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collins stewart holdings plc
registered in england no. 3904126

chairman's statement

There is no doubt about the main event of the year 2001. Thankfully none of our staff in New York, their families or our clients were injured in the events of 11th September.

Our business also proved to be relatively robust in the face of these events, that gave added impetus to the already poor trading conditions in most of the markets in which we operate.

In my statement to shareholders in last year's report and accounts I noted that surpassing last year's performance would not be easy if poor market and economic conditions persisted. This proved to be accurate, although the Group, on a like for like basis, came very close to matching last year's pro forma results. Revenues before acquisitions were flat and operating profit before goodwill amortisation on continuing operations down 7%, which represented a return on capital employed of 30%.

Whilst we continue to maintain that it is for others to judge our performance, we believe that this performance compares favourably with our competitors and is creditable given the market conditions.

The year 2001 saw some major developments for the Group. In May it moved its headquarters to new premises, and in October it moved to new premises in New York, which are featured in this annual report. Significant progress was made with developing QUEST™ and a new private client stockbroking division in the UK was founded with the acquisition of the private client division of NatWest Stockbrokers from The Royal Bank of Scotland. It is a credit to all the staff involved that all of these projects were completed without a hitch.

As we look forward over 2002, the Group continues to face challenging markets, and we both foresee and assume no change in this respect. However, these conditions combined with our relatively strong position in our markets also present us with significant opportunities to enhance our competitive position. Our stance continues to be one of cautious optimism.

Keith Hamill

financial and operational review

These are the first full year results produced by Collins Stewart since its MBO and flotation on the London Stock Exchange in 2000.

Stock market trading volumes and equity new issuance in sterling were significantly lower in 2001 than in 2000 and the major indices all closed at a lower level at the year end for the second successive year. September 11th and its aftermath had a dampening effect on already poor market conditions.

Despite these conditions the Group produced what we believe is a good trading performance. This was not achieved at the expense of developing the business. On the contrary, the Group expended time and money on a number of developments intended to enable the business to grow.

In addition to the move to new premises in London and New York, the planned development of the QUEST™ system was started, and the private client division of NatWest Stockbrokers was acquired. New businesses were both established and acquired by our Channel Islands operations. Additional staff were hired in several existing areas of the business. The operating results for 2001 would have been better if we had not undertaken these developments, but we feel that it is important to take advantage of current conditions and that we need to build the infrastructure to enable the Group to grow.

The following table shows the results for the year together with those for the comparative period in 2000. The reported results for 2000 are based on the acquisition method of accounting and accordingly only include the results of Collins Stewart Limited from the date of the MBO on 26 May 2000. Comparisons with the pro forma figures rather than the reported figures are therefore more meaningful as these assume that the MBO and IPO took place at the start of the year. The pro forma numbers are used in all comparisons in this financial and operational review.

	Year ended 31 December 2001 £'000	Period ended 31 December 2000 £'000	Pro Forma Year ended 31 December 2000 £'000
Turnover			
Continuing operations	99,191	54,969	99,324
Acquisitions	4,025	–	–
	103,216	54,969	99,324
Operating profit before goodwill amortisation			
Continuing operations	34,114	20,748	36,750
Acquisitions	(1,189)	–	–
	32,925	20,748	36,750
Operating profit after goodwill amortisation	26,775	17,448	31,110
Exceptional item	6,684	–	–
Profit before tax	32,779	12,709	29,117
Profit attributable to ordinary shareholders	18,781	6,655	15,863
Earnings per share:			
Basic	18.21p	12.23p	15.39p
Diluted	18.05p	12.07p	15.28p
Basic before goodwill and exceptional items	19.64p	18.29p	20.86p

Notes:

(i) The Group pro forma profit and loss account comprises:

- *The trading record of Collins Stewart Limited and its subsidiary undertakings for the five months ended 25 May 2000 (the last day before Collins Stewart Holdings acquired the Collins Stewart Limited Group);*
- *The consolidated trading record of the Group from 26 May 2000 to 31 December 2000; and*
- *Adjustments, assuming the capital structure at the year end following the IPO was in place throughout the year.*

(ii) Other operating income

The net return on managing client deposit balances has been reclassified to other operating income from interest receivable and payable. This amounted to £378,000 for the year ended 31 December 2000.

The key factors which have affected each of the Group's major areas of activity are summarised in Performance of Divisions and Subsidiaries below. The financial performance of the Group is reviewed under Finance and Administration.

PERFORMANCE OF DIVISIONS AND SUBSIDIARIES

United Kingdom

Large Companies

The Large Companies division achieved another year of growth with revenues up 77% in total when compared to 2000. Commission income in UK stocks was up by 49%, with revenues in other European stocks up over 240%. This was partially driven by the increasing acceptance of the QUEST™ evaluation model by clients, many of whom have been disillusioned by the standards of research which characterised the TMT (Telecoms, Media and Technology) bubble and the inevitable losses which have followed. The division also benefited from the recruitment of experienced and well regarded pan-European salesmen. Excluding new joiners during the year, existing staff contributed 23% of the growth in UK revenues and 141% in other European stocks.

Small Companies

The corporate finance division achieved income slightly ahead of 2000's results. The department advised on 21 transactions and raised some £260m on behalf of clients. We ended the year as top Nominated adviser and broker on AIM (by initial market capitalisation of new issues) and our corporate client list increased to a record 73 clients at the end of the year. Market making operations had a reasonable year in light of the poor market conditions, but overall generated significantly less income than 2000.

Investment Trusts

Despite considerable market volatility and a de-rating of the split capital sector half way through the year, the division's revenues for 2001 were largely at the same level as 2000. The team was again the largest fundraiser in the sector with gross assets raised of over £1.5bn and also completed the most transactions in the sector during the year. Examples included non split trusts such as the launch of the new Jupiter Green fund. The team increased the number of brokerships from 19 at the end of 2000 to 30 trusts and offshore companies as at the end of 2001.

QUEST™

During the year, as part of our drive to become the product of choice for international equity portfolio managers for the evaluation of corporate performance and share valuation, the QUEST™ Plus project was started. The purpose of this project is to redevelop the QUEST™ website, to integrate all the various QUEST™ products, provide a more user-friendly interface and to expand the coverage of stocks to include North American and Asian securities and financials. QUEST™ Plus is planned to launch in the autumn of 2002. Other achievements in 2001 included further product add-ons such as a European banks model, a SmallCap version of our popular weekly commentary publication QUEST™ Companies in the News or CITN, a SmallCap version of the triAngle stock-selection tool and the ethical triAngle, a bespoke version of the triAngle aimed at the growing SRI investment community.

Fixed Interest

2001 was an excellent year for this division which benefited from a high level of institutional business and strong retail demand for preference shares. The introduction of trading in permanent interest bearing securities additionally contributed to the division's strong performance.

Private Client Division

The acquisition of the former private client division of NatWest Stockbrokers was completed on 6th June 2001, with the operations transferring to Collins Stewart on 10th December 2001. This coincided with the relocation of the division to 88 Wood Street, where we had taken additional space on the 8th Floor. The transfer took place smoothly.

From the time that we agreed to buy the division in June to the transfer date in December, over 90% of funds under management had transferred from NatWest Stockbrokers to our new division. The private client division therefore now acts for over 6,000 clients and has £1.1 bn funds under management.

The establishment of the private client division has been a major project for the Group, requiring the transfer of all the customer agreements to Collins Stewart and the introduction of new systems and infrastructure to manage it.

We now have a solid platform from which to expand the business and meet our aim of becoming a substantial player in the UK private client market.

Collins Stewart (CI) Limited

The Channel Islands business had a reasonable year, although revenues and operating profits before acquisitions were down on 2000. During the year, the mix of our business was strengthened with fund management now accounting for a greater percentage of our income than in previous years.

There were a number of acquisitions and new business start-ups during the year. Collins Stewart Property Fund Management, a UK subsidiary, was established in April 2001. The stockbroking business in Jersey benefited from the acquisition of the execution-only business of Cater Allen in the last quarter of 2001.

During 2001 funds under management in the Channel Islands rose from £889m to £1.3bn at the end of the year.

Collins Stewart Inc

Collins Stewart Inc. achieved revenues 14% ahead of those reported in 2000 and continued to add to its client base.

During the second half of 2001, Collins Stewart Inc. moved offices to 444 Madison Avenue. The new office provides considerably more space for further business expansion and is featured on the cover of this report and accounts.

FINANCE AND ADMINISTRATION

Turnover

The following table indicates the contributions made by each of our major areas of activity. As can be seen, Group turnover on continuing operations was only very marginally down on last year and, with acquisitions, up by 4%. Growth was achieved in most areas of our operations; market making was directly affected by the poor market conditions.

	2001 £'000	2001 %	2000 £'000	2000 %
Continuing operations				
Market Making/principal turns	10,226	9.9	20,453	20.6
Agency commissions	28,138	27.3	20,168	20.3
Corporate fees	33,987	32.9	32,449	32.6
US	8,927	8.6	7,809	7.9
Channel Islands	17,913	17.4	18,445	18.6
	99,191	96.1	99,324	100.0
Acquisitions				
Private client commissions	2,656	2.6	–	–
Other acquisitions	1,369	1.3	–	–
	103,216	100.0	99,324	100.0

Expenditure

The key costs for the Group are those relating to its staff and premises and the main increases in spend in these areas are explained below.

Staff Costs

Staff costs increased by 6% last year, despite a dramatic increase in staff numbers, increasing from 253 at the start of the year to 385 employees at the year end. Recruitment has been undertaken in almost every area of the business, both front and back office. The new private client division accounted for 66 of the new employees, including new back office staff who were recruited and trained in anticipation of bringing the new private client operations in-house once the business was transferred to the Group. Remuneration remains highly geared towards incentive payments with salaries only 33% of total pay. Bonuses for the year at £33.2m were 9% below those paid in 2000. Total staff costs as a percentage of revenues amounted to 49% (2000: 49%).

Establishment Costs

As anticipated occupation costs increased significantly, owing to the move to new offices at Wood Street. This has, however, given us more space to develop the business. The new private client division in the UK suffered a double office rental charge from completion in June until the beginning of December when operations were transferred to the Group. This gave rise to additional establishment costs that will not be repeated in 2002.

Operating Profit

The Group's operating profit before goodwill amortisation fell by £3.8m (10%) in the year on revenue which was up by 4.6%. The ratio of operating profit before goodwill amortisation to revenues has also fallen in the current year from 37% in 2000 to 32% in 2001. The main reasons for this decline are the cost of the new offices which the Group now occupies, the expenditure on the development of the QUEST™ model and the costs associated with establishing the new private client division. In the latter case, the division incurred duplicated running costs as its settlements were handled and charged for by NatWest for six months, whilst the staff were recruited and trained in new offices to take on the operations from December onwards.

Amortisation

The Group continues to amortise the goodwill arising on consolidation of acquisitions over a 20 year life. The continuing appropriateness of this amortisation period is reviewed each year. The private client division was acquired mid way through the year, thus the amortisation charge for 2002 will increase to reflect ownership for a full year.

Exceptional Item

In the second half of 2001 the Group disposed of nearly all its fixed asset investment in shares in The London Stock Exchange plc, giving rise to an exceptional gain of some £6.7m. Half of this arose in our Channel Islands business where capital gains are free of tax. However, since it is intended that the proceeds of the disposal will be remitted to the UK, a full tax charge has been provided. This gives rise to an overall tax charge on the exceptional item of £2m.

Taxation

In the UK the Group has a corporation tax rate of approximately 30%. Profits are taxed at the lower rate of 20% in the Channel Islands and at 46% in the USA. The Group maintains a deferred tax balance of £1.7m in its balance sheet to cover the additional tax due on dividends, to the extent that it is intended that funds be remitted from the Channel Islands to the UK.

Dividends on Ordinary Shares

The Board is proposing a final dividend per share for 2001 of 4.5p, bringing the total dividend for the year to 6.75p, with a dividend cover of 2.7. Excluding the exceptional item, dividend cover was 2.1.

Return on Capital Employed

The average return on capital employed for the year, measured by dividing operating profit by average shareholders funds (including cumulative goodwill) and average long term debt less average cash balances was 30% for the year (2000: 34%).

Cashflow

The Group finished the year with £43.6m net funds on its balance sheet, up £3.9m from 2000. Operations generated £14.8m after tax and these funds were used, together with £12.2m raised through a share placing, to fund the acquisition of the private client division of NatWest Stockbrokers (£17.6m), to repay loans taken out at the time of the MBO (£9.8m) and for capital expenditure of £6.4m. The capital expenditure was spent on equipping the London offices with fixtures and furnishings and also to install new computer systems and office equipment for both the existing Group and the new private client division.

Funding Structure

The Group maintains substantial liquid resources to meet its settlement requirements. In addition to its net cash position it has a revolving credit facility of a further £25m which it can call upon to meet any trading requirements. The capital structure is regulated by the Financial Services Authority which monitors the capital adequacy of the Group. During the year, the Group remained comfortably within the capital adequacy guidelines set by the Financial Services Authority. At the year end the Group had capital of more than 200% of its regulatory requirement.

Compliance and the New Legislation

On 30 November 2001 the Financial Services and Markets Act 2000 came into force and the Group's regulator, The Securities and Futures Authority, was replaced by the Financial Services Authority. At the same time, a new regulatory regime came into being. This has required our regulated entities to formalise many of the management structures and risk management systems which they had in operation. Our Compliance team in London has also been expanded from two to four to deal with the increased regulation, and also to handle the compliance needs of the new private client division.

FUTURE DEVELOPMENTS AND OUTLOOK

The Group continues to invest in new personnel in all areas of our business, taking advantage of the availability of excellent candidates. Recruitment was heavily restricted when we were still in old premises but the additional space provided by our new offices should allow us to continue to expand. In the current difficult markets, the Group's success continues to provide us with a steady stream of approaches from talented individuals and it is our intention to take advantage of the opportunities presented.

In fixed interest, we have already taken the first steps towards establishing trading in Eurosterling bonds, and in New York have commenced trading in ADRs.

In the Channel Islands, two hedge funds based on the QUEST™ triAngle model, triAngle UK and triAngle European, were launched in January.

The Group's capital expenditure programme will continue in 2002, albeit on a considerably reduced scale. The QUEST™ Plus project is expected to continue until the autumn. This will be the first full year of occupation of Wood Street so that occupancy costs will again be higher than in 2001. However, the effective "double running" operational costs of the private client division have now ceased. At the start of 2002 we signed a lease over additional floor space at 88 Wood Street to enable us to continue to expand.

We continue to look for ways to build or acquire an asset management business. A number of opportunities were reviewed during 2001 but none of them fitted our criteria.

Our plans are not based upon any improvement in market conditions during 2002. Although market conditions make us cautious, we continue to regard these same conditions as an opportunity for the Group to improve its competitive situation.

Terry Smith

Chief Executive

K Hamill (aged 49) – Independent Non-executive Chairman

Keith Hamill joined the Board in September 2000 and is chairman of the Audit and Nominations Committees and a member of the Remuneration Committee. He is currently non-executive chairman of Luminar plc, Moss Bros Group PLC and Go Limited, a non-executive director of Electrocomponents plc and treasurer of Nottingham University. He is a chartered accountant and worked for Price Waterhouse from 1975 to 1988, becoming partner in 1987. Subsequently he was director of financial control at Guinness, finance director of United Distillers, Forte plc and WH Smith. He was also previously a member of the Urgent Issues Task Force of the Accounting Standards Board.

A M Stewart (aged 50) – Executive Deputy Chairman

Andy Stewart is one of the founders of Collins Stewart. He started his career as a stockbroker in 1969 with Simon & Coates, where he became a senior partner. After Simon & Coates were acquired by Chase Manhattan Bank, he became chief executive of Chase Manhattan Securities. When that operation closed he co-founded Collins Stewart in 1991.

T C Smith (aged 48) – Chief Executive

Terry Smith started his career with Barclays Bank and became a stockbroker in 1984 with W Greenwell & Co. He was top rated bank analyst in London from 1984 to 1989, during which period he also worked at BZW and James Capel. In 1990 he became head of UK Company Research at UBS Phillips & Drew, a position he left in 1992 following the publication of his best selling book, Accounting for Growth. He joined Collins Stewart shortly after and became a director in 1996. Terry Smith is an associate of the Chartered Institute of Bankers, has an MBA from The Management College, Henley and is qualified as a Series 7 Registered Representative and a Series 24 General Securities Principal with the NASD. He is a member of the Nominations Committee.

H L Smith (aged 30) – Finance Director

Helen Smith started her career with Singer & Friedlander in 1990 and worked both in the back office and finance department, providing operational support to Collins Stewart in its early years. She moved to Collins Stewart in 1994 and was appointed Finance Director in March 1999, responsible for Finance, Operations and IT. She is a chartered certified accountant.

T J Hitchcock (aged 50) – Non-executive Director

Terry Hitchcock is a member of the Audit Committee and chairs Collins Stewart Limited's dealing committee and other committees established to manage significant projects. He co-founded Collins Stewart in 1991. He retired as an executive director of Collins Stewart in 1998 and was appointed as a Non-executive director in 1999. He is a Non-executive director of Framlington Second Dual Trust plc and John Lusty Group plc and a trustee of Help the Aged.

R R Lucas (aged 39) – Non-executive Director

Rob Lucas joined the Board of Collins Stewart in May 2000 and is a member of the Nominations Committee. He is a non-executive director of a number of companies in which funds advised or managed by CVC Capital Partners or its associates have invested, including Cork International Limited, Parisa Group Limited and Dutton-Forshaw Group Limited. He worked for Marconi as an engineer until 1987 when he moved into private equity investment with 3i plc. He is currently a managing director of CVC Capital Partners.

J S Spencer (aged 58) – Independent Non-executive Director

John Spencer was appointed a director in September 2000 and is chairman of the Remuneration Committee and a member of the Audit and Nominations Committees. In addition, he has been nominated by the Board as senior independent Non-executive director. He is currently chief executive of Snell & Wilcox Limited. He qualified as a chartered accountant with KPMG and in 1969 he joined Barclays Bank where he held a variety of posts including head of group finance and planning, president of Barclays Bank of New York, chief executive of the USA Banking division and deputy chief executive of BZW. He was non-executive chairman of Regent Inns plc from 1995 to 1998 and was also previously non-executive chairman of Softtechnet.com plc.

The directors present their report, together with the audited financial statements of the Company and its subsidiaries for the year ended 31 December 2001.

Principal Activities

Collins Stewart is a financial services group whose activities span institutional and private client stockbroking, market making, corporate finance, fund management and the supply of on-line financial information.

The Group's operations are conducted through three principal operating companies: Collins Stewart Limited (located in London), Collins Stewart (CI) Limited (which operates from offices in the Channel Islands and the Isle of Man) and Collins Stewart Inc (located in New York).

Results and Dividends

The results for the period are set out in the profit and loss account on page 28. The directors recommend a final dividend for the year of 4.5p (2000: 1.25p) on each ordinary share, amounting to £4,583,000 (2000: £1,289,000). The total dividends for the period amounted to £9,477,000 (2000: 2,862,000), after taking account of the proposed ordinary dividend and £2,602,000 (2000: £1,573,000) payable on the Company's preference shares. Further details are contained in Note 11.

The final ordinary dividend, if approved, will be paid on 6 June 2002 to ordinary shareholders whose names were on the register on 10 May 2002.

Review of the Year and Future Developments

In April 2001 Collins Stewart (CI) Limited established a new subsidiary, Collins Stewart Property Fund Management Limited, a company which is 75% owned by the Collins Stewart (CI) Group and 25% owned by an employee share ownership trust. The company acquired the business and assets of a property fund management business based in the UK.

On 6 June 2001 Collins Stewart Limited acquired the business and goodwill of the private client division of NatWest Stockbrokers, the retail stockbroking arm of The Royal Bank of Scotland.

On 24 October 2001, the anniversary of the Company's flotation on the London Stock Exchange, the selling restrictions imposed on approximately 22m shares held by the MBO backers and employees were lifted. Restrictions remain on 47m shares held by management and employees as to 50% of such holdings until the publication of the preliminary results for the year to 31 December 2002 and the balance the year after.

A review of the Group's trading during the period and its future development is set out in the Financial and Operational Review.

Fixed Assets

The movements in fixed assets during the year are disclosed in note 14 to the accounts.

Directors

The directors who held office during the year were as follows:
K Hamill (Non-executive chairman)
A M Stewart (Deputy executive chairman)
T C Smith (Chief Executive)
H L Smith
T J Hitchcock
R R Lucas
J S Spencer
P Wedge (resigned 30 September 2001)

Directors' Interests

The interests (all beneficial) of those persons who were directors at the end of the year in the share capital of the Company were as follows:

	2001		2000	
	Ordinary shares of 25p	"B" preference shares of 1p	Ordinary shares of 25p	"B" preference shares of 1p
K Hamill	15,822	–	15,822	–
A M Stewart	4,400,000	329,666	4,400,000	329,666
T C Smith	8,800,000	659,333	8,800,000	659,333
H L Smith	2,200,000	164,833	2,200,000	164,833
T J Hitchcock (ii)	660,000	98,900	1,320,000	98,900
R R Lucas (i)	133,294	–	133,294	–
J S Spencer	31,645	–	31,645	–

(i) Rob Lucas is beneficially interested in these ordinary shares, which are held by Capital Ventures Nominees Limited.
(ii) During the year Terry Hitchcock donated 660,000 ordinary shares to The Essex Fairway Charitable Trust.

At the date of this document, there had been no changes in the above directors' interests in the share capital of the Company.

Directors' share options are set out in the Report on directors' remuneration on page 24.

Directors' Loans

Collins Stewart Holdings plc

Loans advanced by various directors to Collins Stewart Holdings plc in relation to the MBO are summarised below.

	2001 £	2000 £
A M Stewart	–	164,834
T C Smith	–	329,667
H L Smith	–	82,417
T J Hitchcock	–	49,450

These loans were repaid at the same time as all the other loans made by staff and consultants pursuant to the MBO, on 31 July 2001.

Collins Stewart Limited

Collins Stewart Limited issued secured loan notes at par on 1 March 1996 to various directors. The amounts owing at the period end are summarised below. These loan notes are referred to at Note 19 and terms attaching to them are stated therein.

	2001 £'000	2000 £'000
A M Stewart and spouse	2,367	2,380
T J Hitchcock and spouse	812	812

Substantial Interests

At the date of this document, the following (not being directors, their families or persons connected, within section 346 of the Companies Act 1985) had notified the Company that they were interested in 3 per cent or more of the issued share capital of the Company:

	Number	Percentage of class
Ordinary shares of 25p		
The Collins Stewart Holdings plc Employee Share Ownership Trust	25,042,258	23.57
Axa SA	6,240,134	5.87
CVC European Equity Partners II LP	5,067,600	4.77
Lazard Freres & Co LLC	4,647,464	4.37
The Collins Stewart (CI) Limited Employee Share Ownership Trust	4,252,680	4.00
"A" preference shares of 1p		
CVC European Equity Partners II LP	11,329,970	27.43
Axa SA	11,325,108	27.42
Citicorp Capital Investors Europe Limited	4,996,371	12.10
The Collins Stewart (CI) Limited Employee Share Ownership Trust	4,013,392	9.72
CVC European Equity Partners II (Jersey) LP	3,659,142	8.86
The Governor and Company of the Bank of Scotland	3,330,913	8.06
"B" preference shares of 1p		
The Collins Stewart Holdings plc Employee Share Ownership Trust	1,655,492	50.22

All the shares held by the directors and the ESOTs are subject to selling restrictions, whereby the shares cannot be disposed of within a period of approximately one and a quarter years from the year end, with further restrictions limiting the amount of sales applying in the following 12 month period.

Social, Environmental and Ethical Matters

The Board has adopted policies with regard to the social, environmental and ethical matters which affect its business. These govern, inter alia, the type of business which the Group transacts, the way in which it conducts its business and its approach to training and incentivising its staff. Some of these policies are summarised below.

Staff

It is the Group's policy to give appropriate consideration to applications for employment from disabled persons, having regard to their particular aptitudes. For the purposes of training, career development and promotion, the policy is not to discriminate against any disabled persons.

The Group has a policy of keeping employees informed about major developments in the business. In particular, announcements are made available to employees when released to the public. A large proportion of the Group's management and employees own shares in the Company. The directors consider that employee share ownership is an important aspect of incentivising employees and aligning their interests with other shareholders.

Health and Safety Policy

The Board has a policy of adopting procedures, appropriate to its activities, to monitor, maintain and, where relevant, improve health and safety standards to safeguard the Group's staff.

Environmental Policy

The nature of the Group's activities is such that it has a minimal effect on the environment. However, the Board has agreed that it will seek to adopt policies to safeguard the environment where such policies are commercially sensible. Currently the Group does recycle some of its waste paper and employs some energy saving practices.

Policy of Payment to Suppliers

It is the Company's policy that all transactions are settled in accordance with relevant terms and conditions of business agreed with the supplier, provided all trading terms and conditions have been complied with. The average creditor days at 31 December 2001 for supplier payments, other than stockbroking transactions which are settled sooner in accordance with market practice, were 37 days for the Group (2000: 35) and 15 days (2000: 35) for the Company.

Special Business at the Annual General Meeting

At the Annual General Meeting on 30 May 2002 resolutions 8 to 10 will be proposed under special business. Resolutions 8 and 9 are to renew the directors' authorities to allot shares, resolution 10 is to give the directors authority to purchase the Company's own shares in the market.

Under resolution 8 it is proposed, to grant the directors authority to allot unissued shares in the capital of the Company up to a nominal amount of £8,852,188 representing approximately 33 per cent of the issued share capital of the Company.

Resolution 9 seeks to renew, in accordance with section 89 of the Companies Act 1985, the directors' authority to allot further shares for cash, without first offering them to existing shareholders under the statutory pre-emption procedure. This authority is limited to the issue of equity securities in connection with rights issues and otherwise up to a nominal amount of £1,327,828, representing approximately 5% of the Company's issued share capital.

Resolution 10 seeks to obtain authority for the directors to purchase up to 10% of the share capital in issue at the date of this document. The maximum price that may be paid under the authority will be limited to 105% of the average middle market quotations of the Company's shares as derived from the Daily Official List of the UK Listing Authority for the five business days prior to any purchase. The directors will exercise this authority only if they are satisfied that any purchase will be in the interests of shareholders.

It is not the directors' present intention to allot any ordinary shares except to satisfy options that may be exercised under the Company's share option schemes or to purchase any ordinary shares in the market. The authorities contained in resolutions 8 to 10, will expire at the conclusion of the annual general meeting to be held in 2003 or 15 months after the passing of such resolutions (whichever is the earlier).

Events Since the Balance Sheet Date

There have been no material events since the balance sheet date.

Political and Charitable Donations

During the period under review, no political donations were made by the Group. Charitable donations amounting to £45,000 (2000: £19,000) were made to various charities.

Auditors

Deloitte & Touche have expressed their willingness to continue in office as auditors and a resolution to re-appoint them will be proposed at the Annual General Meeting.

BY ORDER OF THE BOARD

D Dyer Bartlett
Secretary
25 March 2002

The directors are responsible for the corporate governance of the Group. They support the principles of good corporate governance and code of best practice laid down by the Combined Code.

Throughout the year ended 31 December 2001 the Company has been in compliance with the provisions set out in Section 1 of the Combined Code on Corporate Governance issued by the Financial Services Authority with the following exception. The remuneration committee did not comprise solely independent Non-executive directors as Terry Hitchcock is not deemed to be independent owing to his previous executive role. Nevertheless, the balance of authority remained with the independent Non-executive directors as they formed the majority on the committee. Since the year end Terry Hitchcock has now resigned from the committee, thus the committee now comprises solely independent Non-executive directors.

The manner in which the Company has applied the principles of good governance set out in the Combined Code is outlined below.

Directors

The Board comprises three Executive and four Non-executive directors, whose biographies are set out on page 11. Keith Hamill, the Non-executive Chairman, and John Spencer, the independent senior Non-executive director are independent of management for the purposes of the Combined Code. Terry Hitchcock and Rob Lucas are not considered independent, in the former case because of Terry's previous executive role, and in the latter case, because of Rob's representation of a major shareholder. The independent Non-executive directors represent a majority on all the committees appointed in accordance with the Combined Code, either by number or by casting vote.

The Non-executive Chairman, Keith Hamill, is responsible for the conduct of the Board and its oversight of the Company's affairs and strategy. The Chief Executive, Terry Smith, is responsible for the management of the business, the co-ordination of its activities and the development of strategy. The Deputy Chairman, Andy Stewart, takes particular responsibility for the leadership, management and control of UK market making and relationships with a number of key clients. In addition, John Spencer has been nominated by the Board as independent senior Non-executive director. The Board believes that these arrangements facilitate the effective management of the business and provide a strong control environment.

The biographies demonstrate a range of experience and sufficient calibre to bring independent judgement on issues of strategy, performance, resources and standards of conduct which is vital to the success of the Group. The Board is responsible to shareholders for the proper management of the Group. A statement of the directors' responsibilities in respect of the accounts is set out on page 25 and a statement on going concern is set out below.

The Board meets regularly to discuss the Group's operations and is provided with appropriate information on a timely basis to enable it to discharge its duties. It has a formal schedule of matters reserved to it for decision, including, inter alia, developing the future direction of the Group's business, approving material transactions and budgets and monitoring the Group's progress. All directors receive written reports prior to each Board meeting which enable them to make an informed decision on the corporate and business issues under review.

All the Executive directors' service contracts are for indefinite periods and may be terminated by the Company or the relevant director by giving 12 months notice. The Company is entitled to terminate the service contracts of any of the Executive directors by paying salary and bonuses in lieu of notice.

The Non-executive directors' appointments terminate if the director is not re-appointed following his retirement pursuant to the articles of association or if he is otherwise removed from the Board by the operation of law or pursuant to the articles of association or if he resigns or does not offer himself for re-election by shareholders. In addition the appointments of Keith Hamill, John Spencer and Terry Hitchcock may be terminated by the Company or the relevant director by 12 months written notice and Rob Lucas' appointment can be terminated without notice. Subject to the aforesaid, the Board has adopted a policy that Non-executive directors should be appointed for a specified period, initially normally for three years, subsequent three year extensions being at the Board's discretion.

All directors are subject to election by shareholders at the first annual general meeting of shareholders after their appointment. Thereafter, all directors are required to retire by rotation and one third of the Board will seek re-election at each future annual general meeting. At the forthcoming AGM in May Terry Hitchcock, Terry Smith and Helen Smith will retire by rotation and seek re-election. Resolutions proposing their re-election are set out in the Notice of Annual General Meeting at the back of this document.

All directors have access to the services of the Company Secretary and there are procedures in place for taking independent professional advice at the Company's expense if required.

The following committees deal with the specific aspects of the Group's affairs:

Audit Committee

The Audit Committee is chaired by Keith Hamill, the Non-executive Chairman and includes John Spencer and Terry Hitchcock, both Non-executive directors. Terry Hitchcock joined the Committee during the year and Rob Lucas stood down. The Committee's terms of reference include reviewing the scope and findings of the external audit, the requirement for an internal audit function, the effectiveness of the Company's internal control procedures and the reporting of results. The Company's auditors and the Executive directors may attend committee meetings. The Committee has a discussion with the external auditors at least once a year without Executive directors being present, to ensure that there are no unresolved issues of concern. The Audit Committee met four times during the course of 2001.

Remuneration Committee

The Remuneration Committee comprises John Spencer (Chairman) and Keith Hamill. Terry Hitchcock was, until recently, a member of the committee, but not being independent for the purposes of the Combined Code, has stood down from this role. The Committee is responsible for agreeing the remuneration of the Executive directors of the Company and for granting share options under the Company's share option schemes.

Nominations Committee

The Nominations Committee is chaired by Keith Hamill (the independent Non-executive Chairman) who is joined by Terry Smith (the Chief Executive), John Spencer and Rob Lucas (both Non-executive directors). The Nominations Committee is responsible for proposing candidates for appointment to the Board, having regard to the balance and structure of the Board. The Nominations Committee did not meet during 2001.

Internal Control

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. In discharging its responsibilities in this respect, the Board has appointed the Audit Committee to carry out the annual review of the effectiveness of the internal control system and to report to the Board thereon.

The systems of internal control operated by the Group are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Throughout the financial period, the Group's internal control systems and risk management have been actively managed by the directors. During the year, the Company has maintained procedures which comply with the "Internal Control; Guidance for Directors on the Combined Code" adopted by the London Stock Exchange.

The directors are responsible for identifying, evaluating and managing the significant risks faced by the Company. The Audit Committee has conducted a formal review of the effectiveness of the Group's internal control systems for 2001 and reported to the Board thereon. The review, which considered all the controls, including financial, operational and compliance controls and risk management, has not identified any material problems. To date the Company has decided that it has sufficient monitoring and control procedures in place to justify not having an internal audit function.

The Group has detailed policies and procedures in place, and, in accordance with the new Financial Services and Markets Act 2000, all senior management in the UK have detailed job descriptions. Trading is monitored by the Executive directors daily, and checks, balances and reconciliations are used at all material stages of the Group's operations. The Board considers monthly management accounts and budgets and plans and discusses any issues arising therefrom. In addition, Collins Stewart Limited has a dealing committee chaired by Terry Hitchcock and comprising members of the senior management team, which considers all major operational projects and trading developments. The Executive directors all receive minutes of the dealing committee meetings.

The Compliance department is responsible for carrying out regular checks that procedures are being implemented in compliance with the rules of the Financial Services Authority. The Compliance officer is in regular contact with the Executive directors, reports formally to the Board monthly, and periodically to the Audit Committee.

Going Concern

The directors have satisfied themselves, at the time of approving the financial statements, that the Group has adequate resources to continue in operational existence for the foreseeable future, and for this reason the financial statements are prepared on a going concern basis.

Relations with Shareholders

The Board recognises the importance of communications with shareholders. The Group's website at *www.collins-stewart.com* contains information on the Group and the products and services which it offers. The Chairman's statement and financial and operational review in this report and accounts further include a detailed review of the business and future developments. There is regular dialogue with institutional investors, fund managers and analysts, including presentations around the time of the Company's preliminary announcement of results for the year and also at the interim stage.

The Board uses the Annual General Meeting to communicate with private and institutional investors and welcomes their participation. The Chairman aims to ensure that all of the directors are available at Annual General Meetings to answer questions. The proxy votes cast on each resolution are disclosed at the AGM.

Constitution of the Remuneration Committee

The remuneration committee comprises the two independent Non-executive directors (John Spencer, who acts as chairman, and Keith Hamill). Terry Hitchcock was a member during the year but has stood down from this role after the year end, as he is not deemed to be independent for the purposes of the Combined Code. The Chief Executive attends meetings by invitation.

The terms of reference of the Committee are, inter alia, to agree, on behalf of the Board, the remuneration of the Executive directors and the granting of share options under the Company's share option schemes.

Policy on Executive Directors' Remuneration

The policy for remunerating Executive directors is to provide packages that are designed to attract, motivate, reward and retain directors who have the necessary skills and experience to drive the business forward successfully.

The components of the Executive director remuneration package are: basic salary, performance bonus, private medical and life insurance. No pension contributions are made in respect of any director, nor does any director have the benefit of a car financed by the Company. Currently, no share options (other than those under the Company's Sharesave Scheme 2000, details of which are set out below) have been granted to the Executive directors. This is because all Executive directors have the benefit of substantial equity holdings in the Company as a result of the management buy-out completed in May 2000. This policy may change in future.

As a general principle, it is intended that basic salaries and benefits in kind will continue to be low in comparison to other similar companies and that the bonus element of remuneration will be highly geared to individual as well as Group performance. This principle is consistent with the policy for all members of staff. When reviewing Executive directors' bonuses, the Remuneration Committee takes into account remuneration paid by other comparable companies and bonus payments made to staff.

Where performance justifies, the Company intends to pay more attractive bonuses than competitors and hence to attract high calibre staff to work for the organisation. In the current financial year basic pay remained at the previous year's level. Bonus payments were also considerably lower than those paid last year despite the Group's strong performance in difficult market conditions.

Non-executive Directors' Fees

Fees of all Non-executive directors are set by the Board. The Non-executive directors are not involved in any discussions or decision by the Board about their own remuneration.

Keith Hamill and John Spencer were granted share options under the Company's Unapproved Share Option Scheme no 2 prior to the admission of the Company's shares to the Official List of the UK Listing Authority and to trading on the London Stock Exchange. None of the Executive directors have been granted any options under this scheme. Further details are provided overleaf.

Directors' Remuneration

The following table shows a breakdown of the remuneration of individual directors for the year ended 31 December 2001; the table below shows the comparative information for the period to 31 December 2000.

2001 £'000	Salaries and Fees	Benefits	Performance Related Bonuses	Total
Executive Directors				
A M Stewart	100	2	1,800	1,902
T C Smith	100	1	2,100	2,201
H L Smith	100	1	300	401
P Wedge	67	–	–	67
Non-executive Directors				
K Hamill	48	–	–	48
T J Hitchcock	–	1	125	126
R R Lucas	–	–	–	–
J S Spencer	24	–	–	24

In addition to the above, a payment of £696,000 was made to Paul Wedge on termination of his employment. He was further allowed to retain 479,542 of the shares which he acquired pursuant to the MBO, the balance of 3,093,258 ordinary shares being transferred to the Collins Stewart Holdings plc Employee Share Ownership Trust at cost.

2000 £'000	Salaries and Fees	Benefits	Performance Related Bonuses	Total
Executive Directors				
A M Stewart	58	2	2,102	2,162
T C Smith	58	1	2,102	2,161
H L Smith	58	1	234	293
P Wedge	58	1	577	636
Non-executive Directors				
K Hamill	13	–	–	13
T J Hitchcock	–	–	176	176
R R Lucas	–	–	–	–
J S Spencer	7	–	–	7

Note: The remuneration information for 2000 was for the period which commenced on 26 May 2000 and ended 31 December 2000. The remuneration paid to A M Stewart, T C Smith, H L Smith, P Wedge and T J Hitchcock in respect of the year ended 31 December 2000 (by Collins Stewart Limited in the period to 25 May 2000 and by Collins Stewart Holdings plc thereafter) was £3,728,000, £3,727,000, £502,000, £1,097,000 and £351,000 respectively.

Directors' Service Contracts

Directors' service contracts and letters of appointment are terminable on no more than 12 months notice. Non-executive directors appointments are expected to be for an initial three year period which may be extended by further three year periods at the Board's discretion. All Non-executive appointment letters have a maximum notice period of 12 months.

Directors' Share Options

Set out below are the share options granted by Collins Stewart Holdings plc, together with the options over shares in Collins Stewart Limited, granted when it was a subsidiary undertaking of Singer & Friedlander Group plc, and which were exercised on 31 August 2001.

Collins Stewart Holdings plc

Details of the directors' share options outstanding at 31 December 2001 and 31 December 2000, all of which were granted during the period to 31 December 2000, are set out below:

Director	Ordinary Shares under Option	Earliest Exercise Date	Expiry Date	Exercise Price
Unapproved Share Option Scheme no 2				
K Hamill	127,532	16.10.2003	15.10.2010	316p
J S Spencer	63,766	16.10.2003	15.10.2010	316p
Sharesave Scheme 2000				
A M Stewart	5,779	1.1.2006	30.6.2006	292p
T C Smith	5,779	1.1.2006	30.6.2006	292p
H L Smith	5,779	1.1.2006	30.6.2006	292p

No share options were exercised during the year ended 31 December 2001 (2000: nil) nor did any lapse.

The share options granted under the Unapproved Share Option Scheme no 2 are subject to a performance condition being met, based on the Company's return on capital employed exceeding the median for the FTSE Mid 250 Index.

The market price of the Company's ordinary shares ranged from a low of 263p to a high of 444p during the year. At 31 December 2001 it was 390p.

Collins Stewart Limited

The following directors held options to acquire "B" ordinary shares of 1p of Collins Stewart Limited:

Directors	Held at 31 December 2000	Exercised	Held at 31 December 2001	Exercise Price	Market Price at Exercise Date
T C Smith	2,638,979	2,638,979	–	£0.01	£0.71
A M Stewart	2,878,923	2,878,923	–	£0.01	£0.71
Total	5,517,902	5,517,902	–		

The above options were granted on 15 May 1998 when the company was a subsidiary undertaking of Singer & Friedlander Group plc. The options were exercised on 31 August 2001. Upon exercise of the options, Singer & Friedlander acquired all such shares at 71p per share. Under an acquisition agreement relating to the MBO, Singer and Friedlander transferred all these shares to Collins Stewart Holdings plc for no consideration.

statement of directors' responsibilities

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the group as at the end of the financial year and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

independent auditors' report to the members of collins stewart holdings plc

We have audited the financial statements of Collins Stewart Holdings plc for the year ended 31 December 2001 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheets, the cash flow statement and the related notes 1 to 32. These financial statements have been prepared under the accounting policies set out therein.

Respective Responsibilities of Directors and Auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements, auditing standards, and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We review whether the corporate governance statement reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of Audit Opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the company and the group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 2001 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Chartered Accountants and Registered Auditors
Stonecutter Court
1 Stonecutter Street
London
EC4A 4TR
25 March 2002

consolidated profit and loss account
for the year ended 31 december 2001

	Notes	2001 £'000	2000 £'000
Turnover			
Continuing operations		99,191	54,969
Acquisitions		4,025	–
	1,2	103,216	54,969
Administrative expenses			
Goodwill amortisation: *Continuing operations*		(5,636)	–
Acquisitions		(514)	(3,300)
		(6,150)	(3,300)
Other expenses: *Continuing operations*		(65,982)	(34,468)
Acquisitions		(5,384)	–
		(71,366)	(34,468)
Total administrative expenses		(77,516)	(37,768)
Other operating income			
Continuing operations		905	247
Acquisitions		170	–
	3	1,075	247
Operating profit			
Continuing operations		28,478	17,448
Acquisitions		(1,703)	–
	2,4	26,775	17,448
Exceptional item: profit on sale of fixed asset investments in continuing operations	7	6,684	–
Profit on ordinary activities before interest		33,459	17,448
Interest receivable and similar income		3,523	2,583
Interest payable and similar charges	8	(4,203)	(7,322)
Profit on ordinary activities before taxation		32,779	12,709
Taxation on profit on ordinary activities	9	(11,401)	(4,456)
Profit on ordinary activities after taxation		21,378	8,253
Equity minority interests		5	(25)
Profit for the period attributable to shareholders of Collins Stewart Holdings plc		21,383	8,228
Dividends			
Ordinary dividend on equity shares	11	(6,875)	(1,289)
Preference dividend on non-equity shares	11	(2,602)	(1,573)
Retained profit for the period		11,906	5,366
Earnings per share			
Basic	12	18.21p	12.23p
Diluted	12	18.05p	12.07p
Basic before goodwill amortisation and exceptional item	12	19.64p	18.29p

Consolidated statement of total recognised gains and losses (for the year ended 31 December 2001)

	2001 £'000	2000 £'000
Profit for the period attributable to shareholders of Collins Stewart Holdings plc	21,383	8,228
Currency translation differences	11	–
Total recognised gains & losses for the period	21,394	8,228

	Notes	2001 £'000	2000 £'000
Fixed assets			
Intangible assets	13	120,891	109,574
Tangible assets	14	6,866	2,164
Investments	15	103	103
		127,860	111,841
Current assets			
Investments	16	14,625	12,671
Debtors	17	103,376	158,132
Cash at bank and in hand	18	66,299	70,064
		184,300	240,867
Creditors: amounts falling due within one year	19	(150,801)	(208,742)
Net current assets		33,499	32,125
Total assets less current liabilities		161,359	143,966
Creditors: amounts falling due after more than one year	20	(18,605)	(25,407)
Equity minority interests		(158)	(138)
Net assets		142,596	118,421
Capital and reserves			
Called up share capital	21, 22	27,003	26,221
Share premium account	22	98,310	86,834
Profit and loss account	22	17,283	5,366
		142,596	118,421
Shareholders' funds			
Equity		97,996	73,821
Non equity		44,600	44,600
		142,596	118,421

Approved by the Board of Directors on 25 March 2002 and signed on its behalf by:

T C Smith
Chief Executive

company balance sheet
as at 31 december 2001

	Notes	2001 £'000	2000 £'000
Fixed assets			
Investments	15	151,667	140,417
Current assets			
Investments	16	182	6
Debtors	17	7,145	10,302
Cash at bank and in hand	18	480	148
		7,807	10,456
Creditors: amounts falling due within one year	19	(12,829)	(9,262)
Net current (liabilities)/ assets		(5,022)	1,194
Total assets less current liabilities		146,645	141,611
Creditors: amounts falling due after more than one year	20	(16,590)	(24,722)
Net assets		130,055	116,889
Capital and reserves			
Called up share capital	21, 22	27,003	26,221
Share premium account	22	98,310	86,834
Profit and loss account	22	4,742	3,834
		130,055	116,889
Shareholders' funds			
Equity		85,455	72,289
Non equity		44,600	44,600
		130,055	116,889

Approved by the Board of Directors on 25 March 2002 and signed on its behalf by:

T C Smith
Chief Executive

	Notes	2001 £'000	2000 £'000
Net cash inflow from operating activities	26	25,875	52,500
Returns on investments & servicing of finance:			
Interest received		3,434	2,435
Interest paid		(2,629)	(4,283)
Preference dividends paid		(1,573)	–
Dividends paid to minorities		(34)	–
		(802)	(1,848)
Taxation:			
Corporation tax paid		(8,843)	(4,417)
Overseas tax paid		(2,213)	(387)
		(11,056)	(4,804)
Capital expenditure and financial investments:			
Purchase of tangible fixed assets		(6,346)	(592)
Proceeds from sale of tangible fixed assets		7	–
Purchase of fixed asset investments		–	–
Sale of fixed asset investments	7	6,684	–
		345	(592)
Acquisitions and disposals:			
Purchase of subsidiary undertakings		(17,408)	(138,917)
Net cash acquired with subsidiary undertaking		–	26,960
		(17,408)	(111,957)
Equity dividends paid		(3,581)	–
Net cash outflow before financing		(6,627)	(66,701)
Financing:			
Issue of ordinary share capital		12,500	73,100
Issue of preference share capital		–	44,600
Share issue costs		(242)	(4,645)
(Repayment)/ issue of debt and loans net of issue costs		(9,868)	23,222
Repayment of secured loan notes		(13)	(50)
		2,377	136,227
(Decrease)/increase in cash	27, 28	(4,250)	69,526

1. Accounting Policies

Basis of Preparation

The financial statements have been prepared in accordance with applicable accounting standards and UK company law. The principal accounting policies of the Group are set out below. The Company was incorporated on 11 January 2000 with a view to carrying out a management buyout of Collins Stewart Limited. The comparative figures for 2000 therefore only include the results of Collins Stewart Limited from the date of the MBO on 26 May 2000.

These financial statements have been prepared under the historical cost convention, modified to include trading positions at market prices.

Basis of Consolidation

The Group financial statements consolidate the results of Collins Stewart Holdings plc and all its subsidiary undertakings, drawn up to 31 December 2001. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired during the year are included in the consolidated profit and loss account from the date of acquisition.

In accordance with section 230(4) of the Companies Act 1985 Collins Stewart Holdings plc has taken advantage of the legal dispensation not to present its own profit and loss account. The amount of the profit after taxation for the financial period dealt with in the financial statements of the Company is disclosed in note 10.

Turnover

Turnover, which excludes value added tax, includes the profit on buying and selling securities, the profit or loss arising on positions held in securities, gross commissions and fees earned. Dividends and interest arising on long and short positions in securities form part of turnover, and as they are also reflected in movements in market prices, are not identified separately. Corporate finance fee income is recognised upon completion of the relevant transaction, when the deal has become unconditional.

Goodwill

On the acquisition of a business, fair values are attributed to the share of net separable assets acquired. Where the cost of an acquisition exceeds the fair values attributable to such net assets, the difference is treated as goodwill.

Positive goodwill arising on acquisition is capitalised, classified as an asset on the balance sheet and amortised through the profit and loss account on a straight line basis over its useful economic life, which is currently estimated at 20 years in respect of all recent acquisitions.

Goodwill is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Costs of Raising Debt Finance

The costs of raising debt finance are capitalised and netted against the debt to which such costs relate in the balance sheet. They are amortised through the profit and loss account on the basis of a constant rate of return on the carrying amount over the life of the debt facility.

Depreciation

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 fittings	25%
Office equipment	25%
Leasehold improvements	7-10 years
Freehold land and buildings	100 years

Fixed Asset Investments

The Company's fixed asset investments are stated at cost less any provision for impairment.

Long and Short Positions in Securities

Positions in listed and quoted securities are carried at realisable value on the basis of bid and offer prices at the year end, adjusted if appropriate, to reflect illiquid market conditions; any profits and losses arising from this valuation are taken to the profit and loss account. Positions in unlisted and unquoted securities are stated at cost less any provisions for impairment.

Foreign Currencies

Transactions in foreign currencies are recorded at the rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rates ruling at the balance sheet date. Translation differences are taken to the profit and loss account.

Profits and losses of overseas subsidiaries are translated into sterling at the average rates of exchange during the year. Assets and liabilities of overseas subsidiaries are translated at the rates ruling at the balance sheet date. Unrealised gains and losses arising on translation are taken directly to reserves.

Deferred Taxation

Deferred taxation is provided using the liability method on all timing differences to the extent that they are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse. Deferred tax assets are only recognised if recovery without replacement by equivalent debit balances is reasonably certain.

Operating Leases

Operating lease payments are charged to the profit and loss account on a straight line basis over the life of the lease.

Pension Contributions

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

Capital Instruments

Capital instruments are accounted for and classified as equity, or non-equity share capital and debt according to their form. The finance costs recognised in the profit and loss account in respect of capital instruments other than equity shares is allocated to periods over the term of the instrument at a constant rate on the carrying amount.

Client Moneys

The Group holds moneys on behalf of clients in accordance with the client money rules of the Financial Services Authority. Such moneys and their corresponding liabilities to clients are not shown on the face of the balance sheet as the Group is not beneficially entitled thereto. The amounts held on behalf of clients at the balance sheet date are stated at Note 29. The net return received on managing client moneys is included within other operating income.

Employee Share Ownership Trusts

Under UITF 13 the cost to an employee share ownership trust ("ESOT") of shares which have not yet vested unconditionally pursuant to employee awards, is included in current asset investments as such shares are not held for the continuing benefit of the Company. These shares, not being held for trading purposes, are held at cost and are disclosed as own shares. Dividends have not been waived by the employee share ownership trusts. Accordingly, the dividend income arising on shares which have not yet vested unconditionally pursuant to employee awards, is deducted from dividends declared in the profit and loss account. Such shares are excluded from the denominator in the earnings per share calculation.

Where appropriate, the fair value less realisation proceeds relating to the award of shares by an ESOT, calculated on the day such award is made, is expensed as a remuneration cost evenly over the period from the original grant of the particular award to the time of unconditional vesting. At the same time, the fair value of the relevant shares less the cost to the ESOT of acquiring such shares, is included in other operating income in the profit and loss account over the period from the original grant of the particular award to the time of unconditional vesting.

Securities Borrowing

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

2. Segmental Analysis of Turnover, Operating Profits and Net Assets

The Group operates within three main geographical markets: the United Kingdom, the Channel Islands and the United States.

The geographical split of the Group's activities for the year ended 31 December 2001, together with comparatives for the period to 31 December 2000, was as follows:

	UK £'000	Channel Islands £'000	USA £'000	Total £'000
2001				
Turnover	75,176	19,113	8,927	103,216
Operating profit	16,769	6,383	3,623	26,775
Net assets	120,134	22,012	450	142,596
2000				
Turnover	41,905	9,499	3,565	54,969
Operating profit	12,848	3,300	1,300	17,448
Net assets	105,207	12,769	445	118,421

The net return on managing client deposit balances in 2000 has been reclassified to other operating income from interest receivable and payable.

In the directors' opinion disclosure of information relating to business class would be seriously prejudicial to the interests of the Group. Accordingly no such disclosure is included.

3. Other Operating Income

Other operating income comprises:

	2001 £'000	2000 £'000
Continuing operations		
Net interest receivable on clients' free money	510	247
Other income	395	–
	905	247
Acquisitions		
Net interest receivable on clients' free money	170	–
	1,075	247

The net return on managing client deposit balances in 2000 has been reclassified to other operating income from interest receivable and payable.

4. Operating Profit

Operating profit is stated after charging/crediting:

	2001 £'000	2000 £'000
Foreign exchange gains	(489)	(282)
Depreciation of owned assets	1,550	640
Amortisation of intangible fixed assets	6,150	3,300
Operating lease rentals	1,840	742
Auditors' remuneration:		
Audit work in the UK	138	111
Audit work overseas	30	17
Non-audit work	157	126

In the period to 31 December 2000 an additional £1,148,000 paid to Deloitte & Touche, the Group's auditor, in connection with the MBO and the IPO, was charged to the Company's share premium account. A further £1,687,000 paid in respect of the costs of the debt issue in connection with the MBO was capitalised and offset against the debt raised.

5. Staff Costs

The aggregate employment costs of staff and directors were:

	2001 £'000	2000 £'000
Wages, salaries, bonuses and incentive payments	45,092	24,128
Social security costs	5,126	2,337
Other pension costs	491	174
Other	63	24
Payment on termination	696	–
	51,468	26,663

The average number of directors and employees of the Group during the year, all of whom were employed in financial services, was 320 (2000: 250).

6. Directors

The aggregate emoluments for the directors for the year ended 31 December 2001 charged to the profit and loss account was £5,466,000 (2000: £5,448,000). The remuneration paid to each of the directors is disclosed in the report on directors' remuneration on pages 22 to 24.

No pension contributions were made in respect of any of the directors.

7. Exceptional Item: Profit on Sale of Fixed Asset Investments in Continuing Operations

During the year the Group disposed of the majority of its holding of shares in The London Stock Exchange plc. The cost of this investment was nil and the proceeds and resulting gain were £6,684,000. These shares had been held as fixed asset investments.

8. Interest Payable and Similar Charges

	2001 £'000	2000 £'000
Bank loans and overdrafts	392	819
Subordinated loan interest	1,807	3,927
Amortisation of debt costs	1,736	2,186
Other interest payable	268	390
	4,203	7,322

As detailed in Note 2, interest payable on client deposit balances in 2000 has been reclassified to other operating income.

9. Taxation on Profit on Ordinary Activities & Exceptional Item

The taxation charge is made up as follows:

	2001 £'000	2000 £'000
Corporation tax at 30%	7,377	3,437
Overseas tax	2,067	1,047
Deferred tax	(11)	(44)
Adjustment in respect of prior years	(37)	16
	9,396	4,456
Corporation tax on exceptional item	1,010	–
Deferred tax on exceptional item	995	–
	11,401	4,456

Deferred tax is provided to the extent that the liability or asset is expected to crystallise. There were no material unprovided deferred taxes at the year end (2000: nil).

Deferred tax has been provided on the exceptional gain arising on the sale of investments by Collins Stewart (CI) on the grounds that it is intended that such proceeds will be remitted to the UK in the future.

10. Profit of the Parent Company

The parent company's profit after tax for the financial year amounted to £10,385,000 (2000: £6,697,000).

11. Dividends

	2001 £'000	2000 £'000
Equity dividends on ordinary shares		
Interim paid (2.25p)	2,292	–
Final proposed (4.5p) (2000: 1.25p)	4,583	1,289
	6,875	1,289
Non-equity dividends on preference shares		
Proposed	2,602	1,573
	9,477	2,862

12. Earnings per Share

The calculation of basic and diluted earnings per ordinary share was based on earnings of £18,781,000 (2000: £6,655,000) being profit after taxation for the year adjusted for minority interests and preference dividends. The basic earnings per share before goodwill amortisation and the exceptional item was calculated on the basic earnings above, adjusted to add back £6,150,000 (2000: £3,300,000) being the post tax cost of amortisation of goodwill, and £4,679,000 (2000: nil), being the exceptional post-tax gain on disposal of shares in The London Stock Exchange plc. The weighted average number of ordinary shares comprised the following:

	2001 No. '000	2000 No. '000
Weighted average		
Number of ordinary shares at start of period	103,101	1
Shares issued on MBO	–	49,438
Shares issued on flotation	–	4,996
Placing in June 2001	1,789	–
Shares acquired by the ESOTs from staff leaving the Group	(1,773)	–
Basic earnings per share denominator	103,117	54,435
Issuable on exercise of options	944	704
Diluted earnings per share denominator	104,061	55,139

13. Intangible Fixed Assets

	Group £'000	Company £'000
Cost		
At 1 January 2001	112,874	–
Additions	17,721	–
Adjustment to fair value of acquisitions	(254)	–
At 31 December 2001	130,341	–
Amortisation		
At 1 January 2001	3,300	–
Charge for the period	6,150	–
At 31 December 2001	9,450	–
Net book value		
At 31 December 2001	120,891	–
At 31 December 2000	109,574	–

Goodwill which arose during the year ended 31 December 2001 included:

- £17.6m in respect of the acquisition by Collins Stewart Limited of the business and goodwill of the private client division of NatWest Stockbrokers, the retail stockbroking arm of The Royal Bank of Scotland.
- £0.1m (after adjustment to fair value) in respect of the establishment of Collins Stewart Property Fund Management Limited, the acquisition of Cater Allen's Jersey business and the acquisition of the minority interests in Matrix International Limited by Collins Stewart (CI).
- a fair value adjustment of £0.2m to the assets acquired with Collins Stewart Limited at the time of the MBO pursuant to the exercise of share options in Collins Stewart Limited detailed in note 21.

14. Tangible Fixed Assets

Group	Freehold land & buildings £'000	Office equipment £'000	Fixtures and fittings £'000	Leasehold improvements £'000	Total £'000
Cost					
At 1 January 2001	92	4,707	707	–	5,506
Additions	–	3,228	186	2,932	6,346
Disposals	–	(151)	(290)	–	(441)
Foreign exchange difference	–	7	1	–	8
At 31 December 2001	92	7,791	604	2,932	11,419
Depreciation					
At 1 January 2001	5	2,844	493	–	3,342
Charge for the period	1	1,176	107	266	1,550
Disposals	–	(113)	(228)	–	(341)
Foreign exchange difference	–	2	–	–	2
At 31 December 2001	6	3,909	372	266	4,553
Net book value					
At 31 December 2001	86	3,882	232	2,666	6,866
At 31 December 2000	87	1,863	214	–	2,164

The Company does not own any tangible fixed assets.

15. Fixed Asset Investments

Investment in Subsidiary Undertakings

The principal subsidiary undertakings are as follows:

Group and Company Subsidiary undertakings held directly	Registered in	Principal Activities	Issued ordinary shares, all voting
Collins Stewart Limited	England and Wales	Stockbroking	100%
Subsidiary undertakings held indirectly			
Collins Stewart Inc (i)	USA	Stockbroking	100%
Collins Stewart Quest Limited (i)	England and Wales	Dormant	100%
Collins Stewart (CI) Limited (i)	Guernsey	Stockbroking	100%
Collins Stewart Asset Management Limited (ii)	Guernsey	Investment fund management	100%
Collins Stewart Fund Management Limited (ii)	Guernsey	Investment fund management	100%
Collins Stewart Property Fund Management Limited (iv)	England and Wales	Property management	75%
Matrix International Limited (iii)	Guernsey	Introducer of investment fund business	100%
Global Capital Management Limited (iii)	Guernsey	Investment fund management	51%

(i) shares held directly by Collins Stewart Limited
(ii) shares held by Collins Stewart (CI) Limited
(iii) shares held by Collins Stewart Asset Management Limited
(iv) shares held by Collins Stewart Fund Management Limited

Acquisitions

On 6 June 2001 Collins Stewart Limited acquired the business and goodwill of the private client division of NatWest Stockbrokers, the retail stockbroking arm of The Royal Bank of Scotland.

The consideration of £17.5m, paid in cash, comprised £11.0m payable on completion of the purchase and a deferred payment of £6.5m after more than 90% of clients' funds transferred to Collins Stewart Limited over the following 180 days. Acquisition costs of £0.1m were incurred.

The acquisition was accompanied by a placing by Collins Stewart Holdings plc of 3,125,000 ordinary shares of 25p to raise approximately £12.2m net of expenses, with the balance of the consideration being provided from existing resources.

The book and fair value of the assets acquired with the private client division of NatWest Stockbrokers was £1. The consideration discharged by cash including expenses of £0.1m, was £17.6m giving rise to goodwill of £17.6m. The goodwill arising on this acquisition has been capitalised on the balance sheet of Collins Stewart Limited and is being amortised on a straight line basis over 20 years.

	Book and fair value of assets/(liabilities) acquired £'000
Net assets acquired	–
Consideration discharged by:	
Cash	17,619
Goodwill arising on acquisition	17,619

During 2001 Collins Stewart (CI) established Collins Stewart Property Fund Management Limited, acquired Cater Allen's Jersey business (renamed Mew-sha Limited) and the minority interest in Matrix International Limited. The consideration involved in these transactions amounted to £0.1m and the goodwill arising thereon amounted to £0.1m.

During the year there was an adjustment to the fair value of the assets acquired with Collins Stewart Limited pursuant to the exercise of share options in Collins Stewart Limited detailed in note 21. This gave rise to a reduction in the goodwill arising on the acquisition of Collins Stewart Limited of £0.2m.

Group Interest in Associated Undertakings

The Group has an interest in European Fund Dynamics Limited, a company incorporated in Guernsey. At 31 December 2001 it had issued share capital of £10,000 in which the Group had an interest of 20 per cent. The interest is held by Collins Stewart (CI) Limited.

Group Investment in Securities

The Group's investments in securities were as follows:

	£'000
At 31 December 2000 and 2001	103

Investments in securities at the start of the year comprised equity shares in CRESTCO Limited and The London Stock Exchange plc, which were held at their cost. During the year, shares in The London Stock Exchange plc were sold giving rise to an exceptional pre-tax profit on disposal of £6,684,000.

Company Investment in Subsidiary Undertakings

	Shares in Subsidiary Undertakings £'000	Loans to Subsidiary Undertakings £'000	Total £'000
Cost			
At 1 January 2001	138,917	1,500	140,417
Additions	–	11,250	11,250
At 31 December 2001	138,917	12,750	151,667

In the opinion of the directors, the value of the investments in subsidiary undertakings is not less than the amount at which they are shown in the Company's balance sheet.

16. Current Asset Investments

Group	2001 £'000	2000 £'000
Long positions in equity and debt securities		
Listed in the UK	12,553	11,530
Listed overseas	634	55
Unlisted UK companies	963	711
Unlisted overseas companies	–	287
Long positions in share options		
Listed in the UK	293	82
Own shares	182	6
	14,625	12,671

Company	2001 £'000	2000 £'000
Own shares	182	6
	182	6

17. Debtors

Group	2001 £'000	2000 £'000
Trade debtors	98,117	152,790
Prepayments and accrued income	1,427	638
Other debtors	3,535	2,328
Corporation tax	116	2,173
Deferred tax – other timing differences	181	203
	103,376	158,132

Company	2001 £'000	2000 £'000
Prepayments and accrued income	127	150
Other debtors	18	–
Corporation tax	106	2,173
Amounts due from subsidiary undertakings	6,894	7,979
	7,145	10,302

During the year, ordinary and preference shares of Collins Stewart Holdings plc were acquired at cost by the Collins Stewart Holdings plc Employee Share Ownership Trust from staff who left the Group for £176,000. These investments are included in the Group balance sheet in accordance with UITF 13.

18. Cash at Bank and in Hand

Cash at bank and in hand was denominated in:

Group	2001 £'000	2000 £'000
Sterling	53,325	54,772
Euros	938	1,173
US dollars	4,172	1,193
Other	195	149
Client settlement balances	7,669	12,777
	66,299	70,064

The Company's cash at bank and in hand was all held in sterling.

19. Creditors: Amounts Falling Due Within One Year

Group	2001 £'000	2000 £'000
Bank overdraft	1,023	538
Trade creditors	91,772	149,685
Securities – short positions	3,651	4,077
Other creditors	3,164	3,394
Secured loan notes (see below)	5,030	5,043
Corporation tax	6,854	9,596
Accruals and deferred income	32,122	33,547
Proposed dividends	7,185	2,862
	150,801	208,742

Company	2001 £'000	2000 £'000
Accruals and deferred income	5,644	6,400
Proposed dividends	7,185	2,862
	12,829	9,262

Bank Overdraft

The bank overdraft is denominated in the following currencies:

Group	2001 £'000	2000 £'000
Sterling	973	402
US dollars	7	136
Euros	43	–
	1,023	538

Secured Loan Notes

The secured loan notes are referred to in note 23, disclosing related party transactions, and in note 24 disclosing directors' material interests in contracts with the Group.

The loans, which are secured by cash deposits of the same amount, are redeemable in 2006. However, each year on 30 June and 31 December the loan note holders are also entitled to require redemption of part or all of the outstanding loans.

20. Creditors: Amounts Falling Due After More Than One Year

Group	2001 £'000	2000 £'000
Subordinated loans	17,800	23,648
Bank loans	1,000	5,000
Cost of raising subordinated debt and bank loans	(2,210)	(3,926)
Deferred tax creditor - other timing differences	1,680	685
Others	335	–
	18,605	25,407

These creditors, all of which are denominated in sterling, fall due as follows:

	2001 £'000	2000 £'000
Between two and five years	18,605	21,759
In five years or more	–	3,648
	18,605	25,407

Company	2001 £'000	2000 £'000
Subordinated loans	17,800	23,648
Bank loans	1,000	5,000
Cost of raising subordinated debt and bank loans	(2,210)	(3,926)
	16,590	24,722

These creditors, all of which are denominated in sterling, fall due as follows:

	2001 £'000	2000 £'000
Between two and five years	16,590	21,074
In five years or more	–	3,648
	16,590	24,722

Subordinated Loans

The subordinated loans were entered into pursuant to the MBO on 26 May 2000 and are unsecured. The various lenders are:

	2001 £'000	2000 £'000
The Governor and Company of the Bank of Scotland (i)	17,800	20,000
Directors, staff and consultants (ii)	–	3,648
	17,800	23,648

(i) These loans accrue interest at 1.5% above LIBOR. The loans are repayable in full by 30 June 2004.

(ii) These loans, which carried initial interest rates at 10%-15% per annum, were repaid in full on 31 July 2001.

Bank Loans

The bank loan is secured by floating charge over the Company's assets and is repayable by 30 June 2004. £1,500,000 was repaid on 30 June 2001 and £2,000,000 on 31 December 2001.

There is also a revolving credit facility of £25,000,000, which is available to the Group until 30 June 2004.

Cost of Raising Debt and Loans

Costs of raising debt finance of £6,132,000 incurred on 26 May 2000 in connection with the MBO, were capitalised and netted against the debt to which such costs relate in the balance sheet. They are amortised through the profit and loss account on the basis of a constant rate of return on the carrying amount over the life of the debt facility until repayment of the loan.

Deferred Tax

	2001 £'000	2000 £'000
At 1 January 2001	685	–
Other timing differences	995	685
At 31 December 2001	1,680	685

Provision has been made for additional tax that may be payable on remittance to the UK of profits retained by overseas subsidiary undertakings to the extent that such remittance is currently intended in the foreseeable future.

21. Share Capital

	2001 No. '000	2000 No '000
Authorised		
Ordinary shares of 25p	150,000	150,000
"A" preference shares of 1p	41,303	41,303
"B" preference shares of 1p	3,297	3,297
	194,600	194,600
Allotted, issued and fully paid		
Ordinary shares of 25p	106,226	103,101
"A" preference shares of 1p	41,303	41,303
"B" preference shares of 1p	3,297	3,297
	150,826	147,701

	2001 £'000	2000 £'000
Authorised		
Ordinary shares of 25p	37,500	37,500
"A" preference shares of 1p	413	413
"B" preference shares of 1p	33	33
	37,946	37,946
Allotted, issued and fully paid		
Ordinary shares of 25p	26,557	25,775
"A" preference shares of 1p	413	413
"B" preference shares of 1p	33	33
	27,003	26,221

Holders of "A" preference shares are entitled to receive, in priority to any dividends or other distributions to the holders of any other classes of shares (other than the "B" preference shares), a fixed non-cumulative preferential dividend in each year calculated as: (a) 6 per cent from date of issue until 31st December 2002; (b) 9 per cent from 1st January 2003 to 31st December 2004; and (c) 15 per cent from 1st January 2005 onwards, on the nominal amount and premium paid on each "A" preference share.

Holders of "B" preference shares are entitled to receive, in priority to any dividends or other distributions to the holders of any other classes of shares (other than the "A" preference shares), a fixed non-cumulative preferential dividend in each year of 4 per cent on the nominal amount and premium paid on each "B" preference share.

Both "A" and "B" preference shares rank pari passu in all other respects. The redemption date for the preference shares is 1 July 2007, though early redemption by the Company is permitted. The redemption price is 100p per share (being the nominal amount of 1p plus the premium paid of 99p). The preference shares carry no votes at meetings unless the dividend thereon is at least six months in arrears or the Company fails to redeem the shares on the redemption date or the business of the meeting includes a resolution for the winding up of the Company, reduction in capital or a resolution to vary the rights of the preference shareholders.

The holders of ordinary shares are entitled to the balance of the profits resolved by the directors of the Company to be distributed in any year in accordance with the amount paid up on such shares. On a return of capital on a winding-up or otherwise, the assets available for distribution amongst the members of the Company would, after payment of all amounts due to the holders of any preference shares (nominal amount plus premium paid thereon and any unpaid dividend), be applied in repaying the holders of ordinary shares such amounts paid up on these shares, any balance remaining being distributed amongst the holders of ordinary shares in accordance with the number of such shares held by them.

Movements During the Year

On 6 June 2001 the Company placed 3,125,000 ordinary shares at 400p per share to raise approximately £12.2m net of expenses to fund, in part, the acquisition of the private client division of NatWest Stockbrokers.

Share Options

At 31 December 2001 the following options over ordinary shares had been granted under the Company's share option schemes and were outstanding:

	At 1 January 2001	Granted	Lapsed	At 31 December 2001	Exercise Price	Exercise Period
Sharesave scheme	788,330	–	45,765	742,565	292p	1.1.2006-30.6.2006
Approved share option scheme	18,986	–	–	18,986	316p	16.10.2003-15.10.2010
	–	41,592	–	41,592	288.5p	5.4.2004-4.4.2011
	–	8,547	–	8,547	351p	26.4.2004-25.4.2011
Unapproved share option scheme	1,981,014	–	–	1,981,014	316p	16.10.2003-15.10.2010
	–	1,315,908	–	1,315,908	288.5p	5.4.2004-4.4.2011
	–	991,453	–	991,453	351p	26.4.2004-25.4.2011
Non-executive unapproved share option scheme	191,298	–	–	191,298	316p	16.10.2003-15.10.2010
	2,979,628	2,357,500	45,765	5,291,363		

Options granted under the Sharesave scheme were granted at a discount of 20% to market value. Under UITF 17 the Company has taken advantage of the exemption, available for SAYE schemes, from the need to charge the discount to the profit and loss account.

Options over 25,421,502 "B" ordinary shares of 1p in Collins Stewart Limited at an exercise price of 1p per share were exercised on 31 August 2001. Upon exercise Singer & Friedlander acquired all such shares at 71p per share. As part of the MBO agreement, Singer & Friedlander transferred these shares to Collins Stewart Holdings for no consideration.

Options over ordinary shares in Collins Stewart Limited, exercised by the directors, are dealt with in the report on directors' remuneration on page 24.

22. Reserves

Group	Share Capital Account £'000	Share Premium Account £'000	Profit & Loss Account £'000	Total £'000
At 11 January 2000	–	–	–	–
Retained profit for the period	–	–	5,366	5,366
Ordinary share capital subscribed	25,775	67,225	–	93,000
Bonus issue	–	(19,900)	–	(19,900)
Preference shares subscribed	446	44,154	–	44,600
Costs of share issues	–	(4,645)	–	(4,645)
At 31 December 2000	26,221	86,834	5,366	118,421
Retained profit for the period	–	–	11,906	11,906
Ordinary share capital placed	782	11,718	–	12,500
Costs of share issue	–	(242)	–	(242)
Foreign currency translation	–	–	11	11
At 31 December 2001	27,003	98,310	17,283	142,596

Company	Share Capital Account £'000	Share Premium Account £'000	Profit & Loss Account £'000	Total £'000
At 11 January 2000	–	–	–	–
Retained profit for the period	–	–	3,834	3,834
Ordinary share capital subscribed	25,775	67,225	–	93,000
Bonus issue	–	(19,900)	–	(19,900)
Preference shares subscribed	446	44,154	–	44,600
Costs of share issues	–	(4,645)	–	(4,645)
At 31 December 2000	26,221	86,834	3,834	116,889
Retained profit for the period	–	–	908	908
Ordinary share capital placed	782	11,718	–	12,500
Costs of share issue	–	(242)	–	(242)
At 31 December 2001	27,003	98,310	4,742	130,055

23. Related Party Transactions

Pursuant to the acquisition of Collins Hitchcock Stewart Whitaker in 1996, secured loan notes issued to certain directors by the Group and remaining outstanding at the year end, were £3,179,000 (2000: £3,192,000).

Subordinated loans of £626,368 made to the Company by various directors pursuant to the MBO, as detailed in the Report of the Directors on page 14 were repaid on 31 July 2001.

24. Directors' Material Interest in Contracts

	2001 £'000	2000 £'000
A M Stewart and spouse	2,367	2,380
T J Hitchcock and spouse	812	812
	3,179	3,192

As stated in note 23 above, these amounts relate to secured loan notes issued on 1 March 1996 by Collins Stewart Limited. They were issued to these individuals as part of the consideration for the acquisition of Collins Hitchcock Stewart Whitaker Limited.

Interest is payable on the notes half yearly in arrears on 30 June and 31 December each year. Interest is payable at a rate per annum equal to 3/8% below LIBOR. The loan notes, which are secured by cash deposits of the same amount, are redeemable in 2006, or earlier at the holder's request.

25. Commitments

Group companies have entered into various leases. The future obligations are as follows:

Operating leases	2001 Buildings £'000	2001 Other £'000	2000 Buildings £'000	2000 Other £'000
Annual commitments on leases expiring:				
– within one year	43	26	501	10
– two to five years	2,359	48	156	55
– over five years	216	–	795	-
Total	2,618	74	1,452	65

Capital Commitments

As at 31 December 2001 the Group had contracted to spend approximately £900,000 in 2002 for the continued development of the QUEST™ system and the further development relating to the private client division (Company: nil). At 31 December 2000 the Group had contracted for £1.7m of move costs which had not been provided in the accounts and authorised a further £2.5m that had not been contracted or provided in the accounts in connection with the move to the Group's new London offices (Company: nil).

Contingent Liabilities

In the ordinary course of business the 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.

26. Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities

	2001 £'000	2000 £'000
Operating profit	26,775	17,448
Depreciation of tangible assets	1,550	640
Goodwill amortisation	6,150	3,300
Loss on sale of fixed assets	83	–
Movement in deferred income	335	–
(Decrease)/ increase in net market and client balances	(3,242)	6,029
(Increase)/ decrease in net investment positions	(2,205)	9,767
Increase in other debtors	(2,081)	(517)
(Decrease)/ increase in other creditors	(1,490)	15,833
Net cash inflow from operating activities	25,875	52,500

27. Reconciliation of Net Cash Flow to Movements in Net Funds

	2001 £'000	2000 £'000
(Decrease)/increase in cash during the year	(4,250)	69,526
Cash inflow from increase in long term loans	–	(128,949)
Cash outflow from repayment of loans & loan notes	9,861	101,851
Debt issue costs	20	6,112
Amortisation of debt costs	(1,736)	(2,186)
Change in net debt resulting from cash flows	3,895	46,354
Loans acquired with subsidiary	–	(6,593)
Net funds at 1 January 2001	39,761	–
Net funds at 31 December 2001	43,656	39,761

28. Analysis of Net Funds

	At 1 January 2001 £'000	Cash flow £'000	Non-cash items £'000	At 31 December 2001 £'000
Cash in hand and at bank	70,064	(3,765)	–	66,299
Overdraft	(538)	(485)	–	(1,023)
	69,526	(4,250)	–	65,276
Loan notes due within one year	(5,043)	13	–	(5,030)
Loans due after one year	(24,722)	9,868	(1,736)	(16,590)
Total net funds	39,761	5,631	(1,736)	43,656

The non-cash item is the amortisation of debt costs capitalised and offset against the loans to which such debt costs relate.

29. Client Moneys

At 31 December 2001 client moneys held were £143,227,000 (2000: £93,911,000). This comprised £7,669,000 (2000: £12,777,000) of balances held by the Group on behalf of clients to settle outstanding bargains and £135,558,000 (2000: £81,134,000) of segregated deposits, held on behalf of clients, which are not reflected on the balance sheet. Movements in settlement balances are reflected in operating cash flows.

30. Financial Instruments

The financial assets and liabilities of the Group comprise long and short securities positions, cash and liquid resources and borrowings. The revenue generated in the year from trading in financial assets and liabilities was £10,728,000 (2000: £6,621,000). Disclosures concerning financial instruments including, inter alia, the fair value of such instruments, currency denomination and maturity of loans are set out in notes 16, 18, 19 and 20. As permitted by FRS 13 no disclosures have been made in respect of short term debtors and creditors.

The main risks arising from these instruments are as follows:

Market Risk

The Group is exposed to market risk in respect of its trading in equities and debt instruments. The Group makes markets primarily in small company stocks, investment trusts and fixed interest securities. These positions are carried in current assets and liabilities at fair value. The year end positions are considered to be representative of the Group's exposure throughout the period. The policy of holding trading positions is to facilitate liquidity in the shares of certain companies to whom the Group acts as market maker, broker or adviser. Limits are set on the size of individual and aggregate positions. Day to day risk monitoring is undertaken by the Executive directors.

Foreign Currency Risk

The Group's foreign currency balances at the year end are disclosed in notes 18 & 19. 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 Group deals in foreign currencies on a matched basis on behalf of customers, limiting foreign exchange exposure. The Group does not hedge its net investment in its US subsidiary undertaking.

Interest Rate Risk

The Group retains substantial net cash resources to provide settlement liquidity, which earn interest at short term deposit rates.

Some of the Group's cash resources are provided by borrowings comprising bank loans and subordinated debt. The bank debt bears interest based on short term interest rates, 3 month LIBOR, and the terms of the subordinated debt are set out at note 20. Owing to the immateriality of the subordinated debt, the Company does not hedge this interest.

In addition, the Group has outstanding loan notes which are secured by a cash deposit. The interest on the deposit is matched against the interest due on the loan notes.

31. Employee Share Ownership Trusts

The Collins Stewart Holdings plc Employee Share Ownership Trust and the Collins Stewart (CI) Limited Employee Share Ownership Trust ("the ESOTs") are both trusts established at the time of the MBO. These trusts were to hold, as trustee and nominee, shares which were subscribed by employees of the Group pursuant to the MBO.

All the shares held by the directors and the ESOTs pursuant to the MBO are subject to selling restrictions entered into at the time of the Company's flotation on the London Stock Exchange, whereby the shares cannot be disposed of within a period of approximately one and a quarter years from the year end, with further restrictions limiting the amount of sales applying in the following 12 month period. During the period of selling restrictions, the shareholdings to which restrictions apply are subject to "bad leaver" agreements which have been entered into as part of each employment contract between the Company and individual employees. These agreements provide for the transfer of ordinary shares and preference shares at the direction of the Company in the event that an employee resigns or is dismissed from office or employment by the Company in certain circumstances.

Shares acquired by the ESOTs from staff who have left the Group under the bad leaver agreements are then used to make awards of shares to employees under the Group's incentive arrangements. Shares allocated by the trustees of the ESOTs will vest over a period of years.

At the year end, of the 29m ordinary shares, 4m "A" preference shares and 1.6m "B" preference shares held by the Group's ESOTs, some 3.1m ordinary shares, 62,000 "A" preference shares and 99,000 "B" preference shares had not been allocated to specific employees (2000: 754,000, 60,000 and 60,000 respectively) and a further 1.2m ordinary shares and 14,000 "A" preference shares (2000: nil) had been allocated conditionally or were under option to employees. Of the above shares held by Group ESOTs, the Company's ESOT held some 2.4m ordinary shares and 42,000 "B" preference shares which had not been allocated to specific employees (2000: 44,000 ordinary shares and 3,000 "B" preference shares) and a further 1.2m ordinary shares and 14,000 "A" preference shares (2000: nil) which had been allocated conditionally or were under option to employees. All the unallocated and conditionally allocated shares are carried in current assets as such shares have either been or are expected to be awarded to employees in the near future. The market value of the Company's ordinary shares at the year end was 390p per share. The preference shares are unlisted and are all redeemable at £1 per share.

Dividends on shares held by the ESOTs which have not vested unconditionally pursuant to awards to employees have not been waived, and accordingly the income on such shares has been deducted from dividends declared by the Company in accordance with FRS 14. Such shares are also not included in the denominator in the earnings per share calculation. The expenses associated with the running of the ESOTs are charged to the Group's profit and loss account.

32. Post Balance Sheet Events

There have been no material events since the balance sheet date.

Notice is hereby given that the Annual General Meeting of Collins Stewart Holdings plc (the "Company") will be held at 9th Floor, 88 Wood Street, London EC2V 7QR on 30 May 2002 at 3.30 pm. The business of the meeting will be:

ORDINARY BUSINESS (all proposed as ordinary resolutions)

1. To receive and adopt the audited accounts for the year ended 31 December 2001 together with the reports of the directors and the auditors thereon.
2. To receive and adopt the report on directors' remuneration.
3. To re-elect as a director Terence John Hitchcock (member of the audit committee) who retires by rotation.
4. To re-elect as a director Terence Charles Smith who retires by rotation.
5. To re-elect as a director Helen Louise Smith who retires by rotation.
6. To reappoint Deloitte & Touche as auditors of the Company and to authorise the Board to fix their remuneration.
7. That a final dividend in respect of the year ended 31 December 2001 be declared payable at the rate of 4.5p per ordinary share of 25p on 6 June 2002 to shareholders registered at the close of business on 10 May 2002.

SPECIAL BUSINESS

Ordinary Resolution

8. That in place of all existing authorities the directors be generally and unconditionally authorised pursuant to section 80 of the Companies Act 1985 (the "Act") to allot relevant securities (within the meaning of section 80 of the Act) up to a maximum aggregate nominal amount of £8,852,188 provided that this authority shall expire (unless previously renewed, varied or revoked by the Company in general meeting) at whichever is the earlier of the conclusion of the next annual general meeting of the Company or fifteen months after the date on which this resolution is passed, save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after expiry of this authority and the directors may allot relevant securities in pursuance of that offer or agreement as if this authority had not expired.

Special Resolutions

9. That, subject to and conditional upon the passing of resolution 8 and in substitution for all existing and unexercised authorities, the directors of the Company be and they are hereby empowered pursuant to section 95 of the Companies Act 1985 ("the Act") to allot equity securities (as defined in section 94 of the Act) pursuant to the authority conferred upon them by resolution 8 as if section 89 (1) of the Act did not apply to any such allotment provided that the power conferred by this resolution, unless previously revoked or varied by special resolution of the Company in general meeting, shall be limited:
   (a) to the allotment of equity securities in connection with an issue by way of rights (including, without limitation, under a rights issue, open offer or similar arrangement) in favour of ordinary shareholders where the equity securities respectively attributable to the interest of all such shareholders are proportionate (as nearly as may be) to the respective numbers of the ordinary shares held by them subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient to deal with fractional entitlements or other legal or practical difficulties under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in any territory or as regards shares in issue in uncertificated form; and
   (b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal amount of £1,327,828 representing approximately 5% of the current issued share capital of the Company

   and shall expire on the date of the next annual general meeting of the Company or (if earlier) fifteen months from the date of the passing of this resolution save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.
10. That the Company be generally and unconditionally authorised to make market purchases (as defined by

section 163 of the Companies Act 1985) of its ordinary shares of 25p each in the capital of the Company ("ordinary shares") provided that:

(a) the maximum number of ordinary shares hereby authorised to be purchased shall be 10,622,626;

(b) the minimum price which may be paid for an ordinary share shall be 25p;

(c) the maximum price which may be paid for an ordinary share shall not be more than 105% of the average of the middle market quotations for an ordinary share derived from the Daily Official List of the UK Listing Authority for the five business days immediately preceding the day on which the ordinary share is purchased;

(d) the authority hereby conferred shall expire at the conclusion of the annual general meeting of the Company to be held in 2003, or if earlier 15 months from the passing of this resolution;

(e) the Company may enter into contracts to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority, which contracts will or may be executed wholly or partly after the expiry of such authority, and may make purchases of ordinary shares pursuant to any such contracts.

By order of the Board

D Dyer Bartlett
Company Secretary

25 March 2002

Registered office:
9th Floor
88 Wood Street
London EC2V 7QR

Notes:

1. Every member who is entitled to attend and vote at this 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 should they wish to do so.
2. To be valid, the instrument appointing a proxy must be deposited at the office of the Company's registrars, Capita IRG plc, Proxy Department, PO Box 25, Beckenham, Kent, BR3 4BR not less than 48 hours before the time of the meeting.
3. The register of directors' interests in the share capital of the Company maintained under section 325 of the Act, and copies of the directors' contracts of service with the Company and letters of appointment will be available for inspection during normal business hours on any week day at the registered office of the Company from the date of this notice until the annual general meeting and on the day of the annual general meeting at the place of the meeting from 15 minutes prior to its commencement until its conclusion.
4. Pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995 changes to entries in the register of members after 6.00pm on Tuesday 28 May or on the day prior to the day immediately 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 adjourned meeting (as the case may be). Accordingly, only a member registered in the register of members of the Company as at 6.00pm on Tuesday 28 May or on the day prior to the day immediately 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.
5. The reasons for the special business are explained in the directors' report.
6. Brief biographical notes about the directors proposed to be re-elected are shown on pages 11 to 12 of the annual report and accounts.