructure and day-to-day corporate governance provisions will be required to operate on a standalone basis. Although the Collins Stewart Group's management are confident that the transition to a standalone entity will go smoothly, all of the above could adversely affect the Collins Stewart Group's and, following the Acquisition, the Enlarged Collins Stewart Group's operations.

After the Demerger the Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group will operate as an independent group.

After the Demerger, the Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group will operate as an independent group, but will have the benefit of certain transitional services arrangements with New CST plc. In due course Collins Stewart plc will have to replace the transitional services provided by New CST plc. It may be materially and adversely affected in the event that it is not able to support the businesses of the Collins Stewart Group and, following the Acquisition, the Enlarged Collins Stewart Group on an independent basis or if it is not able properly to replace the transitional services when they are terminated.

2.6 Risks relating to the Acquisition

Unforeseen difficulties may result from introducing Hawkpoint into the Enlarged Collins Stewart Group

Although Hawkpoint will remain a separate entity following the Acquisition, there may be unforeseen difficulties with introducing Hawkpoint into the Enlarged Collins Stewart Group including, but not limited to, the implementation of post Acquisition initiatives. This may have an adverse effect on the financial condition and results of operations of the Enlarged Collins Stewart Group.

Collins Stewart may be unable fully to recover under the representations and warranties included in the Acquisition Agreement

Collins Stewart is receiving the benefit of representations and warranties relating to the business and affairs of Hawkpoint from certain of the Hawkpoint Shareholders. In the event of the insolvency or bankruptcy of any of these persons Collins Stewart would have to bear any irrecoverable losses itself.

Future sales of New Collins Stewart Shares once relevant lock-ins are removed in the public market could cause the share price to fall

Following the Acquisition, Hawkpoint Shareholders will together own approximately 14.2 per cent. of the issued Collins Stewart Shares. It is not possible to predict whether substantial amounts of New Collins Stewart Shares will be sold in the open market following termination of the lock-up arrangements described in Part 3 of this document. Sales of a substantial number of New Collins Stewart Shares in the public market after Admission, or the perception that these sales might occur, could depress the market price of the Collins Stewart Shares and could impair Collins Stewart plc's ability to raise capital through the sale of additional equity securities.

PART 5: ACCOUNTANT'S REPORT ON THE COLLINS STEWART GROUP

Deloitte.

Deloitte & Touche LLP
Athene Place
66 Shoe Lane
London EC4A 3BQ

The Board of Directors
on behalf of Collins Stewart Tullett plc
Cable House
54-62 New Broad Street
London EC2M 1ST

Lehman Brothers International (Europe)
25 Bank Street
London E14 5LE

Dear Sirs

**Collins Stewart Europe Limited (formerly Collins Stewart Limited)
and its subsidiaries ("Collins Stewart")**

We report on the financial information set out in Part V of the circular dated 31 October 2006 of Collins Stewart Tullett plc (the "Company") (the "Circular"). This financial information has been prepared for inclusion in the Circular on the basis of the accounting policies set out in note 2 to the financial information. This report is required by Listing Rule 13.5.21R and is given for the purpose of complying with that requirement and for no other purpose.

Basis of preparation

The Combined Financial Information for Collins Stewart for the three years and six months ended 30 June 2006 set out below comprises the consolidated Collins Stewart Europe Limited Group, Collins Stewart Inc. and the US equities business (currently managed within the inter-dealer broking division of Collins Stewart Tullett plc), which will form the companies or businesses in Collins Stewart following the Demerger. This information has been extracted from the consolidation schedules which support the audited financial statements of Collins Stewart Tullett plc, and has been prepared on the basis set out in notes 1 and 2.

Responsibilities

The directors of the Company are responsible for preparing the financial information on the basis of preparation set out in notes 1 and 2 to the financial information and in accordance with International Financial Reporting Standards ("IFRS").

It is our responsibility to form an opinion as to whether the financial information gives a true and fair view, for the purposes of the Circular, and to report our opinion to you.

Save for any responsibility, which we may have to those persons to whom this report is expressly addressed and which we may have to the Ordinary Shareholders as a result of the inclusion of this report in the Circular, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in accordance with this report or our statement, required by and given solely for the purposes of complying with Listing Rule 13.4.1R(6), consenting to its inclusion in the Circular.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purposes of the Circular, a true and fair view of the state of affairs of the Collins Stewart Group as at 31 December 2003, 31 December 2004, 31 December 2005 and 30 June 2006 and of its profits, cash flows and changes in equity for the periods then ended in accordance with the basis of preparation set out in notes 1 and 2 and in accordance with IFRS as described in note 1.

This report does not cover, and we express no opinion on, the financial information for the six month period ended 30 June 2005.

Yours faithfully

Deloitte & Touche LLP
Chartered Accountants

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FINANCIAL INFORMATION UNDER IFRS

Combined Income Statement

	Notes	Year to			Six months to	
		31 December 2003	31 December 2004	31 December 2005	30 June 2005 (unaudited)	30 June 2006
		£m	£m	£m	£m	£m
Revenue	3	129.1	119.0	148.7	72.8	104.1
Administrative expenses						
Exceptional item: split capital contribution	4	–	(10.0)	–	–	–
Other administrative expenses		(82.1)	(79.4)	(105.7)	(52.2)	(71.6)
Total administrative expenses		(82.1)	(89.4)	(105.7)	(52.2)	(71.6)
Operating profit		47.0	29.6	43.0	20.6	32.5
Finance income	7	2.9	4.1	4.9	2.4	2.5
Finance costs	8	(0.9)	(1.0)	(1.3)	(0.5)	(0.8)
		2.0	3.1	3.6	1.9	1.7
Profit before tax		49.0	32.7	46.6	22.5	34.2
Taxation	9	(14.6)	(8.6)	(11.4)	(6.2)	(12.6)
Profit after tax	5	34.4	24.1	35.2	16.3	21.6
Attributed to:						
Equity holders of the parent		34.2	23.8	34.9	16.2	21.5
Minority interest		0.2	0.3	0.3	0.1	0.1
		34.4	24.1	35.2	16.3	21.6
Earnings per share						
Basic	11	16.1p	11.2p	16.4p	7.6p	10.1p
Diluted	11	16.0p	11.2p	16.4p	7.6p	10.1p

All of the Collins Stewart Group's revenue and operating profit were derived from continuing operations.

Combined Statement of Recognised Income and Expense

	<i>Notes</i>	<i>Year to</i>			<i>Six months to</i>	
		<i>31 December 2003</i>	<i>31 December 2004</i>	<i>31 December 2005</i>	<i>30 June 2005</i> <i>(unaudited)</i>	<i>30 June 2006</i>
		<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Exchange differences on translation of foreign operations		(0.1)	–	0.1	0.1	0.3
Taxation on items taken directly to equity		0.2	0.1	0.6	0.6	2.9
Net income recognised directly in equity		0.1	0.1	0.7	0.7	3.2
Profit for the period	5	34.4	24.1	35.2	16.3	21.6
Total recognised income and expense for the period		<u>34.5</u>	<u>24.2</u>	<u>35.9</u>	<u>17.0</u>	<u>24.8</u>
Attributed to:						
Equity holders of the parent		34.3	23.9	35.6	16.9	24.7
Minority interest		0.2	0.3	0.3	0.1	0.1
		<u>34.5</u>	<u>24.2</u>	<u>35.9</u>	<u>17.0</u>	<u>24.8</u>

Combined Balance Sheet

	<i>Notes</i>	<i>As at</i>			<i>As at</i>	
		<i>31 December</i>	<i>31 December</i>	<i>31 December</i>	<i>30 June</i>	<i>30 June</i>
		<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2005</i>	<i>2006</i>
		<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Non-current assets						
Goodwill	12	25.1	25.1	32.2	25.1	32.6
Other intangible assets	13	0.5	0.6	0.5	0.5	0.3
Land, buildings, furniture, fixtures and equipment	14	4.4	2.8	2.1	2.3	1.9
Other financial assets	16	1.6	1.6	1.6	1.6	1.7
Deferred tax assets	17	0.8	0.7	2.3	1.8	5.1
		<u>32.4</u>	<u>30.8</u>	<u>38.7</u>	<u>31.3</u>	<u>41.6</u>
Current assets						
Trade and other receivables	18	116.6	117.2	626.8	414.2	2,228.5
Trading investments	16	10.3	55.0	38.5	45.2	26.0
Cash and cash equivalents	27(b)	106.5	57.9	66.9	78.7	84.1
		<u>233.4</u>	<u>230.1</u>	<u>732.2</u>	<u>538.1</u>	<u>2,338.6</u>
Total assets		<u>265.8</u>	<u>260.9</u>	<u>770.9</u>	<u>569.4</u>	<u>2,380.2</u>
Current liabilities						
Trade and other payables	20	(133.1)	(113.9)	(636.1)	(409.4)	(2,227.5)
Financial liabilities	21	(2.8)	(27.4)	(11.9)	(18.0)	(4.5)
Interest bearing loans and borrowings	22	(3.6)	(4.0)	(1.1)	(3.6)	(5.9)
Tax liabilities		(11.3)	(2.3)	(11.4)	(7.3)	(13.1)
		<u>(150.8)</u>	<u>(147.6)</u>	<u>(660.5)</u>	<u>(438.3)</u>	<u>(2,251.0)</u>
Net current assets		<u>82.6</u>	<u>82.5</u>	<u>71.7</u>	<u>99.8</u>	<u>87.6</u>
Non-current liabilities						
Interest bearing loans and borrowings	22	(12.9)	(12.9)	(12.8)	(12.8)	(11.3)
Long-term provisions	23	(2.0)	(0.7)	–	(0.4)	–
		<u>(14.9)</u>	<u>(13.6)</u>	<u>(12.8)</u>	<u>(13.2)</u>	<u>(11.3)</u>
Total liabilities		<u>(165.7)</u>	<u>(161.2)</u>	<u>(673.3)</u>	<u>(451.5)</u>	<u>(2,262.3)</u>
Net assets		<u>100.1</u>	<u>99.7</u>	<u>97.6</u>	<u>117.9</u>	<u>117.9</u>
Equity						
Share capital	24	20.8	20.8	20.8	20.8	20.8
Retained earnings	25	78.9	78.3	75.9	96.3	96.3
Total shareholders' equity		<u>99.7</u>	<u>99.1</u>	<u>96.7</u>	<u>117.1</u>	<u>117.1</u>
Minority interest		0.4	0.6	0.9	0.8	0.8
Total equity		<u>100.1</u>	<u>99.7</u>	<u>97.6</u>	<u>117.9</u>	<u>117.9</u>

Combined Cash Flow Statement

	<i>Notes</i>	<i>Year to</i>			<i>Six months to</i>	
		<i>31 December</i>	<i>31 December</i>	<i>31 December</i>	<i>30 June</i>	<i>30 June</i>
		<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2005</i>	<i>2006</i>
		<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Net cash from/(used in) operating activities	27(a)	53.0	(32.0)	56.6	25.7	21.1
Investing activities						
Interest received		2.9	5.0	5.1	2.3	2.5
Purchase of intangible fixed assets		(0.6)	(0.3)	(0.1)	(0.1)	–
Purchase of furniture, fixtures and equipment		(0.1)	(0.4)	(0.6)	(0.5)	(0.4)
Acquisition of subsidiary (net of cash acquired)		–	–	(3.0)	–	(3.9)
Net cash (used in)/from investing activities		2.2	4.3	1.4	1.7	(1.8)
Cash flow from financing activities						
Dividends paid		(7.0)	(21.3)	(46.0)	(6.0)	(5.0)
Repayment of borrowings		(4.4)	–	(0.1)	–	–
Purchase of own shares		–	–	–	–	(0.5)
Net cash used in financing activities		(11.4)	(21.3)	(46.1)	(6.0)	(5.5)
Net increase/(decrease) in cash and cash equivalents		43.8	(49.0)	11.9	21.4	13.8
Net cash and cash equivalents at the beginning of the period		59.6	102.9	53.9	53.9	65.8
Effect of foreign exchange rate changes		(0.5)	–	–	(0.1)	0.1
Net cash and cash equivalents at the end of the period	27(b)	102.9	53.9	65.8	75.2	79.7
Cash and cash equivalents		106.5	57.9	66.9	78.7	84.1
Overdrafts		(3.6)	(4.0)	(1.1)	(3.5)	(4.4)
Net cash and cash equivalents	27(b)	102.9	53.9	65.8	75.2	79.7

NOTES TO THE COMBINED FINANCIAL INFORMATION

1. General information

Collins Stewart Europe Limited (“CSEL”), formerly Collins Stewart Limited, is the parent company of the Collins Stewart stockbroking business (“the Collins Stewart Group”). It is a company incorporated in Great Britain under the Companies Act 1985. The address of the registered office is 9th Floor, 88 Wood Street, London EC2V 7QR. The nature of the Collins Stewart Group’s operations and its principal activities are set out in note 3 and in the Operating and Financial Review in Part VIII of the Collins Stewart Group Prospectus.

The financial information is presented in pounds sterling because that is the currency of the primary economic environment in which the Collins Stewart Group operates. Foreign operations are included in accordance with the policies set out in note 2.

The Combined Financial Information of Collins Stewart Europe Limited and its subsidiaries has been prepared in accordance with International Financial Reporting Standards (IFRS).

As at the date of the authorisation of these financial statements IFRS 7: “Financial Instruments: Disclosures and the related amendments to IAS 1” was in issue but not yet effective:

The Directors anticipate that the adoption of these standards in future periods will have no material impact on the financial information of the Collins Stewart Group, except for additional disclosures on financial instruments. The standards will come into effect for periods commencing on or after 1 January 2007.

2. Summary of significant accounting policies

Basis of accounting

The Combined Financial Information for the companies or businesses in Collins Stewart following the Demerger has been prepared in accordance with applicable accounting standards for the three years ended 31 December 2005 and six months ended 30 June 2005 and 30 June 2006. The Combined Financial Information for the three years ended 31 December 2005 is based on financial information extracted from the consolidation schedules which support the audited financial statements of Collins Stewart Tullett plc as adjusted to comply with IFRS in 2003. The Combined Financial Information for the six months ended 30 June 2005 and 30 June 2006 has been prepared for the purpose of this Circular. The companies or businesses included within the Combined Financial Information are shown in note 36. The combination represents a reorganisation of entities under common control and is therefore outside the scope of IFRS 3: Business Combinations. It has been accounted for as a group reorganisation as described in UK accounting literature. Accordingly no adjustment has been made to reflect the fair value of assets and liabilities, and results are included as if they had been part of the Collins Stewart Group for the entire period.

The Combined Financial Information has been prepared in accordance with IFRS adopted for use in the European Union and therefore complies with Article 4 of the EU IAS Regulation. It has been prepared on the historical cost basis, except for the revaluation of certain financial instruments. The financial information is rounded to the nearest hundred thousand (expressed as millions to one decimal place – £m), except where otherwise indicated. The principal accounting policies, which have been applied consistently throughout all the periods presented, have been set out below.

Basis of combination

The Combined Financial Information incorporates the financial information of CSEL, the financial information of entities controlled by CSEL (and its subsidiaries) made up to 31 December each year. Control of another entity is achieved where CSEL has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

The Combined Financial Information also includes the assets, liabilities, revenues, expenditure and cashflows of businesses not controlled by CSEL at 30 June 2006 but which will be transferred to CSEL and its subsidiaries prior to the Demerger as set out in note 36.

The Collins Stewart Group's accounting policy on goodwill is described below.

The interest of minority shareholders is stated at the minority's proportion of the fair values of the identifiable assets, liabilities, and contingent liabilities recognised. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent.

The results of subsidiaries acquired or disposed of during the year are included in the income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial information of subsidiaries to bring the accounting policies used into line with those used by other members of the Collins Stewart Group.

All significant inter-company transactions and balances between Collins Stewart Group entities are eliminated in the Combined Financial Information.

Interests in joint venture

A joint venture is a contractual arrangement whereby the Collins Stewart Group and other parties undertake an economic activity that is subject to joint control.

Where a group company undertakes its activities under joint venture arrangements directly, the Collins Stewart Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers is recognised in the financial statements of the relevant company and classified according to its nature. Liabilities and expenses incurred in respect of interests in jointly controlled assets are accounted for on an accruals basis. Income from the sale or use of the Collins Stewart Group's share of the output of jointly controlled assets, and the Collins Stewart Group's share of joint venture expenses, are recognised when it is probable that the economic benefits associated with the transactions will flow to/from the Collins Stewart Group and the income can be measured reliably.

Joint venture arrangements, which involve the establishment of a separate entity in which each venture has an interest, are referred to as jointly controlled entities. The Collins Stewart Group reports its interests in jointly controlled entities using proportionate consolidation – the Collins Stewart Group's share of the assets, liabilities, income and expenses of jointly controlled entities are combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Collins Stewart Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary or associate at the date of acquisition. Goodwill is initially recognised at cost and is subsequently measured at cost less any accumulated impairment losses.

Goodwill is recognised as an asset and is reviewed for impairment at least annually, or where such other occasions or changes in circumstances indicate that it might be impaired. Any impairment is recognised immediately in the income statement and is not subsequently reversed. Goodwill arising on acquisition is allocated to cash-generating units for the purpose of impairment testing.

Goodwill arising on the acquisition of an associate is included in the carrying value of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

On disposal of a subsidiary or associate, the attributed amount of goodwill that has not been subject to impairment is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRS has been included at the previous UK GAAP amount subject to being tested for impairment.

Intangible assets

Software and software development costs

An internally generated intangible asset arising from the Collins Stewart Group's software development is recognised only if all of the following conditions are met:

- an asset is created that can be identified;
- it is probable that the asset created will generate future economic benefits; and
- the development costs of the asset can be measured reliably.

Where the above conditions are not met costs are expensed as incurred.

Acquired separately or from a business combination

Other intangible assets acquired separately are capitalised at cost and intangible assets acquired in a business acquisition are capitalised at fair value at the date of acquisition. The useful lives of these intangible assets are assessed to be either finite or indefinite. Where amortisation is charged on finite assets, this expense is taken to the income statement through "administrative expenses".

Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged to the income statement in the year in which the expenditure is incurred.

	<i>Software purchased or developed</i>	<i>Software licences</i>
Useful life	Finite	Finite
Method used	3 years straight-line	Amortised over life of licences
Internally generated or acquired	Internally generated or acquired	Acquired
Impairment testing/recoverable amount testing	Method reviewed at each financial year-end	Method reviewed at each financial year-end

Revenue

Revenue, which excludes value added tax, includes the profit on buying and selling securities, gross commissions, brokerage, fees earned and the profit or loss arising on positions held in securities. Dividends and interest arising on long and short positions in securities form part of revenue, and as they are also reflected in movements in market prices, are not identified separately. Fee income is recognised when the related services are completed and the income is considered receivable.

Revenue also includes the net returns on managing segregated client money accounts accrued on a time basis.

Dividend income from investments is recognised when the shareholder's right to receive the payment is established.

Land, buildings, furniture, fixtures and equipment

Freehold land is stated at cost. Buildings, furniture, fixtures and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition, of each asset on a straight line basis over its expected useful life as follows:

Furniture, fixtures and equipment	10 per cent. – 33 per cent. pa
Leasehold land and buildings (short/long)	over the period of the lease
Freehold land	nil
Freehold buildings	1 per cent. pa

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Impairment

At each balance sheet date, the Collins Stewart Group reviews the carrying amounts of its tangible and intangible assets with finite lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Collins Stewart Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value (less any cost to sell) and value in use. In assessing value in use, the estimated future cash flows are discounted to their present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a re-valued amount, in which case the reversal of the impairment loss is treated as a revaluation increase. Impairment losses relating to goodwill are not reversed.

Financial instruments

Financial assets and financial liabilities are recognised on the Collins Stewart Group's balance sheet when the Collins Stewart Group has become a party to the contractual provisions of the instrument.

Investments in securities

Investments in securities are recognised and derecognised on a trade-date basis where a purchase or sale of an investment is under a contract the terms of which require delivery of the investment within the timeframe established by the market concerned. Investments are initially measured at cost, excluding transaction costs, which are expensed immediately.

After initial recognition, investments, which are classified as held for trading or available-for-sale, are measured at fair value. Gains or losses on investments held for trading are recognised in income. Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

For investments that are actively traded in organised financial markets, fair value is determined by reference to stock exchange quoted bid or offer prices at the close of business on the balance sheet date as appropriate. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the investment or the net asset base.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Collins Stewart Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the timeframe generally established by regulation or convention in the marketplace. Pending regular way purchases and sales on behalf of customers are included in trade and other receivables and trade and other payables (see Settlement balances below).

Derivatives

Derivatives are measured initially at fair value and subsequently re-measured to fair value. Fair values are obtained from quoted prices prevailing in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models as appropriate. All derivatives are included in assets when their fair value is positive, and liabilities when their fair value is negative.

Settlement balances

Certain Collins Stewart Group companies are involved as principal in the purchase of and simultaneous commitment to sell securities between third parties. Such trades are complete only when both sides of the deal are settled, and the Collins Stewart Group is exposed to risk in the event that one side of the transaction remains unmatched. The amounts due to and payable by counterparties in respect of matched principal business expected to settle in the normal course of trading are shown gross within trade debtors or trade creditors as appropriate. Outstanding transactions which have gone beyond settlement date where neither side of the transaction has settled and transactions where one side has settled, but the other remains outstanding continue to be shown gross within trade debtors and trade creditors until the transaction is completed.

Securities borrowing

Securities are borrowed in the ordinary course of business. All borrowing is collateralised and such collateral is included in trade debtors.

Interest-bearing loans and borrowings

All loans and borrowings are recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

Trade and other receivables

Trade receivables are settled within normal market cycles. Trade receivables are recognised at fair value.

Trade payables

Trade payables are recognised at fair value.

Client money

The Collins Stewart Group holds money on behalf of clients in accordance with the client monies rules of the Financial Services Authority and other regulatory bodies. Such money and the corresponding liabilities to clients are not shown on the face of the balance sheet, as the Collins Stewart Group is not beneficially entitled thereto. The amounts held on behalf of clients at the balance sheet date are stated at note 33. The net return received on managing client money is included within revenue.

Cash and cash equivalents

Cash comprises cash on hand and demand deposits, which may be accessed without penalty. Cash equivalents comprise short-term highly liquid investments with a maturity of less than three months from the date of acquisition. For the purposes of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Equity instruments

Equity instruments issued by Collins Stewart Group are recorded at the proceeds received, net of direct issue costs. An equity instrument is any contract that evidences a residual interest in the assets of the Collins Stewart Group after deducting all of its liabilities. Equity instruments are classified according to the substance of the contractual arrangements entered into.

De-recognition of financial instruments

The de-recognition of financial instruments takes place when all the de-recognition criteria of IAS 39 are met and the Collins Stewart Group no longer controls the contractual rights that comprise the financial

instrument, which is normally the case when the instrument is sold, or all of the cash flows attributable to the instrument are passed through to an independent third party.

Provisions

Provisions are recognised when the Collins Stewart Group has a present obligation (legal or constructive) as a result of a past event which it is probable will result in an outflow of economic benefits that can be reasonably estimated.

Provisions for restructuring costs are recognised when the Collins Stewart Group has a detailed formal plan for the restructuring, which has been notified to affected parties.

Foreign currencies

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on retranslation are included in the income statement, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity.

In order to hedge its exposure to certain foreign exchange risks, the Collins Stewart Group may enter into forward contracts and options (see below for details of the Collins Stewart Group's accounting policies in respect of such derivative financial instruments).

On consolidation, the assets and liabilities of the Collins Stewart Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Collins Stewart Group's translation reserve. Such translation differences are recognised as income or as an expense in the year in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. The Collins Stewart Group has elected to treat goodwill and fair value adjustments arising on acquisitions before the date of transition to IFRS as sterling denominated assets and liabilities.

Taxation

The tax expense represents the sum of tax currently payable and movements in deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Collins Stewart Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. In principle, deferred tax liabilities are recognised for all temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences may be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of other assets and liabilities in a transaction, which affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Collins Stewart Group is able to control the reversal of the

temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the rates that are expected to apply when the asset or liability is settled or when the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Collins Stewart Group intends to settle its current tax assets and liabilities on a net basis.

Operating leases

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Retirement benefit costs

Defined contributions made to employees' personal pension plans are charged to the profit and loss account as and when incurred.

Share-based payments

The Collins Stewart Group has applied the requirements of IFRS 2: Share-based Payments. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that had not vested as of 1 January 2005.

The Collins Stewart Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled, share-based payments is expensed on a straight-line basis over the vesting period, based on the Collins Stewart Group's estimate of shares that will eventually vest.

The fair value of share options issued is determined using a Black Scholes valuation model. The expected life used in the model has been adjusted, based on management's best estimate for the effects of non-transferability, exercise restrictions, and behavioural considerations.

3. Business and geographic segments

For management purposes, the Collins Stewart Group is currently organised into three operating divisions: Smaller Companies, Private Clients and Larger Companies. These divisions are the basis on which the Collins Stewart Group reports its primary segment information.

	<i>Smaller Companies</i>			<i>Private Clients</i>			<i>Larger Companies</i>			<i>Total</i>		
	2003	2004	2005	2003	2004	2005	2003	2004	2005	2003	2004	2005
	<i>£m</i>			<i>£m</i>			<i>£m</i>			<i>£m</i>		
Revenue												
EU	67.4	50.3	50.1	7.4	8.2	9.3	25.2	27.5	27.2	100.0	86.0	86.6
North America	–	–	–	–	–	–	7.8	7.6	33.6	7.8	7.6	33.6
Channel Islands	–	–	–	21.3	25.4	28.5	–	–	–	21.3	25.4	28.5
Total revenue	67.4	50.3	50.1	28.7	33.6	37.8	33.0	35.1	60.8	129.1	119.0	148.7
Operating profit before exceptional item												
EU	38.5	29.8	28.5	(1.1)	(0.2)	0.5	2.0	(0.2)	4.1	39.4	29.4	33.1
North America	–	–	–	–	–	–	1.9	1.6	1.5	1.9	1.6	1.5
Channel Islands	–	–	–	5.7	8.6	8.4	–	–	–	5.7	8.6	8.4
	38.5	29.8	28.5	4.6	8.4	8.9	3.9	1.4	5.6	47.0	39.6	43.0
Exceptional item*												
EU	–	(10.0)	–	–	–	–	–	–	–	–	(10.0)	–
North America	–	–	–	–	–	–	–	–	–	–	–	–
Channel Islands	–	–	–	–	–	–	–	–	–	–	–	–
	–	(10.0)	–	–	–	–	–	–	–	–	(10.0)	–
Operating profit												
EU	38.5	19.8	28.5	(1.1)	(0.2)	0.5	2.0	(0.2)	4.1	39.4	19.4	33.1
North America	–	–	–	–	–	–	1.9	1.6	1.5	1.9	1.6	1.5
Channel Islands	–	–	–	5.7	8.6	8.4	–	–	–	5.7	8.6	8.4
	38.5	19.8	28.5	4.6	8.4	8.9	3.9	1.4	5.6	47.0	29.6	43.0
Finance income										2.9	4.1	4.9
Finance costs										(0.9)	(1.0)	(1.3)
Profit before tax										49.0	32.7	46.6
Taxation										(14.6)	(8.6)	(11.4)
Profit after tax										34.4	24.1	35.2

*The exceptional item was the split capital investment trust settlement contribution.

3. Business and geographic segments (continued)

	<i>Smaller Companies</i>		<i>Private Clients</i>		<i>Larger Companies</i>		<i>Total</i>	
	<i>Six months to</i>		<i>Six months to</i>		<i>Six months to</i>		<i>Six months to</i>	
	<i>30 June</i>	<i>30 June</i>	<i>30 June</i>	<i>30 June</i>	<i>30 June</i>	<i>30 June</i>	<i>30 June</i>	<i>30 June</i>
	<i>2005</i>	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>	<i>2006</i>
	<i>(unaudited)</i>		<i>(unaudited)</i>		<i>(unaudited)</i>		<i>(unaudited)</i>	
	<i>£m</i>		<i>£m</i>		<i>£m</i>		<i>£m</i>	
Revenue								
EU	27.2	36.0	4.7	5.7	12.7	19.2	44.6	60.9
North America	–	–	–	–	16.1	22.4	16.1	22.4
Channel Isles	–	–	12.1	20.8	–	–	12.1	20.8
Total revenue	27.2	36.0	16.8	26.5	28.8	41.6	72.8	104.1
Operating profit before exceptional items								
EU	14.1	17.4	0.2	0.4	2.3	3.8	16.6	21.6
North America	–	–	–	–	0.7	3.7	0.7	3.7
Channel Isles	–	–	3.3	7.2	–	–	3.3	7.2
	14.1	17.4	3.5	7.6	3.0	7.5	20.6	32.5
Exceptional items								
EU	–	–	–	–	–	–	–	–
North America	–	–	–	–	–	–	–	–
Channel Isles	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–
Operating profit								
EU	14.1	17.4	0.2	0.4	2.3	3.8	16.6	21.6
North America	–	–	–	–	0.7	3.7	0.7	3.7
Channel Isles	–	–	3.3	7.2	–	–	3.3	7.2
	14.1	17.4	3.5	7.6	3.0	7.5	20.6	32.5
Finance income							2.4	2.5
Finance costs							(0.5)	(0.8)
Profit before tax							22.5	34.2
Taxation							(6.2)	(12.6)
Profit after tax							16.3	21.6

There are no inter-segment sales included in segment revenue. All segment revenue is derived from sales to external customers.

	<i>Smaller Companies</i>			<i>Private Clients</i>			<i>Larger Companies</i>			<i>Total</i>			
	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	
	<i>£m</i>			<i>£m</i>			<i>£m</i>			<i>£m</i>			
Business segments													
Other Information													
Capital additions	–	–	–	0.1	0.1	0.3	0.6	0.6	0.6	0.7	0.7	0.9	
Depreciation and amortisation	0.2	0.2	0.1	0.3	0.2	0.2	1.9	1.8	1.5	2.4	2.2	1.8	
Expenses arising from share plans	0.2	0.5	1.0	–	0.1	0.1	0.3	2.2	0.9	0.5	2.8	2.0	
Balance Sheet													
Assets	8.5	19.6	22.4	51.4	65.4	154.5	205.9	175.9	594.0	265.8	260.9	770.9	
Liabilities	2.9	4.2	3.8	29.5	34.8	108.7	133.3	122.2	560.8	165.7	161.2	673.3	
Geographical area													
	<i>2003</i>	<i>EU</i>		<i>Channel Isles</i>			<i>North America</i>			<i>Total</i>			
		<i>2004</i>	<i>2005</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	
		<i>£m</i>			<i>£m</i>			<i>£m</i>			<i>£m</i>		
Other Information													
Capital additions	0.5	0.5	0.4	0.1	0.1	0.2	0.1	0.1	0.3	0.7	0.7	0.9	
Balance Sheet													
Assets	212.0	192.8	263.6	51.4	65.4	154.5	2.4	2.7	352.8	265.8	260.9	770.9	

3. Business and geographic segments (continued)

	<i>Smaller Companies</i>		<i>Private Clients</i>		<i>Larger Companies</i>		<i>Total</i>	
	<i>Six months to</i>		<i>Six months to</i>		<i>Six months to</i>		<i>Six months to</i>	
	<i>30 June</i> <i>2005</i> <i>(unaudited)</i>	<i>30 June</i> <i>2006</i>	<i>30 June</i> <i>2005</i> <i>(unaudited)</i>	<i>30 June</i> <i>2006</i>	<i>30 June</i> <i>2005</i> <i>(unaudited)</i>	<i>30 June</i> <i>2006</i>	<i>30 June</i> <i>2005</i> <i>(unaudited)</i>	<i>30 June</i> <i>2006</i>
	<i>£m</i>		<i>£m</i>		<i>£m</i>		<i>£m</i>	
Business segments								
Other Information								
Capital additions	0.2	0.1	0.2	0.1	0.2	0.2	0.6	0.4
Depreciation and amortisation	0.3	0.3	0.5	0.1	0.4	0.4	1.2	0.8
Expenses arising from share plans	0.6	0.6	0.1	0.1	0.4	0.4	1.1	1.1
Balance Sheet								
Assets	16.3	14.6	115.5	66.7	437.6	2,298.9	569.4	2,380.2
Liabilities	5.0	2.6	76.0	29.9	370.5	2,229.8	451.5	2,262.3

Geographical area

	<i>EU</i>		<i>Channel Isles</i>		<i>North America</i>		<i>Total</i>	
	<i>Six months to</i>		<i>Six months to</i>		<i>Six months to</i>		<i>Six months to</i>	
	<i>30 June</i> <i>2005</i> <i>(unaudited)</i>	<i>30 June</i> <i>2006</i>	<i>30 June</i> <i>2005</i> <i>(unaudited)</i>	<i>30 June</i> <i>2006</i>	<i>30 June</i> <i>2005</i> <i>(unaudited)</i>	<i>30 June</i> <i>2006</i>	<i>30 June</i> <i>2005</i> <i>(unaudited)</i>	<i>30 June</i> <i>2006</i>
	<i>£m</i>		<i>£m</i>		<i>£m</i>		<i>£m</i>	
Other Information								
Capital additions	0.5	0.3	0.1	0.1	–	–	0.6	0.4
Balance Sheet								
Assets	372.2	405.2	115.5	66.7	81.7	1,908.3	569.4	2,380.2

Segment assets and liabilities exclude all inter-segment balances.

4. Exceptional item

Split capital contribution

The business made a contribution of £10 million in 2004 to the settlement fund established in connection with the FSA's split capital investment trust investigation.

5. Profit for the period

Profit for the period has been arrived at after charging/(crediting):

	<i>Year to</i>			<i>Six months to</i>	
	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>	<i>30 June</i>	<i>30 June</i>
	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2005</i>	<i>2006</i>
	<i>£m</i>			<i>(unaudited) £m</i>	
Net foreign exchange (gains)/losses	0.1	(0.2)	–	(0.1)	(0.1)
Depreciation of property, plant and equipment (Note 14)	2.3	2.0	1.6	1.0	0.6
Amortisation of intangible assets (Note 13)	0.1	0.2	0.2	0.2	0.2
Staff costs (Note 6)	50.5	53.9	71.5	36.4	51.5
Auditors' remuneration for audit services	0.3	0.2	0.2	0.1	0.1

5. Profit for the period (continued)

A more detailed analysis of auditors' remuneration on a worldwide basis is provided below:

	Year to						Six months to			
	31 December 2003		31 December 2004		31 December 2005		30 June 2005		30 June 2006	
	£m	%	£m	%	£m	%	£m	%	£m	%
Audit services										
– statutory audit	0.2	67	0.2	100	0.2	100	0.1	100	0.1	100
	<u>0.2</u>	<u>67</u>	<u>0.2</u>	<u>100</u>	<u>0.2</u>	<u>100</u>	<u>0.1</u>	<u>100</u>	<u>0.1</u>	<u>100</u>
Other services										
– taxation	0.1	33	–	–	–	–	–	–	–	–
	<u>0.3</u>	<u>100</u>	<u>0.2</u>	<u>100</u>	<u>0.2</u>	<u>100</u>	<u>0.1</u>	<u>100</u>	<u>0.1</u>	<u>100</u>

6. Staff costs

The average monthly number of employees and directors of the Collins Stewart Group, who were all employed in financial services was:

	Year to			Six months to	
	31 December 2003	31 December 2004	31 December 2005	30 June 2005	30 June 2006
	No.	No.	No.	No.	No.
EU	267	280	255	259	241
Channel Islands	132	134	177	161	198
North America	13	13	86	77	77
	<u>412</u>	<u>427</u>	<u>518</u>	<u>497</u>	<u>516</u>

The aggregate employment costs of staff and directors were:

	Year to			Six months to	
	31 December 2003	31 December 2004	31 December 2005	30 June 2005	30 June 2006
	£m	£m	£m	£m	£m
Wages, salaries, bonuses and incentive payments	45.2	46.0	63.5	32.3	45.8
Social security costs	4.3	4.5	5.3	2.7	4.2
Pension costs	0.5	0.6	0.7	0.3	0.4
Expense of share-based payments	0.5	2.8	2.0	1.1	1.1
	<u>50.5</u>	<u>53.9</u>	<u>71.5</u>	<u>36.4</u>	<u>51.5</u>

7. Finance income

	Year to			Six months to	
	31 December 2003	31 December 2004	31 December 2005	30 June 2005	30 June 2006
	£m	£m	£m	£m	£m
Interest receivable and similar income	2.9	4.1	4.9	2.4	2.5

8. Finance costs

	Year to			Six months to	
	31 December 2003	31 December 2004	31 December 2005	30 June 2005 (unaudited)	30 June 2006
	£m	£m	£m	£m	£m
Interest payable on bank loans and overdrafts	0.1	0.2	0.4	0.1	0.4
Interest payable on subordinated debt	0.8	0.8	0.9	0.4	0.4
Total finance costs	0.9	1.0	1.3	0.5	0.8

9. Taxation

	Year to			Six months to	
	31 December 2003	31 December 2004	31 December 2005	30 June 2005 (unaudited)	30 June 2006
	£m	£m	£m	£m	£m
Current tax					
UK corporation tax	13.8	6.7	10.0	5.9	13.3
Double tax relief	–	(0.3)	(0.3)	(0.2)	(3.7)
	13.8	6.4	9.7	5.7	9.6
Overseas tax	2.0	2.3	2.5	1.0	3.7
Prior period UK corporation tax under/(over) provided	(0.1)	–	0.3	–	–
Prior period overseas tax over provided	–	(0.3)	(0.1)	–	–
	15.7	8.4	12.4	6.7	13.3
Deferred tax					
Current period	(1.1)	0.2	(1.0)	(0.5)	(0.7)
	14.6	8.6	11.4	6.2	12.6

Taxation for overseas jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The charge for the year can be reconciled to the profit in the income statement as follows:

	Year to			Six months to	
	31 December 2003	31 December 2004	31 December 2005	30 June 2005 (unaudited)	30 June 2006
	£m	£m	£m	£m	£m
Profit before tax	49.0	32.7	46.6	22.5	34.2
Tax on profit at standard rate of 30%	14.7	9.8	14.0	6.8	10.3
Factors affecting the charge for the period:					
Disallowable expenditure	0.7	0.4	0.9	0.1	0.5
Utilisation of tax losses	–	–	(0.1)	–	–
Tax effect of stock options	(0.2)	(0.7)	(2.3)	(0.2)	(0.1)
Effect of different tax rates of subsidiaries	(0.5)	(0.6)	(1.3)	(0.5)	1.9
Adjustment in respect of prior periods	(0.1)	(0.3)	0.2	–	–
	14.6	8.6	11.4	6.2	12.6

10. Dividends

		<i>Year to</i>			<i>Six months to</i>	
		<i>31 December</i>	<i>31 December</i>	<i>31 December</i>	<i>30 June</i>	<i>30 June</i>
		<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2005</i>	<i>2006</i>
		<i>(unaudited)</i>				
		<i>p</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Final	2002	2.83	6.0	–	–	–
Interim	2003	0.47	1.0	–	–	–
Final	2003	nil	–	–	–	–
Interim	2004	10.03	–	21.3	–	–
Final	2004	2.83	–	6.0	–	–
Interim	2005	7.07	–	–	15.0	–
Final	2005	11.78	–	–	25.0	–
Interim	2006	2.35	–	–	–	5.0
			<u>7.0</u>	<u>27.3</u>	<u>40.0</u>	<u>–</u>
					<u>–</u>	<u>5.0</u>

Dividend per share has been calculated using Collins Stewart plc's issued share capital of 212.3 million shares, which is the expected number of shares in issue immediately following the Demerger (see note 11).

11. Earnings per share

Since Collins Stewart Europe Limited is not listed and has not been listed throughout the period, IAS 33 does not historically apply and consequently there is no requirement to disclose earnings per share on the historical capital structure. However, following the Demerger becoming effective Collins Stewart plc is expected to have 212.3 million shares issued and listed. The earnings per share for the newly listed Collins Stewart Group have been calculated based on the expected number of shares in issue immediately following the Demerger.

		<i>Year to</i>			<i>Six months to</i>	
		<i>31 December</i>	<i>31 December</i>	<i>31 December</i>	<i>30 June</i>	<i>30 June</i>
		<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2005</i>	<i>2006</i>
		<i>(unaudited)</i>				
		<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Earnings						
Earnings for the purposes of the basic and diluted earnings per share		<u>34.2</u>	<u>23.8</u>	<u>34.9</u>	<u>16.2</u>	<u>21.5</u>

		<i>Year to</i>			<i>Six months to</i>	
		<i>31 December</i>	<i>31 December</i>	<i>31 December</i>	<i>30 June</i>	<i>30 June</i>
		<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2005</i>	<i>2006</i>
		<i>(unaudited)</i>				
		<i>No. (m)</i>	<i>No. (m)</i>	<i>No. (m)</i>	<i>No. (m)</i>	<i>No. (m)</i>
Weighted average number of shares						
Expected number of ordinary shares in issue		<u>212.3</u>	<u>212.3</u>	<u>212.3</u>	<u>212.3</u>	<u>212.3</u>
Basic earnings per share denominator		<u>212.3</u>	<u>212.3</u>	<u>212.3</u>	<u>212.3</u>	<u>212.3</u>
Issuable on exercise of options		<u>0.9</u>	<u>0.9</u>	<u>0.9</u>	<u>0.9</u>	<u>0.9</u>
Diluted earnings per share denominator		<u>213.2</u>	<u>213.2</u>	<u>213.2</u>	<u>213.2</u>	<u>213.2</u>

The diluted earnings per share only take account of the share options outstanding to Collins Stewart staff at the date of this document.

12. Goodwill

	<i>Year to</i>		
	<i>31 December</i> 2003 <i>£m</i>	<i>31 December</i> 2004 <i>£m</i>	<i>31 December</i> 2005 <i>£m</i>
Cost			
At 1 January	25.1	25.1	25.1
Recognised on acquisition of a subsidiary	–	–	7.1
At 31 December	<u>25.1</u>	<u>25.1</u>	<u>32.2</u>
		<i>Six months to</i>	
		<i>30 June</i> 2005 <i>£m</i>	<i>30 June</i> 2006 <i>£m</i>
Cost			
At 1 January		25.1	32.2
Recognised on acquisition of a subsidiary		–	0.4
At 30 June		<u>25.1</u>	<u>32.6</u>

Goodwill acquired through business combinations has been allocated to the following individual cash-generating unit for impairment testing as follows:

	<i>As at</i>			<i>As at</i>	
	<i>31 December</i> 2003 <i>£m</i>	<i>31 December</i> 2004 <i>£m</i>	<i>31 December</i> 2005 <i>£m</i>	<i>30 June</i> 2005 <i>£m</i>	<i>30 June</i> 2006 <i>£m</i>
Private Clients Division	<u>25.1</u>	<u>25.1</u>	<u>32.2</u>	<u>25.1</u>	<u>32.6</u>

The recoverable amount of the above cash-generating unit has been determined based on a value in use calculation. To calculate this, cash flow projections are based on financial budgets approved by senior management covering the next financial year, extrapolated for a period not exceeding 5 years. The discount rate applied to cash flow projections is 10.2 per cent. (2004: 9.5 per cent., 2003: 9.5 per cent.) based on the Collins Stewart Group's pre-tax weighted average cost of capital. A 2 per cent. economic growth rate (2004: 2 per cent., 2003: 2 per cent.) has been determined with reference to publicly available economic information.

13. Other intangible assets

Developed software	Year to			Six months to	
	31 December 2003	31 December 2004	31 December 2005	30 June 2005	30 June 2006
	£m	£m	£m	£m	£m
Cost					
At start of period	–	0.6	0.9	0.9	1.0
Additions	0.6	0.3	0.1	0.1	–
At end of period	0.6	0.9	1.0	1.0	1.0
Amortisation					
At start of period	–	(0.1)	(0.3)	(0.3)	(0.5)
Charged during the period	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)
At end of period	(0.1)	(0.3)	(0.5)	(0.5)	(0.7)
Carrying value					
At end of period	0.5	0.6	0.5	0.5	0.3

14. Land, buildings, furniture, fixtures and equipment

	Freehold land and buildings £m	Leasehold improvements £m	Furniture, fixtures and equipment £m	Total £m
Cost				
As at 1 January 2003	0.1	2.5	8.0	10.6
Additions	–	–	0.1	0.1
As at 1 January 2004	0.1	2.5	8.1	10.7
Additions	–	–	0.4	0.4
As at 1 January 2005	0.1	2.5	8.5	11.1
Additions	–	0.2	0.7	0.9
As at 31 December 2005	0.1	2.7	9.2	12.0
Depreciation				
As at 1 January 2003	–	(0.6)	(3.4)	(4.0)
Charge for the year	–	(0.3)	(2.0)	(2.3)
As at 1 January 2004	–	(0.9)	(5.4)	(6.3)
Charge for the year	–	(0.4)	(1.6)	(2.0)
As at 1 January 2005	–	(1.3)	(7.0)	(8.3)
Charge for the year	–	(0.3)	(1.3)	(1.6)
As at 31 December 2005	–	(1.6)	(8.3)	(9.9)
Carrying amount				
At 31 December 2003	0.1	1.6	2.7	4.4
At 31 December 2004	0.1	1.2	1.5	2.8
At 31 December 2005	0.1	1.1	0.9	2.1

14. Land, buildings, furniture, fixtures and equipment (continued)

	<i>Freehold land and buildings £m</i>	<i>Leasehold improvements £m</i>	<i>Furniture, fixtures and equipment £m</i>	<i>Total £m</i>
Cost				
As at 1 January 2005	0.1	2.5	8.5	11.1
Additions	–	–	0.5	0.5
As at 30 June 2005	0.1	2.5	9.0	11.6
As at 1 January 2006	0.1	2.7	9.2	12.0
Additions	–	–	0.4	0.4
As at 30 June 2006	0.1	2.7	9.6	12.4
Depreciation				
As at 1 January 2005	–	(1.3)	(7.0)	(8.3)
Charge for the period	–	(0.2)	(0.8)	(1.0)
As at 30 June 2005	–	(1.5)	(7.8)	(9.3)
As at 1 January 2006	–	(1.6)	(8.3)	(9.9)
Charge for the period	–	(0.2)	(0.4)	(0.6)
As at 30 June 2006	–	(1.8)	(8.7)	(10.5)
Carrying amount				
At 30 June 2005	0.1	1.0	1.2	2.3
At 30 June 2006	0.1	0.9	0.9	1.9

15. Investment in joint venture

On 17 October 2005 Collins Stewart Europe Limited acquired a 50 per cent. share of Berkshire Investment Managers LLP.

The following amounts are included in the Collins Stewart Group's financial statements as a result of the proportionate consolidation of Berkshire Investment Managers LLP:

	<i>As at</i>			<i>As at</i>	
	<i>31 December 2003</i>	<i>31 December 2004</i>	<i>31 December 2005</i>	<i>30 June 2005</i>	<i>30 June 2006</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Aggregate amounts relating to joint ventures:					
Total assets	–	–	1.2	–	2.3
Total liabilities	–	–	(1.0)	–	(0.7)
Net assets	–	–	0.2	–	1.6
Loan granted to joint venture	–	–	2.2	–	1.6
Revenue	–	–	0.2	–	1.5
Profit	–	–	0.2	–	1.4

The Collins Stewart Group has provided £5.75 million in facilities to Berkshire Investment Managers LLP.

16. Other investments

Other financial assets

	<i>As at</i>			<i>As at</i>	
	<i>31 December</i> 2003	<i>31 December</i> 2004	<i>31 December</i> 2005	<i>30 June</i> 2005 (unaudited)	<i>30 June</i> 2006
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Available-for-sale investments	<u>1.6</u>	<u>1.6</u>	<u>1.6</u>	<u>1.6</u>	<u>1.7</u>

Available-for-sale investments principally comprise unlisted equity securities that present the Group with the opportunity for return through dividend income, trading gains and capital gains. They have no fixed maturity or coupon rate.

Trading investments

	<i>As at</i>			<i>As at</i>	
	<i>31 December</i> 2003	<i>31 December</i> 2004	<i>31 December</i> 2005	<i>30 June</i> 2005 (unaudited)	<i>30 June</i> 2006
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Long trading positions	<u>10.3</u>	<u>55.0</u>	<u>38.5</u>	<u>45.2</u>	<u>26.0</u>

Long trading positions are held at fair value. Included in long trading positions are £2.4 million (June 2005: £1.9 million; December 2005: £2.5 million; 2004: £2.5 million; 2003: £0.4 million) of options acquired.

17. Deferred tax asset

The movement in the Collins Stewart Group's net deferred tax position was as follows:

	<i>Year to</i>			<i>Six months to</i>	
	<i>31 December</i> 2003	<i>31 December</i> 2004	<i>31 December</i> 2005	<i>30 June</i> 2005 (unaudited)	<i>30 June</i> 2006
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
At 1 January	(0.5)	0.8	0.7	0.7	2.3
Charge to income for the period	1.1	(0.2)	1.0	0.5	0.7
Charge to equity for the period	0.2	0.1	0.6	0.6	2.1
	<u>0.8</u>	<u>0.7</u>	<u>2.3</u>	<u>1.8</u>	<u>5.1</u>

17. Deferred tax (continued)

The following are the deferred tax assets recognised by the Collins Stewart Group and movements thereon:

	<i>As at</i>			<i>As at</i>	
	<i>31 December</i> 2003	<i>31 December</i> 2004	<i>31 December</i> 2005	<i>30 June</i> 2005 <i>(unaudited)</i>	<i>30 June</i> 2006
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Accelerated depreciation for tax purposes	0.1	0.3	0.5	0.4	0.5
Stock options	0.2	0.6	2.2	1.7	4.8
Other timing differences	0.5	0.1	(0.1)	(0.3)	(0.2)
Overseas income	–	(0.3)	(0.3)	–	–
	<u>0.8</u>	<u>0.7</u>	<u>2.3</u>	<u>1.8</u>	<u>5.1</u>

18. Trade and other receivables

	<i>As at</i>			<i>As at</i>	
	<i>31 December</i> 2003	<i>31 December</i> 2004	<i>31 December</i> 2005	<i>30 June</i> 2005 <i>(unaudited)</i>	<i>30 June</i> 2006
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Trade debtors	110.1	108.8	613.0	400.9	2,218.6
Other debtors	5.0	7.1	9.6	11.8	6.2
Prepayments	1.5	1.3	2.0	1.5	2.1
Owed by joint venture	–	–	2.2	–	1.6
	<u>116.6</u>	<u>117.2</u>	<u>626.8</u>	<u>414.2</u>	<u>2,228.5</u>

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

Credit risk

The Collins Stewart Group's principal financial assets are bank balances and cash, trade and other receivables and investments, which represent the Collins Stewart Group's maximum exposure to credit risk in relation to financial assets.

The Collins Stewart Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Collins Stewart Group's management based on prior experience and their assessment of the current economic environment.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The Collins Stewart Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

19. Financial instruments

Interest rate risk

At 30 June 2006 the Collins Stewart Group had two floating rate subordinated loans (re-pricing annually) from Collins Stewart Tullett plc totalling £12.75 million. These obligations were unchanged from 31 December 2003. One loan is for £11.25 million, repayable from 6 June 2006, subject to prior approval by the FSA, otherwise not repayable before 31 December 2010, the other for £1.5 million repayable on 30 June 2007 subject to prior approval by the FSA. Both attract LIBOR plus 2 per cent.

Foreign currency risk

Foreign currency balances are held to meet the settlement obligations of clients who bear the currency risk in accordance with the terms and conditions of trading. Foreign currency is bought and sold at the time of trading. Where possible the Collins Stewart Group deals in foreign currencies on a matched basis on behalf of customers, limiting foreign exchange exposure.

Market risk

The Collins Stewart Group is exposed to market risk in respect of both its trading in equities and debt instruments and in its role as an intermediary between buyers and sellers of financial instruments. The Collins Stewart Group makes markets in smaller company stocks, investment trusts and fixed interest securities, primarily in order to facilitate liquidity in the securities of clients to whom it acts as market maker, broker or adviser. These positions are carried in current assets and liabilities at fair value. The year-end positions are considered to be representative of the Collins Stewart Group's exposure throughout the year. Limits are set on the size of individual and aggregate positions. Day-to-day risk monitoring is undertaken by senior management.

As an intermediary, the Collins Stewart Group acts on an agency or principal basis and so its exposure to market price movements is limited to when there is a trade mismatch or error, or if one matched counterparty fails to fulfil its obligations. The impact of these risks is minimised by strict limits and monitoring controls. The value of unmatched security positions is typically immaterial.

Fair values

The carrying value of the Collins Stewart Group's financial assets and liabilities (which exclude all short term debtors and creditors) were not materially different to their fair values in the period under review.

Liquidity risk

The assets of the Collins Stewart Group are highly liquid and therefore the Collins Stewart Group is not significantly exposed to liquidity risk.

Forward Foreign Exchange Contracts

The Collins Stewart Group acted as matched principal broker for clients in forward foreign exchange contracts during the period under review.

The Collins Stewart Group's net exposure to these contracts is nil.

The amounts, based on market value of equivalent instruments as at the balance sheet date, included in the balance sheet were as follows:

	<i>31 December 2003</i>	<i>31 December 2004</i>	<i>31 December 2005</i>	<i>30 June 2005 (unaudited)</i>	<i>30 June 2006</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Asset (shown in Trade and other receivables)	0.6	0.4	0.5	0.9	0.8
Liability (shown in Trade and other payables)	0.6	0.4	0.5	0.9	0.8

20. Trade and other payables

	<i>As at</i>			<i>As at</i>	
	<i>31 December</i> 2003	<i>31 December</i> 2004	<i>31 December</i> 2005	<i>30 June</i> 2005 <i>(unaudited)</i>	<i>30 June</i> 2006
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Trade creditors	96.0	59.2	586.3	367.2	2,177.3
Tax and social security	0.6	0.9	3.8	0.7	1.0
Other creditors	3.7	15.8	8.7	17.5	14.2
Accruals and deferred income	32.8	32.0	37.3	24.0	35.0
Proposed dividends	–	6.0	–	–	–
	<u>133.1</u>	<u>113.9</u>	<u>636.1</u>	<u>409.4</u>	<u>2,227.5</u>

The directors consider that the carrying amount of trade payables approximates to their fair value.

21. Financial liabilities

	<i>As at</i>			<i>As at</i>	
	<i>31 December</i> 2003	<i>31 December</i> 2004	<i>31 December</i> 2005	<i>30 June</i> 2005 <i>(unaudited)</i>	<i>30 June</i> 2006
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Securities – short trading positions	<u>2.8</u>	<u>27.4</u>	<u>11.9</u>	<u>18.0</u>	<u>4.5</u>

22. Interest bearing loans and borrowings

Current:

	<i>As at</i>			<i>As at</i>	
	<i>31 December</i> 2003	<i>31 December</i> 2004	<i>31 December</i> 2005	<i>30 June</i> 2005 <i>(unaudited)</i>	<i>30 June</i> 2006
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Bank overdrafts	3.6	4.0	1.1	3.5	4.4
Loan Notes	–	–	–	0.1	–
Subordinated loans	–	–	–	–	1.5
	<u>3.6</u>	<u>4.0</u>	<u>1.1</u>	<u>3.6</u>	<u>5.9</u>

The bank overdrafts are repayable on demand.

Non Current:

	<i>As at</i>			<i>As at</i>	
	<i>31 December</i> 2003	<i>31 December</i> 2004	<i>31 December</i> 2005	<i>30 June</i> 2005 <i>(unaudited)</i>	<i>30 June</i> 2006
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Loan notes	0.1	0.1	–	–	–
Subordinated loans	12.8	12.8	12.8	12.8	11.3
	<u>12.9</u>	<u>12.9</u>	<u>12.8</u>	<u>12.8</u>	<u>11.3</u>

The Collins Stewart Group has been provided with two unsecured subordinated loans by Collins Stewart Tullett plc, one for £11.25 million repayable from 6 June 2006 subject to prior approval by the FSA, otherwise not repayable before 31 December 2010, the other for £1.5 million repayable on 30 June 2007 subject to prior approval by the FSA.

The borrowings are repayable in the third to fifth years inclusive.

22. Interest bearing loans and borrowings (continued)

Analysis of borrowings by currency:

	<i>Sterling</i> £m	<i>Other</i> £m	<i>Total</i> £m	
31 December 2003				
Bank overdrafts	2.9	0.7	3.6	
Loan notes	0.1	–	0.1	
Subordinated loans	12.8	–	12.8	
	<u>15.8</u>	<u>0.7</u>	<u>16.5</u>	
31 December 2004				
Bank overdrafts	1.8	2.2	4.0	
Loan notes	0.1	–	0.1	
Subordinated loans	12.8	–	12.8	
	<u>14.7</u>	<u>2.2</u>	<u>16.9</u>	
31 December 2005				
Bank overdrafts	0.7	0.4	1.1	
Loan notes	–	–	–	
Subordinated loans	12.8	–	12.8	
	<u>13.5</u>	<u>0.4</u>	<u>13.9</u>	
	<i>Sterling</i> £m	<i>Euros</i> £m	<i>Other</i> £m	<i>Total</i> £m
30 June 2005				
Bank Overdrafts	3.5	–	–	3.5
Loan notes	0.1	–	–	0.1
Subordinated loans	12.8	–	–	12.8
	<u>16.4</u>	<u>–</u>	<u>–</u>	<u>16.4</u>
30 June 2006				
Bank Overdrafts	–	1.3	3.1	4.4
Loan notes	–	–	–	–
Subordinated loans	12.8	–	–	12.8
	<u>12.8</u>	<u>1.3</u>	<u>3.1</u>	<u>17.2</u>

The average effective interest rates paid were as follows:

	<i>Year to</i>			<i>Six months to</i>	
	<i>31 December</i> 2003	<i>31 December</i> 2004	<i>31 December</i> 2005	<i>30 June</i> 2005	<i>30 June</i> 2006
	%	%	%	%	%
Bank overdrafts	4.1	4.1	4.1	4.1	4.1
Loan notes	4.2	4.2	4.4	4.4	n/a
Subordinated loans	7.0	7.0	7.5	7.5	7.5
Weighted average	6.9	6.6	6.9	6.8	6.0

Non-current borrowings – loan notes

Secured loan notes were issued by Collins Stewart Europe Limited in 1996, none of which were outstanding at 30 June 2006 (2005: nil; 2004: £0.1 million; 2003: £0.1 million). The loan notes were secured by cash deposits. Interest was payable half yearly in arrears at a rate of $\frac{3}{8}$ per cent. below LIBOR.

The other financial instruments of the Collins Stewart Group that are not included in the above tables are short term and non-interest bearing and therefore are not subject to interest rate risk.

23. Provisions

	<i>As at</i>			<i>As at</i>	
	<i>31 December 2003</i>	<i>31 December 2004</i>	<i>31 December 2005</i>	<i>30 June 2005 (unaudited)</i>	<i>30 June 2006</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Legal provisions					
At 1 January	–	2.0	0.7	0.7	–
Additional provision in the period	2.0	–	–	–	–
Utilisation of provision	–	(1.3)	(0.7)	(0.3)	–
	<u>2.0</u>	<u>0.7</u>	<u>–</u>	<u>0.4</u>	<u>–</u>

All legal provisions are included in non-current liabilities.

24. Share capital

	<i>As at</i>			<i>As at</i>	
	<i>31 December 2003</i>	<i>31 December 2004</i>	<i>31 December 2005</i>	<i>30 June 2005 (unaudited)</i>	<i>30 June 2006</i>
	<i>No. (m)</i>	<i>No. (m)</i>	<i>No. (m)</i>	<i>No. (m)</i>	<i>No. (m)</i>
Authorised					
Ordinary shares of £1	<u>20.8</u>	<u>20.8</u>	<u>20.8</u>	<u>20.8</u>	<u>20.8</u>
Allotted, called up and fully paid					
Ordinary shares of £1	<u>20.8</u>	<u>20.8</u>	<u>20.8</u>	<u>20.8</u>	<u>20.8</u>
	<i>As at</i>			<i>As at</i>	
	<i>31 December 2003</i>	<i>31 December 2004</i>	<i>31 December 2005</i>	<i>30 June 2005 (unaudited)</i>	<i>30 June 2006</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Authorised					
Ordinary shares of £1	<u>20.8</u>	<u>20.8</u>	<u>20.8</u>	<u>20.8</u>	<u>20.8</u>
Allotted, called up and fully paid					
Ordinary shares of £1	<u>20.8</u>	<u>20.8</u>	<u>20.8</u>	<u>20.8</u>	<u>20.8</u>

The share capital of 20.8 million shares all relates to Collins Stewart Europe Limited. The dividend per share in note 10 and the earnings per share in note 11 have been calculated using an issued share capital of 212.3 million shares which is the expected number of shares of Collins Stewart plc in issue immediately following the Demerger.

25. Reconciliation of shareholders' funds

The following table shows an analysis of the changes in equity attributable to equity shareholders of Collins Stewart Europe Limited.

	<i>Share capital £m</i>	<i>Retained earnings £m</i>	<i>Total shareholders' funds £m</i>
Balance at 1 January 2003	20.8	51.1	71.9
Profit for the year	–	34.2	34.2
Dividends paid in the year	–	(7.0)	(7.0)
Credit arising on share options	–	0.5	0.5
Taxation on amounts taken to equity	–	0.2	0.2
Foreign currency translation	–	(0.1)	(0.1)
Balance at 1 January 2004	20.8	78.9	99.7
Profit for the year	–	23.8	23.8
Dividends paid in the year	–	(27.3)	(27.3)
Credit arising on share options	–	2.8	2.8
Taxation on amounts taken to equity	–	0.1	0.1
Foreign currency translation	–	–	–
Balance at 1 January 2005	20.8	78.3	99.1
Profit for the year	–	34.9	34.9
Dividends paid in the year	–	(40.0)	(40.0)
Credit arising on share options	–	2.0	2.0
Taxation amounts taken to equity	–	0.6	0.6
Foreign currency translation	–	0.1	0.1
Balance at 31 December 2005	20.8	75.9	96.7
	<i>Share capital £m</i>	<i>Retained earnings £m</i>	<i>Total shareholders' funds £m</i>
Balance at 1 January 2005	20.8	78.3	99.1
Profit for the period	–	16.2	16.2
Dividends paid in the period	–	–	–
Credit arising on share options	–	1.1	1.1
Taxation on amounts taken to equity	–	0.6	0.6
Foreign currency translation	–	0.1	0.1
Balance at 30 June 2005	20.8	96.3	117.1
Balance at 1 January 2006	20.8	75.9	96.7
Profit for the period	–	21.5	21.5
Dividends paid in the period	–	(5.0)	(5.0)
Credit arising on share options	–	0.7	0.7
Taxation on amounts taken to equity	–	2.9	2.9
Foreign currency translation	–	0.3	0.3
Balance at 30 June 2006	20.8	96.3	117.1

26. Acquisition of subsidiary

Insinger de Beaufort (International) Limited (“Insinger”)

On 3 October 2005, the Collins Stewart Group acquired 100 per cent. of the issued share capital of Insinger for cash consideration of £8.6 million. Insinger is a stockbroking and asset management company with offices in Jersey and the Isle of Man. This transaction has been accounted for by the acquisition method of accounting.

	<i>Book value</i>	<i>Fair value</i>	<i>Fair value</i>
	<i>£m</i>	<i>adjustments</i>	<i>£m</i>
		<i>£m</i>	
Net assets acquired			
Property, plant and equipment	0.1	–	0.1
Trade and other receivables	12.9	–	12.9
Cash and cash equivalents	1.8	–	1.8
Client monies	54.2	–	54.2
Trade and other payables	(67.5)	–	(67.5)
Net assets acquired			1.5
Goodwill			7.1
Total consideration			8.6
Satisfied by			
Cash			4.8
Deferred consideration*			3.8
			8.6
Net cash outflow arising on acquisition			
Cash consideration			4.8
Cash and cash equivalents acquired			(1.8)
			3.0

*£3.25 million paid at the end of March 2006.

Insinger contributed £1.7 million revenue and £0.4 million to the Collins Stewart Group’s profit before tax in the period from the date of acquisition to the balance sheet date.

If the acquisition of Insinger had been completed on the first day of the 2005 financial year, Collins Stewart Group revenues for 2005 would have been £6.4 million higher and Collins Stewart Group profit attributable to equity holders of the parent would have been £0.9 million higher.

US Equities Business

In January 2005 Collins Stewart Tullett plc completed the acquisition of the Burlington cash equities business in New York. This business will be transferred to the Collins Stewart Group prior to the Demerger as described in paragraph 2.1 of Part V of this document. For the purpose of this document, and in accordance with the basis of preparation it has been included in the combined financial statements at net book value. There is no goodwill on acquisition.

27. Statement of cash flows

(a) Reconciliation of operating profit to net cash inflow from operating activities

	Year to			Six months to	
	31 December 2003	31 December 2004	31 December 2005	30 June 2005 <i>(unaudited)</i>	30 June 2006
	£m	£m	£m	£m	£m
Operating profit	47.0	29.6	43.0	20.6	32.5
Adjustments for:					
Expense arising from share option plans	0.5	2.8	2.0	1.1	1.1
Depreciation of furniture, fixtures and equipment	2.3	2.0	1.6	1.0	0.6
Amortisation of intangible assets	0.1	0.2	0.2	0.2	0.2
(Decrease)/increase in provisions for liabilities and charges	2.0	(1.3)	(0.7)	(0.3)	–
Operating cash flows before movement in working capital	51.9	33.3	46.1	22.6	34.4
Increase in trade and other receivables	(29.1)	(1.5)	(496.9)	(297.1)	(1,601.5)
Decrease/(increase) in net long and short positions	–	(20.2)	1.0	0.5	5.2
Increase/(decrease) in trade and other payables	40.5	(24.4)	510.7	301.5	1,593.8
Cash generated from/(absorbed by) operations	63.3	(12.8)	60.9	27.5	31.9
Income tax paid	(9.4)	(17.4)	(3.6)	(1.3)	(10.0)
Interest paid	(0.9)	(1.8)	(0.7)	(0.5)	(0.8)
Net cash flows from/(used in) operating activities	53.0	(32.0)	56.6	25.7	21.1

(b) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and other short-term highly liquid investments with maturity of three months or less. Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and one week depending on the immediate cash requirement of the Collins Stewart Group, and earn interest at the respective short-term deposit rates.

For the purposes of the combined cash flow statement, cash and cash equivalents comprise the following:

	As at			As at	
	31 December 2003	31 December 2004	31 December 2005	30 June 2005 <i>(unaudited)</i>	30 June 2006
	£m	£m	£m	£m	£m
Cash and cash equivalents	106.5	57.9	66.9	78.7	84.1
Bank overdrafts	(3.6)	(4.0)	(1.1)	(3.5)	(4.4)
	102.9	53.9	65.8	75.2	79.7
Undrawn committed borrowing facilities	10.0	15.0	15.0	15.0	15.0

28. Reconciliation of net cash flow to movements in net funds

	<i>Year to</i>			<i>Six months to</i>	
	<i>31 December 2003</i>	<i>31 December 2004</i>	<i>31 December 2005</i>	<i>30 June 2005</i> <i>(unaudited)</i>	<i>30 June 2006</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Net increase/(decrease) in cash and cash equivalents during the period	43.8	(49.0)	11.9	21.4	13.8
Cash outflow from repayment of loans and loan notes	4.4	–	0.1	–	–
Increase/(decrease) in net funds resulting from cash flows	48.2	(49.0)	12.0	21.4	13.8
Currency translation differences	(0.5)	–	–	(0.1)	0.1
Increase/(decrease) in net funds	47.7	(49.0)	12.0	21.3	13.9
Net funds at the start of the period	42.3	90.0	41.0	41.0	53.0
Net funds at the end of the period	90.0	41.0	53.0	62.3	66.9

29. Analysis of net funds

	<i>At 1 January 2003 £m</i>	<i>Cash flow £m</i>	<i>Non-cash items £m</i>	<i>Exchange differences £m</i>	<i>At 31 December 2003 £m</i>
Cash in hand and at bank	47.7	47.1	–	(0.5)	94.3
Cash equivalents	7.9	(5.6)	–	–	2.3
Client settlement monies	6.0	3.9	–	–	9.9
Overdraft	(2.0)	(1.6)	–	–	(3.6)
	59.6	43.8	–	(0.5)	102.9
Loans due after one year	(17.3)	4.4	–	–	(12.9)
Total net funds	42.3	48.2	–	(0.5)	90.0

	<i>At 1 January 2004 £m</i>	<i>Cash flow £m</i>	<i>Non-cash items £m</i>	<i>Exchange differences £m</i>	<i>At 31 December 2004 £m</i>
Cash in hand and at bank	94.3	(44.1)	–	–	50.2
Cash equivalents	2.3	(0.2)	–	–	2.1
Client settlement monies	9.9	(4.3)	–	–	5.6
Overdraft	(3.6)	(0.4)	–	–	(4.0)
	102.9	(49.0)	–	–	53.9
Loans due after one year	(12.9)	–	–	–	(12.9)
Total net funds	90.0	(49.0)	–	–	41.0

29. Analysis of net funds (continued)

	<i>At</i> <i>1 January</i> <i>2005</i> <i>£m</i>	<i>Cash</i> <i>flow</i> <i>£m</i>	<i>Non-cash</i> <i>items</i> <i>£m</i>	<i>Exchange</i> <i>differences</i> <i>£m</i>	<i>At</i> <i>31 December</i> <i>2005</i> <i>£m</i>
Cash in hand and at bank	50.2	1.1	–	–	51.3
Cash equivalents	2.1	3.0	–	–	5.1
Client settlement monies	5.6	4.9	–	–	10.5
Overdraft	(4.0)	2.9	–	–	(1.1)
	53.9	11.9	–	–	65.8
Loans due after one year	(12.9)	0.1	–	–	(12.8)
Total net funds	41.0	12.0	–	–	53.0
	<i>At</i> <i>1 January</i> <i>2005</i> <i>£m</i>	<i>Cash</i> <i>flow</i> <i>£m</i>	<i>Non-cash</i> <i>items</i> <i>£m</i>	<i>Exchange</i> <i>differences</i> <i>£m</i>	<i>At</i> <i>30 June</i> <i>2005</i> <i>(unaudited)</i> <i>£m</i>
Cash in hand and at bank	50.2	18.0	–	(0.1)	68.1
Cash equivalents	2.1	1.4	–	–	3.5
Client settlement monies	5.6	1.5	–	–	7.1
Overdraft	(4.0)	0.5	–	–	(3.5)
	53.9	21.4	–	(0.1)	75.2
Loans due within one year	–	(0.1)	–	–	(0.1)
Loans due after one year	(12.9)	0.1	–	–	(12.8)
	(12.9)	–	–	–	(12.9)
Total net funds	41.0	21.4	–	(0.1)	62.3
	<i>At</i> <i>1 January</i> <i>2006</i> <i>£m</i>	<i>Cash</i> <i>flow</i> <i>£m</i>	<i>Non-cash</i> <i>items</i> <i>£m</i>	<i>Exchange</i> <i>differences</i> <i>£m</i>	<i>At</i> <i>30 June</i> <i>2006</i> <i>£m</i>
Cash in hand and at bank	51.3	20.8	–	0.1	72.2
Cash equivalents	5.1	(0.7)	–	–	4.4
Client settlement monies	10.5	(3.0)	–	–	7.5
Overdraft	(1.1)	(3.3)	–	–	(4.4)
	65.8	13.8	–	0.1	79.7
Loans due within one year	–	–	(1.5)	–	(1.5)
Loans due after one year	(12.8)	–	1.5	–	(11.3)
	(12.8)	–	–	–	(12.8)
Total net funds	53.0	13.8	–	0.1	66.9

30. Contingent liabilities

In the ordinary course of business the Collins Stewart Group has given letters of indemnity in respect of lost share certificates and stock transfers. Although the contingent liability arising therefrom cannot be precisely quantified, it is not believed to be material.

31. Operating lease commitments

	<i>Year to</i>			<i>Six months to</i>	
	<i>31 December 2003</i>	<i>31 December 2004</i>	<i>31 December 2005</i>	<i>30 June 2005</i> <i>(unaudited)</i>	<i>30 June 2006</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Minimum lease payments under operating leases recognised in income for the period	2.6	2.6	2.9	1.3	1.4

The Collins Stewart Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, all of which relate to buildings, as follows:

	<i>As at</i>			<i>As at</i>	
	<i>31 December 2003</i>	<i>31 December 2004</i>	<i>31 December 2005</i>	<i>30 June 2005</i> <i>(unaudited)</i>	<i>30 June 2006</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
– Within one year	2.8	2.8	2.7	2.7	2.7
– Within two to five years	7.7	7.7	7.7	7.7	7.7
– Over five years	20.6	19.0	17.3	18.2	15.9
	<u>31.1</u>	<u>29.5</u>	<u>27.7</u>	<u>28.6</u>	<u>26.3</u>

Operating lease payments represent rentals payable by the Collins Stewart Group for certain of its office properties. Leases are negotiated for an average term of 16 years and rentals are reviewed annually based on movements in market rents.

32. Share-based payments

The Collins Stewart Group has a number of share incentive plans for the granting of non-transferable options to certain employees and executives. Options granted under the plans vest on the first day on which they become exercisable, which is typically three years after grant date. The maximum life of the options is ten years. These options are settled in equity once exercised and, dependent on the option scheme, will be settled either with new shares issued or shares purchased in the market. The exercise of options within some of the option schemes is also dependent on option holders meeting performance criteria, all of which are non-market conditions.

The following table summarises the share option schemes that existed during the 12 months to 31 December 2003, 2004, 2005 and the 6 months to 30 June 2005 and 2006 respectively and the estimated fair values of options granted:

12 months to 31 December 2003		<i>Estimated fair value⁽³⁾</i>
Sharesave scheme 2000 ⁽¹⁾	648,027	Not applicable
Sharesave scheme 2000	157,509	Not applicable
Approved Share Option Scheme ^(2,3)	51,085	Not applicable
Unapproved Share Option Scheme ^(2,3)	4,572,408	328p–353p
	<u>5,429,029</u>	
12 months to 31 December 2004		<i>Estimated fair value</i>
Sharesave scheme 2000 ⁽¹⁾	518,815	Not applicable
Sharesave scheme 2000	117,482	Not applicable
Approved Share Option Scheme ^(2,3)	118,744	93p–104p
Unapproved Share Option Scheme ^(2,3)	5,164,858	93p–420p
	<u>5,919,899</u>	
12 months to 31 December 2005		<i>Estimated fair value</i>
Sharesave scheme 2000 ⁽¹⁾	444,614	Not applicable
Sharesave scheme 2000	103,290	Not applicable
Approved Share Option Scheme ^(2,3)	133,318	67p–104p
Unapproved Share Option Scheme ^(2,3)	4,469,034	93p–420p
	<u>5,150,256</u>	
6 months to 30 June 2005		<i>Estimated fair value</i>
Sharesave scheme 2000 ⁽¹⁾	484,141	Not applicable
Sharesave scheme 2000	113,974	Not applicable
Approved Share Option Scheme ^(2,3)	133,318	67p–104p
Unapproved Share Option Scheme ^(2,3)	5,545,284	93p–420p
	<u>6,276,717</u>	
6 months to 30 June 2006		<i>Estimated fair value</i>
Sharesave scheme 2000	98,346	Not applicable
Approved Share Option Scheme ^(2,3)	120,016	67p–104p
Unapproved Share Option Scheme ^(2,3)	3,387,935	93p–420p
	<u>3,606,297</u>	

Notes:

- (1) The Sharesave scheme is an employee discount purchase share plan.
- (2) Subject to individual performance criteria.
- (3) Grants of above options occurred on several dates.

32. Share-based payments (continued)

The weighted average contractual life for the share options outstanding as at 30 June 2006 is 7.5 years (30 June 2005: 7.7 years; 31 December 2005: 7.2 years; 31 December 2004: 7.7 years; 31 December 2003: 7.2 years)

The estimated fair value of each option granted was calculated by applying a Black-Scholes option pricing model. The model inputs were the share price at grant date, exercise price, expected volatility, expected dividends based on historical dividend payment, expected life of the option until exercise and a risk-free interest rate based on government securities with a similar maturity profile.

2003

	<i>Unapproved Share Option Scheme*</i>
Share price at date of grant (p)	350-376p
Exercise price	1p
Expected volatility	30%
Expected life (years)	3-4
Risk free rate	3.8%
Expected dividend yield	2.0%
Likelihood of ceasing employment before vesting	10%
Proportion meeting performance criteria	100%

2004

	<i>Approved Share Option Scheme*</i>	<i>Unapproved Share Option Scheme*</i>
Share price at date of grant	402p-451p	350-449p
Exercise price	402p-451p	1-449p
Expected volatility	30%	30%
Expected life (years)	3-4	3-4
Risk free rate	4.5%	3.8%-4.5%
Expected dividend yield	2.0%	2.0%
Likelihood of ceasing employment before vesting	10%-17%	10%-20%
Proportion meeting performance criteria	100%	100%

2005 and 2006

	<i>Approved Share Option Scheme*</i>	<i>Unapproved Share Option Scheme*</i>
Share price at date of grant	402p-451p	350-449p
Exercise price	402p-451p	1-449p
Expected volatility	18%-30%	18%-30%
Expected life (years)	3-4	3-4
Risk free rate	4.5%	3.8%-4.5%
Expected dividend yield	2.0%	2.0%
Likelihood of ceasing employment before vesting: 2005	10%-26%	0%-27%
2006	10%-43%	0%-100%
Proportion meeting performance criteria	100%	100%

* grants within these schemes occurred on several date - input ranges reflect the rates and terms applicable on grant date

32. Share-based payments (continued)

The following table shows the number and weighted average exercise price for all share options outstanding:

	Year to 31 December 2003	Weighted average exercise price (p)	Year to 31 December 2004	Weighted average exercise price (p)	Six months to 30 June 2005	Weighted average exercise price (p)	Year to 31 December FY 2005	Weighted average exercise price (p)	Six months to 30 June 2006	Weighted average exercise price (p)
Outstanding at start of period	5,125,987	166	5,429,029	155	5,919,899	193	5,919,899	193	5,150,256	228
Granted in period	754,000	1	2,991,000	265	680,000	228	680,000	228	–	–
Forfeited	(56,653)	287	(670,239)	149	(113,182)	390	(195,893)	307	(236,595)	70
Exercised in period	(394,305)	306	(1,829,891)	212	(210,000)	301	(1,253,750)	51	(1,307,364)	124
Outstanding at end of period	5,429,029	155	5,919,899	193	6,276,717	190	5,150,256	228	3,606,297	276
Exercisable at end of period	609,493	316	1,050,852	188	1,312,102	102	1,023,352	131	689,602	148

The weighted average share price at the date of exercise for share options exercised during the period was 710p (30 June 2005 : 410p; 31 December 2005: 530p; 31 December 2004: 417p; 31 December 2003: 452p)

	Year to			Six months to	
	31 December 2003	31 December 2004	31 December 2005	30 June 2005 (unaudited)	30 June 2006 (unaudited)
	£m	£m	£m	£m	£m
Expense arising under share option plans	0.5	2.8	2.0	1.1	1.1

33. Client money

	As at			As at	
	31 December 2003	31 December 2004	31 December 2005	30 June 2005 (unaudited)	30 June 2006 (unaudited)
	£m	£m	£m	£m	£m
Balances held by the Collins Stewart Group on behalf of clients to settle outstanding bargains:	9.9	5.6	10.5	7.1	7.5
Segregated deposits	207.0	264.8	355.7	281.2	450.0
Total Client Money	216.9	270.4	366.2	288.3	457.5

34. Events after the balance sheet date

In 2006 it was announced that the Collins Stewart Group will be demerged from Collins Stewart Tullett plc. A new holding company Collins Stewart plc will be introduced with its shares admitted to listing on the official list of the Financial Services Authority (“FSA”) and admission to trading on the LSE main market for listed securities.

In October 2006 CSEL received £3.9 million in respect of the settlement of its split capital investment trust insurance claim.

On 27 October 2006 it was announced that Collins Stewart Europe Limited had entered into a conditional agreement to acquire Hawkpoint Holdings Limited. The Acquisition is conditional on, amongst other matters, the Demerger, and hence Hawkpoint Holdings Limited will be acquired by Collins Stewart only if the Demerger is effected. The agreement to acquire Hawkpoint Holdings Limited will be novated to Collins

Stewart plc once the Demerger is effected. Prior to the Demerger and subject to the material conditions relating to the acquisition of Hawkpoint Holdings Limited having been satisfied, Collins Stewart Tullett plc will make a capital contribution up to £30 million to Collins Stewart Europe Limited. This will provide regulatory capital to offset the impact of the goodwill arising on the acquisition.

35. Related party transactions

Transactions between CSEL and its subsidiaries, which were related parties, have been eliminated on consolidation and are not disclosed in this note.

Relationship with the remaining group

In addition to transactions with ‘third parties’, the results of the business will also include transactions with the part of the overall group which is not part of the carve out business (the “remaining group”). Hence, for example, sales which were previously regarded as ‘intra group’ will need to be re-examined to determine whether they relate to entities within the carve out business or outside it. The remaining group will normally also be regarded as a related party for the purposes of disclosing related party transactions, and it will normally be necessary to identify the extent of the relationships between the carve out business and the remaining group. Balances with the remaining group may have comprised elements of trading balances and short term or long term funding balances, which may or may not have been interest bearing. Balances of a trading nature will normally be presented as an element of debtors or creditors. Balances which are considered to be funding in nature (having regard inter alia to the use made of the balances, the period for which they remain outstanding and the level of other capital) will normally be classified according to their general nature. Where the balance is interest bearing and has other characteristics of debt, it will be presented in the manner of debt financing. Where the balance does not have the characteristics of debt, it will be re-classified from creditors into capital and be presented in the manner of equity, typically aggregated with the share capital and reserves of companies comprising the carve out business, as ‘parent company net investment’ in the carve out business.

	<i>Year to</i>			<i>Six months to</i>	
	<i>31 December 2003</i>	<i>31 December 2004</i>	<i>31 December 2005</i>	<i>30 June 2005</i>	<i>30 June 2006</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>(unaudited) £m</i>	<i>£m</i>
Transactions with related parties summary:					
Collins Stewart Tullett plc:					
<i>Dividends paid/payable</i>	7.0	27.3	40.0	–	5.0
<i>Management fees</i>	6.2	0.3	1.2	0.2	1.2
<i>Interest</i>	0.8	0.8	0.8	0.4	0.4
<i>Purchase of tax relief</i>	–	1.4	–	–	1.0
	<u>14.0</u>	<u>29.8</u>	<u>42.0</u>	<u>0.6</u>	<u>7.6</u>
Berkshire Investment Managers LLP:					
<i>Interest</i>	–	–	–	–	0.1
<i>Admin charges</i>	–	–	–	–	0.1
	–	–	–	–	0.2
Terry Hitchcock:					
<i>Repayment of secured loan notes</i>	–	–	0.1	–	–
	–	–	0.1	–	–
Total	<u>14.0</u>	<u>29.8</u>	<u>42.1</u>	<u>0.6</u>	<u>7.8</u>

35. Related party transactions (continued)

	<i>As at</i>			<i>As at</i>	
	<i>31 December</i> 2003	<i>31 December</i> 2004	<i>31 December</i> 2005	<i>30 June</i> 2005 <i>(unaudited)</i>	<i>30 June</i> 2006
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Amounts owed by related parties:					
Collins Stewart Tullett plc:					
<i>Other balances</i>	–	–	0.9	–	0.9
	–	–	0.9	–	0.9
Berkshire Investment Managers LLP:					
<i>Cash facility</i>	–	–	2.2	–	1.6
	–	–	2.2	–	1.6
Total	–	–	3.1	–	2.5
Amounts owed to related parties:					
Collins Stewart Tullett plc:					
<i>Subordinated loans</i>	12.8	12.8	12.8	12.8	12.8
<i>Dividends</i>	–	6.0	–	–	–
<i>Other balances</i>	4.5	15.3	6.6	16.6	12.1
	17.3	34.1	19.4	29.4	24.9
Terry Hitchcock:					
<i>Secured loan notes</i>	0.1	0.1	–	0.1	–
	0.1	0.1	–	0.1	–
Total	17.4	34.2	19.4	29.5	24.9

Directors' and executives' remuneration

Remuneration of the directors of Collins Stewart Europe Limited who were the key management personnel of the Collins Stewart Group is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures.

	<i>Year to</i>			<i>Six months to</i>	
	<i>31 December</i> 2003	<i>31 December</i> 2004	<i>31 December</i> 2005	<i>30 June</i> 2005 <i>(unaudited)</i>	<i>30 June</i> 2006
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Short-term benefits	5.1	4.4	7.5	0.7	0.6
Share based payments	–	1.4	0.3	0.1	0.1
	5.1	5.8	7.8	0.8	0.7

Some of the directors who are executives of the holding company, Collins Stewart Tullett plc, are also directors of Collins Stewart plc. These directors received remuneration of £5.1 million, £3.3 million and £3.6 million from Collins Stewart Tullett plc during 2003, 2004, 2005 and £0.3m and £0.3m for the first six months of 2005 and 2006 respectively. However, it is not practicable to allocate this between their services as executives of Collins Stewart Tullett plc and their services as directors of Collins Stewart plc.

36. Principal subsidiary undertakings and joint venture

During the period under review, the following companies were the Collins Stewart Group's principal trading subsidiary undertakings.

<i>Subsidiary undertakings</i>	<i>Country of incorporation</i>	<i>Principal activities</i>	<i>Issued ordinary shares, all voting</i>
	Great Britain	Property management	75%*
Collins Stewart (CI) Limited	Guernsey	Stockbroking	100%
Collins Stewart Fund Management Limited	Guernsey	Investment fund management	100%
Collins Stewart Portfolio Management Limited (formerly Collins Stewart Asset Management Limited)	Guernsey	Investment fund management	100%
Collins Stewart (Offshore) Limited (formerly Insinger de Beaufort (International) Limited)	Jersey	Stockbroking	100%

During the period under review, the following company was not a principal subsidiary undertaking but will be transferred to Collins Stewart Group prior to the Demerger.

Collins Stewart Inc.	USA	Stockbroking	100%
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*Increased to 83.25% – effective 1 January 2006.

The US equities business is included within Collins Stewart Inc. (see note 26).

All the above subsidiary undertakings were owned indirectly. They all have a 31 December year end.

At 31 December 2005 and 30 June 2006, the following company was a joint venture of the Collins Stewart Group.

<i>Joint Venture</i>	<i>Country of incorporation</i>	<i>Principal activities</i>	<i>Issued ordinary shares, all voting</i>
Berkshire Investment Managers LLP	Great Britain	Proprietary trading	50%

37. First-time adoption of International Financial Reporting and Accounting Standards

The date of transition to International Financial Reporting and Accounting Standards was selected as 1 January 2003 and all comparative information in these financial statements has been restated to reflect the Group's adoption of IFRS. The main adjustments in transition to IFRS were as follows:

- 1 Under UK GAAP, goodwill was amortised over a period not exceeding 20 years. Adoption of IFRS has resulted in the Collins Stewart Group ceasing annual goodwill amortisation and testing only for impairment annually at the cash-generating unit level.
- 2 Under UK GAAP financial assets now classified as "available-for-sale", such as the shares held in Euroclear, were carried at cost. Under IFRS these assets and their deferred tax impact are carried at fair value with changes in fair value being recognised through the statement of recognised income and expense. The resulting fair value adjustment to financial assets and the related deferred tax adjustment have been included in "Retained earnings".
- 3 The classifications of current and non-current "Interest-bearing loans and borrowings" includes: overdrafts, subordinated loans and loan notes previously classified within "Creditors: amounts falling due within one year" and "Creditors: amounts falling due after more than one year".
- 4 Dividends declared after the balance sheet date accrued in the balance sheet under current UK GAAP are treated as a non-adjusting post balance sheet event under IFRS. Therefore, some dividends accrued previously have been reversed and retained earnings adjusted accordingly.

38. Reconciliation of equity at 1 January 2003

The effect of the changes to the Collins Stewart Group's accounting policies on the equity of the Collins Stewart Group at the date of transition, 1 January 2003 was as follows:

	Note	31 December 2002 UK GAAP £m	Effect of transition to IFRS £m	1 January 2003 IFRS £m
Non-current assets				
Goodwill		25.1	–	25.1
Land, buildings, furniture, fixtures and equipment		6.4	–	6.4
Other financial assets	a	0.2	1.4	1.6
Deferred tax assets	a	0.2	(0.1)	0.1
		31.9	1.3	33.2
Current assets				
Trade and other receivables		87.1	–	87.1
Trading investments		9.3	–	9.3
Cash and cash equivalents		61.6	–	61.6
		158.0	–	158.0
Total assets		189.9	1.3	191.2
Current liabilities				
Trade and other payables	b	(98.2)	6.0	(92.2)
Financial liabilities		(1.8)	–	(1.8)
Tax liabilities		(5.9)	–	(5.9)
Interest bearing loans and borrowings		(2.0)	–	(2.0)
		(107.9)	6.0	(101.9)
Non-current liabilities				
Interest bearing loans and borrowings		(17.3)	–	(17.3)
Total liabilities		(125.2)	6.0	(119.2)
Net assets		64.7	7.3	72.0
Equity				
Share capital		20.8	–	20.8
Retained earnings	c	43.7	7.3	51.0
Total shareholders' equity		64.5	7.3	71.8
Minority interest		0.2	–	0.2
Total equity		64.7	7.3	72.0

Notes to the reconciliation of equity due to IFRS

- a Under UK GAAP financial assets, now classified as “available-for-sale”, were carried at cost such as the shares held in Euroclear. Under IFRS these assets and their deferred tax impact are carried at fair value with changes in fair value being recognised through the SORIE. The resulting fair value adjustment to financial assets and the related deferred tax adjustment have been included in “Retained Earnings”.
- b Dividends declared after the balance sheet date accrued in the balance sheet under UK GAAP are treated as a non-adjusting post balance sheet event under IFRS. Accordingly the dividend accrued in “Trade and other payables” has been reversed and retained earnings adjusted accordingly.
- c The following illustrates the adjustments to retained earnings:

	1 January 2003 £m
Other financial asset revaluation (note a)	1.4
Tax effect of the above	(0.1)
Dividends declared post balance sheet date (note 10)	6.0
	7.3

PART 6: ACCOUNTANT'S REPORT ON THE HAWKPOINT GROUP



PricewaterhouseCoopers
Southwark Towers
32 London Bridge Street
London SE1 9SY

The Directors
Collins Stewart Tullett plc
9th Floor
88 Wood Street
London EC2V 7QR

Lehman Brothers International (Europe)
25 Bank Street
London E14 5LE

31 October 2006

Dear Sirs

Hawkpoint Holdings Limited

We report on the consolidated financial information of Hawkpoint Holdings Limited for the three years and six months ended 30 June 2006 set out in Part 6. This financial information has been prepared for inclusion in the circular dated 31 October 2006 (the “**Circular**”) of Collins Stewart Tullett plc (the “**Company**”) on the basis of the accounting policies set out in note 2. This report is required by 13.5.21R of the Listing Rules and is given for the purpose of complying with that item and for no other purpose.

We have not audited the financial information for the six months ended 30 June 2005 and accordingly do not express an opinion thereon.

Responsibilities

The Directors of the Company are responsible for preparing the financial information on the basis of International Financial Reporting Standards (“**IFRS**”).

It is our responsibility to form an opinion as to whether the financial information gives a true and fair view, for the purposes of the Circular and to report our opinion to you.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have to shareholders of the Company as a result of the inclusion of this report in the Circular, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such person as a result of, arising out of, or in accordance with this report or our statement, required by and given solely for the purposes of complying with item 13.4.1R(6) of the Listing Rules, consenting to its inclusion in the Circular.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the

accounting policies are appropriate to the Hawkpoint Holdings Limited circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purposes of the Circular dated 31 October 2006, a true and fair view of the state of affairs of Hawkpoint Holdings Limited as at the dates stated and of its profits, cash flows and changes in equity for the periods then ended on the basis of IFRS as described in note 2 and has been prepared in a form that is consistent with the accounting policies adopted in the Company's latest annual accounts.

Yours faithfully

PricewaterhouseCoopers LLP

Chartered Accountants

Consolidated Income Statement

	<i>Notes</i>	<i>Year to</i>			<i>Six months to</i>	
		<i>31 December</i> <i>2003</i>	<i>31 December</i> <i>2004</i>	<i>31 December</i> <i>2005</i>	<i>30 June</i> <i>2005</i>	<i>30 June</i> <i>2006</i>
		<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Revenue	4	24.2	31.1	36.3	15.6	25.5
Administrative expenses before impairment of goodwill and share based payment charges		(21.8)	(25.9)	(28.5)	(12.1)	(17.8)
Impairment of goodwill	11	(2.8)	–	–	–	–
Share based payment charges	21	(0.2)	(1.5)	(2.3)	(1.0)	(6.5)
Administrative expenses		(24.8)	(27.4)	(30.8)	(13.1)	(24.3)
Operating profit before impairment of goodwill and share based payment charges	3	2.4	5.2	7.8	3.5	7.7
Impairment of goodwill	11	(2.8)	–	–	–	–
Share based payment charges	21	(0.2)	(1.5)	(2.3)	(1.0)	(6.5)
Operating profit/(loss)	5	(0.6)	3.7	5.5	2.5	1.2
Interest income	7	0.3	0.6	0.7	0.3	0.5
Interest expense	7	(0.8)	(0.6)	(0.5)	(0.3)	(0.3)
Finance costs – net		(0.5)	–	0.2	–	0.2
Profit/(loss) before tax		(1.1)	3.7	5.7	2.5	1.4
Taxation	8	(0.7)	(1.8)	(2.5)	(1.1)	(2.4)
(Loss)/profit after tax and for the year/period		(1.8)	1.9	3.2	1.4	(1.0)
Attributed to:						
Equity holders of the parent		(1.8)	1.9	3.2	1.4	(1.0)

All of the Hawkpoint Group's revenue and operating profit were derived from continuing operations.

Consolidated Balance Sheet

	<i>Notes</i>	<i>As at</i>			<i>As at</i>	
		<i>31 December</i>	<i>31 December</i>	<i>31 December</i>	<i>30 June</i>	<i>30 June</i>
		<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2005</i>	<i>2006</i>
		<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
					<i>(unaudited)</i>	
Non-current assets						
Property, plant and equipment	12	0.3	0.2	0.2	0.2	0.2
Goodwill	11	4.8	4.8	4.8	4.8	4.8
Other financial assets	13	0.2	0.1	–	–	–
Deferred tax	9	0.4	0.3	0.3	0.3	0.3
		<u>5.7</u>	<u>5.4</u>	<u>5.3</u>	<u>5.3</u>	<u>5.3</u>
Current assets						
Trade and other receivables	14	8.1	5.3	3.6	6.3	8.0
Cash and cash equivalents	17	9.9	19.2	28.5	11.2	20.9
		<u>18.0</u>	<u>24.5</u>	<u>32.1</u>	<u>17.5</u>	<u>28.9</u>
Total assets		23.7	29.9	37.4	22.8	34.2
Current liabilities						
Trade and other payables	15	(8.8)	(12.0)	(16.9)	(6.8)	(12.1)
Interest bearing loans and borrowings	16	–	(1.9)	(3.5)	(3.5)	(2.6)
Deferred consideration	17	(1.9)	(1.9)	–	–	–
Tax liabilities		(0.1)	(1.2)	(1.6)	(0.9)	(2.4)
		<u>(10.8)</u>	<u>(17.0)</u>	<u>(22.0)</u>	<u>(11.2)</u>	<u>(17.1)</u>
Net current assets		7.2	7.5	10.1	6.3	11.8
Non-current liabilities						
Trade and other payables	15	(2.8)	(4.1)	(6.8)	(5.0)	(13.2)
Interest bearing loans and borrowings	16	(7.7)	(5.8)	(2.5)	(2.4)	–
Deferred consideration	17	(1.8)	–	–	–	–
Provisions	18	–	(0.4)	(0.6)	(0.5)	–
		<u>(12.3)</u>	<u>(10.3)</u>	<u>(9.9)</u>	<u>(7.9)</u>	<u>(13.2)</u>
Total liabilities		(23.1)	(27.3)	(31.9)	(19.1)	(30.3)
Net assets		<u>0.6</u>	<u>2.6</u>	<u>5.5</u>	<u>3.7</u>	<u>3.9</u>
Attributable to equity shareholders						
Share capital	19	0.7	0.7	0.7	0.7	0.7
Share premium		3.3	3.3	3.3	3.3	3.3
Retained earnings		(3.4)	(1.4)	1.5	(0.3)	(0.1)
		<u>0.6</u>	<u>2.6</u>	<u>5.5</u>	<u>3.7</u>	<u>3.9</u>

Statement of changes in equity

		<i>Share capital</i>	<i>Share premium</i>	<i>Retained earnings</i>	<i>Total share- holders' funds</i>
	<i>Notes</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Balance at 1 January 2003		0.6	1.7	(1.6)	0.7
Issue of D ordinary shares	19	0.1	1.6	–	1.7
Redemption of C ordinary shares	19	–	–	(0.1)	(0.1)
Movement due to own shares held	20	–	–	0.1	0.1
Loss for the year		–	–	(1.8)	(1.8)
Balance at 31 December 2003 and 1 January 2004		0.7	3.3	(3.4)	0.6
Movement due to own shares held	20	–	–	0.1	0.1
Profit for the year		–	–	1.9	1.9
Balance at 31 December 2004 and 1 January 2005		0.7	3.3	(1.4)	2.6
Profit for the year		–	–	3.2	3.2
Dividend paid in the year	10	–	–	(0.3)	(0.3)
Balance at 31 December 2005		0.7	3.3	1.5	5.5
Balance at 1 January 2005		0.7	3.3	(1.4)	2.6
Profit for the period (unaudited)		–	–	1.4	1.4
Dividend paid in the period (unaudited)	10	–	–	(0.3)	(0.3)
Balance at 30 June 2005 (unaudited)		0.7	3.3	(0.3)	3.7
Balance at 1 January 2006		0.7	3.3	1.5	5.5
Loss for the period		–	–	(1.0)	(1.0)
Dividend paid in the period	10	–	–	(0.6)	(0.6)
Balance at 30 June 2006		0.7	3.3	(0.1)	3.9

Consolidated Cash Flow Statement

	<i>Notes</i>	<i>Year to</i>			<i>Six months to</i>	
		<i>31 December</i>	<i>31 December</i>	<i>31 December</i>	<i>30 June</i>	<i>30 June</i>
		<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2005</i>	<i>2006</i>
		<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Profit/(loss) for the period before taxation		(1.1)	3.7	5.7	2.5	1.4
Adjustments for:						
Depreciation of property, plant and equipment	12	0.2	0.2	0.1	–	0.1
Share based payment charges		0.2	1.5	2.3	1.0	6.5
Impairment of goodwill	11	2.8	–	–	–	–
Interest income		(0.3)	(0.6)	(0.7)	(0.3)	(0.5)
Interest expense		0.8	0.6	0.5	0.3	0.3
Operating cash flows before movement in working capital		2.6	5.4	7.9	3.5	7.8
(Increase)/decrease in trade and other receivables		(4.0)	2.8	1.7	(1.0)	(4.3)
(Decrease)/increase in trade and other payables		4.2	3.2	5.0	(5.4)	(4.8)
(Decrease)/increase in provisions for liabilities and charges		–	0.4	0.2	0.1	(0.6)
Cash (used in)/generated from operations		2.8	11.8	14.8	(2.8)	(1.9)
Income tax paid		(1.3)	(0.7)	(2.1)	(1.3)	(1.7)
Interest paid		(0.3)	(0.5)	(0.4)	(0.2)	(0.1)
Net cash (used in)/from operating activities		1.2	10.6	12.3	(4.3)	(3.7)
Investing activities						
Interest received		0.2	0.6	0.6	0.3	0.4
Proceeds from sale of own shares		–	–	0.5	–	–
Purchase of property, plant and equipment		(0.1)	(0.1)	(0.1)	–	(0.1)
Net cash from investing activities		0.1	0.5	1.0	0.3	0.3
Cash flows from financing activities						
Net proceeds from issue of shares		1.7	–	–	–	–
Net proceeds from loan stock		7.7	–	–	–	–
Proceeds from other financial assets		–	0.1	0.1	0.1	–
Dividends paid		–	–	(0.3)	(0.3)	(0.6)
Repayment of borrowings		(6.7)	(1.9)	(3.8)	(3.8)	(3.6)
Net cash (used in)/from financing activities		2.7	(1.8)	(4.0)	(4.0)	(4.2)
Net (decrease)/increase in cash and cash equivalents		4.0	9.3	9.3	(8.0)	(7.6)
Net cash and cash equivalents at the beginning of the period		5.9	9.9	19.2	19.2	28.5
Net cash and cash equivalents at the end of the period		9.9	19.2	28.5	11.2	20.9

NOTES TO HAWKPOINT FINANCIAL INFORMATION

1. General information

Hawkpoint Holdings Limited is a company incorporated in England and Wales under the Companies Act 1985. The address of the registered office is 4 Great St Helen's, London, EC3A 6HA. The nature of the Hawkpoint Group's operations and its principal activities are the provision of corporate finance advice to Financial Institutions and to the Corporate and Private Equity communities.

The financial information is presented in pounds sterling because that is the currency of the primary economic environment in which the Hawkpoint Group operates.

The consolidated financial information of Hawkpoint Holdings Limited and its subsidiaries have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs")

The consolidated financial information was approved by the Board of Directors on 30 October 2006.

2. Summary of significant accounting policies

Basis of accounting

The financial information has been prepared in accordance with IFRS adopted for use in the European Union. The consolidated financial information has been prepared under the historical cost convention. The financial information is rounded to the nearest hundred thousand (expressed as millions to one decimal place – £m), except where otherwise indicated. The principal accounting policies of the Hawkpoint Group, as set out below, have been applied consistently in respect of all the periods presented.

Basis of consolidation

The consolidated financial information incorporates the financial information of Hawkpoint Holdings Limited and its subsidiaries made up to 31 December each year.

Subsidiaries are all entities (including special purpose entities) over which the Hawkpoint Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Hawkpoint Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Hawkpoint Group. They are deconsolidated from the date that control ceases.

Transition to Adopted IFRSs

The Hawkpoint Group is preparing the financial information in accordance with Adopted IFRSs for the first time and consequently has applied IFRS 1. "First-time Adoption of International Financial Reporting Standards". IFRS 1 grants certain exemptions from the full requirements of IFRSs in transition period. The Hawkpoint Group has selected the option to apply IFRS 3 "Business Combinations" ("IFRS 3") prospectively from the date of transition, 1 January 2003, to IFRS rather than to restate previous business combinations.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Hawkpoint Group's interest in the net fair value of identifiable assets, liabilities and contingent liabilities of a subsidiary at the date of acquisition. Goodwill is initially recognised at cost and is subsequently measured at cost less any accumulated impairment losses.

Goodwill is recognised as an asset and is reviewed for impairment at least annually or where such other occasions or changes in circumstances indicate that it might be impaired. Any impairment is recognised immediately in the income statement and is not subsequently reversed. Goodwill was tested for impairment at the transition date, 31 December 2003, 31 December 2004 and 31 December 2005.

Goodwill arising on acquisitions before the date of transition to IFRS has been included at the UK GAAP amounts subject to being tested for impairment.

2. Summary of significant accounting policies (continued)

Revenue

Revenue represents fees, excluding value added tax. Fee income is recognised when the related services are completed and the income is considered earned in accordance with the terms of the letter of engagement.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment losses.

Depreciation is provided at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition, of each asset on a straight line basis over its expected useful life as follows:

Furniture, fixtures, fittings	10 per cent. – 33 per cent. per annum
Leasehold buildings	over the period of the lease

Impairment

At each balance sheet date, the Hawkpoint Group reviews the carrying amounts of its assets other than deferred tax assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Hawkpoint Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value (less any cost to sell) and value in use. In assessing value in use, the estimated future cash flows are discounted to their present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised state of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that should have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a re-valued amount, in which case the reversal of the impairment loss is treated as a revaluation increase. Impairment losses relating to goodwill are not reversed.

Financial instruments

Financial assets and financial liabilities are recognised on the Hawkpoint Group's balance sheet when the Hawkpoint Group has become a party to the contractual provisions of the instrument.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Deferred consideration is measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2. Summary of significant accounting policies (continued)

Trade and other receivables

Trade receivables are settled within normal market cycles. Trade receivables are recognised at amortised cost less impairment provisions.

Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash comprises cash on hand and demand deposits, which may be accessed without penalty. Cash equivalents comprise short-term highly liquid investments with a maturity of less than three months from the date of acquisition. For the purposes of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

Equity instruments

Equity instruments issued by Hawkpoint Holdings Limited are recorded at the proceeds received, net of direct issue costs. Equity instruments are classified according to the substance of the contractual arrangements entered into.

Provisions

Provisions are recognised when the Hawkpoint Group has a present obligation (legal or constructive) as a result of a past event which it is probable will result in an outflow of economic benefits that can be reasonably estimated.

Foreign currencies

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on retranslation are included in the income statement, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity.

Taxation

The tax expense represents the sum of tax currently payable and movements in deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Hawkpoint Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. In principle, deferred tax liabilities are recognised for all temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences may be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of other assets and liabilities in a transaction, which affects neither the tax profit nor the accounting profit.

The carrying amounts of deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

2. Summary of significant accounting policies (continued)

Deferred tax is calculated at the rates that are expected to apply when the asset or liability is settled or when the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Hawkpoint Group intends to settle its current tax assets and liabilities on a net basis.

Leased assets

Finance leases

Leases in terms of which the Hawkpoint Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Operating leases

All leases other than finance leases are classified as operating leases. Operating lease rentals are charged to the Income Statement on a straight line basis over the period of the lease. Lease incentives are recognised in the Income Statement as an integral part of the total lease expense.

Retirement benefit costs

Defined contributions made to employees' personal pension plans are charged to the Income Statement as and when incurred.

Own shares held by Employee Benefit Trust ("EBT")

Transactions of the group-sponsored EBT are included in the group financial statements. In particular, the trust's purchases of shares in Hawkpoint Holdings Limited are debited directly to equity, within retained earnings, and subsequent profits or losses recorded when the shares are sold to employees are recognised directly in equity, within retained earnings.

Share-based payment transactions

The share option programme allows Hawkpoint Group employees to acquire shares of the ultimate parent company; these awards are granted by the ultimate parent. The fair value of options granted is recognised as an employee expense. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to share prices not achieving the threshold for vesting.

The share acquisition programme aligns employees' interests with those of shareholders by encouraging employees to acquire shares in Hawkpoint Holdings Limited. Hawkpoint Holdings Limited has an authority under the Articles of Association to acquire the shares back and as a matter of practice, to date, has exercised this. The Hawkpoint Group treats these transactions as cash settled share based payments. The fair value of the amount payable to the employee is recognised as an expense with a corresponding increase in liabilities. The fair value is initially measured at grant date and spread over the estimated service life of the employees. The fair value of the rights is measured based on a valuation model, taking into account the terms and conditions upon which the instruments were granted. The liabilities is remeasured at each balance sheet date and at settlement date and any changes in fair value recognised in profit or loss spread equally over the vesting period.

2. Summary of significant accounting policies (continued)

Critical Accounting estimates and judgements

Details of critical accounting estimates and judgements are disclosed throughout the financial information. These include the valuation of goodwill, trade debtors and the share acquisition liability.

- Goodwill – Goodwill is tested annually for impairment. Note 11 details the assumptions used in testing the valuation.
- Trade receivables – The valuation of trade receivables is based on an estimate made by management over the recoverability of the asset. This is based on management’s knowledge of each of the clients.
- Share acquisition liability – Under IFRS 2 the Hawkpoint Group is required to provide for the potential cost of acquiring shares from employee shareholders who leave the Hawkpoint Group. The calculation is based on a number of assumptions including the service life of the employees and the market value of the shares.
 - Management have estimated a service life of between 8 and 13 years for employees based on their knowledge of the company and historical information.
 - The amount which will be paid for the shares will depend on the share price at the time the employee leaves the Hawkpoint Group. The period end share valuation is used as the best estimate of this value. Hawkpoint Group shares are not publicly available and therefore the assumption is based on a professional valuation.

Adopted IFRS not yet applied

IFRS 7 “Financial instruments: Disclosure” was available for early adoption but has not yet been applied by the Hawkpoint Group in these financial statements. IFRS 7 is applicable for years commencing on or after 1 January 2007. The application of IFRS 7 would not have affected the balance sheet or income statement for any of the periods disclosed as the standard is concerned only with disclosure.

3. Adjusted operating profit

The directors have presented below an adjusted operating profit which they believe more fairly represents the results of the Hawkpoint Group. This removes the impact of the impairment of goodwill and the share based payment charge. As part of the proposed acquisition of the Hawkpoint Group, it is proposed that the shares that form the basis of the share based payment charge will be acquired by Collins Stewart plc and consequently following the acquisition the share based payment charge arising from these shares will no longer apply.

	<i>Year to</i>			<i>Six months to</i>	
	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>	<i>30 June</i>	<i>30 June</i>
	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2005</i>	<i>2006</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Reported operating profit/(loss)	(0.6)	3.7	5.5	2.5	1.2
Add back:					
Impairment of goodwill	2.8	–	–	–	–
Share based payment charges	0.2	1.5	2.3	1.0	6.5
Adjusted operating profit	2.4	5.2	7.8	3.5	7.7
Adjusted profit after tax	1.2	3.4	5.5	2.4	5.5

4. Business and geographic segments

Revenue arises entirely from the Hawkpoint Group's one business segment of providing corporate finance advisory and consulting services.

The Hawkpoint Group's secondary segmental reporting given below is for geographical segments. The main segment is the United Kingdom with all other locations being grouped together as other.

The Hawkpoint Group's revenue is analysed by geographical markets as follows:

	<i>Year to</i>			<i>Six months to</i>	
	<i>31 December</i> <i>2003</i>	<i>31 December</i> <i>2004</i>	<i>31 December</i> <i>2005</i>	<i>30 June</i> <i>2005</i>	<i>30 June</i> <i>2006</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>(unaudited)</i> <i>£m</i>	<i>£m</i>
Revenue					
United Kingdom	19.5	24.5	33.2	15.0	22.4
Other	4.7	6.6	3.1	0.6	3.1
Total revenue	<u>24.2</u>	<u>31.1</u>	<u>36.3</u>	<u>15.6</u>	<u>25.5</u>

Revenue is allocated based on the country where the client is located.

Cash consideration was received in relation to all revenues above except for £1.8 million in the year ended 31 December 2004 which was settled on receipt of convertible bonds.

The following shows the carrying amount of assets and additions to property, plant and equipment and intangible assets by the geographical area in which the assets are located:

Segment Assets

	<i>As at</i>			<i>As at</i>	
	<i>31 December</i> <i>2003</i>	<i>31 December</i> <i>2004</i>	<i>31 December</i> <i>2005</i>	<i>30 June</i> <i>2005</i>	<i>30 June</i> <i>2006</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>(unaudited)</i> <i>£m</i>	<i>£m</i>
United Kingdom	21.9	29.4	35.5	22.4	31.4
Other	1.8	0.5	1.9	0.4	2.8
Total	<u>23.7</u>	<u>29.9</u>	<u>37.4</u>	<u>22.8</u>	<u>34.2</u>

Additions to property, plant and equipment and intangible assets

	<i>Year to</i>			<i>Six months to</i>	
	<i>31 December</i> <i>2003</i>	<i>31 December</i> <i>2004</i>	<i>31 December</i> <i>2005</i>	<i>30 June</i> <i>2005</i>	<i>30 June</i> <i>2006</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>(unaudited)</i> <i>£m</i>	<i>£m</i>
United Kingdom	0.1	0.1	0.1	–	0.1

5. (Loss)/profit for the year

(Loss)/profit for the year has been arrived at after charging/(crediting):

	<i>Year to</i>			<i>Six months to</i>	
	<i>31 December</i> 2003	<i>31 December</i> 2004	<i>31 December</i> 2005	<i>30 June</i> 2005 <i>(unaudited)</i>	<i>30 June</i> 2006
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Depreciation of property, plant and equipment (Note 12)	0.2	0.2	0.1	–	0.1
Staff costs (Note 6)	15.5	20.3	24.0	9.9	20.9
Impairment of trade receivables	0.1	0.3	0.5	–	(0.2)
Impairment of goodwill	2.8	–	–	–	–
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Analysis of auditors' remuneration is provided below:

	<i>Year to</i>			<i>Six months to</i>	
	<i>31 December</i> 2003	<i>31 December</i> 2004	<i>31 December</i> 2005	<i>30 June</i> 2005 <i>(unaudited)</i>	<i>30 June</i> 2006
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Audit Services					
– statutory audit	34	36	38	18	18
	<u>34</u>	<u>36</u>	<u>38</u>	<u>18</u>	<u>18</u>
Other services					
– taxation	105	21	25	6	39
	<u>139</u>	<u>57</u>	<u>63</u>	<u>24</u>	<u>57</u>

6. Staff costs

The average monthly number of employees and directors of the Hawkpoint Group, who were all employed in financial services was:

	<i>Year to</i>			<i>Six months to</i>	
	<i>31 December</i> 2003	<i>31 December</i> 2004	<i>31 December</i> 2005	<i>30 June</i> 2005	<i>30 June</i> 2006
	<i>No.</i>	<i>No.</i>	<i>No.</i>	<i>No.</i>	<i>No.</i>
Professional staff and direct support	80	76	79	81	96
Administration	27	26	27	26	27
	<u>107</u>	<u>102</u>	<u>106</u>	<u>107</u>	<u>123</u>

The aggregate employment costs of staff and directors were:

	<i>Year to</i>			<i>Six months to</i>	
	<i>31 December</i> 2003	<i>31 December</i> 2004	<i>31 December</i> 2005	<i>30 June</i> 2005	<i>30 June</i> 2006
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Wages, salaries and bonuses	13.0	16.2	18.6	7.6	12.5
Social security costs	1.6	2.1	2.5	1.0	1.6
Share based payment charges	0.2	1.5	2.3	1.0	6.5
Pension costs	0.7	0.5	0.6	0.3	0.3
	<u>15.5</u>	<u>20.3</u>	<u>24.0</u>	<u>9.9</u>	<u>20.9</u>

Directors' emoluments

	<i>Year to</i>			<i>Six months to</i>	
	<i>31 December</i> 2003	<i>31 December</i> 2004	<i>31 December</i> 2005	<i>30 June</i> 2005	<i>30 June</i> 2006
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
<i>Hawkpoint Group</i>					
Aggregate emoluments	1.7	2.7	2.8	0.4	0.4
Aggregate company pension contribution paid to money purchase schemes on behalf of three (all periods) directors	0.1	0.1	0.1	–	–
Highest paid director	0.7	1.1	1.3	0.1	0.1

The annual discretionary bonuses are not included within the analysis of directors' emoluments for the six month periods to 30 June 2005 and 2006 above because it is uncertain how much would be paid to the directors at these dates.

7. Finance costs – net

Interest income

	Year to			Six months to	
	31 December 2003	31 December 2004	31 December 2005	30 June 2005 (unaudited)	30 June 2006
	£m	£m	£m	£m	£m
Interest receivable and similar income	0.3	0.6	0.7	0.3	0.5

Interest expense

	Year to			Six months to	
	31 December 2003	31 December 2004	31 December 2005	30 June 2005 (unaudited)	30 June 2006
	£m	£m	£m	£m	£m
Interest payable	0.5	0.5	0.5	0.3	0.3
Preference dividend	0.1	–	–	–	–
Amortisation of discount on deferred consideration	0.2	0.1	–	–	–
Total interest expense	0.8	0.6	0.5	0.3	0.3

8. Taxation

	Year to			Six months to	
	31 December 2003	31 December 2004	31 December 2005	30 June 2005 (unaudited)	30 June 2006
	£m	£m	£m	£m	£m
Current tax					
UK corporation tax	0.8	1.7	2.5	1.1	2.4
Deferred tax					
Origination and reversal of temporary differences	(0.1)	0.1	–	–	–
Total taxation expense in the income statement	0.7	1.8	2.5	1.1	2.4

	Year to			Six months to	
	31 December 2003	31 December 2004	31 December 2005	30 June 2005 (unaudited)	30 June 2006
	£m	£m	£m	£m	£m
Reconciliation of taxation expense					
Profit/(loss) before tax	(1.1)	3.7	5.7	2.5	1.4
Tax on profit at standard rate of 30%	(0.3)	1.1	1.7	0.8	0.4
Factors affecting the charge for the year					
Share based payment charge	0.1	0.5	0.7	0.3	2.0
Impairment of goodwill	0.8	–	–	–	–
Other disallowable expenditure	0.1	0.2	0.1	–	–
	0.7	1.8	2.5	1.1	2.4

9. Deferred tax

Deferred tax assets are attributable to the following:

	<i>31 December</i> 2003	<i>31 December</i> 2004	<i>31 December</i> 2005	<i>30 June</i> 2005 (unaudited)	<i>30 June</i> 2006
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Property, plant and equipment	0.1	0.1	0.1	0.1	0.1
Accruals and deferred income	0.3	0.2	0.2	0.2	0.2
	<u>0.4</u>	<u>0.3</u>	<u>0.3</u>	<u>0.3</u>	<u>0.3</u>

During the year ended 31 December 2003 the deferred tax asset in relation to accruals and deferred income increased by £0.1 million with the resultant credit recognised in the income statement.

During the year ended 31 December 2004 the deferred tax asset in relation to accruals and deferred income decreased by £0.1 million with the resultant charge recognised in the income statement.

There were no other movements in deferred tax assets in the reported periods.

10. Dividends

In the year ended 31 December 2005 an interim dividend of 313p per share (total £304,731) was paid to the shareholders of the 'D' shares.

In the six months ended 30 June 2006 an interim dividend of 576p per share (total £560,782) was paid to the shareholders of the "D" shares.

11. Goodwill

	<i>31 December</i> 2003	<i>31 December</i> 2004	<i>31 December</i> 2005	<i>30 June</i> 2005 (unaudited)	<i>30 June</i> 2006
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Cost					
At 1 January	7.6	7.6	7.6	7.6	4.8
Write off	–	–	(2.8)	–	–
At period end	<u>7.6</u>	<u>7.6</u>	<u>4.8</u>	<u>7.6</u>	<u>4.8</u>
Accumulated impairment losses					
At 1 January	–	2.8	2.8	2.8	–
Write off	–	–	(2.8)	–	–
Impairment charge	2.8	–	–	–	–
At period end	<u>2.8</u>	<u>2.8</u>	<u>–</u>	<u>2.8</u>	<u>–</u>
Carrying amount at period end	<u>4.8</u>	<u>4.8</u>	<u>4.8</u>	<u>4.8</u>	<u>4.8</u>

In 2003, following the loss of key personnel in the media consultancy business, an impairment of £2.8 million was recognised within operating costs as a result of an impairment review of goodwill. This was calculated in line with the methodology described below.

Goodwill is all in relation to the corporate finance advisory business.

The recoverable amount of the corporate finance advisory business cash generating unit is based on value in use calculations. Those calculations use cash flow projections based on actual operating results. Cash flows in perpetuity are extrapolated using a 2.5 per cent. growth rate and are appropriate because the business is a long term business. A pre tax discount rate of 10 per cent. has been used in discounting the projected cash flows. The key assumptions of revenue and administrative costs were determined using the Hawkpoint Group's best estimate.

12. Property, plant and equipment

	<i>Leasehold improvements</i> £m	<i>Furniture fittings and equipment</i> £m	<i>Total</i> £m
Costs			
As at 1 January 2003	0.1	0.6	0.7
Additions	–	0.1	0.1
As at 31 December 2003 and 1 January 2004	0.1	0.7	0.8
Additions	–	0.1	0.1
Disposals	–	(0.2)	(0.2)
As at 31 December 2004 and 1 January 2005	0.1	0.6	0.7
Additions	–	0.1	0.1
Disposals	–	(0.1)	(0.1)
As at 31 December 2005	0.1	0.6	0.7
Depreciation			
As at 1 January 2003	–	(0.3)	(0.3)
Charge for the year	–	(0.2)	(0.2)
As at 31 December 2003 and 1 January 2004	–	(0.5)	(0.5)
Charge for the year	(0.1)	(0.1)	(0.2)
Disposals	–	0.2	0.2
As at 31 December 2004 and 1 January 2005	(0.1)	(0.4)	(0.5)
Charge for the year	–	(0.1)	(0.1)
Disposals	–	0.1	0.1
As at 31 December 2005	(0.1)	(0.4)	(0.5)
Carrying amount			
As at 31 December 2003	0.1	0.2	0.3
As at 31 December 2004	–	0.2	0.2
As at 31 December 2005	–	0.2	0.2

12. Property, plant and equipment (continued)

	<i>Leasehold improvements</i>	<i>Furniture fittings and equipment</i>	<i>Total</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>
Costs			
As at 1 January 2005	0.1	0.6	0.7
Additions (unaudited)	–	–	–
As at 30 June 2005 (unaudited)	<u>0.1</u>	<u>0.6</u>	<u>0.7</u>
As at 1 January 2006	0.1	0.6	0.7
Additions	–	0.1	0.1
As at 30 June 2006	<u>0.1</u>	<u>0.7</u>	<u>0.8</u>
Depreciation			
As at 1 January 2005	(0.1)	(0.4)	(0.5)
Charge for the period (unaudited)	–	–	–
As at 30 June 2005 (unaudited)	<u>(0.1)</u>	<u>(0.4)</u>	<u>(0.5)</u>
As at 1 January 2006	(0.1)	(0.4)	(0.5)
Charge for the period	–	(0.1)	(0.1)
As at 30 June 2006	<u>(0.1)</u>	<u>(0.5)</u>	<u>(0.6)</u>
Carrying amount			
As at 30 June 2005 (unaudited)	<u>–</u>	<u>0.2</u>	<u>0.2</u>
As at 30 June 2006	<u>–</u>	<u>0.2</u>	<u>0.2</u>

13. Other financial assets

	<i>31 December 2003</i>	<i>31 December 2004</i>	<i>31 December 2005</i>	<i>30 June 2005 (unaudited)</i>	<i>30 June 2006</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Other financial assets	<u>0.2</u>	<u>0.1</u>	<u>–</u>	<u>–</u>	<u>–</u>

Other financial assets comprise money market funds purchased and pledged as a bank security for a guarantee issued by the bank in favour of a third party. These were sold on 15 September 2005.

14. Trade and other receivables

	<i>31 December 2003</i>	<i>31 December 2004</i>	<i>31 December 2005</i>	<i>30 June 2005 (unaudited)</i>	<i>30 June 2006</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Trade debtors	6.9	4.0	3.0	3.9	6.5
Other debtors	–	0.2	0.2	0.3	0.2
Prepayments	1.2	1.1	0.4	2.1	1.3
	<u>8.1</u>	<u>5.3</u>	<u>3.6</u>	<u>6.3</u>	<u>8.0</u>

15. Trade and other payables

	31 December 2003	31 December 2004	31 December 2005	30 June 2005 (unaudited)	30 June 2006
	£m	£m	£m	£m	£m
Current					
Trade payables	0.1	0.1	1.5	0.4	0.3
Tax and social security	1.9	1.6	3.2	1.3	2.4
Accruals and deferred income	6.8	10.3	12.2	5.1	9.4
	<u>8.8</u>	<u>12.0</u>	<u>16.9</u>	<u>6.8</u>	<u>12.1</u>
	31 December 2003	31 December 2004	31 December 2005	30 June 2005 (unaudited)	30 June 2006
	£m	£m	£m	£m	£m
Non-current					
Accruals and deferred income	0.5	0.4	0.3	0.3	0.2
Share acquisition liability (note 21)	2.3	3.7	6.5	4.7	13.0
	<u>2.8</u>	<u>4.1</u>	<u>6.8</u>	<u>5.0</u>	<u>13.2</u>

16. Interest bearing loans and borrowings

	31 December 2003	31 December 2004	31 December 2005	30 June 2005 (unaudited)	30 June 2006
	£m	£m	£m	£m	£m
Current					
Redeemable loan notes	–	1.9	3.5	3.5	2.6
	<u>–</u>	<u>1.9</u>	<u>3.5</u>	<u>3.5</u>	<u>2.6</u>
Non-current					
Redeemable loan notes	7.7	5.8	2.5	2.4	–
	<u>7.7</u>	<u>5.8</u>	<u>2.5</u>	<u>2.4</u>	<u>–</u>

Hawkpoint Holdings Limited issued 8m units of fixed rate secured cumulative redeemable loan notes of £1 each on 11 July 2003.

The fixed rate on the Loan Notes is 6 per cent. per annum. Under an agreement with the Loan Note holders, Hawkpoint Holdings Limited must redeem an amount of loan notes equivalent to a percentage of operating profit each year, subject to an annual maximum of £4,000,000.

Unless fully redeemed, the remainder of the Loan Notes will be redeemed at par on 11 July 2010.

The Loan Notes will immediately become repayable and Hawkpoint Holdings Limited must redeem the Loan Notes at par if certain conditions are not met. The Loan Notes are secured by a fixed and floating charge over the assets of the Hawkpoint Group.

17. Financial instruments

Analysis of net funds

The Hawkpoint Group's financial instruments comprise borrowings, obligations under finance leases, cash and various items such as trade debtors and creditors that arise directly from its operating activities. The main purpose of these financial instruments is to raise finance for the Hawkpoint Group's operations. The main risk associated with these financial instruments is the interest rate risk.

17. Financial instruments (continued)

Interest rate risk

The Hawkpoint Group does not hedge interest rate risk.

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they repay

	<i>Effective interest rate</i>	<i>6 months Total £m</i>	<i>6 months or less £m</i>	<i>6-12 months £m</i>	<i>1-2 years £m</i>	<i>2-5 years £m</i>	<i>> 5 years £m</i>
<i>31 December 2003</i>							
Cash and cash equivalents	3.8%	9.9	9.9	–	–	–	–
Redeemable loan notes	6.0%	(7.7)	–	–	–	–	(7.7)
Deferred consideration	4.0%	(3.7)	–	(1.9)	(1.8)	–	–
		<u>(1.5)</u>	<u>9.9</u>	<u>(1.9)</u>	<u>(1.8)</u>	<u>–</u>	<u>(7.7)</u>
<i>31 December 2004</i>							
Cash and cash equivalents	4.0%	19.2	19.2	–	–	–	–
Redeemable loan notes	6.0%	(7.7)	(1.9)	–	–	–	(5.8)
Deferred consideration	4.0%	(1.9)	–	(1.9)	–	–	–
		<u>9.6</u>	<u>17.3</u>	<u>(1.9)</u>	<u>–</u>	<u>–</u>	<u>(5.8)</u>
<i>30 June 2005 (unaudited)</i>							
Cash and cash equivalents	4.2%	11.2	11.2	–	–	–	–
Redeemable loan notes	6.0%	(5.9)	–	(3.5)	–	(2.4)	–
		<u>5.3</u>	<u>11.2</u>	<u>(3.5)</u>	<u>–</u>	<u>(2.4)</u>	<u>–</u>
<i>31 December 2005</i>							
Cash and cash equivalents	4.4%	28.5	28.5	–	–	–	–
Redeemable loan notes	6.0%	(6.0)	(3.5)	–	–	(2.5)	–
		<u>22.5</u>	<u>25.0</u>	<u>–</u>	<u>–</u>	<u>(2.5)</u>	<u>–</u>
<i>30 June 2006</i>							
Cash and cash equivalents	4.5%	20.9	20.9	–	–	–	–
Redeemable loan notes	6.0%	(2.6)	–	(2.6)	–	–	–
		<u>18.3</u>	<u>20.9</u>	<u>(2.6)</u>	<u>–</u>	<u>–</u>	<u>–</u>

The Hawkpoint Group's cash assets attract variable interest rates. At 31 December 2005 and 30 June 2006 £0.5m of the Hawkpoint Group's cash balance was ring fenced for use by the Employee Benefit Trust. Cash and cash equivalents comprise entirely of cash at each of the period ends.

At 31 December 2005, the Hawkpoint Group had available £0.5m undrawn overdraft facilities (2004: £3.5m, 2003 £3.5m).

The deferred consideration is in respect of the acquisition of the business (Hawkpoint Partners Limited and Hydra Associates Limited). This has been discounted from the anticipated settlement date at a discount rate of 4 per cent. The amortisation of this discount is recognised in interest expense.

Credit risk

The Hawkpoint Group's principal financial assets are bank balances and cash, trade and other receivables and investments, which represent the Hawkpoint Group's maximum exposure to credit risk in relation to financial assets.

The Hawkpoint Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Hawkpoint Group's management based on prior experience and their assessment of the current economic environment.

17. Financial instruments (continued)

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The Hawkpoint Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Market Risk

Adverse economic, equity or debt market conditions can have a negative effect upon corporate finance deal flows, can extend transaction origination and execution timetables and can create greater uncertainty of outcome than in more favourable conditions. Hawkpoint's revenues can be affected in such circumstances. It is also the case, however, that such conditions create other types of corporate finance, restructuring or debt advisory mandate opportunities, for which Hawkpoint is reasonably well positioned.

Liquidity Risk

The assets of the Hawkpoint Group are highly liquid and therefore the Hawkpoint Group is not significantly exposed to liquidity risk.

Foreign Currency Risk

The Hawkpoint Group is not significantly exposed to currency risk. The Hawkpoint Group does not hedge foreign currency risk.

Sensitivity analysis

It is estimated that a general increase of one percentage point in interest rates would increase the Hawkpoint Group's profit before tax by approximately £0.1 million for the 6 months ended 30 June 2006, £0.2 million for the year ended 31 December 2005, £0.1 million for the 6 months ended 30 June 2005, £0.1 million for the year ended 31 December 2004 and £0.1 million for the year ended 31 December 2003.

Fair Values

The carrying amount of financial assets and liabilities equate to their fair values for all reported periods.

Estimation of fair values

- Cash and cash equivalents carrying value approximate to fair value because of the short maturity of the instruments.
- The fair value of debt is calculated based on discounted future cash flows, based on the rate the Hawkpoint Group could reasonably expect to borrow at.
- Trade and other receivables/payables with a remaining life of less than one year carrying amount is deemed to reflect the fair value.

18. Provisions

	31 December 2003	31 December 2004	31 December 2005	30 June 2005 (unaudited)	30 June 2006
	£m	£m	£m	£m	£m
<i>Employee remuneration provisions</i>					
At 1 January	–	–	0.4	0.4	0.6
Additional provision in the period	–	0.4	0.2	0.1	–
Utilisation	–	–	–	–	(0.6)
At 31 December	–	0.4	0.6	0.5	–

The Hawkpoint Group had a potential liability in respect of employee remuneration costs for which the maximum exposure was £0.6m as at 31 December 2005. The amount of this liability was dependent on the outcome of negotiations surrounding their settlement. A provision of £0.2m was made during 2005 (2004: £0.4m) and therefore the expense was fully provided for. This was settled in full in March 2006.

19. Share Capital

	31 December 2003	31 December 2004	31 December 2005	30 June 2005 (unaudited)	30 June 2006
	No.	No.	No.	No.	No.
Equity Shares					
Authorised					
‘A’ ordinary shares of £1 each	99,999	99,999	99,999	99,999	99,999
‘C’ ordinary shares of £1 each	600,000	600,000	600,000	600,000	600,000
‘D’ ordinary shares of £1 each	200,000	200,000	200,000	200,000	200,000
Allotted, issued and fully paid					
‘A’ ordinary shares of £1 each	50,001	50,001	50,001	50,001	50,001
‘C’ ordinary shares of £1 each	534,511	539,501	539,501	539,501	539,501
‘D’ ordinary shares of £1 each	97,358	97,358	97,358	97,358	97,358
	31 December 2003	31 December 2004	31 December 2005	30 June 2005 (unaudited)	30 June 2006
	£’000	£’000	£’000	£’000	£’000
Authorised					
‘A’ ordinary shares of £1 each	100	100	100	100	100
‘C’ ordinary shares of £1 each	600	600	600	600	600
‘D’ ordinary shares of £1 each	200	200	200	200	200
	900	900	900	900	900
Allotted, issued and fully paid					
‘A’ ordinary shares of £1 each	50	50	50	50	50
‘C’ ordinary shares of £1 each	535	540	540	540	540
‘D’ ordinary shares of £1 each	97	97	97	97	97
	682	687	687	687	687

During 2003 17,875 C ordinary shares (“COS”) were redeemed at a price of £4.00 each, and 97,358 D ordinary shares were issued for £2,000,000 leading to a share premium of £1.9m less costs of £0.3m. During 2004 4,990 C ordinary shares were issued at a price of £6.70 each leading to a share premium of £28,000.

19. Share Capital (continued)

	31 December 2003	31 December 2004	31 December 2005	30 June 2005 (unaudited)	30 June 2006
Non equity shares	<i>No.</i>	<i>No.</i>	<i>No.</i>	<i>No.</i>	<i>No.</i>
Authorised					
'B' ordinary shares of £1 each	1	1	1	1	1
Redeemable 'A' shares of £0.40 each	105,000	105,000	105,000	105,000	105,000
Share capital allotted, called up and fully paid					
'B' ordinary shares of £1 each	1	1	1	1	1
Redeemable 'A' shares of £0.40 each	44,584	54,199	54,150	54,199	47,864
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Authorised					
'B' ordinary shares of £1 each	–	–	–	–	–
Redeemable 'A' shares of £0.40 each	42	42	42	42	42
	<u>42</u>	<u>42</u>	<u>42</u>	<u>42</u>	<u>42</u>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Share capital allotted, called up and fully paid					
'B' ordinary shares of £1 each	–	–	–	–	–
Redeemable 'A' shares of £0.40 each	18	22	22	22	19
	<u>18</u>	<u>22</u>	<u>22</u>	<u>22</u>	<u>19</u>

During 2003, 2,010 Redeemable A shares ("RAS") were redeemed at a price of 40p each.

During 2004 15,166 Redeemable A shares were redeemed at a price of 60p each, 2,610 Redeemable A shares were redeemed at a price of 50p each and 2,941 Redeemable A shares were redeemed at a total price of 50p. During 2005 49 Redeemable A shares were redeemed at a price of £1.00 each. During the period to 30 June 2006 6,188 Redeemable A Shares were redeemed for 40p, 37 Redeemable A Shares were redeemed for £2.70 and 61 Redeemable A Shares were redeemed for £1.35.

Only the 'B' Ordinary Share ("BOS") carries the right to vote at general meetings. Upon and following an event, voting rights will accrue to the holders of COS and RAS.

The holders of 'A' Ordinary Shares ("AOS"), COS and 'D' Ordinary Shares ("DOS") are entitled to receive dividends resolved to be distributed. The DOS are entitled to a dividend each financial year that is determined based upon the profit after tax of Hawkpoint Holdings Limited and after any amount redeemed on the Loan Notes (see note 17).

Neither the BOS nor the RAS carry dividend rights. Upon and following an event only the holders of COS and RAS will be entitled to receive dividends.

Hawkpoint Holdings Limited may redeem RAS at any time at cost.

19. Share Capital (continued)

The priorities on returning capital sums to shareholders are: first to the DOS; second the AOS and COS; third the BOS; fourth the RAS; fifth the surplus will be distributed amongst the AOS, COS and DOS.

The consideration upon a sale or flotation of Hawkpoint Holdings Limited, after repayment of the loan notes, will be paid as follows:

- £10 million of the consideration will be paid to the RAS and COS *pro rata*;
- £50,001 will be used to redeem AOS and BOS. If a redemption cannot be performed due to a lack of any distributable reserves, the purchaser can agree to purchase the AOS and BOS; and
- the remaining value will be allocated *pro rata* across the RAS and COS.

Immediately prior to a sale or flotation of Hawkpoint Holdings Limited occurring each DOS shall automatically be converted into one COS.

20. Employee benefit trust

The Hawkpoint Group has investments in its own shares as a result of shares purchased by the employee benefit trust. The cost of these shares is deducted against retained earnings. The holdings of the trust were as follows:

Number of shares held by the trust

	<i>31 December 2003</i>	<i>31 December 2004</i>	<i>31 December 2005</i>	<i>30 June 2005 (unaudited)</i>	<i>30 June 2006</i>
	<i>No.</i>	<i>No.</i>	<i>No.</i>	<i>No.</i>	<i>No.</i>
'A' ordinary shares of £1 each	50,001	50,001	50,001	50,001	50,001
Redeemable 'A' ordinary shares of £0.40 each	3,174	4,062	9,362	9,362	3,174
'C' ordinary shares of £1 each	–	33,011	20,469	46,780	37,079
Nominal value	£51,271	£84,637	£74,215	£100,526	£88,350
	<i>31 December 2003</i>	<i>31 December 2004</i>	<i>31 December 2005</i>	<i>30 June 2005 (unaudited)</i>	<i>30 June 2006</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Cost of own shares held	0.1	0.2	0.2	0.4	0.5
Market value of own shares held	0.1	0.9	0.9	1.3	2.7

21. Share-based payments

As part of the Hawkpoint Group's policy to align employees' interests with those of shareholders a significant number of employees have been given the opportunity to subscribe for or acquire shareholdings in Hawkpoint Holdings Limited since February 2002. Conversely when an employee shareholder has left the Hawkpoint Group, Hawkpoint Holdings Limited has as a matter of practice to date exercised an authority under the Articles of Association to acquire the shares back. Acquisition and disposal prices have been based on market valuations at that time which have been determined in accordance with the Articles.

As a result of this practice IFRS 2 "Share based payments" requires the Hawkpoint Group to make a provision against the cost of buying back all employee shareholdings based on the market value at each Balance Sheet date. As a consequence of this the Hawkpoint Group has recorded the following liability within non-current liabilities and the following charge within administration expenses within the Income Statement.

21. Share-based payments (continued)

	Year to			Six months to	
	31 December 2003	31 December 2004	31 December 2005	30 June 2005 (unaudited)	30 June 2006
	£m	£m	£m	£m	£m
Non current liability	2.3	3.7	6.5	4.7	13.0
Administration expense	0.2	1.5	2.3	1.0	6.5

No parties had any right to cash at any period end.

The Hawkpoint Group recognises the potential liability over the estimated service life of the employees. This was assumed to be an average period of 8 to 13 years.

Method of Valuation

The valuation was performed at specific points in time by an external professional valuation firm. This was based on a capitalised earnings approach.

	31 December 2003	31 December 2004	31 December 2005	30 June 2005 (unaudited)	30 June 2006
Shares held by employees					
– Redeemable A Shares (number)	41,410	50,131	44,788	44,837	44,690
– C Ordinary Shares (number)	529,136	506,490	519,032	492,721	502,422
Shares acquired by employees in period					
– Redeemable A Shares (number)	–	15,166	–	–	–
– Redeemable A Shares (weighted average fair value – £)	–	60p	–	–	–
– C Ordinary Shares (number)	10	45,229	74,792	47,981	9,000
– C Ordinary Shares (weighted average fair value – £)	£6.70	£6.79	£12.67	£8.30	£33.00

Share options

During the period under review, the Hawkpoint Group had two Option Schemes that entitle the holder to purchase shares in Hawkpoint Holdings Limited.

The fair values of options granted since 7 November 2002 and not vested by 1 January 2005 is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become entitled to the options. The terms and conditions of the grants are as follows, whereby all options are settled by physical delivery of shares:

Date of grant	Number of shares	Exercise price	Exercise dates	Contractual life
2004 share option plan				
25/03/2004	6,100	£6.70	25/3/2007 to 25/3/2009	3 to 5 years
14/12/2004	1,578	£8.30	14/12/2007 to 14/12/2009	3 to 5 years
2005 share option plan				
14/12/2005	3,073	£33.00	14/12/2008 to 14/12/2010	3 to 5 years

Share options were granted at market value at the date of grant.

21. Share-based payments (continued)

The number and weighted average exercise price of share options is as follows:

	<i>Year ended 31 December 2003</i>	<i>Year ended 31 December 2003</i>	<i>Year ended 31 December 2004</i>	<i>Year ended 31 December 2004</i>	<i>Year ended 31 December 2005</i>	<i>Year ended 31 December 2005</i>
	<i>Weighted average exercise price</i>	<i>Number of options</i>	<i>Weighted average exercise price</i>	<i>Number of options</i>	<i>Weighted average exercise price</i>	<i>Number of options</i>
Outstanding at the beginning of period	–	–	£0.00	–	£6.97	12,117
Forfeited during the year			£(6.70)	(2,000)	£(6.70)	(2,000)
Granted during the year			£6.93	14,117	£33.00	3,512
Outstanding at the end of the period	–	–	£6.97	12,117	£13.71	13,629
		<i>Six months ended 30 June 2005 (unaudited)</i>	<i>Six months ended 30 June 2005 (unaudited)</i>	<i>Six months ended 30 June 2006</i>	<i>Six months ended 30 June 2006</i>	
		<i>Weighted average exercise price</i>	<i>(unaudited) Number of options</i>	<i>Weighted average exercise price</i>	<i>Number of options</i>	
Outstanding at the beginning of period		£6.97	12,117	£13.71	13,629	
Forfeited during the period		£(6.70)	(1,000)	£(10.96)	(2,878)	
Outstanding at the end of the period		£6.99	11,117	£14.45	10,751	

22. Analysis of net funds

	<i>At 1 January 2003 £m</i>	<i>Cash flow £m</i>	<i>Non-cash items £m</i>	<i>At 31 December 2003 £m</i>
Cash and cash equivalents	5.9	4.0	–	9.9
	5.9	4.0	–	9.9
Loans due within one year	(5.2)	5.3	(2.0)	(1.9)
Loans due after one year	(5.0)	1.4	1.8	(1.8)
After five years	–	(7.7)	–	(7.7)
Total net funds	(4.3)	3.0	(0.2)	(1.5)

22. Analysis of net funds (continued)

	<i>At</i> <i>1 January</i> <i>2004</i> <i>£m</i>	<i>Cash</i> <i>flow</i> <i>£m</i>	<i>Non-cash</i> <i>items</i> <i>£m</i>	<i>At</i> <i>31 December</i> <i>2005</i> <i>£m</i>
Cash and cash equivalents	9.9	9.3	–	19.2
	<u>9.9</u>	<u>9.3</u>	<u>–</u>	<u>19.2</u>
Loans due within one year	(1.9)	1.9	(3.8)	(3.8)
Loans due after one year	(1.8)	–	1.8	–
After five years	(7.7)	–	1.9	(5.8)
Total net funds	<u>(1.5)</u>	<u>11.2</u>	<u>(0.1)</u>	<u>9.6</u>
	<u>19.2</u>	<u>9.3</u>	<u>–</u>	<u>28.5</u>
Loans due within one year	(3.8)	3.8	(3.5)	(3.5)
Loans due after one year	–	–	(2.5)	(2.5)
After five years	(5.8)	–	5.8	–
Total net funds	<u>9.6</u>	<u>13.1</u>	<u>(0.2)</u>	<u>22.5</u>
	<u>19.2</u>	<u>(8.0)</u>	<u>–</u>	<u>11.2</u>
Loans due within one year	(3.8)	3.8	(3.5)	(3.5)
Loans due after one year	–	–	–	–
After five years	(5.8)	–	3.4	(2.4)
Total net funds	<u>9.6</u>	<u>(4.2)</u>	<u>(0.1)</u>	<u>5.3</u>
	<u>28.5</u>	<u>(7.6)</u>	<u>–</u>	<u>20.9</u>
Loans due within one year	(3.5)	3.6	(2.7)	(2.6)
Loans due after one year	(2.5)	–	2.5	–
After five years	–	–	–	–
Total net funds	<u>22.5</u>	<u>(4.0)</u>	<u>(0.2)</u>	<u>18.3</u>

23. Operating Lease commitments

	<i>Year to</i>			<i>Six months to</i>	
	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>	<i>30 June</i>	<i>30 June</i>
	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2005</i>	<i>2006</i>
				<i>(unaudited)</i>	
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Minimum lease payments under operating leases recognised in income for the year	<u>2.4</u>	<u>2.3</u>	<u>2.3</u>	<u>1.1</u>	<u>1.2</u>

The Hawkpoint Group had outstanding commitments for future minimum lease payments under non-cancellable leases, all of which related to buildings, as follows:

	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>	<i>30 June</i>	<i>30 June</i>
	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2005</i>	<i>2006</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
				<i>(unaudited)</i>	
– Within one year	2.4	2.3	2.3	2.3	2.3
– Within two to five years	9.2	7.5	5.2	2.9	2.6
– Over five years	0.6	–	–	–	–
	<u>12.2</u>	<u>9.8</u>	<u>7.5</u>	<u>5.2</u>	<u>4.9</u>

Operating lease payments represent rentals payable by the Hawkpoint Group for certain of its office properties and office fit out.

24. Related party transactions

Key management as defined by IFRS are deemed to be the Board of Directors of Hawkpoint and the Hawkpoint Group Executive Management Committee. Transactions are as follows:

	<i>Year to</i>			<i>Six months to</i>	
	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>	<i>30 June</i>	<i>30 June</i>
	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2005</i>	<i>2006</i>
				<i>(unaudited)</i>	
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Short-term benefits	<u>2.9</u>	<u>4.8</u>	<u>4.5</u>	<u>0.8</u>	<u>0.7</u>
Share based payments	<u>0.1</u>	<u>0.7</u>	<u>1.2</u>	<u>0.5</u>	<u>3.4</u>
Amounts owed by key management	<u>–</u>	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>

The loans to key management bore interest at a 6 per cent. effective rate. The directors believe that these loans are transacted on an arm's length basis.

25. Principal subsidiary undertakings

At 31 December 2003, 2004 and 2005, the following companies were the Group's trading subsidiary.

<i>Subsidiary undertakings</i>	<i>Principal activities</i>	<i>% of equity and votes held</i>
Hawkpoint Partners Limited	Corporate finance advice	100
Hydra Associates Limited	Dormant	100
Damascus II Offshore trust	Employee benefit trust	100
Damascus II Onshore trust	Dormant	100

The investment in Hawkpoint 2 Associates Limited was written off in 2003. That company is no longer trading. Damascus II Offshore trust was registered in Jersey. All other companies were registered in England and Wales. All subsidiaries have the same year end as Hawkpoint Holdings Limited and they have all been included in the Hawkpoint Group consolidation.

26. First-time adoption of International Financial Reporting and Accounting Standards

Following the Hawkpoint Group's adoption of IFRS, the 2003 comparative financial information in these accounts has been restated and represented under IFRS. The date of transition to Adopted IFRSs was 1 January 2003.

The reconciliations below highlight the key impacts on both the profit attributable to equity shareholders and on total equity.

Reconciliation of profit attributable to equity shareholders from UK GAAP to Adopted IFRSs

		<i>Year ended 31 December 2003 £m</i>	<i>Year ended 31 December 2004 £m</i>	<i>Year ended 31 December 2005 £m</i>
Profit/(loss) attributable to equity shareholders in accordance with UK GAAP		(2.2)	3.1	5.0
IFRS 2 (Share based payments)	(a)	(0.2)	(1.5)	(2.3)
IAS 12 (Taxation)	(b)	0.1	(0.1)	–
IAS 17 (Leases)	(c)	0.1	0.1	0.1
IAS 19 (Employee benefits)	(d)	–	(0.1)	–
IAS 38 (Intangible assets)	(f)	0.4	0.4	0.4
Profit/(loss) attributable to equity shareholders in accordance with Adopted IFRSs		<u>(1.8)</u>	<u>1.9</u>	<u>3.2</u>

Reconciliation of total equity from UK GAAP to Adopted IFRSs

		<i>31 December 2002 £m</i>	<i>31 December 2003 £m</i>	<i>31 December 2004 £m</i>	<i>31 December 2005 £m</i>
Total equity in accordance with UK GAAP		5.4	2.8	5.9	10.6
IFRS 2 (Share based payments)	(a)	(2.2)	(2.3)	(3.7)	(6.5)
IAS 12 (Taxation)	(b)	0.3	0.4	0.3	0.3
IAS 17 (Leases)	(c)	(0.7)	(0.6)	(0.5)	(0.4)
IAS 19 (Employee benefits)	(d)	(0.1)	(0.1)	(0.2)	(0.2)
IAS 32 (Financial instruments)	(e)	(2.0)	–	–	–
IAS 38 (Intangible assets)	(f)	–	0.4	0.8	1.2
IAS27 (Consolidation of employee benefit trust)	(g)	–	–	–	0.5
Total equity in accordance with Adopted IFRSs)		<u>0.7</u>	<u>0.6</u>	<u>2.6</u>	<u>5.5</u>

26. First-time adoption of International Financial Reporting and Accounting Standards (continued)

The principal IFRS adjustments were as follows:

(a) *IFRS 2 Share based payments*

The Hawkpoint Group applied IFRS 2 “Share based payments” to cash settled equity transactions and share transactions. Under IFRS the Hawkpoint Group must provide for future payments which may be made in acquiring shares from employees leaving the Hawkpoint Group’s employment because they have as a matter of practice in the past done so. The fair value of the rights is measured based on a valuation model, taking into account the terms and conditions upon which the instruments were granted. The liability is re-measured at each balance sheet date and at settlement date and any changes in fair value recognised in profit or loss spread equally over the vesting period.

Under previous UK GAAP provision was not made for the acquisition of these shares because the Hawkpoint Group did not have an obligation to purchase them.

(b) *IAS 12 Income Taxes*

IAS 12 (Income taxes) requires deferred tax to be provided on all temporary differences rather than timing differences which are considered under UK GAAP. Included within this is the deferred tax impact of IAS 17 and IAS 19 which are discussed below.

(c) *IAS 17 Leases*

The Hawkpoint Group and Hawkpoint Holdings Limited applied IAS 17 to lease incentives received from landlords.

Under IFRS lease incentives received and paid are apportioned over the length of the lease. Under UK GAAP, the lease incentives had been apportioned over the period to the first rent review.

(d) *IAS 19 Employee Benefits*

Under UK GAAP, in line with common practice, the Hawkpoint Group and Hawkpoint Holdings Limited did not account for holiday accruals unless legally obliged to make cash settlement. IAS 19 explicitly requires appropriate provision to be made for the cost of holiday entitlements not taken at the balance sheet date.

(e) *IAS 32 Financial Instruments: Disclosure and Presentation*

Under UK GAAP the non-equity minority interest in relation to ‘A’ non-cumulative redeemable preference shares issued by the subsidiary Hawkpoint were shown within Minority Interests. Under IFRSs the shares are treated as debt and disclosed within non current liabilities. Dividends paid on these instruments is shown within financial expenses within the income statement under IFRSs.

(f) *Intangible Assets*

Under UK GAAP, goodwill was amortised over a period not exceeding 15 years. Adoption of IFRS has resulted in the Hawkpoint Group ceasing annual goodwill amortisation and testing only for impairment annually at the cash-generating unit level.

(g) *Other*

Under the IFRSs the Hawkpoint Group is consolidating the Employee Benefit trusts. The trusts purchases of shares in Hawkpoint Holdings Limited are debited directly to equity and subsequent profits or losses recorded when the shares are sold to employees are recognised directly in equity. Both are recorded within retained earnings.

The classifications of current and non-current “interest-bearing loans and borrowings” includes: loan notes previously classified within “Creditors: amounts falling due within one year” and “Creditors: amounts falling due after more than one year” respectively.

(h) *Cash flow statement*

The material adjustments to the cash flow statement are principally presentational with cash flows now classified under the three main categories of operating activities, investing activities and financing activities. Additionally, the definition of cash and cash equivalents is wider with liquid resources now being included in both the opening and closing balances and the cash flows.

PART 7: PRO FORMA FINANCIAL INFORMATION

Deloitte.

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The Board of Directors
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25 Bank Street
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31 October 2006

Dear Sirs,

Collins Stewart Tullett plc (the “Company”)

We report on the pro forma financial information (the “Pro forma financial information”) set out in Part 7 of the circular dated 31 October 2006 (the “Circular”), which has been prepared on the basis described in Part 7, for illustrative purposes only, to provide information about how the proposed transactions, namely the demerger contemplated in Section 1 below and the acquisition in Section 2 below, might have affected the financial information presented on the basis of the accounting policies adopted by the Company in preparing the financial statements for the six months ended 30 June 2006 and year ended 31 December 2005. This report is required by Annex II item 7 in Appendix 3 to the Prospectus Rules as applied by Listing Rule 13.5.31R and is given for the purpose of complying with that requirement and for no other purpose.

Responsibilities

It is the responsibility of the directors of the Company (the “Directors”) to prepare the Pro forma financial information in accordance with Annex I item 20.2 and Annex II items 1 to 6 in Appendix 3 to the Prospectus Rules.

It is our responsibility to form an opinion, as required by Annex II item 7 in Appendix 3 to the Prospectus Rules, as to the proper compilation of the Pro forma financial information and to report that opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro forma financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro forma financial information with the Directors.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro forma financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in jurisdictions outside the United Kingdom, including the United States of America, and accordingly should not be relied upon as if it had been carried out in accordance with those standards or practices.

Opinion

In our opinion:

- (a) the Pro forma financial information has been properly compiled on the basis stated; and
- (b) such basis is consistent with the accounting policies of the Company.

Yours faithfully

Deloitte & Touche LLP
Chartered Accountants

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1. Pro forma financial information in relation to Collins Stewart Tullett plc

PRO FORMA INCOME STATEMENT

The unaudited consolidated pro forma income statement set out below has been prepared for illustrative purposes only and in accordance with Annex II of the Prospectus Directive Regulation and on the basis of the notes set out below. The unaudited pro forma income statement has been prepared to illustrate the effect on the income statement of Collins Stewart Tullett plc of the Demerger of Collins Stewart as if it had taken place on the 1 January 2005. Due to its nature, the unaudited consolidated pro forma income statement addresses a hypothetical situation and, therefore, does not represent the Company's actual financial position or results following the Demerger.

The unaudited consolidated pro forma income statement is compiled on the basis set out below from the consolidated income statement of Collins Stewart Tullett plc for the year ended 31 December 2005 as set out in the published Annual Report and Accounts of Collins Stewart Tullett plc for the year ended 31 December 2005. The income statement takes no account of any trading activity or other transactions since 31 December 2005.

	<i>Adjustments</i>		
	<i>Collins Stewart Tullett plc Note 1 £m</i>	<i>Demerger of Collins Stewart Note 2 £m</i>	<i>Pro forma Income Unaudited £m</i>
Revenue	798.1	(148.7)	649.4
Other operating income	23.9	–	23.9
Administrative expenses			
Exceptional items: Reorganisation costs	(38.3)	–	(38.3)
Other administrative expenses	(690.6)	105.7	(584.9)
Total administrative expenses	(728.9)	105.7	(623.2)
Operating profit	93.1	(43.0)	50.1
Finance income	24.9	(4.9)	20.0
Finance costs	(20.4)	1.3	(19.1)
Profit before tax	97.6	(46.6)	51.0
Taxation	(36.6)	11.4	(25.2)
Profit of consolidated companies	61.0	(35.2)	25.8
Share of results of associates	0.7	–	0.7
Profit for the year	61.7	(35.2)	26.5
Attributable to:			
Equity holders of the parent	61.0	(34.9)	26.1
Minority interests	0.7	(0.3)	0.4
	61.7	(35.2)	26.5

Notes

- The figures for Collins Stewart Tullett plc are extracted without material adjustment from the published Annual Report and Accounts of Collins Stewart Tullett plc for the year ended 31 December 2005, prepared under IFRS.
- The figures for Collins Stewart have been extracted, without material adjustment, from the Accountant's Report on the Collins Stewart Group as set out in Part 5 of this document.

The figures represent the business previously reported within Collins Stewart Tullett plc as the "Collins Stewart Stockbroking Business" and the domestic and international cash equities business based in New York including the business acquired from Burlington Capital Markets in January 2005. The domestic and international cash equities business based in New York was reported within the "Tullett Prebon IDB Business" by Collins Stewart Tullett plc and generated revenues of £27.0 million in 2005.

Share options

The income statement does not reflect the impact, if any, that might arise on the accelerated vesting and exercise of options on the Scheme and Demerger.

PRO FORMA STATEMENT OF NET ASSETS

The unaudited consolidated pro forma statement of net assets set out below has been prepared for illustrative purposes only and in accordance with Annex II of the Prospectus Directive Regulation and on the basis of the notes set out below. The unaudited pro forma statement of net assets has been prepared to illustrate the effect on the net assets of Collins Stewart Tullett plc of the Demerger of Collins Stewart and the Acquisition of Hawkpoint by Collins Stewart as if they had taken place on 30 June 2006. Due to its nature, the unaudited consolidated pro forma statement of net assets addresses a hypothetical situation and, therefore, does not represent the Company's actual financial position or results following the Demerger and Acquisition.

The unaudited consolidated pro forma statement of net assets is compiled on the basis set out below from the balance sheet of Collins Stewart Tullett plc at 30 June 2006. The pro forma statement of net assets takes no account of any trading activity or other transactions since 30 June 2006.

	<i>Demerger Adjustments</i>			<i>Acquisition Adjustments</i>		
	<i>Collins Stewart Tullett plc Note 1 £m</i>	<i>Demerger of Collins Stewart Note 2 £m</i>	<i>Other Unaudited Note 3 £m</i>	<i>Pro forma Net Assets Unaudited £m</i>	<i>Capital Contribution Note 4 £m</i>	<i>Pro forma Net Assets Unaudited £m</i>
Non current assets						
Goodwill	428.4	(31.2)	(85.4)	311.8	–	311.8
Intangible assets	2.9	(0.3)	–	2.6	–	2.6
Tangible assets	22.1	(1.9)	–	20.2	–	20.2
Investments	2.7	–	–	2.7	–	2.7
Other non current assets	43.0	(6.8)	–	36.2	–	36.2
	<u>499.1</u>	<u>(40.2)</u>	<u>(85.4)</u>	<u>373.5</u>	<u>–</u>	<u>373.5</u>
Current assets						
Trade and other receivables	79,883.4	(2,228.5)	0.9	77,655.8	–	77,655.8
Trading investments	71.5	(26.0)	–	45.5	–	45.5
Cash and cash equivalents	265.6	(84.1)	18.8	200.3	(30.0)	170.3
Derivative financial instruments	13.1	–	–	13.1	–	13.1
	<u>80,233.6</u>	<u>(2,338.6)</u>	<u>19.7</u>	<u>77,914.7</u>	<u>(30.0)</u>	<u>77,884.7</u>
Total assets	<u>80,732.7</u>	<u>(2,378.8)</u>	<u>(65.7)</u>	<u>78,288.2</u>	<u>(30.0)</u>	<u>78,258.2</u>
Current liabilities						
Trade and other payables	(79,862.6)	2,227.5	(10.9)	(77,646.0)	–	(77,646.0)
Other current liabilities	(79.5)	23.5	(1.5)	(57.5)	–	(57.5)
	<u>(79,942.1)</u>	<u>2,251.0</u>	<u>(12.4)</u>	<u>(77,703.5)</u>	<u>–</u>	<u>(77,703.5)</u>
Non current liabilities						
Interest bearing loans and borrowing	(152.1)	11.3	(11.3)	(152.1)	–	(152.1)
Other non current liabilities	(36.9)	–	–	(36.9)	–	(36.9)
	<u>(189.0)</u>	<u>11.3</u>	<u>(11.3)</u>	<u>(189.0)</u>	<u>–</u>	<u>(189.0)</u>
Total liabilities	<u>(80,131.1)</u>	<u>2,262.3</u>	<u>(23.7)</u>	<u>(77,892.5)</u>	<u>–</u>	<u>(77,892.5)</u>
Net assets	<u>601.6</u>	<u>(116.5)</u>	<u>(89.4)</u>	<u>395.7</u>	<u>(30.0)</u>	<u>365.7</u>
Minority interest	(2.4)	0.8	–	(1.6)	–	(1.6)
Net assets after minority interest	<u>599.2</u>	<u>(115.7)</u>	<u>(89.4)</u>	<u>394.1</u>	<u>(30.0)</u>	<u>364.1</u>

Notes

1. The figures for Collins Stewart Tullett plc are extracted without material adjustment from the published Interim Report and Accounts of Collins Stewart Tullett plc for the period ended 30 June 2006.
2. Other than as described in this note, the figures for Collins Stewart have been extracted, without material adjustment, from the Accountant's Report on the Collins Stewart Group set out in Part 5 of this document. The goodwill adjustment on Demerger of Collins Stewart of £31.2 million is based on the consolidated interim accounts of Collins Stewart Tullett plc at 30 June 2006. These accounts were prepared using an IFRS transition date of 1 January 2004. The goodwill figure of £31.2 million differs from the goodwill of £32.6 million presented in the Accountant's Report on the Collins Stewart Group in Part 5 of this document as the Collins Stewart Group figures were prepared using an IFRS transition date of 1 January 2003.
3. Other adjustments represent:
 - (a) Goodwill of £85.4 million in the consolidated accounts of Collins Stewart Tullett plc, which arose on the acquisition of Collins Stewart Europe Limited in 2000 (£84.1 million) and the Burlington Cash Equities business (£1.3 million), is written off on the Demerger of the Collins Stewart business. This represents the remaining net book value of goodwill and does not include the reinstatement of goodwill previously written off or amortised.
 - (b) Prior to the Demerger, Collins Stewart Group will repay in full, the outstanding inter-company balance owing to Collins Stewart Tullett plc. As at 30 June 2006 the net position was £10.0 million comprising inter-company debtors £0.9 million and inter-company creditors £10.9 million.
 - (c) Prior to the Demerger, Collins Stewart Group will repay in full, the subordinated loans from Collins Stewart Tullett plc. As at 30 June 2006, these amounted to £12.8 million of which £1.5 million was due within one year.
 - (d) The cash adjustment of £18.8 million represents the receipt of the settlement of the net intercompany balances of £10.0 million and subordinated loans of £12.8 million less Demerger transaction costs of £4.0 million.
4. Prior to the Demerger and subject to the material conditions relating to the Acquisition having been satisfied, Collins Stewart Tullett plc will make a capital contribution of up to £30 million to Collins Stewart Europe Limited. This is to provide regulatory capital to offset the impact of the goodwill arising on the Acquisition.

Capital Repayment

On 20 March 2006, it was announced that in order to deliver significant further value to shareholders, the Board had decided to demerge the Collins Stewart stockbroking business and to return at least £300 million excess capital to shareholders. The Board further stated that "The rules which will govern regulatory capital requirements from 1 January 2007 have not yet been finalised and will affect the timing and manner of the return." The pro forma as presented does not include any return of capital.

2. Pro forma financial information in relation to Collins Stewart

PRO FORMA INCOME STATEMENT

The unaudited consolidated pro forma income statement set out below has been prepared for illustrative purposes only and in accordance with Annex II of the Prospectus Directive Regulation and on the basis of the notes set out below. The unaudited pro forma income statement has been prepared to illustrate the effect on the income statement of the Collins Stewart Group of the Acquisition of Hawkpoint as if it had taken place on the 1 January 2005. Due to its nature, the unaudited consolidated pro forma income statement addresses a hypothetical situation and, therefore, does not represent the Collins Stewart Group's actual financial position or results following the Acquisition.

The unaudited consolidated pro forma income statement is compiled on the basis set out below from the consolidated income statement of the Collins Stewart Group for the year ended 31 December 2005 as set out in Part 5 of this document. The income statement takes no account of any trading activity or other transactions since 31 December 2005.

	<i>Collins Stewart</i>	<i>Adjustments</i>	<i>Pro forma</i>
	<i>Note 1</i>	<i>Acquisition</i>	<i>Income</i>
	<i>£m</i>	<i>of Hawkpoint</i>	<i>Unaudited</i>
	<i>£m</i>	<i>Note 2</i>	<i>£m</i>
Revenue	148.7	36.3	185.0
Administrative expenses	(105.7)	(30.8)	(136.5)
Operating profit	43.0	5.5	48.5
Finance income	4.9	0.7	5.6
Finance costs	(1.3)	(0.5)	(1.8)
Profit before tax	46.6	5.7	52.3
Taxation	(11.4)	(2.5)	(13.9)
Profit for the year	35.2	3.2	38.4
Attributable to:			
Equity holders of the parent	34.9	3.2	38.1
Minority interests	0.3	–	0.3
	35.2	3.2	38.4

Notes

1. The figures for Collins Stewart have been extracted, without material adjustment, from the Accountant's Report on the Collins Stewart Group as set out in Part 5 of this document.
2. The figures for Hawkpoint have been extracted, without material adjustment, from the Accountant's Report on the Hawkpoint Group as set out in Part 6 of this document.

PRO FORMA STATEMENT OF NET ASSETS

The unaudited consolidated pro forma statement of net assets set out below has been prepared for illustrative purposes only and in accordance with Annex II of the Prospectus Directive Regulation and on the basis of the notes set out below. The unaudited pro forma statement of net assets has been prepared to illustrate the effect on the net assets of the Collins Stewart Group of the Acquisition of Hawkpoint as if it had taken place on 30 June 2006. Due to its nature, the unaudited consolidated pro forma statement of net assets addresses a hypothetical situation and, therefore, does not represent the Collins Stewart Group's actual financial position or results following the Acquisition.

The unaudited consolidated pro forma statement of net assets is compiled on the basis set out below from the balance sheet of the Collins Stewart Group at 30 June 2006. The pro forma statement of net assets takes no account of any trading activity or other transactions since 30 June 2006.

	<i>Adjustments</i>			<i>Pro forma Net Assets Unaudited £m</i>
	<i>Collins Stewart Note 1 £m</i>	<i>Acquisition of Hawkpoint Note 2 £m</i>	<i>Other Note 3 Unaudited £m</i>	
Non current assets				
Goodwill	31.2	4.8	133.3	169.3
Intangible assets	0.3	–	–	0.3
Tangible assets	1.9	0.2	–	2.1
Investments	1.7	–	–	1.7
Other non current assets	5.1	0.3	–	5.4
	<u>40.2</u>	<u>5.3</u>	<u>133.3</u>	<u>178.8</u>
Current assets				
Trade and other receivables	2,228.5	8.0	–	2,236.5
Trading investments	26.0	–	–	26.0
Cash and cash equivalents	84.1	20.9	(14.6)	90.4
Derivative financial instruments	–	–	–	–
	<u>2,338.6</u>	<u>28.9</u>	<u>(14.6)</u>	<u>2,352.9</u>
Total assets	<u>2,378.8</u>	<u>34.2</u>	<u>118.7</u>	<u>2,531.7</u>
Current liabilities				
Trade and other payables	(2,227.5)	(12.1)	–	(2,239.6)
Other current liabilities	(23.5)	(5.0)	2.6	(25.9)
	<u>(2,251.0)</u>	<u>(17.1)</u>	<u>2.6</u>	<u>(2,265.5)</u>
Non current liabilities				
Interest bearing loans and borrowing	(11.3)	–	–	(11.3)
Other non current liabilities	–	(13.2)	–	(13.2)
	<u>(11.3)</u>	<u>(13.2)</u>	<u>–</u>	<u>(24.5)</u>
Total liabilities	<u>(2,262.3)</u>	<u>(30.3)</u>	<u>2.6</u>	<u>2,290.0</u>
Net assets	<u>116.5</u>	<u>3.9</u>	<u>121.3</u>	<u>241.7</u>
Minority interest	(0.8)	–	–	(0.8)
Net assets after minority interest	<u>115.7</u>	<u>3.9</u>	<u>121.3</u>	<u>240.9</u>

Notes

- Other than as described in this note, the figures for Collins Stewart have been extracted, without material adjustment, from the Accountant's Report on the Collins Stewart Group set out in Part 5 of this document. The goodwill adjustment on Demerger of Collins Stewart of £31.2 million is based on the consolidated interim accounts of Collins Stewart Tullett plc at 30 June 2006. These accounts were prepared using an IFRS transition date of 1 January 2004. The goodwill figure of £31.2 million differs from the goodwill of £32.6 million presented in the Accountant's Report on the Collins Stewart Group in Part 5 of this document as the Collins Stewart Group figures were prepared using an IFRS transition date of 1 January 2003.

2. The figures for Hawkpoint have been extracted, without material adjustment, from the Accountant's Report on the Hawkpoint Group set out in Part 6 of this document.
3. Other adjustments represent the following:
 - (a) The consideration used to calculate goodwill comprises cash payable on completion of £40 million and a notional value for the equity issuable which has been estimated by taking the closing price for a Collins Stewart Tullett Share on 27 October 2006, being the latest practicable date before the publication of this document. The share price was then apportioned notionally between Collins Stewart and Tullett Prebon on the basis of the 2006 first half earnings used in the calculation of earnings per share, contributed by the respective business. No adjustment has been made in respect of surplus cash which will be paid to Hawkpoint Shareholders after the year end.
 - (b) The Acquisition will be part funded by cash consideration of £40 million. Prior the Demerger and subject to the material conditions relating to the Acquisition having first been satisfied, Collins Stewart Tullett plc will make a capital contribution of up to £30 million to Collins Stewart Europe Limited. This is to provide regulatory capital to offset the impact of the goodwill arising on the Acquisition.
 - (c) The estimated costs of the Acquisition are £2.0 million.
 - (d) Hawkpoint's borrowings of £2.6 million will be discharged upon Completion.
 - (e) No adjustment has been made to take account of fair values on Acquisition. In particular, the provision for share based payment charges of £13 million (which will not be required post Completion, and release of which will give rise to an increase in Hawkpoint's net assets) has not been released.
4. Collins Stewart Tullett Share on 27 October 2006, being the latest practicable date before the publication of this document. The share price was then apportioned notionally between Collins Stewart and Tullett Prebon on the basis of the 2006 first half earnings contributed by the respective businesses.

PART 8: EMPLOYEE SHARE PLANS

Set out below is a summary of the Board's proposals in respect of the Company's existing share options together with the rules for the new employee share plans which each of New CST plc and Collins Stewart plc propose to adopt on Admission. The background to these proposals is explained in paragraph 15 of the Chairman's letter set out in Part 1 of this document.

Existing plans

As at 27 October 2006, the latest practicable date before the publication of this document, there were awards outstanding under the Tullett Liberty Equity Incentive Plan (the **EIP**) over 4 million shares. The performance period relating to these awards extends to 31 December 2007 and, to date, approximately 50 per cent. of such awards have vested in terms of performance. The Directors continue to believe that these awards are an important incentive to staff and therefore awards outstanding under the EIP will be exchanged for equivalent awards over shares in New CST plc under the rules of the EIP. The turnover target applicable to the awards will be adjusted to reflect the proposed transfer of part of the US equities business to Collins Stewart plc on Demerger. However, the operating margin target for full vesting of 18 per cent. will continue to apply. New CST plc will adopt and be responsible for the operation of the EIP in respect of outstanding awards following the Demerger. No new awards will be granted under the EIP.

Options over approximately 4 million shares granted under other Collins Stewart Tullett plc share option schemes, are either already exercisable or will become exercisable in accordance with their respective rules as a consequence of the Scheme. Appropriate proposals are being made to participants in respect of their rights under such option schemes. Staff holding options granted under discretionary schemes, which have become exercisable as a consequence of the Scheme, have agreed to exchange their options for equivalent options over shares in Collins Stewart plc or New CST plc, as appropriate. Where such options are to be satisfied by the issue of new shares, such shares will count towards the new issue limits applicable to the respective company's employee share plans. No new awards will be granted under any of the old Collins Stewart Tullett plc share option schemes.

Future plans

Shareholder approval will be sought at the Company's EGM which is proposed to be held at 9th Floor, 88 Wood Street, London EC2V 7QR on 23 November 2006 at 12.15 p.m. for the adoption of new employee share plans by each of Collins Stewart plc and New CST plc. The employee share plans proposed will be the same for both companies and will comprise a discretionary long-term incentive plan which can operate on a co-investment basis and an all employee share incentive plan approved by HMRC for UK participants. The discretionary plans will be administered by the respective remuneration committees of Collins Stewart plc and New CST plc, and the operation of the all employee share plans will be determined by their respective boards of directors.

A summary of the principal terms of both of the proposed plans is set out below with references to the Operating Company being to Collins Stewart plc and New CST plc, as appropriate, references to the Remuneration Committee or the Board being to the respective remuneration committees and boards of Collins Stewart plc and New CST plc and references to Ordinary Shares being to the respective ordinary shares of Collins Stewart plc and New CST plc.

(a) *The New Long Term Incentive Plan (the LTIP)*

(i) General

The Operating Companies will adopt the LTIP conditional on and following their approval to do so at the Company's EGM. The LTIP allows the Operating Company to grant awards to acquire Ordinary Shares to eligible employees. The awards will normally become exercisable three years after their grant but only if and to the extent that the conditions to which they are subject (see (iv) below) have been satisfied. The grant and vesting of an award may be made conditional on the acquisition and holding by a proposed participant of a corresponding investment in Ordinary Shares.

(ii) Eligibility

Under the LTIP, awards may be granted to any person who is an employee of the Operating Company or a participating company in the Operating Company's Group. Participants will be selected on a discretionary basis by the Remuneration Committee.

(iii) Exercise Price

The price (if any) payable on exercise of an award will be decided by the Remuneration Committee before the award is granted.

(iv) Performance Conditions

The exercise of awards will be subject to the satisfaction of one or more performance conditions to be satisfied over a performance period, all as determined by the Remuneration Committee. The performance conditions will be objective and stated at the date of grant. The Remuneration Committee will determine the extent to which a performance condition is satisfied at any time. There will be no re-testing of performance conditions.

The Remuneration Committee has a discretion to (i) include provision for any award to become unconditional during any part of the period during which the performance conditions are measured; and (ii) subsequently amend a condition if an event occurs that would make an amended condition a fairer measure of performance, as long as the condition would be no more difficult to satisfy.

(v) Exercise of Awards

Awards will normally become exercisable on the third anniversary of their date of grant, subject to the satisfaction of the performance conditions, and remain exercisable until ten years after the date of grant. If a participant ceases to be employed by the Operating Company's group for any reason other than death, the participant's awards will lapse immediately.

If a participant dies, the participant's awards will become exercisable pro rata to the extent that the performance conditions have been satisfied and the performance period has elapsed at the date of death.

The Remuneration Committee may permit the exercise of an award following the cessation of a participant's employment for any reason up to the extent that the performance conditions have been satisfied and the performance period has elapsed on the date of cessation of employment and for the period determined by the Remuneration Committee. Awards will lapse at the end of any early exercise period.

Subject to paragraph (vii) below, in the event of a change of control of the Operating Company following a general offer, or a voluntary or compulsory winding-up of the Company, awards will be exercisable for a period specified by the Remuneration Committee to the extent that the performance conditions have been satisfied at that time and, if the Remuneration Committee so decides, to the extent that the performance period has elapsed at that time, after which they will lapse.

If the court sanctions a compromise or arrangement under section 425 of the Companies Act with respect to an Operating Company the Remuneration Committee may determine that awards may be exercised conditional on the court sanction to the extent that the performance conditions have been satisfied at that time and, if Remuneration Committee so decides, to the extent that the performance period has elapsed at that time, unless the compromise or arrangement provides for the adjustment of awards or their replacement, in which case the Remuneration Committee may determine that awards will be adjusted or replaced as part of the compromise or arrangement.

(vi) Limits on the number of Ordinary Shares under award

For Collins Stewart, other than the Initial Options which are described in the Chairman's letter in Part 1 of this document in any year any participant will not receive an award in excess of 300 per cent. of the participant's annual salary (determined at the time of grant of awards). For Tullett Prebon, initial awards of options will be limited to 200 per cent. of a participant's total

remuneration. For subsequent awards, in any year any participant will not receive an award in excess of 300 per cent. of the participant's annual salary (determined at the time of grant of awards). In normal circumstances, the use of new issue Ordinary Shares under the respective company's LTIP is limited to 5 per cent. of the issued share capital of the Operating Company from time to time, taking into account shares issued or to be issued over the previous ten year period under the LTIP and any other discretionary employees' share scheme(s) adopted by the Operating Company. Ordinary Shares subject to awards that have lapsed or been surrendered are excluded when calculating these limits.

(vii) Exchange of Awards

If there is a change of control of the Operating Company following an offer to acquire the whole of its issued share capital or all of its Ordinary Shares or following a compromise or arrangement, participants may be given the opportunity to exchange their awards for equivalent awards over ordinary shares in another company. If this opportunity is made available to participants, the Remuneration Committee may determine that awards will not become exercisable in the manner described above but will, if not exchanged, lapse.

(viii) Adjustment of Awards

If there is a capitalisation issue, a rights issue, a consolidation, a sub-division, a reduction, a demerger or distribution *in specie* or any other variation in the share capital of the Company, the Remuneration Committee may make the adjustments it considers appropriate to the number of Ordinary Shares under an award and the exercise price (if any).

(ix) General Provisions

Awards are personal to participants and cannot be assigned, transferred or charged. Benefits under the LTIP are not pensionable.

The LTIP rules can be amended at any time by the Remuneration Committee. However, (i) no amendment that would adversely affect the existing rights of a participant can be made without the consent of participants who, if they exercised their options in full, would be entitled to three-quarters in aggregate of all the resulting shares; and (ii) no amendment to the advantage of participants can be made without the prior approval of the shareholders in general meeting if the amendment relates to the provisions in the rule relating to:

- who can participate;
- the limits on the number of Ordinary Shares that can be acquired under the LTIP in total and by each participant;
- the basis for determining a participant's entitlement to and the terms on which Ordinary Shares can be acquired under the LTIP; or
- any adjustment in the event of a variation in the share capital of the Operating Company,

unless the amendment is minor and made to benefit the administration of the LTIP, or is to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for present or future participants or for any member of the Operating Company's group.

No award can be granted more than ten years after the date of adoption of the LTIP.

Additional schedules to the rules of the LTIP can be adopted by the Board to operate the LTIP in overseas countries.

(b) *The New Share Savings Plan (the SSP)*

(i) General

The Operating Companies will adopt the SSP conditional on and following their approval to do so at the Company's EGM. The SSP will be operated by the Board which can operate it in a number of ways. It can:

- make an award of “free shares”; and/or
 - give employees the opportunity to invest in “partnership shares”; and
 - make an award of “matching shares” to those employees who have invested in “partnership shares” (free shares, partnership shares and matching shares – together **Plan Shares**); and/or
 - require or allow employees to re-invest any dividends paid on their Plan Shares in further Ordinary Shares (“dividend shares”).
- (ii) Eligibility
All eligible employees of an Operating Company and its participating subsidiaries who have been employed for a minimum period (not exceeding eighteen months) are entitled to participate in the SSP.
- (iii) Free shares
An Operating Company may give free shares up to a maximum annual value set from time to time by HMRC. The current maximum annual value is £3,000 per employee. If the Operating Company wishes, the award of free shares can be based on the achievement of individual, team, divisional or corporate performance targets which must be notified to all employees. Otherwise, free shares must be awarded to employees on the same terms, although awards can vary by reference to remuneration, length of service or hours worked.
- (iv) Partnership shares
An Operating Company may provide employees with the opportunity to acquire partnership shares from their gross monthly salary, up to a maximum value set from time to time by HMRC, currently £1,500 per year. An Operating Company may set a minimum monthly deduction from employees' salary which may not be greater than £10. Ordinary Shares will be acquired on behalf of employees within 30 days after each deduction at the market value of the Ordinary Shares on the date they are acquired. Alternatively, deductions can be accumulated during any accumulation period of up to 12 months. In this case, Ordinary Shares will be acquired on behalf of employees within 30 days after the end of the accumulation period, at the lower of the market value of the Ordinary Shares at the beginning of the accumulation period or the date when they are acquired.
- (v) Matching shares
An Operating Company can give an employee up to two free matching shares for each partnership share acquired by the employee. The award of matching shares cannot be subject to performance targets.
- (vi) Dividend shares
An Operating Company can either give employees the opportunity or require employees to re-invest any dividends paid on any of their Plan Shares in further Ordinary Shares, up to a maximum amount set by HMRC, which is currently £1,500 per annum.
- (vii) Trust
The SSP operates through a UK resident trust that will acquire any Ordinary Shares required by the SSP by purchase or by subscription and will hold the Ordinary Shares on behalf of participating employees.
- (viii) Holding Period
Free and/or matching shares must be held in trust for a period of between three and five years from the date on which the shares are allocated to employees. Dividend shares must be held in trust for three years.
- (ix) Cessation of employment, forfeiture of shares and non-transferability
An Operating Company can provide that free shares and/or matching shares are forfeited if employees cease employment with a member of the Group (other than because of certain

circumstances such as redundancy, injury, disability, retirement, transfer of the employing business or change of control of the employing company) within the period of up to three years from the date on which the shares were allocated.

Employees can withdraw their partnership shares from the SSP at any time. However, the Operating Company can stipulate that matching shares will be subject to forfeiture if the corresponding partnership shares are withdrawn within a specified period, not exceeding three years, of their purchase on behalf of the employee.

Awards are not transferable except on death, when Plan Shares may be transferred to the deceased employee's personal representatives. Awards of shares under the SSP are not pensionable.

(x) Funding the SSP

If existing Ordinary Shares are acquired as partnership shares, participating Group companies may be required to fund the acquisition cost to the extent that salary deductions are insufficient to do so. This may be the case if an accumulation period is operated. Participating Group companies would also need to fund the acquisition cost of any free shares or matching shares.

(xi) Limit on the issue of shares

The SSP is subject to the limit that, in any ten year period, not more than 10 per cent. of the issued share capital of the Operating Company from time to time may be issued or issuable under the SSP and any other employees' share scheme(s) adopted by the Operating Company. Awards that have lapsed or been surrendered are excluded when calculating this limit.

(xii) Amendments to the SSP

The Board has authority to amend the SSP, provided that no amendment to the advantage of participants may be made to provisions relating to:

- who can participate;
- the number of Ordinary Shares that the trustee can acquire under the SSP;
- the basis for determining a participant's entitlement to Plan Shares and the terms on which they can be acquired; and
- any adjustment in the event of a variation in the Operating Company's share capital,

without the prior approval of the shareholders in general meeting (unless the amendment is minor and made to benefit the administration of the SSP, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment). While the SSP retains its HMRC approved status, no amendment may be made to a key feature of the SSP without the prior approval of HMRC.

PART 9: ADDITIONAL INFORMATION

1. Responsibility

The Directors, whose names appear in paragraph 3.1 below, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. Information on Collins Stewart Tullett

Collins Stewart Tullett plc is a public limited company incorporated and domiciled in, and operating under the legislation of, England and Wales. Its registered office is 9th Floor, 88 Wood Street, London EC2V 7QR.

3. Directors

3.1 *Collins Stewart Tullett plc*

The Directors and their principal functions are:

<i>Director</i>	<i>Position</i>
Keith Hamill	Chairman
Terry Smith	Chief Executive
Stephen Jack*	Finance Director
Paul Mainwaring	Executive Director
Louis Scotto	Executive Director
David Clark	Non-executive Director
Michael Fallon	Non-executive Director
Richard Kilsby	Non-executive Director
Bernard Leaver	Non-executive Director
John Spencer	Non-Executive Director

* Stephen Jack has announced his intention to resign as a Director. He will be replaced by Paul Mainwaring who was appointed an Executive Director on 10 October 2006. Stephen Jack will remain as Finance Director until his responsibilities have been handed over to Paul Mainwaring.

The business address of each of the Directors is Collins Stewart Tullett plc, 9th Floor, 88 Wood Street, London EC2V 7QR.

3.2 *New CST plc (to be renamed Tullett Prebon plc)*

Upon Admission, the board of New CST plc will be the same as the existing Board except that Stephen Jack will not be a director of New CST plc and Paul Mainwaring will be the Finance Director.

3.3 *Collins Stewart plc*

Upon Admission, the board of Collins Stewart plc will comprise three executive directors (including the Chairman), a non-executive Deputy Chairman, Keith Hamill, and one other non-executive director, as set out below. The board of Collins Stewart plc intends to appoint additional non-executive directors following Admission.

<i>Director</i>	<i>Position</i>
Terry Smith	Chairman
Keith Hamill	Deputy Chairman
Joel Plasco	Chief Executive
Diana Dyer Bartlett	Finance Director
Richard Kilsby	Non-executive Director

Upon completion of the acquisition of Hawkpoint, it is proposed that one further executive director, Paul Baines, who is currently the Chief Executive and Managing Partner of Hawkpoint, will be appointed as an executive director.

4. Directors' service contracts

4.1 Collins Stewart Tullett plc

Terry Smith entered into a service contract with Collins Stewart Tullett plc on 26 May 2000 and this was amended on 21 October 2004 and 22 April 2005. The contract provided for employment for an indefinite period, subject to early termination on twelve months' notice by either party. The annual basic salary is £650,000 and a discretionary bonus is payable. Collins Stewart Tullett plc is entitled to terminate the service contract by paying, in lieu of notice period, salary and a sum to compensate for the loss of other contractual benefits (excluding bonuses). No other compensation is payable upon early termination of the service contract.

On 12 December 2001 Stephen Jack entered into a service agreement with Tullett Prebon Limited confirming his position as Chief Financial Officer of the Tullett Liberty Group. This contract was amended on 22 January 2003, 28 September 2004 and 12 April 2005. Stephen Jack's contract is for an indefinite period and is terminable by either party giving to the other twelve months' notice. Tullett Prebon Limited is entitled to terminate the agreement by paying, in lieu of notice period, salary and a sum to compensate for the loss of other contractual benefits (excluding bonuses). The annual basic salary is £300,000 and a discretionary bonus is payable. On 10 October 2006 Collins Stewart Tullett plc announced that Stephen Jack has decided to stand down as Finance Director. It has been agreed that Stephen Jack's employment will terminate on 31 December 2006 although it is expected that he will cease to act as a Director of Collins Stewart Tullett plc prior to that date. It has been further agreed that he will be entitled to £280,000 in lieu of his remaining notice period and £200,000 as a bonus in respect of the current financial year.

Paul Mainwaring entered into a service agreement with Collins Stewart Tullett plc dated 10 October 2006. Paul Mainwaring's contract is for an indefinite period and is terminable by either party giving to the other twelve months' notice. Collins Stewart Tullett plc is entitled to terminate the agreement by paying, in lieu of notice period, salary and a sum to compensate for the loss of other contractual benefits (excluding bonuses). The contract provides for an annual basic salary of £275,000 and a discretionary bonus may be paid.

Louis Scotto has a service contract entered into with Liberty Brokerage Investment Corporation and Tullett Prebon Limited on 21 November 2001. This contract was amended on 20 January 2003, 9 August 2004 and 28 September 2004. The contract provides for a basic annual salary of \$875,000 and a discretionary bonus. The contract is for an indefinite period and is terminable by either party giving the other twelve months' notice. Liberty Brokerage Investment Corporation and Tullett Prebon Limited are entitled to terminate the agreement by paying salary in lieu of notice period.

Terry Smith's service agreement is with Collins Stewart Tullett plc but, upon the Demerger becoming effective it will be terminated and replaced by a new contract with New CST plc. Stephen Jack's service agreement is with Tullett Prebon Limited, Paul Mainwaring's service contract is with Collins Stewart Tullett plc and Louis Scotto's service agreement is with Liberty Brokerage Investment Corp. and Tullett Prebon Limited. The service agreements of Stephen Jack, Paul Mainwaring and Louis Scotto will remain in place after the Scheme and the Demerger.

In order to terminate the service agreements written notice is required and the notice periods required to terminate the service agreements (or letters of appointment in the case of all the non-executive Directors) are set out below:

<i>Director</i>	<i>Notice Period</i>
Terry Smith	12 months
Stephen Jack	12 months
Paul Mainwaring	12 months
Louis Scotto	12 months
All non-executive Directors	12 months

The non-executive Directors do not have service contracts. Other than payments in lieu of notice, no compensation is payable to any non-executive Director upon termination of their appointments. The following table sets out the dates of appointment for the non-executive Directors:

	<i>Appointment date of current term</i>
Keith Hamill	22 September 2000
David Clark	10 March 2003
Michael Fallon	1 September 2004
Richard Kilsby	3 June 2005
Bernard Leaver	1 August 2003
John Spencer	22 September 2000

When the Scheme becomes effective the non-executive Directors' letters of appointment will transfer to New CST plc.

4.2 *New CST plc (to be renamed Tullett Prebon plc)*

Terry Smith will enter into a service contract with New CST plc, conditional on the Demerger becoming effective. The contract will provide for employment for an indefinite period, subject to early termination on twelve months' notice by either party. The annual basic salary will be £650,000 and Terry Smith may be paid a discretionary bonus. New CST plc will be entitled to terminate the service contract by paying in lieu of the director's notice period salary and a sum to compensate for the loss of other contractual benefits (excluding bonuses). No other compensation will be payable upon early termination of the service contract. Terry Smith's contract anticipates that he may devote up to 30 per cent. of his time to Collins Stewart plc.

The service agreements of Paul Mainwaring and Louis Scotto, as described in paragraph 4.1 above, will remain in place after the Scheme and Demerger.

When the Scheme becomes effective the non-executive Directors' letters of appointment, as described in paragraph 4.1 above, will transfer to New CST plc.

4.3 *Collins Stewart plc*

Terry Smith will enter into a service contract with Collins Stewart plc, conditional on the Demerger becoming effective. The contract will provide for employment for an indefinite period, subject to early termination on twelve months' notice by either Collins Stewart plc or the director concerned. The annual basic salary will be £200,000 and Terry Smith may be paid a discretionary bonus. Collins Stewart plc will be entitled to terminate the service contract by paying, in lieu of the director's notice period, salary and a sum to compensate for the loss of other contractual benefits (excluding bonuses). Terry Smith's service contract provides that, as Chairman, he will mainly be responsible for the oversight of management and supporting management with strategy development and key client relationships. The service contract anticipates that he may devote up to 30 per cent. of his time to Collins Stewart plc.

Joel Plasco will enter into a service contract with Collins Stewart plc, conditional on the Demerger becoming effective. The contract will provide for employment for an indefinite period, subject to early termination on six months' notice by either Collins Stewart plc or the director concerned. The annual basic salary will be £250,000 and Joel Plasco may be paid a discretionary bonus. Collins Stewart plc will be entitled to terminate the service contract by paying, in lieu of the director's notice period, salary and a sum to compensate for the loss of other contractual benefits (excluding bonuses).

Diana Dyer Bartlett will enter into a service contract with Collins Stewart plc, conditional on the Demerger becoming effective. The contract will provide for employment for an indefinite period, subject to early termination on six months' notice by either Collins Stewart plc or the director concerned. The annual basic salary will be £200,000 and Diana Dyer Bartlett may be paid a discretionary bonus. Collins Stewart plc will be entitled to terminate the service contract by paying, in lieu of the director's notice period, salary and a sum to compensate for the loss of other contractual benefits (excluding bonuses).

Paul Baines entered into a service contract with Hawkpoint Partners Limited, a subsidiary of Hawkpoint Holdings Limited, on 2 October 2000. The contract provides for a basic annual salary of £237,000 plus a discretionary bonus and may be terminated on three months' notice in writing by either party. Paul Baines has agreed to enter into a deed of amendment which will extend the notice period to six months, will incorporate certain protective covenants and pursuant to which Hawkpoint Partners Limited will be entitled to terminate the service contract by paying, in lieu of notice period, salary and a sum to compensate for the loss of other contractual benefits (excluding bonuses).

The proposed non-executive directors of Collins Stewart plc will enter into letters of appointment with Collins Stewart plc conditional on the Demerger becoming effective.

In order to terminate the service agreements and letters of appointment written notice is required and the notice periods required to terminate the service agreements and letters of appointment (as the case may be) are set out below:

<i>Director of Collins Stewart plc</i>	<i>Notice period</i>
Terry Smith	12 months
Joel Plasco	6 months
Diana Dyer Bartlett	6 months
Paul Baines	6 months
All non-executive directors	12 months

5. Directors' interests

5.1 Shares

At 27 October 2006, being the last practicable date prior to the publication of this Circular, the interests of the Directors in the share capital of Collins Stewart Tullett plc which have been notified to Collins Stewart Tullett plc pursuant to sections 324 and 328 of the Companies Act 1985 or which are required to be entered in the register referred to in section 325 of the Companies Act 1985 or which are interests of a connected person (within the meaning of section 346 of the Companies Act 1985) of a Director which would, if the connected person were a Director, be required to be disclosed under this paragraph 5 and the existence of which is known to or could, with reasonable diligence be ascertained by that Director were as follows:

<i>Director</i>	<i>Number of Collins Stewart Tullett Shares</i>	<i>Percentage of Collins Stewart Tullett Shares</i>
Keith Hamill	58,299	0.027
Terry Smith	8,805,779	4.147
Stephen Jack	190,659	0.090
Paul Mainwaring	–	–
Louis Scotto	106,273	0.050
David Clark	–	–
Michael Fallon	2,000	0.001
Richard Kilsby	–	–
Bernard Leaver	–	–
John Spencer	32,897	0.015

In the event that: (a) the Scheme and Demerger become effective; and (b) the Acquisition is completed, the current and proposed directors of Collins Stewart plc will have the following interests in Collins Stewart Shares by virtue of the effect of the Scheme and Demerger on their existing holdings of Collins Stewart Tullett Shares and the effect of the Acquisition on their resulting holdings of Collins Stewart Shares:

<i>Director</i>	<i>Number of Collins Stewart Shares on Admission</i>	<i>Percentage of Collins Stewart Shares on Admission</i>	<i>Number of Collins Stewart Shares immediately following the Acquisition</i>	<i>Percentage of Collins Stewart Shares immediately following the Acquisition</i>
Terry Smith	8,805,779	4.147	8,805,779	3.559
Keith Hamill	58,299	0.027	58,299	0.024
Joel Plasco	–	–	–	–
Diana Dyer Bartlett	14,479	0.007	14,479	0.006
Paul Baines	–	–	2,420,639	0.978
Richard Kilsby	–	–	–	–

The above table assumes no issues of shares by Collins Stewart Tullett plc, New CST plc or Collins Stewart plc after 27 October 2006 (being the last practicable date prior to the publication of this document) other than in connection with the Scheme, the Demerger or the Acquisition.

Neither of the above tables reflect the extent to which any Directors of Collins Stewart Tullett plc or current or proposed directors of Collins Stewart plc (as the case may be) have additional beneficial interests by virtue of their participation in the Collins Stewart Tullett Share Plans. The interests of such persons in this regard are set out in paragraph 5.2 of this Part 9.

5.2 Share Options

As at 27 October 2006 (the latest practicable date before the publication of this document) the following Director held the following interests in Collins Stewart Tullett Shares:

	<i>Options</i>	<i>Earliest exercise date</i>	<i>Expiry date</i>	<i>Exercise price</i>
Louis Scott				
Tullett Liberty Equity Incentive Plan	47,720	13.1.2007	12.1.2014	Nil
Tullett Liberty Equity Incentive Plan	10,106	22.4.2007	21.4.2014	Nil
Individual option*	366,263	13.10.2007	12.10.2014	£1 in total

* Approved by shareholders at an extraordinary general meeting of Collins Stewart Tullett plc held on 12 October 2004.

As at 27 October 2006 (the latest practicable date before the publication of this document) the following directors of Collins Stewart plc held the following interests in Collins Stewart Tullett Shares under the Collins Stewart Tullett Share Plans:

	<i>Options</i>	<i>Earliest exercise date</i>	<i>Expiry date</i>	<i>Exercise price</i>
Collins Stewart Tullett plc Unapproved Share Option Scheme				
Joel Plasco	442,538	18.10.07	17.10.14	402p
	50,000	1.11.07	31.10.14	1p
Diana Dyer Bartlett	24,602	05.04.04	04.04.11	288.5p
	12,500	31.03.04	23.04.11	1p
	50,000	30.09.05	07.11.11	1p
	75,000	28.04.06	27.04.13	1p
	40,000	22.04.07	21.04.14	449p
	50,000	19.01.08	18.01.15	1p
Collins Stewart Tullett plc Company Share Option Plan				
Joel Plasco	7,462	18.10.07	17.10.14	402p

6. Related party transactions

Save as disclosed below, for each of the years ended 31 December 2003, 2004 and 2005 and in the current financial year to date, the Company has not entered into any transactions with related parties.

Pursuant to an acquisition of a subsidiary undertaking by Collins Stewart Europe Limited in 1996, secured loan notes were issued to a former director of Collins Stewart Tullett plc, Terry Hitchcock, of which £100,000 remained outstanding at 31 December 2004. They were repaid in full as at 31 December 2005.

Pursuant to the acquisition of Tullett Liberty Limited in March 2003, £150,000 guaranteed unsecured loan notes were issued to Stephen Jack. The loan notes were guaranteed by the Governor and Company of the Bank of Scotland with whom cash deposits of an equal amount were deposited. The loan notes carried interest at a rate of 1 per cent. below LIBOR. They have been repaid in full as at the date of this document.

£5.75 million cash facilities were extended in 2005 to Berkshire Investment Managers LLP, a joint venture in the share capital of which the Company has a 50 per cent. interest.

7. Significant shareholdings

Insofar as is known to Collins Stewart Tullett plc, as at 27 October 2006 (the latest practicable date before the publication of this document), the following persons, directly or indirectly, have an interest in Collins Stewart Tullett plc's share capital or voting rights which is notifiable under the Companies Act 1985:

	<i>Number of Collins Stewart Tullett Shares</i>	<i>Percentage of Collins Stewart Tullett Shares</i>
Toscafund Limited	29,469,754	13.9%
Legal & General Group plc	16,807,565	7.9%
Lazard Asset Management LLC	15,651,887	7.4%
Barclays plc	12,494,274	5.9%
Teachers Insurance and Annuity Association of America College Retirement Equities Fund	11,486,691	5.4%
Terry Smith	8,805,779	4.1%
Morgan Stanley Securities	8,521,317	4.0%
Aviva plc	8,510,624	4.0%
Deutsche Bank AG	6,511,783	3.1%

Insofar as is known to Collins Stewart Tullett plc as at 27 October 2006 (being the latest practicable date prior to the publication of this document), the following persons will, on the Demerger becoming effective and (except where indicated otherwise) on the completion of the Acquisition, directly or indirectly have an interest in Collins Stewart plc's share capital or voting rights which is notifiable under the Companies Act 1985 (on the basis of their disclosed existing holdings of Collins Stewart Tullett Shares as at 27 October 2006 (the latest practicable date prior to the publication of this document)):

	<i>Number of Collins Stewart Shares on Admission</i>	<i>Percentage of Collins Stewart Shares on Admission</i>	<i>Number of Collins Stewart Shares immediately following the Acquisition</i>	<i>Percentage of Collins Stewart Shares immediately following the Acquisition</i>
Toscafund Limited	29,469,754	13.9%	29,469,754	11.9%
Legal & General Group plc	16,807,565	7.9%	16,807,565	6.8%
Lazard Asset Management LLC	15,651,887	7.4%	15,651,887	6.3%
Barclays plc	12,494,274	5.9%	12,494,274	5.0%
Teachers Insurance and Annuity Association of America College Retirement Equities Fund	11,486,691	5.4%	11,486,691	4.6%
Terry Smith	8,805,779	4.1%	8,805,779	3.6%
Morgan Stanley Securities	8,521,317	4.0%	8,521,317	3.4%
Aviva plc	8,510,624	4.0%	8,510,624	3.4%
Deutsche Bank AG	6,511,783	3.1%	6,511,783	2.6%

The disclosed interests of all the above refer to the respective combined holdings of those persons and to entities' interests associated with them.

The above table assumes no issues of shares by Collins Stewart Tullett plc, New CST plc or Collins Stewart plc after 27 October 2006 (being the latest practicable date prior to the publication of this document) other than in connection with the Scheme, the Demerger or the Acquisition.

Save as disclosed in this paragraph 7, the Directors of Collins Stewart Tullett plc are not aware of any interest (within the meaning of Part VI of the Companies Act) which will represent an interest in Collins Stewart plc's share capital or voting rights which is notifiable under the Companies Act following the Demerger becoming effective and Admission of Collins Stewart Shares occurring or following completion of the Acquisition and Admission of the New Collins Stewart Shares.

8. Working capital

The Company is of the opinion that taking into account available bank and other facilities the Continuing Group has sufficient working capital for its present requirements, that is for at least 12 months following the date of this document.

The Company is of the opinion that taking into account available bank and other facilities the Enlarged Collins Stewart Group has sufficient working capital for its present requirements, that is for at least 12 months following the date of this document.

9. Material litigation

9.1 The Continuing Group

9.1.1 Prebon Yamane (Singapore) Limited (**PY(S)L**), a Singapore company, is involved in ongoing litigation with BGC International (Singapore) (**BGC**), a Singapore branch of a company incorporated in England and Wales, and 55 named brokers. PY(S)L is claiming damages from BGC arising from alleged unlawful poaching of staff in Singapore on the grounds of (a) conspiracy to induce employees on fixed term employment contracts to breach those contracts and (b) actively inducing those employees to breach their contracts and start work for BGC. The trial is scheduled for six weeks commencing 31 October 2006. PY(S)L has been advised that it will recover substantial damages at trial in the event the case is not settled prior to those dates.

9.1.2 In March 2006, Tullett Prebon received an enquiry from the US Securities and Exchange Commission regarding fixed income securities as part of a wider investigation involving certain inter dealer brokers. Tullett Prebon is cooperating fully in this matter.

9.1.3 Save as referred to in paragraphs 9.1.1 and 9.1.2, neither the Company nor any member of the Continuing Group is or has been engaged in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) during the period covering at least the twelve months preceding the date of this document which may have, or have had in the recent past significant effects on the Company's and/or the Continuing Group's financial position or profitability.

9.2 Collins Stewart Group

Neither Collins Stewart plc nor any member of the Collins Stewart Group is or has been engaged in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) during the period covering at least the twelve months preceding the date of this document which may have, or have had in the recent past significant effects on Collins Stewart plc's and/or the Collins Stewart Group's financial position or profitability.

9.3 The Hawkpoint Group

Neither Hawkpoint Holdings Limited nor any member of the Hawkpoint Group is or has been engaged in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) during the period covering at least the twelve months preceding the date of this document which may have, or have had in the recent past, significant effects on Hawkpoint Holdings Limited and/or the Hawkpoint Group's financial position or profitability.

10. Material contracts

10.1 The Continuing Group

The Collins Stewart Group Transfer Agreement, the Demerger Agreement, the Separation Agreement, the US reorganisation agreements and the transitional services agreement (in each case as summarised in paragraph 4 of Part 2 of this document), when they are entered into, will be material contracts of the Continuing Group. The following is a summary of each material contract, other than contracts entered into in the ordinary course of business, to which New CST plc or any member of the Continuing Group is a party, for the two years immediately preceding the date of publication of this document and a summary of any other contract (not being a contract entered into in the ordinary course of business) entered into by any member of

the Continuing Group which contains any provision under which any member of the Continuing Group has any obligation or entitlement which is material to the Continuing Group as at the date of this document:

- 10.1.1 An agreement for the sale and purchase of shares in Totan Capital Markets Co. Ltd. (“TCM”) dated 5 November 2004 between Tullett Liberty Limited (now Tullett Prebon Limited) (“TPL”) and Totan Holdings Co., Ltd. (“Totan”) and Garban International (“Garban”) pursuant to the terms of which TPL agreed to sell its entire shareholding in TCM. TPL sold 639 shares in TCM to Totan and 250 shares in TCM to Garban for a total consideration of approximately ¥1.37 billion. The agreement contained only limited warranties between the parties and terminated a joint venture agreement between the parties in relation to TCM in so far as it related to TPL.
- 10.1.2 A sponsor’s agreement dated 31 October 2006 between Collins Stewart Tullett plc, Collins Stewart plc, New CST plc and Lehman Brothers International (Europe) (“Lehman”) under which each of Collins Stewart Tullett plc, New CST plc and Collins Stewart plc confirmed the appointment of Lehman as its sponsor (and Lehman agreed, subject to certain conditions, to act as sponsor) for the purposes of this document, the Collins Stewart Group Prospectus, the New CST Prospectus, the Admission of Collins Stewart plc and the Admission of New CST plc respectively. Lehman may terminate the sponsor’s agreement in certain circumstances prior to Admission. These circumstances include non-compliance with the obligations under the sponsor’s agreement or the occurrence of certain changes in the condition of the Group or Admission not having occurred on or prior to 31 March 2007. Collins Stewart Tullett plc, New CST plc and Collins Stewart plc have given certain representations and/or warranties and/or indemnities to Lehman as are usual in an agreement of this nature.
- 10.1.3 Agreements between Collins Stewart Tullett plc and the trustees of the Tullett Liberty Pension Scheme and the trustees of the Prebon Yamane (Ex K-W) Pension Scheme and the principal employers respectively, each dated 12 July 2006, which govern the agreed measures to eliminate the FRS 17 deficits in such schemes by 31 December 2010. If the proposed return of cash to shareholders proceeds then these agreements provide that to the extent the FRS 17 deficits are not on track to be eliminated the principal employers will pay the shortfall into an escrow account.

10.2 Collins Stewart Group

The Demerger Agreement, the Separation Agreement, the US reorganisation agreements and the transitional services agreement (in each case as summarised in paragraph 4 of Part 2 of this document), when they are entered into, will be material contracts of the Collins Stewart Group. The following is a summary of each material contract, other than contracts entered into in the ordinary course of business, to which any member of the Collins Stewart Group is a party, for the two years immediately preceding the date of publication of this document and a summary of any other contract (not being a contract entered into in the ordinary course of business) entered into by any member of the Collins Stewart Group which contains any provision under which any member of the Collins Stewart Group has any obligation or entitlement which is material to the Collins Stewart Group as at the date of this document.

- 10.2.1 An agreement for the sale and purchase of shares in Insinger de Beaufort (International) Limited dated 16 September 2005 between Bank Insinger de Beaufort N.V. (the “Seller”) and Collins Stewart (CI) Limited (the “Purchaser”) pursuant to the terms of which the Seller agreed to sell its entire shareholding in Insinger de Beaufort (International) Limited to the Purchaser. The total initial consideration was £8,100,000, payable as to £4,850,000 on 3 October 2005 and £3,250,000 on 3 April 2006. Deferred consideration, calculated by reference to the income from existing broking clients, is also payable for the two-year period ending 30 September 2007. The agreement contained general commercial representations and warranties by the Seller, including the existence, power and authority of the Seller, and the absence of any required consents and encumbrances on the shares.
- 10.2.2 The sponsor’s agreement as described in paragraph 10.1.2 above.
- 10.2.3 The Acquisition Agreement and related tax deed each as more particularly described in Part 3 of this document.

10.3 The Hawkpoint Group

Neither Hawkpoint Holdings Limited nor any member of the Hawkpoint Group: (a) is a party to any material contract (other than contracts entered into in the ordinary course of business) for the two years immediately preceding the date of publication of this document; or (b) has entered into any other contract (not being a contract entered into in the ordinary course of business) which contains any provision under which any member of the Hawkpoint Group has any obligation or entitlement which is material to the Hawkpoint Group as at the date of this document.

11. UK taxation

The following statements are intended to apply only as a general guide to current UK tax law and to the current practice of HM Revenue and Customs (HMRC), both of which are subject to change, possibly with retrospective effect. They are intended to apply only to Collins Stewart Tullett Share Owners who are resident in the UK for UK tax purposes (except in so far as express reference is made to the treatment of non-UK residents), who hold Collins Stewart Tullett Shares as investments and who are the beneficial owners of Collins Stewart Tullett Shares. The statements may not apply to certain classes of shareholder such as dealers in securities. Collins Stewart Tullett Share Owners who are in any doubt as to their tax position or who are subject to tax in a jurisdiction other than the UK should consult their own tax advisers.

11.1 Taxation of chargeable gains

The Scheme

For the purposes of UK taxation of chargeable gains (CGT) the Scheme should constitute a scheme of reconstruction. Clearance has been obtained from HMRC in respect of the Scheme under Section 138 of the Taxation of Chargeable Gains Act 1992 (TCGA).

Collins Stewart Tullett Share Owners should not be treated as making a disposal for CGT purposes of their Collins Stewart Tullett Shares as a result of receiving New CST Shares under the Scheme, and so no chargeable gain or allowable loss should arise on the cancellation of the Collins Stewart Tullett Shares and the issue to them of New CST Shares. Such New CST Shares should be treated as the same asset as the Collins Stewart Tullett Shares, acquired on the same date and for the same consideration as such Collins Stewart Tullett Shares were originally acquired.

The Demerger

The Demerger should also constitute a scheme of reconstruction for CGT purposes. Clearance has been obtained from HMRC in respect of the Demerger under Section 138 TCGA. New CST Share Owners should not be treated as making a disposal for CGT purposes when they receive Collins Stewart Shares pursuant to the Demerger. Any gain or loss which would otherwise have arisen on a part disposal of the New CST Shares should be rolled over into the Collins Stewart Shares received by the New CST Share Owners pursuant to the Demerger.

Combined Effect of the Demerger Proposals

In summary, the New CST Shares and Collins Stewart Shares that will be held by Collins Stewart Tullett Share Owners following the Demerger should effectively be treated as the same asset as the Collins Stewart Tullett Share Owners' original Collins Stewart Tullett Shares and as having been acquired on the same date as those Collins Stewart Tullett Shares. The New CST Shares and Collins Stewart Shares, taken together, should be treated as having been acquired for the same consideration for which the Collins Stewart Tullett Shares were originally acquired. Accordingly, the Collins Stewart Tullett Share Owners' original base cost in their Collins Stewart Tullett Shares should be apportioned between their New CST Shares and Collins Stewart Shares by reference to the market quotations of the New CST Shares and Collins Stewart Shares on the first day of dealings in such shares as derived from the Official List.

The UK taxation sections in the New CST Prospectus and the Collins Stewart Group Prospectus set out in greater detail certain of the ongoing UK tax consequences for Collins Stewart Tullett Share Owners who continue to hold New CST Shares and Collins Stewart Shares (respectively) following the Demerger.

11.2 Stamp duty and stamp duty reserve tax (SDRT)

No stamp duty or SDRT should be payable by Collins Stewart Tullett Share Owners as a result of the cancellation of the Collins Stewart Tullett Shares and the issue of the New CST Shares under the Scheme or the issue of the Collins Stewart Shares under the Demerger.

11.3 Collins Stewart Tullett Share Plans

The tax treatment for those individuals who hold or acquire their Collins Stewart Tullett Shares through one of the Collins Stewart Tullett Share Plans may be different from that which applies to other Collins Stewart Tullett Share Owners. Collins Stewart Tullett plc will in due course write to participants in the Collins Stewart Tullett Share Plans to explain the effect of the Scheme and the Demerger on their rights under the Collins Stewart Tullett Share Plans and to summarise the likely tax treatment of the courses of action available to them with respect to those rights.

11.4 Position of Trustees

In relation to Collins Stewart Tullett Share Owners who are trustees of trusts governed by English law, although regard must be had to the terms of each particular trust, the New CST Shares received under the Scheme and the Collins Stewart Shares received under the Demerger should generally be treated as a capital receipt. In such a case the general tax position of such trustees should be the same as that of Collins Stewart Tullett Share Owners who are individuals (subject to specific rules applicable to trustees). If for any reason the New CST Shares received under the Scheme and/or the Collins Stewart Shares received under the Demerger are regarded in relation to any particular trust as an income receipt, the trust and tax implications (both for the trustees and the beneficiaries) may be different, and independent professional advice should be taken.

12. US taxation

To ensure compliance with requirements imposed by the US Internal Revenue Service, we inform you that any tax discussion herein was not written and is not intended to be used and cannot be used by any taxpayer for purposes of avoiding US federal income tax penalties that may be imposed on the taxpayer. Any such tax discussion was written to support the promotion or marketing of the Demerger Proposals described herein. Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax adviser.

The following is a summary of certain US federal income tax considerations relevant to the Demerger Proposals described in this document. The discussion is not a complete description of all the tax considerations that may be relevant to a particular US Holder (as defined below) with respect to these Demerger Proposals. No rulings have been sought from the US Internal Revenue Service (the **IRS**) regarding the matters set out herein and there can be no assurance that the IRS will agree with the conclusions expressed. This discussion is a general summary and does not cover all tax matters that may be important to a particular US Holder.

The summary addresses only US Holders (as defined below) who hold Collins Stewart Tullett Shares, New CST Shares and Collins Stewart Shares as capital assets and use the US dollar as their functional currency. It does not address the tax treatment of taxpayers subject to special rules, such as banks, dealers, traders in securities that elect mark to market treatment, insurance companies, tax-exempt entities, holders that will own, directly and/or through the application of certain constructive ownership rules, five per cent. or more of the total voting power or the total value of the Collins Stewart Tullett Shares, New CST Shares or Collins Stewart Shares immediately after the Scheme and the Demerger, persons who have ceased to be US citizens or to be taxed as resident aliens, persons holding Collins Stewart Tullett Shares, New CST Shares or Collins Stewart Shares through a partnership, estate or trust or as part of a hedge, straddle, conversion or other integrated financial transaction, persons who have acquired Collins Stewart Tullett Shares, New CST Shares or Collins Stewart Shares pursuant to the exercise of options or otherwise as compensation, and persons resident or ordinarily resident in the UK. In addition, it does not address consequences relevant to US Holders that are subject to the alternative minimum tax, or to holders of an equity interest in a holder of

Collins Stewart Tullett Shares, New CST Shares or Collins Stewart Shares. It does not address any non-income tax or any foreign, state or local tax consequences of the Demerger Proposals.

Each investor is advised to consult its own tax advisers about the US federal, state and local tax consequences to it of the Demerger Proposals described in this document.

As used here, **US Holder** means a beneficial owner of Collins Stewart Tullett Shares, New CST Shares or Collins Stewart Shares that is for US federal income tax purposes (a) a US citizen or individual resident of the United States, (b) a corporation created or organised in or under the laws of the United States or any state thereof (including the District of Columbia), (c) a trust if a court within the United States is able to exercise primary supervision over its administration and one or more United States persons have authority to control all the substantial decisions of such trust or (d) an estate the income of which is subject to US federal income tax regardless of its source.

The summary is based on the tax laws of the United States including the Internal Revenue Code of 1986, as amended (the **Code**), its legislative history, temporary, final and proposed US Treasury Regulations thereunder, published rulings and court decisions all as currently in effect and all subject to change at any time, possibly with retroactive effect.

12.1 The Scheme

New CST plc intends to take the position that the cancellation of the Collins Stewart Tullett Shares and the issuance of New CST Shares to the holders of Collins Stewart Tullett Shares pursuant to the Scheme (the **Exchange**) should qualify under section 351 of the Code, and intends to report the Exchange as such in any tax return it will file with the IRS. Assuming that the Exchange so qualifies, the following are the principal US federal income tax consequences of the Exchange to a US Holder.

- (a) No gain or loss should be recognised by a US Holder upon the receipt of New CST Shares.
- (b) A US Holder's aggregate tax basis in the New CST Shares received should be equal to its aggregate basis in the Collins Stewart Tullett Shares cancelled.
- (c) A US Holder's holding period for the New CST Shares received should include the period during which the US Holder held the Collins Stewart Tullett Shares cancelled.
- (d) A US Holder should be required, under US Treasury Regulation § 1.351-3, to attach a statement to its US federal income tax return for the taxable year in which the Exchange occurs setting forth the information regarding the Exchange specified in such regulation.

If the Scheme does not qualify under section 351 of the Code, a US Holder receiving New CST Shares following the cancellation of such holder's Collins Stewart Tullett Shares should recognise gain or loss to the extent of the difference between the US Holder's aggregate basis in the Collins Stewart Tullett Shares cancelled and the fair market value of the New CST Shares issued. This gain or loss should be US source capital gain or loss for foreign tax credit limitation purposes, and should be long-term capital gain (taxable at a maximum rate of 15 per cent. rather than the higher rates of tax generally applicable to items of ordinary income in the case of US Holders that are individuals, trusts or estates) or loss if the Collins Stewart Tullett Shares that were cancelled were held for more than one year at the effective time of the Exchange. The deductibility of capital losses is subject to significant limitations. A US Holder's basis in the New CST Shares will equal its basis in its Collins Stewart Tullett Shares, increased by any gain recognised in the Exchange. In addition, a US Holder's holding period for the New CST Shares received should begin on the day after the Exchange.

12.2 The Demerger

New CST plc believes that the Demerger should not qualify as a tax-free distribution under section 355 of the Code. Tax-free treatment under section 355 of the Code requires that, among other things, immediately after the distribution New CST plc and Collins Stewart plc each must be engaged in a trade or business that has been actively conducted for at least five years prior to the distribution. This five-year requirement is not met in respect of a business when control of a corporation conducting the

business was acquired during the five years preceding the distribution in a transaction in which gain or loss was recognised. The acquisition of Tullett Prebon Limited (formerly known as Tullett plc) by Collins Stewart Tullett plc occurred within the last five years and was, for US tax purposes, a transaction in which gain or loss was recognised. The Demerger could nevertheless potentially qualify for section 355 treatment if the acquisition of Tullett Prebon Limited was an expansion of the pre-existing Stockbroking Business of Collins Stewart Tullett plc, rather than the establishment of a new line of business. In light of differences between the customer bases, operations, and personnel of the Stockbroking Business and the Continuing Group, as well as other factors, New CST plc has concluded that the acquisition of Tullett Prebon Limited should not be regarded as the expansion of the Stockbroking Business for such purpose.

If the Demerger does not qualify as a tax-free distribution under section 355 it means that US Holders who receive Collins Stewart Shares will be treated as having received a distribution equal to the fair market value of the Collins Stewart Shares received. This distribution will be treated as a dividend to the extent that the fair market value of the Collins Stewart Shares received does not exceed the current and accumulated earnings and profits (as defined for US federal income tax purposes) of New CST plc. The dividend will not be eligible for the dividends received deduction allowed in certain instances to corporations. Any portion of the distribution in excess of New CST plc's current and accumulated earnings and profits will be treated as a tax-free return of capital to the extent of the US Holder's basis in its New CST Shares, and will reduce the US Holder's basis in its New CST Shares. Any portion of the distribution not allocable to current and accumulated earnings and profits in excess of the US Holder's basis in its New CST Shares will be treated as capital gain.

Collins Stewart Tullett plc has not maintained calculations of its earnings and profits under US federal income tax principles. New CST plc will give consideration to whether it should maintain such calculations, with particular reference to whether such calculations would allow US Holders to minimise the amount of the distribution treated as a dividend. If New CST plc does not maintain such calculations, the distribution of Collins Stewart Shares will generally be taxable as a dividend even if that distribution would otherwise be treated as a non-taxable return of capital or as capital gain under the rules described above.

Certain dividends received by individual US Holders (as well as certain trusts and estates) in taxable years beginning before 1 January 2011 generally will be subject to a maximum income tax rate of 15 per cent. This reduced income tax rate is only applicable to dividends paid by "qualified corporations" and only with respect to shares held for a minimum holding period of at least 61 days during a specified 121-day period. As it is expected that New CST plc will be considered a qualified corporation, the distribution of Collins Stewart Shares is expected to be eligible for the reduced income tax rate.

The distribution of Collins Stewart Shares will be treated as foreign source income for US federal income tax purposes, which may be relevant in calculating a US Holder's foreign tax credit limitation for US federal income tax purposes. The limitation on foreign taxes eligible for the US foreign tax credit is calculated separately with respect to specific classes of income. Dividends paid in tax years beginning before 1 January 2007 will generally be "passive" or, in certain cases, "financial services" income for US foreign tax credit limitation purposes, and for tax years beginning on or after 1 January 2007, will be treated as "passive category" income or, in certain cases, "general category" income. The amount of dividend income that is subject to the reduced dividend rate described above and that is taken into account for purposes of calculating the US Holder's foreign tax credit limitation must be reduced by the "rate differential" portion of the dividend. The foreign tax credit rules are complex, and US Holders should consult their own tax advisers regarding the availability of a foreign tax credit and the application of the limitation in their particular circumstances.

If section 355 does not apply to the Demerger, a US Holder will have a basis in the Collins Stewart Shares equal to the fair market value of the Collins Stewart Shares on the date of receipt thereof.

13. Significant change

13.1 The Continuing Group

There has been no significant change in the financial or trading position of the Continuing Group since 30 June 2006.

13.2 The Collins Stewart Group

There has been no significant change in the financial or trading position of the Collins Stewart Group since 30 June 2006, the latest date reported on in the Accountant's Report on the Collins Stewart Group in Part 5 of this document.

13.3 The Hawkpoint Group

There has been no significant change in the financial or trading position of the Hawkpoint Group since 30 June 2006, the latest date reported on in the Accountant's Report on the Hawkpoint Group in Part 6 of this document.

14. Consent

Lehman Brothers has given and not withdrawn its written consent to the issue of this document with the inclusion herein of its letter and the references to its name in the form and context in which they appear.

Deloitte & Touche LLP has given and not withdrawn its written consent to the issue of this document with the inclusion herein of its report and letter and the references to its name in the form and context in which they appear.

PricewaterhouseCoopers LLP has given and not withdrawn its written consent to the issue of this document with the inclusion herein of its report and letter and the references to its name in the form and context in which they appear.

15. Documents available for inspection

Copies of the following documents will be available for inspection at the offices of Allen & Overy LLP, One Bishops Square, London E1 6AO and at the registered office of Collins Stewart Tullett plc at 9th Floor, 88 Wood Street, London EC2V 7QR during normal business hours on any business day from the date of this document until the Scheme becomes effective or lapses and will also be available for inspection at the Extraordinary General Meeting and the Court Meeting (and in the case of the documents referred to at paragraph (n) below, at the place of the Extraordinary General Meeting for at least 15 minutes before and during the meeting):

- (a) the memorandum and articles of association of Collins Stewart Tullett plc (as currently in force and as they will be following the proposed amendment at the EGM);
- (b) the memorandum and articles of association of New CST plc;
- (c) the memorandum and articles of association of Collins Stewart plc;
- (d) the annual report and accounts for Collins Stewart Tullett plc for the financial years ended 31 December 2003, 31 December 2004 and 31 December 2005;
- (e) the Accountant's Report on the Collins Stewart Group contained in Part 5 of this document;
- (f) the Accountant's Report on the Hawkpoint Group contained in Part 6 of this document;
- (g) the Accountant's Report on Pro Forma Financial Information contained in Part 7 of this document;
- (h) the Directors' service contracts and letters of appointment, the service contracts of the directors of New CST plc and the service contracts and draft letters of appointment of the current and proposed directors of Collins Stewart plc, in each case as referred to in paragraph 4 above;
- (i) the material contracts referred to in paragraph 10 above;

- (j) the draft Demerger Agreement, draft Collins Stewart Group Transfer Agreement, draft Separation Agreement, draft US reorganisation agreements and draft transitional services agreement, in each case, referred to in paragraph 4 of Part 2 of this document;
- (k) the letters of consent referred to in paragraph 14 above;
- (l) the New CST Prospectus;
- (m) the Collins Stewart Group Prospectus;
- (n) copies of the rules of the employee share plans summarised in Part 8 of this document; and
- (o) this document.

PART 10: SCHEME OF ARRANGEMENT

**IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
COMPANIES COURT**

No. 7656 of 2006

IN THE MATTER OF COLLINS STEWART TULLETT plc

and

IN THE MATTER OF THE COMPANIES ACT 1985

**SCHEME OF ARRANGEMENT
(under Section 425 of the Companies Act 1985)**

between

COLLINS STEWART TULLETT plc

and

**THE HOLDERS OF THE SCHEME SHARES
(as hereinafter defined)**

PRELIMINARY

(A) In this Scheme of Arrangement, unless the context otherwise requires, the following expressions shall bear the following meanings:

Act	the Companies Act 1985, as amended
Articles of Association	the articles of association of Collins Stewart Tullett plc as proposed to be amended by the Special Resolution
business day	a day (excluding Saturday or Sunday) on which banks generally are open for business in the City of London for the transaction of normal banking business
Clause	a clause of this Scheme
Collins Stewart Europe Limited	Collins Stewart Europe Limited, a private limited company incorporated in England and Wales with registered number 1774003
Collins Stewart plc	Collins Stewart plc, a public limited company incorporated in England and Wales with registered number 5807587
Collins Stewart Shares	ordinary shares in the capital of Collins Stewart plc
Collins Stewart Tullett plc	Collins Stewart Tullett plc, a public limited company incorporated in England and Wales with registered number 3904126
Collins Stewart Tullett Group	Collins Stewart Tullett plc and its subsidiaries and subsidiary undertakings and, where the context requires, its associated undertakings
Collins Stewart Tullett Shares	ordinary shares of 25 pence each in the capital of Collins Stewart Tullett plc
Court	the High Court of Justice of England and Wales

Court Meeting	the meeting of the holders of Scheme Shares convened by order of the Court pursuant to section 425 of the Act to consider and, if thought fit, approve this Scheme, and any adjournment thereof
CREST	the system for the paperless settlement of trades in listed securities operated by CRESTCo in accordance with the CREST Regulations
CRESTCo	CRESTCo Limited
CREST Regulations	the Uncertificated Securities Regulations 2001, as amended
Demerger	the proposed demerger of the stockbroking business by Collins Stewart Tullett plc, details of which are set out in the Explanatory Statement
Demerger Effective Date	the date on which the Demerger becomes effective, expected to be 19 December 2006
Demerger Effective Time	the time at which the Demerger becomes effective, expected to be 8.00 a.m. (London Time) on the Demerger Effective Date
Explanatory Statement	the explanatory statement sent to shareholders of Collins Stewart Tullett plc with the Scheme pursuant to Section 425 of the Companies Act 1985
New Shares	ordinary shares of 25 pence each in the capital of Collins Stewart Tullett plc created following the cancellation of the Scheme Shares and to be issued credited as fully paid to New CST plc pursuant to the Scheme
New CST plc	New CST plc, a public limited company incorporated in England and Wales with registered number 5807599
New CST Reduction of Capital	the proposed reduction of capital of New CST plc under section 135 of the Companies Act 1985, as described in the Explanatory Statement
New CST Shares	ordinary shares in the capital of New CST plc to be issued credited as fully paid pursuant to the Scheme, the nominal value of which is to be adjusted at an extraordinary general meeting of New CST plc to be held prior to the Scheme Effective Date
pence or £	the lawful currency of the United Kingdom
Reduction Court Hearing	the hearing by the Court of the petition to confirm the reduction of Collins Stewart Tullett plc's share capital associated with the cancellation and extinguishing of the Scheme Shares provided for by this Scheme
Scheme or Scheme of Arrangement	this scheme of arrangement proposed to be made under section 425 of the Act with or subject to any modification, addition or condition approved or imposed by the Court
Scheme Effective Date	the date on which this Scheme (and the reduction of capital provided for by the Scheme) becomes effective in accordance with Clause 6
Scheme Record Time	6.00 p.m. (London time) on the date of the Reduction Court Hearing
Scheme Share Owner	a holder of Scheme Shares as appearing in the register of members of Collins Stewart Tullett plc at the Scheme Record Time

Scheme Shares	means Collins Stewart Tullett Shares: <ul style="list-style-type: none"> (a) in issue at the date of this Scheme; (b) (if any) issued after the date of the Scheme and prior to the Scheme Voting Record Time; and (c) (if any) issued at or after the Scheme Voting Record Time and on or before the Scheme Record Time in respect of which the original or any subsequent holders shall be bound by the Scheme or in respect of which the original or any subsequent holders shall have agreed in writing to be so bound
Scheme Voting Record Time	6.00 p.m. on 21 November 2006 or, if the Court Meeting is adjourned, 48 hours before the time appointed for any adjourned Court Meeting
share owner	a registered holder of Collins Stewart Tullett Shares or New CST Shares (as the case may be) and includes any person(s) entitled by transmission
Special Resolution	the first resolution set out in the notice convening the extraordinary general meeting of the Company set out in Part 13 of the document dated 31 October 2006 addressed to holders of Collins Stewart Tullett Shares
uncertificated or in uncertificated form	in relation to a share or other security, a share or other security title to which is recorded on the relevant register of the share or security concerned as being held in uncertificated form in CREST and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST
United Kingdom or UK	the United Kingdom of Great Britain and Northern Ireland

- (B) The authorised share capital of Collins Stewart Tullett plc at the date of this Scheme is £71,174,862 divided into 284,699,448 ordinary shares of 25 pence each of which, as at 27 October 2006, 212,338,139 Collins Stewart Tullett Shares have been issued and were credited as fully paid and the remainder were unissued.
- (C) The authorised share capital of New CST plc at the date of this Scheme is £50,002.02 divided into two New CST Shares of one pence each and 50,002 redeemable deferred shares of £1 each. Two New CST Shares have been issued and are fully paid and the 50,002 redeemable deferred shares have been issued and are paid up in full. All other shares are unissued. New CST plc obtained a trading certificate under section 117 of the Companies Act on 26 June 2006.
- (D) It is proposed that prior to the Scheme Effective Date, the issued and unissued New CST Shares will be consolidated into shares of a nominal value per share to be determined immediately prior to such consolidation. Further New CST Shares of one pence each may be allotted and issued prior to such consolidation in order to ensure that each of the New CST Shares then in issue can be consolidated into a whole New CST Share of the new nominal value and so as to ensure that each holder of New CST Shares will hold one New CST Share at the Scheme Record Time as a result of such consolidation.
- (E) The purpose of this Scheme is to provide for the cancellation of the Scheme Shares and the issue by New CST plc of New CST Shares to the holders of the Scheme Shares.
- (F) Subject to the passing of the Special Resolution, if, in respect of any holder of Scheme Shares with a registered address outside the United Kingdom or who the Company reasonably believes is a citizen, resident or national of a jurisdiction outside the United Kingdom, the Company is advised that the allotment and issue of the New CST Shares pursuant to Clause 2 of this Scheme would or might infringe the laws of any jurisdiction outside the United Kingdom or would or might require the Collins Stewart Tullett plc or New CST plc to observe any governmental or other consent or any registration, filing or other formality with which the Collins Stewart Tullett plc or New CST plc cannot comply or compliance with which Collins Stewart Tullett plc or New CST plc considers unduly onerous, Collins

Stewart Tullett plc will (unless such shareholder satisfies Collins Stewart Tullett plc that no such infringement or requirement would apply) be authorised by the Articles of Association to appoint any person to execute as transferor an instrument of transfer transferring, prior to the Scheme Record Time, the Scheme Shares held by such holder to a nominee to hold such Scheme Shares on trust for that holder, on terms that the nominee shall sell:

- (i) the Scheme Shares prior to the Scheme Effective Date; or
- (ii) if it does not sell the Scheme Shares prior to the Scheme Effective Date, subject to delay until after the admission of the New CST Shares and the Collins Stewart Shares to the Official List of the Financial Services Authority acting in its capacity as United Kingdom Listing Authority and to trading on the London Stock Exchange plc's market for listed securities, sell:
 - (a) the New CST Shares, if any, that it receives pursuant to the Scheme in respect of such Scheme Shares as soon as practicable following the Scheme Effective Date; and
 - (b) the Collins Stewart Shares, if any, that it receives pursuant to the Demerger in respect of the New CST Shares referred to in (a) as soon as practicable following the Demerger Effective Time,

in each case at the best price which can reasonably be obtained at the time of sale and that (subject to instructions from New CST plc in relation to New CST plc's obligations pursuant to Clause 3 of this Scheme) the proceeds of such sale (net of the expenses of sale including commissions and value added tax) shall be paid to such shareholder by delivering a cheque to, or crediting the CREST account of, such shareholder in accordance with the provisions of Clause 3 of this Scheme.

- (G) New CST plc has agreed to appear by counsel at the hearing of the petition to sanction the Scheme and to undertake to be bound thereby and to execute and do or procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed or done by it for the purpose of giving effect to this Scheme.

THE SCHEME

1. Cancellation of Scheme Shares

- (a) The issued share capital of Collins Stewart Tullett plc shall be reduced by cancelling and extinguishing the Scheme Shares.
- (b) Subject to and forthwith upon the reduction of capital referred to in Clause 1(a) taking effect:
 - (i) the authorised share capital of Collins Stewart Tullett plc shall be increased to its former amount by the creation of such number of New Shares as shall be equal to the aggregate number of Scheme Shares cancelled pursuant to Clause 1(a); and
 - (ii) Collins Stewart Tullett plc shall apply the credit arising in its books of account as a result of such reduction of capital in paying up, in full at par, the New Shares created pursuant to Clause 1(b)(i) and shall allot and issue the same, credited as fully paid up, to New CST plc and/or its nominee or nominees.

2. Consideration for the cancellation of the Scheme Shares

- (a) In consideration of the cancellation of the Scheme Shares and the issue of the New Shares to New CST plc and/or its nominee or nominees pursuant to Clause 1, New CST plc shall (subject to the provisions of Clause 3), allot and issue (credited as fully paid) New CST Shares to the Scheme Share Owners on the basis of one New CST Share for each Scheme Share held at the Scheme Record Time.
- (b) The New CST Shares to be issued pursuant to Clause 2 shall rank *pari passu* with all other New CST Shares in issue on the Scheme Effective Date including for all dividends or other distributions made, paid or declared after the Scheme Effective Date on the ordinary share capital of New CST plc.
- (c) The provisions of Clause 2 shall be subject to any prohibition or condition imposed by law.

3. Allotments, certificates and payments

- (a) Not later than five business days after the Scheme Effective Date, New CST plc shall allot and issue all New CST Shares which it is required to allot and issue to give effect to this Scheme.
- (b) As soon as practicable after the New CST Reduction of Capital (provided that the New CST Reduction of Capital is effective within seven days of the Scheme Effective Date), and in any event not later than 15 business days after the Scheme Effective Date, New CST plc shall send by post to the allottees of the New CST Shares certificates in respect of such shares, pursuant to Clause 2, save that where Scheme Shares are held in uncertificated form, New CST plc will procure that CRESTCo is instructed to credit to the appropriate stock account in CREST of each of the Scheme Share Owners concerned the due entitlement to New CST Shares.
- (c) In the case of Scheme Shares which at the Scheme Record Time are in certificated form, despatch or procure the despatch of to the persons entitled thereto, or as they may direct, in accordance with the provisions of Clause 3(d) of this Scheme, cheques for the sums payable to them in accordance with, subject to the passing of the Special Resolution, Article 145(E) of the Articles of Association or, in the case of Scheme Shares which are in uncertificated form, ensure that an assured payment obligation in respect of sums payable to the persons entitled thereto is created in accordance with the CREST assured payment arrangements, provided that New CST plc reserves the right to make, or procure, payment of the said sums by cheque as aforesaid if, for any reason, it wishes to do so.
- (d) All certificates required to be sent by New CST plc pursuant to Clause 3(b) and all cheques required to be sent pursuant to Clause 3(c) shall be sent through the post in pre-paid envelopes addressed to the persons respectively entitled thereto at their respective addresses appearing in the register of members of Collins Stewart Tullett plc at the Scheme Record Time (or, in the case of joint holders, to the address of that one of the joint holders whose name stands first in the register in respect of the joint holding) or in accordance with any special instructions regarding communications received at the registered office of Collins Stewart Tullett plc before the Scheme Record Time.
- (e) If New CST Shares are consolidated or subdivided or if the nominal value of New CST Shares is reduced before the despatch of any certificates or the giving of any instructions in accordance with this Clause 3, the certificates or instructions shall relate to such New CST Shares as so consolidated, subdivided and/or reduced.
- (f) Neither Collins Stewart Tullett plc, New CST plc nor, subject to the passing of the Special Resolution, any nominee appointed by Collins Stewart Tullett plc pursuant to Article 145(E) of the Articles of Association nor any agent of any of them shall be responsible for any loss or delay in transmission of certificates or cheques sent in accordance with this Clause 3.
- (g) All cheques shall be made payable to the share owner or, in the case of joint holders, to the first named share owner in respect of the Scheme Shares concerned in sterling drawn down on a UK clearing bank and the encashment of any such cheque shall be a complete discharge to Collins Stewart Tullett plc, New CST plc and, subject to the passing of the Special Resolution, any nominee appointed by Collins Stewart Tullett plc pursuant to Article 145(E) of the Articles of Association for the monies represented thereby.
- (h) This Clause 3 shall be subject to any prohibition or condition imposed by law.

4. Certificates representing Scheme Shares

With effect from and including the Scheme Effective Date:

- (a) all certificates representing holdings of Scheme Shares shall cease to be valid in respect of such holdings and the share owners in respect of such shares shall be bound at the request of Collins Stewart Tullett plc to deliver such certificates for cancellation to Collins Stewart Tullett plc or to any person appointed by Collins Stewart Tullett plc to receive the same, unless such certificates have already been destroyed.

- (b) CRESTCo shall be instructed to cancel the entitlements to Scheme Shares of holders of Scheme Shares in uncertificated form.

5. Mandated payments and other instructions

- (a) Each mandate in force at the Scheme Record Time relating to the payment of dividends on Scheme Shares and each instruction then in force as to notices and other communications from Collins Stewart Tullett plc shall, unless and until varied or revoked, be deemed as from the Scheme Effective Date to be a valid and effective mandate or instruction to New CST plc in relation to the corresponding New CST Shares to be allotted and issued pursuant to this Scheme.
- (b) Each mandate in force at the Demerger Effective Time relating to the payment of dividends on New CST Shares and each instruction then in force as to notices and other communications from New CST plc due to the operation of Clause 5(a) of this Scheme shall, unless and until varied or revoked, be deemed as from the Demerger Effective Time to be a valid and effective mandate or instruction to Collins Stewart plc in relation to the corresponding Collins Stewart Shares to be allotted and issued pursuant to the Demerger.

6. Effective date

- (a) This Scheme shall become effective as soon as an office copy of the Order of the Court sanctioning this Scheme under section 425 of the Act shall have been duly delivered to the Registrar of Companies.
- (b) The reduction of capital provided for by this Scheme shall become effective as soon as an office copy of the Order of the Court confirming such reduction of capital of Collins Stewart Tullett plc provided for in this Scheme under Section 137 of the Act shall have been duly delivered to the Registrar of Companies for registration and registered by him.
- (c) Unless this Scheme shall have become effective on or before 31 March 2007 or such later date, if any, as Collins Stewart Tullett plc and New CST plc may agree and the Court may allow, it shall lapse.

7. Transfer of Collins Stewart Europe Limited

Collins Stewart Tullett plc shall be authorised and permitted following this Scheme becoming effective to:

- (a) dispose of the whole of the issued share capital of Collins Stewart Europe Limited, the holding company of the companies that conduct the stockbroking business of the Collins Stewart Tullett Group to New CST plc at book value being the value at which it appears in the accounting records of Collins Stewart Tullett plc on terms that the price payable by New CST plc is left outstanding; and
- (b) pay any and all of the costs and expenses relating to the matters referred to in (a) above and the Scheme and Demerger generally.

8. Demerger

If the Demerger is implemented, the resolution of New CST plc to approve the New CST Reduction of Capital required to implement the Demerger (the "Resolution") may provide that if, in respect of any former holder of Scheme Shares who has a registered address in a jurisdiction outside the United Kingdom, or whom New CST plc reasonably believes to be a citizen, resident or national of a jurisdiction outside the United Kingdom, New CST plc is advised that the allotment and issue of Collins Stewart Shares pursuant to the Demerger would or might infringe the laws of any jurisdiction outside the United Kingdom or would or might require New CST plc or Collins Stewart plc to observe any governmental or other consent or any registration, filing or other formality with which New CST plc or Collins Stewart plc cannot comply or compliance with which New CST plc or Collins Stewart plc considers unduly onerous, New CST plc shall (unless such shareholder satisfies New CST plc that no such infringement or requirement would apply) be entitled to appoint any person to execute as transferor an instrument of transfer of the relevant New CST Shares, transferring such New CST Shares to a nominee appointed by New CST plc, as trustee for such holder, prior to the Demerger Record Time on terms that the nominee shall, as soon as practicable following

the Demerger Effective Time, sell the New CST Shares and the Collins Stewart Shares, if any, that it receives in respect of such New CST Shares under the Demerger at the best price which can reasonably be obtained at the time of sale and that the proceeds of such sale (net of the expenses of sale including commissions and value added tax) shall be paid to such shareholder by delivering a cheque to, or crediting the CREST account of such shareholder in accordance with the Resolution. The instrument of transfer executed by such appointee of New CST plc shall be as effective as if it had been executed by the registered holder of or person entitled by transmission to such New CST Shares and the title of the transferee shall not be affected by any irregularity or invalidity in the proceedings relating thereto. The Resolution may provide that, in the absence of bad faith or wilful default, none of New CST plc, Collins Stewart plc or any nominee so appointed shall be responsible for any loss or damage to any person arising from any transaction pursuant to the Resolution or for any alleged insufficiencies of the terms or the timing of such sale and that any sale pursuant to the Resolution will be delayed until after the admission of the Collins Stewart Shares to the Official List of the Financial Services Authority acting in its capacity as United Kingdom Listing Authority and to trading on the London Stock Exchange plc's market for listed securities. In the case of New CST Shares held in uncertificated form through CREST, the aforementioned provisions of the Resolution shall be subject to any restrictions applicable under the Uncertificated Securities Regulations 2001.

9. Modification

Collins Stewart Tullett plc and New CST plc may jointly consent on behalf of all persons concerned to any modification of or addition to this Scheme or to any condition which the Court may think fit to approve or impose.

Dated: 31 October 2006

PART 11: DEFINITIONS

The following definitions apply throughout this document (except in those parts of this document containing the Scheme, the Notice of Extraordinary General Meeting and the Notice of Court Meeting, which contain separate definitions) unless the context requires otherwise.

Acquisition	the proposed acquisition of the entire issued share capital of Hawkpoint Holdings Limited
Acquisition Agreement	the sale and purchase agreement between Collins Stewart Europe Limited and the Hawkpoint Shareholders relating to the Acquisition dated 27 October 2006, more particularly described in Part 3 of this document
Admission	admission of New CST Shares, the Collins Stewart Shares or the New Collins Stewart Shares, as the case may be, to the Official List and to trading on the market for listed securities of the London Stock Exchange and “ Admission becoming effective ” means it becoming effective in accordance with paragraph 3.2.7 of the Listing Rules and the Admission and Disclosure Standards published by the London Stock Exchange
AGM	annual general meeting
the Board or the Directors	the directors of Collins Stewart Tullett plc from time to time
business day	a day (excluding Saturday or Sunday) on which banks generally are open for business in the City of London for the transaction of normal banking business
Capita Registrars	a trading division of Capita IRG Plc
Collins Stewart	the stockbroking business and other activities of the Collins Stewart Group
Collins Stewart Europe Limited	Collins Stewart Europe Limited, a private limited company incorporated in England and Wales with registered number 1774003
Collins Stewart Group	before the Demerger Effective Time, Collins Stewart Europe Limited and its subsidiaries and subsidiary undertakings and, where the context requires, its associated undertakings as constituted immediately prior to the Demerger Effective Time and, after the Demerger Effective Time, Collins Stewart plc and its subsidiaries and subsidiary undertakings and, where the context requires, its associated undertakings
Collins Stewart Group Prospectus	the prospectus relating to Collins Stewart plc dated 31 October 2006, which accompanies this document
Collins Stewart Group Reduction Court Hearing	the hearing of the petition to sanction the Collins Stewart Group Reduction of Capital by the Court
Collins Stewart Group Reduction of Capital	the proposed reduction of capital of Collins Stewart plc under Section 135 of the Companies Act 1985 described in paragraph 4 of Part 2 of this document

Collins Stewart Group Transfer	the transfer by Collins Stewart Tullett plc to New CST plc, as part of the Demerger, of the entire issued share capital of Collins Stewart Europe Limited, the parent company of the Collins Stewart Group at that time
Collins Stewart Group Transfer Agreement	the share purchase agreement, to be entered into between Collins Stewart Tullett plc and New CST plc after New CST plc has become the holding company of Collins Stewart Tullett plc, in order to give effect to the Collins Stewart Group Transfer. Further details of the Collins Stewart Group Transfer Agreement are set out in paragraph 4 of Part 2 of this document
Collins Stewart Inc.	Collins Stewart Inc., a private corporation incorporated in Delaware under registered number 2880769
Collins Stewart plc	Collins Stewart plc, a public limited company incorporated in England and Wales with registered number 5807587
Collins Stewart Shares	<p>(a) prior to the Collins Stewart Group Reduction of Capital becoming effective, the ordinary shares of 150 pence (or such lower nominal value as the directors of Collins Stewart shall decide prior to the date on which the Court is asked to sanction the New CST Reduction of Capital to effect the Demerger) each in Collins Stewart plc to be allotted and issued pursuant to the Demerger or, if relevant, the Acquisition; and</p> <p>(b) following the Collins Stewart Group Reduction of Capital becoming effective, the ordinary shares of 25 pence each in Collins Stewart plc</p>
Collins Stewart Tullett	the business and activities of the Collins Stewart Tullett Group
Collins Stewart Tullett Articles	the articles of association of Collins Stewart Tullett plc
Collins Stewart Tullett Group or the Group	Collins Stewart Tullett plc and its subsidiaries and subsidiary undertakings, and, where the context requires, its associated undertakings
Collins Stewart Tullett Memorandum	the memorandum of association of Collins Stewart Tullett plc
Collins Stewart Tullett plc or the Company	Collins Stewart Tullett plc, a public limited company incorporated in England and Wales with registered number 3904126
Collins Stewart Tullett Reduction Court Hearing	the hearing of the petition to sanction the Collins Stewart Tullett Reduction of Capital by the Court
Collins Stewart Tullett Reduction of Capital	the proposed reduction of capital of Collins Stewart Tullett plc pursuant to the Scheme
Collins Stewart Tullett Share Owner	a holder of Collins Stewart Tullett Shares
Collins Stewart Tullett Share Plans	<p>(i) the Tullett Liberty Equity Incentive Plan;</p> <p>(ii) the Collins Stewart Tullett plc Unapproved Share Option Scheme;</p> <p>(iii) the Collins Stewart Tullett plc Unapproved Share Option Scheme for options granted by the trustee of the Collins Stewart Tullett plc employee share ownership trust;</p> <p>(iv) the Collins Stewart Tullett plc Company Share Option Plan;</p> <p>(v) the Collins Stewart Tullett plc 2003 Share Option Scheme; and</p> <p>(vi) the Collins Stewart Tullett plc Sharesave Scheme 2000</p>

Collins Stewart Tullett Shares	the ordinary shares of 25 pence each in the capital of Collins Stewart Tullett plc
Companies Act 1985 or Act	the Companies Act 1985, as amended
Completion	completion of the Acquisition in accordance with the terms of the Acquisition Agreement
Continuing Group	means, before the Demerger Effective Time, the Collins Stewart Tullett Group excluding the Collins Stewart Group and, following the Demerger Effective Time, means New CST plc and its subsidiaries and subsidiary undertakings as from the Demerger Effective Time and, where the context requires, its associated undertakings
Court	the High Court of Justice of England and Wales
Court Hearing	the hearing by the Court of the petition to sanction the Scheme
Court Meeting	the meeting, notice of which is set out in Part 12 of this document, of the Scheme Share Owners convened by order of the Court pursuant to section 425 of the Companies Act 1985 for 23 November 2006 at 12 noon to consider and, if thought fit, approve the Scheme, and any adjournment of it
CREST	the system for the paperless settlement of trades in listed securities operated by CRESTCo
CREST Regulations	the Uncertificated Securities Regulations 2001, as amended
CRESTCo	CRESTCo Limited
Demerger	the proposed demerger of Collins Stewart Europe Limited to create the Collins Stewart Group and the Continuing Group (summarised in Part 2 of this document); and, where the context requires, includes the Scheme, the Collins Stewart Group Transfer and the New CST Reduction of Capital
Demerger Agreement	the demerger agreement expected to be entered into between New CST plc and Collins Stewart plc after the Collins Stewart Group Transfer as described in paragraph 4 of Part 2 of this document
Demerger Effective Date	the date on which the Demerger becomes effective, expected to be 19 December 2006
Demerger Effective Time	the time at which the Demerger becomes effective, expected to be 8.00 a.m. (London Time) on the Demerger Effective Date
Demerger Proposals	collectively, the proposed Scheme and Demerger and the subsequent Collins Stewart Group Reduction of Capital as described in this document
Demerger Record Time	6.00 a.m. (London time) on the day on which the New CST Reduction of Capital becomes effective
Directors	the directors of Collins Stewart Tullett plc as at the date of this document whose names are set out in paragraph 3.1 of Part 9 of this document
Disclosure Rules	the disclosure rules of the FSA

Enlarged Collins Stewart Group	Collins Stewart Group as enlarged by the Acquisition
Exchange Act	the United States Securities Exchange Act of 1934, as amended
Extraordinary General Meeting or EGM	the extraordinary general meeting of Collins Stewart Tullett plc convened for 23 November 2006 at 12.15 p.m. (or as soon thereafter as the Court Meeting concludes or is adjourned), notice of which is set out in Part 13 of this document, and any adjournment of it
FSA	the Financial Services Authority
FSMA	the Financial Services and Markets Act 2000 (as amended)
Hawkpoint	the corporate finance advisory business and other activities of the Hawkpoint Group
Hawkpoint Group	Hawkpoint Holdings Limited and its subsidiaries and subsidiary undertakings and, where the context requires, its associated undertakings
Hawkpoint Holdings Limited	Hawkpoint Holdings Limited, a private limited company incorporated in England and Wales with registered number 3875826
Hawkpoint Shareholders	Mezzanine Management Limited acting as investment manager on behalf of certain funds, Law Debenture Trust Corporation as trustee of the Hawkpoint employee benefit trust and certain employees and directors of Hawkpoint Group
Hawkpoint Warrantors	certain of the Hawkpoint Shareholders who have provided warranties under the Acquisition Agreement
HMRC	Her Majesty's Revenue and Customs
IFRS	International Financial Reporting Standards
in certificated form	in relation to a share or other security, a share or other security which is not in uncertificated form
Initial Options	the options proposed to be granted to certain directors and senior managers of Collins Stewart as referred to in paragraph 4 of Part IV of the Collins Stewart Group Prospectus
Initial Share Owners	two partners of Allen & Overy LLP, the Company's legal advisers
ISA	individual savings accounts
Lehman Brothers	Lehman Brothers Europe Limited and/or Lehman Brothers International (Europe) as the case may be
Listing Rules	the listing rules of the UK Listing Authority
London Stock Exchange	London Stock Exchange plc
New Collins Stewart Shares	the 35,074,221 new Collins Stewart Shares to be issued pursuant to the Acquisition in accordance with the terms and conditions of the Acquisition Agreement
New CST Articles	the articles of association of New CST plc
New CST Memorandum	the memorandum of association of New CST plc

New CST plc	New CST plc (to be renamed Tullett Prebon plc), a public limited company incorporated in England and Wales with registered number 5807599
New CST Prospectus	the prospectus relating to New CST plc dated 31 October 2006, which accompanies this document
New CST Reduction Court Hearing	the hearing of the petition to sanction the New CST Reduction of Capital by the Court
New CST Reduction of Capital	the proposed reduction of capital of New CST plc under section 135 of the Companies Act
New CST Share Owner	a holder of New CST Shares
New CST Shares	ordinary shares in the capital of New CST plc
Official List	the Official List of the UK Listing Authority
overseas share owners	share owners resident in, or citizens or nationals of, jurisdictions outside the United Kingdom
pence or £	the lawful currency of the United Kingdom
PEP	personal equity plan
Proposals	the Demerger Proposals, the Share Plans Proposals and the Acquisition
Prospectus	the New CST Prospectus or the Collins Stewart Group Prospectus, as the context requires
Prospectus Rules	the prospectus rules of the UK Listing Authority made under section 73A of the Financial Services and Markets Act 2000
Registrars	the Company's registrars, Capita Registrars
Scheme	the scheme of arrangement in its present form as set out in Part 10 of this document or with or subject to any modification, addition or condition approved or imposed by the Court
Scheme Circular	this document
Scheme Effective Date	the date on which the Scheme (and the reduction of capital provided for by the Scheme) becomes effective in accordance with clause 6 of the Scheme, expected to be 15 December 2006
Scheme Record Date	the date of the Collins Stewart Tullett Reduction Court Hearing
Scheme Record Time	6.00 p.m. (London time) on the Scheme Record Date
Scheme Share Owner	a holder of Scheme Shares as appearing in the register of members of Collins Stewart Tullett plc at the Scheme Record Time
Scheme Shares	means Collins Stewart Tullett Shares: <ul style="list-style-type: none"> (a) in issue at the date of the Scheme; (b) (if any) issued after the date of the Scheme and prior to the Scheme Voting Record Time; and (c) (if any) issued at or after the Scheme Voting Record Time and on or before the Scheme Record Time in respect of which the original, or any subsequent, holders shall be bound by the Scheme or in respect of which the original, or any subsequent, holders shall have agreed in writing to be so bound

Scheme Voting Record Time	6.00 p.m. (London time) on 21 November 2006 or, if the Court Meeting is adjourned, 48 hours before the time appointed for any adjourned Court Meeting
SEC	the United States Securities and Exchange Commission
Securities Act	the US Securities Act of 1933, as amended
Separation Agreement	the separation agreement expected to be entered into between New CST plc and Collins Stewart plc after the Collins Stewart Group Transfer as described in paragraph 4 of Part 2 of this document
Share Plans Proposals	the proposals relating to the Collins Stewart Tullett Share Plans and the approval of the adoption of new employee share plans by both New CST plc and Collins Stewart plc as described in this document
Stockbroking Business	the stockbroking business and other activities of the Collins Stewart Group
Tullett Prebon	the inter-dealer broking business and other activities of the Continuing Group
UK GAAP	generally accepted accounting principles in the UK
UK Listing Authority	the FSA acting in its capacity as competent authority under the FSMA
uncertificated or in uncertificated form	in relation to a share or other security, a share or other security title to which is recorded on the relevant register of the share or security concerned as being held in uncertificated form in CREST and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST
United Kingdom or UK	the United Kingdom of Great Britain and Northern Ireland
United States or US or USA	the United States of America, its territories and possessions, any state in the United States of America and the District of Columbia

PART 12: NOTICE OF COURT MEETING

No. 7656 of 2006

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
COMPANIES COURT
REGISTRAR RAWSON

IN THE MATTER OF COLLINS STEWART TULLETT PLC
and
IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that by an order dated 27 October 2006 made in the above matters the Court has directed a meeting (the **Court Meeting**) to be convened of the holders of Scheme Shares (as defined in the scheme of arrangement (the **Scheme of Arrangement**) referred to below) for the purpose of considering and, if thought fit, approving (with or without modification) a Scheme of Arrangement proposed to be made between Collins Stewart Tullett plc (the **Company**) and the holders of the Scheme Shares and that such meeting will be held at 9th Floor, 88 Wood Street, London EC2V 7QR on 23 November 2006 at 12 noon (London time) at which place and time all holders of the said shares are requested to attend.

A copy of the Scheme of Arrangement and a copy of the explanatory statement required to be furnished pursuant to section 426 of the Companies Act 1985 are incorporated in the document of which this notice forms part.

Holders of ordinary shares who are entitled to attend and vote may vote in person at the Court Meeting or they may appoint another person, whether a member of the Company or not, as their proxy to attend and vote in their stead. A white form of proxy for use at the Court Meeting is enclosed herewith. Alternatively, holders of Scheme Shares who are members of CREST may use the CREST electronic proxy appointment services.

Completion of the white form of proxy will not prevent a holder of Scheme Shares attending and voting at the Court Meeting, or any adjournment thereof, in person if he wishes to do so.

It is requested that forms appointing proxies be lodged with the registrars of the Company, Capita Registrars, The Registry, 34 Beckham Road, Beckenham, Kent BR3 4TU, no later than 12 noon (London time) on 21 November 2006 or, in the event that the Court Meeting is adjourned, not less than 48 hours before the time appointed for any adjourned meeting, but if forms are not so lodged, they may be handed to the Chairman at the Court Meeting.

In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and for this purpose seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

Entitlement to vote at the Court Meeting or any adjournment thereof, and the number of votes which may be cast thereat, will be determined by reference to the register of members of the Company at 6.00 p.m. (London time) on 21 November 2006 or, in the event that the Court Meeting is adjourned, to such register of members at 6.00 p.m. on the day two days prior to the date fixed for the adjourned meeting. Changes to entries in the relevant register of members after such time shall be disregarded in determining the rights of any person to attend or vote at the Court Meeting.

By the said order, the Court has appointed Keith Hamill or, failing him, Terry Smith, or failing him, Richard Kilsby, to act as chairman of the Court Meeting and has directed the chairman to report the results thereof to the Court.

The Scheme of Arrangement will be subject to the subsequent sanction of the Court.

Allen & Overy LLP
One Bishops Square
London E1 6AO
Solicitors for the Company

Dated 31 October 2006

PART 13: NOTICE OF EXTRAORDINARY GENERAL MEETING

Collins Stewart Tullett plc

(Incorporated in England and Wales under the Companies Act 1985 with registered number 3904126)

Notice is hereby given that an Extraordinary General Meeting of Collins Stewart Tullett plc (the **Company**) will be held at 9th Floor, 88 Wood Street, London EC2V 7QR on 23 November 2006 at 12.15 p.m. (or as soon thereafter as the Court Meeting of the holders of Collins Stewart Tullett Shares of the Company convened for the same place and date shall have been concluded or adjourned) for the following purposes:

Special Resolutions

1. To consider and, if thought fit, to pass the following resolution which will be proposed as a special resolution:

That:

(A) the directors of the Company be and are hereby authorised to take all such action as they may consider necessary or appropriate for carrying the Scheme of Arrangement dated 31 October 2006 in its original form or with or subject to any modification, addition or condition approved or imposed by the Court (the **Scheme**) proposed to be made between the Company and the Scheme Share Owners (as defined in the Scheme) into effect;

(B) for the purpose of giving effect to the Scheme:

(a) the issued share capital of the Company be reduced by cancelling and extinguishing the Scheme Shares (as defined in the Scheme);

(b) forthwith and contingently upon such reduction of capital taking effect:

(i) the authorised share capital of the Company be increased to its former amount by the creation of such number of ordinary shares of 25 pence each in the capital of the Company (**New Shares**) as shall be equal to the aggregate number of the Scheme Shares (as defined in the Scheme) cancelled pursuant to sub-paragraph (B)(a) of this resolution;

(ii) the Company shall apply the credit arising in its books of account on such reduction of capital in paying up, in full at par, the New Shares which shall be allotted and issued, credited as fully paid, to New CST plc (as defined in the Scheme) and/or its nominee or nominees; and

(iii) the directors of the Company be and are hereby generally and unconditionally authorised, for the purposes of section 80 of the Companies Act 1985, to allot the New Shares provided that (1) the maximum number of shares which may be allotted hereunder shall be the aggregate nominal amount of the new ordinary shares created pursuant to sub-paragraph b(i) of this resolution, (2) this authority shall expire on the conclusion of the next annual general meeting of the Company, and (3) this authority shall be in addition to any subsisting authority conferred on the directors of the Company pursuant to the said Section 80;

(C) conditional on the Scheme becoming effective, the Company's shares be de-listed from the Official List of the UK Listing Authority; and

- (D) the articles of association of the Company be amended by the adoption and inclusion of the following new article as Article 145:

“Scheme of Arrangement

- (A) For the purpose of this Article 145, references to the Scheme are to the Scheme of Arrangement between the Company and the Scheme Share Owners dated 31 October 2006 under section 425 of the Act in its original form or with or subject to any modification, addition or condition approved or imposed by the Court. Terms defined in the Scheme shall have the same meanings in this Article.
- (B) Notwithstanding any other provisions of these Articles, if any Collins Stewart Tullett Shares are allotted and issued to any person (a **new member**) other than New CST plc and/or its nominee at or after the adoption of this Article they will:
- (i) if allotment and issue is on or before the Scheme Record Time, be allotted and issued subject to the terms of the Scheme and shall be Scheme Shares for the purposes thereof and the new member, and any subsequent holder other than New CST plc and/or its nominee or nominees, shall be bound by the terms of the Scheme; and
 - (ii) subject to the Scheme becoming effective, if allotment and issue is after the Scheme Record Time, be immediately transferred to New CST plc and/or its nominee or nominees in consideration of and conditional on the issue or transfer to the new member of one New CST Share for each Collins Stewart Tullett Share so transferred. Any New CST Shares issued pursuant to this Article 145(B)(ii) to the new member will be credited as fully paid and will rank equally in all respects with all New CST Shares in issue at the time and be subject to the articles of association of New CST plc.
- (C) The number of New CST Shares to be issued or transferred to the new member under Article 145(B) may be adjusted by the directors of the Company in such manner as the Company’s auditors may determine on any reorganisation of or material alteration of the share capital of either the Company or of New CST plc or any other return of value to holders of New CST Shares effected after the Scheme Effective Date, provided always that any fractions of a New CST Share shall be disregarded and shall be aggregated and sold for the benefit of New CST plc.
- (D) In order to give effect to any such transfer required by Article 145(B), the Company may appoint any person to execute and deliver a form of transfer on behalf of the new member in favour of New CST plc and/or its nominee or nominees and to agree for and on behalf of the new member to become a member of New CST plc. Pending the registration of New CST plc as a holder of any share to be transferred pursuant to this Article 145(B), New CST plc shall be empowered to appoint a person nominated by the directors of the Company to act as attorney on behalf of any holder of such share in accordance with such directions as New CST plc may give in relation to any dealings with or disposal of such share (or any interest therein), exercising any rights attached thereto or receiving any distribution or other benefit accruing or payable in respect thereof and any holder of such share shall exercise all rights attached thereto in accordance with the directions of New CST plc but not otherwise.
- (E) In connection with the Scheme, if, in respect of any holder of Scheme Shares with a registered address outside the United Kingdom or who the Company reasonably believes is a citizen, resident or national of a jurisdiction outside the United Kingdom, the Company is advised that the allotment and issue of the New CST Shares pursuant to Clause 2 of the Scheme would or might infringe the laws of any jurisdiction outside the United Kingdom or would or might require the Company or New CST plc to observe any governmental or other consent or any registration, filing or other formality with which the Company or New CST cannot comply or compliance with which the Company or New CST plc considers unduly onerous, the Company shall (unless such shareholder satisfies the Company that no such infringement or requirement would apply) be entitled to appoint any person to execute as transferor an instrument of transfer transferring, prior to the Scheme Record Time, the

Scheme Shares held by such holder to a nominee to hold such Scheme Shares on trust for that holder, on terms that the nominee shall, subject to Article 145(G) below,

sell:

- (i) the Scheme Shares prior to the Scheme Effective Date; or
- (ii) if it does not sell the Scheme Shares, sell:
 - (a) the New CST Shares, if any, that it receives pursuant to the Scheme in respect of such shares as soon as practicable following the Scheme Effective Date; and
 - (b) the Collins Stewart Shares, if any, that it receives in respect of the New CST Shares referred to in (a) as soon as practicable following the Demerger Effective Time;

in each case at the best price which can reasonably be obtained at the time of sale and that (subject to instructions from New CST plc in relation to New CST plc's obligations pursuant to Clause 3 of the Scheme) the proceeds of such sale (net of the expenses of sale including commissions and value added tax) shall be paid to such shareholder by delivering a cheque to, or crediting the CREST account of, such shareholder in accordance with the provisions of Clause 3 of the Scheme.

- (F) The instrument of transfer executed by an appointee of the Company pursuant to Article 145(E) above shall be as effective as if it had been executed by the registered holder of or person entitled by transmission to the Scheme Shares to which such instrument relates and the title of the transferee shall not be affected by any irregularity or invalidity in the proceedings relating thereto.
 - (G) Any sale pursuant to Article 145(E)(ii) above will be delayed until after the admission of the New CST Shares and the Collins Stewart Shares to the Official List of the Financial Services Authority acting in its capacity as United Kingdom Listing Authority and to trading on the London Stock Exchange plc's market for listed securities.
 - (H) In the absence of bad faith or wilful default, neither the Company, New CST plc, Collins Stewart plc nor any nominee appointed by the Company pursuant to Article 145(E) above shall be responsible for any loss or damage to any person arising from any transaction pursuant to this Article 145 or for any alleged insufficiencies of the terms or the timing of such sale.
 - (I) In the case of Scheme Shares held in uncertificated form through CREST, the provisions of Article 145(E) above are subject to any restrictions applicable under the Uncertificated Securities Regulations 2001."
- (E) with effect from the passing of this resolution:
- (a) one authorised but unissued ordinary share of the Company be reclassified as a deferred share of 25 pence, such deferred share to have all the rights of an ordinary share as set out in the articles of association of the Company, save that:
 - (i) the holder of the deferred share shall not be entitled, otherwise than pursuant to the Scheme, to receive a dividend nor to have any other right of participation in the profits of the Company;
 - (ii) the holder of the deferred share shall have no right to attend or vote at any general meeting of the Company;
 - (iii) on a return of capital on the winding-up of the Company or otherwise, the holder of the deferred share shall be entitled, subject to the payment to the holders of all other classes of shares of the amount paid up on such shares, to a repayment of the capital

paid up on the deferred share, but shall have no further rights of participation in the assets of the Company;

- (b) the Board be generally and unconditionally authorised for the purposes of section 80 of the Companies Act 1985 to allot the said deferred share provided that (1) this authority shall expire on the conclusion of the next annual general meeting of the Company and (2) this authority shall be in addition and without prejudice to any authority under the said section 80 previously granted and in force on the date on which this resolution is passed;
 - (c) pursuant to and during the period of the said authority the Board be empowered to allot the said deferred share wholly for cash as if section 89(1) of the Companies Act 1985 did not apply to any such allotment;
 - (d) words and expressions defined in or for the purposes of Part IV of the Companies Act 1985, and not otherwise defined herein, shall bear the same meanings in this resolution.
2. To consider and, if thought fit, to pass the following resolution which will be proposed as a special resolution:

That, subject to the passing of the resolution numbered 1 set out in the notice convening this meeting, the Collins Stewart Group Transfer (as defined in the Circular of the Company dated 31 October 2006 (the **Scheme Circular**)), the Demerger (as defined in the Scheme Circular) and the New CST Reduction of Capital (as defined in the Scheme Circular), each as described in Part 2 of the Scheme Circular, be and are hereby approved and the directors of the Company be and are hereby authorised to take all such action as they may consider necessary or appropriate for carrying such transfer, demerger and reduction of capital into effect.

3. To consider and, if thought fit, to pass the following resolution which will be proposed as a special resolution:

That, subject to the Scheme and the Demerger becoming effective, the Collins Stewart Group Reduction of Capital (as described in Part 2 of the Scheme Circular), be and is hereby approved and the directors of the Company be and are hereby authorised to take all such action as they may consider necessary or appropriate for carrying such reduction of capital into effect.

Ordinary Resolutions

4. To consider and, if thought fit, to pass the following resolution which will be proposed as an ordinary resolution:

That, subject to the passing of the resolutions numbered 1 and 2 set out in the notice convening this meeting, the Acquisition (as defined in the Scheme Circular) on the terms and subject to the conditions contained in the Acquisition Agreement (as defined in the Scheme Circular), and each as described in Part 3 of the Scheme Circular, and all agreements and arrangements made or entered into, or which may in the future be made or entered into, by the Company or any of its subsidiaries in connection with, or which are ancillary to, the Acquisition or the Acquisition Agreement, be and are hereby approved and that the directors (or any duly constituted committee thereof) of the Company be and are hereby authorised to make any non-material amendment, variation or waiver or extension to the terms or conditions of the Acquisition or the Acquisition Agreement which the directors (or any duly constituted committee thereof) consider necessary or appropriate and to do all such other things as they may consider necessary or appropriate in connection with the Acquisition.

5. To consider and, if thought fit, to pass the following resolution which will be proposed as an ordinary resolution:

That, conditional on the Scheme becoming effective, the rules of the New CST Long Term Incentive Plan (the **New CST LTIP**), the main features of which are summarised in Part XIII of the New CST Prospectus and a copy of which is produced to the meeting and initialled by the Chairman for the purpose of identification, be approved and the directors of New CST plc, or a duly authorised committee of them, be authorised to do all such acts and things as they may consider necessary or expedient to carry the New CST LTIP into effect, and the directors of New CST plc or a duly authorised committee of them, be authorised to establish any schedule to the New CST LTIP as they may consider necessary in relation to any employees in jurisdictions outside the United Kingdom, with any modifications necessary or desirable to take account of local securities laws, exchange control and tax legislation, provided that any ordinary shares in the capital of New CST plc made available under any schedule are treated as counting against the relevant limits on individual and overall participation in the New CST LTIP.

6. To consider and, if thought fit, to pass the following resolution which will be proposed as an ordinary resolution:

That, conditional on the Scheme becoming effective, the rules of the New CST Share Savings Plan (the **New CST SSP**), the main features of which are summarised in Part XIII of the New CST Prospectus and a copy of which is produced to the meeting and initialled by the Chairman for the purposes of identification, be approved and the directors of New CST plc, or a duly authorised committee of them, be authorised to do all such acts and things as they may consider necessary or expedient to carry the New CST SSP into effect (including making any amendments required to the rules in order to obtain the approval to them of Her Majesty's Revenue and Customs), and the directors of New CST plc, or a duly authorised committee of them, be authorised to establish any schedule to the New CST SSP they consider necessary in relation to employees in jurisdictions outside the United Kingdom, with any modifications necessary or desirable to take account of local securities laws, exchange controls and tax legislation, provided that any ordinary shares in the capital of New CST plc made available under any schedule are treated as counting against the relevant limits on individual and overall participation in the New CST SSP.

7. To consider and, if thought fit, to pass the following resolution which will be proposed as an ordinary resolution:

That, conditional on the Scheme and the Demerger becoming effective, the rules of the Collins Stewart Long Term Incentive Plan (the **CS LTIP**), the main features of which are summarised in Part XIII of the Collins Stewart Group Prospectus and a copy of which is produced to the meeting and initialled by the Chairman for the purpose of identification, be approved and the directors of Collins Stewart plc, or a duly authorised committee of them, be authorised to do all such acts and things as they may consider necessary or expedient to carry the CS LTIP into effect, and the directors of Collins Stewart plc or a duly authorised committee of them, be authorised to establish any schedule to the CS LTIP as they may consider necessary in relation to any employees in jurisdictions outside the United Kingdom, with any modifications necessary or desirable to take account of local securities laws, exchange control and tax legislation, provided that any ordinary shares in the capital of Collins Stewart plc made available under any schedule are treated as counting against the relevant limits on individual and overall participation in the CS LTIP.

8. To consider and, if thought fit, to pass the following resolution which will be proposed as an ordinary resolution:

That, conditional on the Scheme and the Demerger becoming effective, the rules of the Collins Stewart Share Savings Plan (the **CS SSP**), the main features of which are summarised in Part XIII of the Collins Stewart Group Prospectus and a copy of which is produced to the meeting and initialled by the Chairman for the purposes of identification, be approved and the directors of Collins Stewart plc, or a duly authorised committee of them, be authorised to do all such acts and things as they may consider necessary or expedient to carry the CS SSP into effect (including making any amendments required to the rules in order to obtain the approval to them of Her Majesty's Revenue and Customs), and the directors of Collins Stewart plc, or a duly authorised committee of them, be authorised to establish any schedule to the CS SSP they consider necessary in relation to employees in jurisdictions outside the United Kingdom, with any modifications necessary or desirable to take account of local securities laws, exchange controls and tax legislation, provided that any ordinary shares in the capital of Collins Stewart plc made available under any schedule are treated as counting against the relevant limits on individual and overall participation in the CS SSP.

BY ORDER OF THE BOARD

Diana Dyer Bartlett
Company Secretary

Dated 31 October 2006

Registered Office
9th Floor, 88 Wood Street, London EC2V 7QR

Notes:

- (1) Every member who is entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote in his/her stead. A proxy need not be a member of the Company. Appointment of proxies does not preclude members from attending and voting at the meeting or any adjournment thereof should they wish to do so. A Form of Proxy is enclosed; alternatively if you hold shares in uncertificated form you may vote using the CREST system (please see the notes below).
- (2) To be valid, an instrument appointing a proxy in hard copy form must be deposited at the office of the Company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not later than 48 hours before the time of the meeting. Alternatively if you submit your proxy electronically through CREST, to be valid, the appropriate CREST message (regardless of whether it relates to the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy), must be transmitted so as to be received by the Company's registrars, Capita Registrars (ID RA10) by no later than 48 hours before the time of the meeting. The time of receipt will be taken to be the time (as determined by the time stamp applied to the message by CREST Applications Host) from which Capita Registrars are able to retrieve the message by enquiry to CREST.
- (3) Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 changes to entries in the register after 6.00 p.m. (London time) on 21 November 2006 or on the date two days before any adjourned meeting (as the case may be) shall be disregarded in determining the rights of any member to attend or vote at the meeting or any adjourned meeting (as the case may be). Accordingly, only a member registered in the register of members of the Company as at 6.00 p.m. (London time) on 21 November 2006 or on the date two days before the meeting or any adjourned meeting (as the case may be) shall be entitled to attend and vote at the meeting or any adjourned meeting (as the case may be) in respect of the number of shares registered in his name at that time.
- (4) CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
- (5) In order for a proxy appointment by means of CREST to be valid, the appropriate CREST message (a CREST Proxy Instruction) must be properly authenticated in accordance with CRESTCo's specification and must contain the information required for such instructions, as described in the CREST Manual.
- (6) CREST members and, where applicable, their CREST sponsors or voting service providers, should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
- (7) The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

