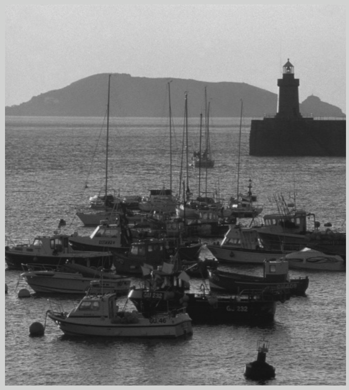
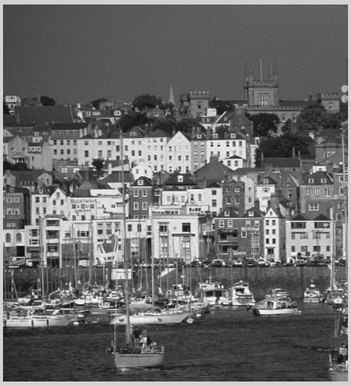
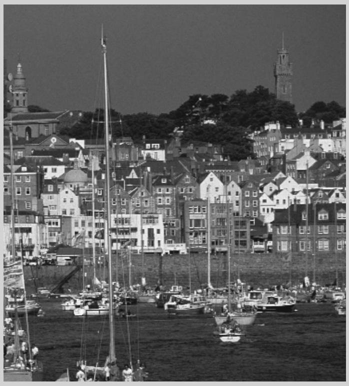
COLLINS ♦ STEWART



Collins Stewart annual report 2002

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collins stewart holdings plc
registered in england no. 3904126

chairman's statement

Equity markets' conditions continued to be poor throughout 2002. At the interim stage we said that the trading environment had been the worst since the 1970s and this adverse trend continued throughout the whole of the second half and presently shows no sign of abating.

Despite these conditions the Company once again produced what we regard as a respectable result with operating profits before goodwill amortisation of £32.2m compared to £32.9m in 2001 on total revenues of £98.7m against last year's £104.3m.

On 10 March 2003 we completed the offer for Tullett plc, one of the leading international inter-dealer brokers. This acquisition is the most important strategic development for Collins Stewart since its flotation in October 2000 and represents a major step towards the goal of diversifying its sources of revenues. The enlarged business has pro forma revenues of some £0.5bn and employs over 2,000 staff in 19 countries around the world. It services a whole range of clients in the financial markets and its products include equities, fixed interest securities, treasury products, interest rate and credit derivatives, energy and oil and gas broking.

At the same time as the funding of the offer for Tullett, we also carried out a placing and open offer to fund the redemption of the Company's preference shares. The combined fundraising of £148m was more than twice subscribed, a notable achievement in the current depressed equity markets. The Board is pleased to acknowledge the support for Collins Stewart which investors have demonstrated.

This support continued at the EGM to approve the acquisition of Tullett and the placing and open offer. At the time there was adverse comment in the media about the single resolution to approve the acquisition of Tullett, which included the adoption of a new share option scheme for Tullett staff. I am pleased to report that shareholders focused on the merits of the transaction and the resolution to approve the acquisition of Tullett was passed by a majority of over 98% of the shares voted at the EGM. We comment on this further in the Operating and Financial Review.

To reflect the change in emphasis in the activities of the enlarged business, it is proposed that the Company should change its name to Collins Stewart Tullett plc at the forthcoming AGM. However, Collins Stewart and Tullett will be retained as the principal trading names of the respective broking businesses.

Andy Stewart resigned as a director of the Company on 24 March 2003 and was appointed as President of the Company with effect from the same date. In the role of President he will continue to be involved in client relationship management and in promoting the Company's interests.

Andy was one of the co-founders of Collins Stewart Limited and was instrumental in negotiating its MBO from Singer & Friedlander Group plc in 2000. He has made a major contribution to the development of the Company since its formation and the Board is pleased that despite no longer being a director, he will continue to take an interest in the Company's future. Andy will retain the shareholding which he acquired through the MBO; the selling restrictions relating to this shareholding will continue to apply.

Even if the present difficult conditions continue in the equity markets, many of the other financial markets in which we now operate are thriving. The Board believes that the prospects for the Company are very promising.

Keith Hamill
Chairman
27 March 2003

operating and financial review

Last year was the third in succession that stock markets have fallen and this is proving to be one of the worst bear markets since WWII. Stock market trading volumes and equity new issuance were again significantly lower and revenue levels across the market have naturally been affected.

Despite these conditions, the Group produced a reasonable trading performance overall. This demonstrates the benefits of having a diversified revenue stream which has long been a cornerstone of the Board's strategy.

Despite the fact that revenues fell by some 5%, the Group operating profit before goodwill amortisation fell by only 2%. This is because the Group was able to control its costs, which are highly geared to performance. Producing an earnings stream, which is reasonable for shareholders even in difficult market conditions, also forms an important part of Group strategy.

The following table shows the results for the year together with those for 2001:

	Year ended 31 December 2002 £'000	Year ended 31 December 2001 (restated)* £'000
Total revenues		
Turnover	96,001	103,216
Other operating income	2,713	1,075
	98,714	104,291
Operating profit before goodwill amortisation	32,201	32,925
Operating profit after goodwill amortisation	25,620	26,775
Exceptional item	–	6,684
Profit before tax	25,511	32,779
Profit attributable to ordinary shareholders	13,263	19,776
Earnings per share:		
Basic	13.02p	19.18p
Diluted	12.86p	19.00p
Basic before goodwill and exceptional items	19.48p	19.64p

* *restated for FRS 19: Deferred Taxation as detailed in note 1 to the Financial Statements.*

In addition to dealing with very difficult trading markets, the Group worked on achieving a number of key objectives during the year. The first and foremost was to acquire Tullett. This was described in detail in the prospectus that was sent to shareholders in connection with the fundraising to finance the acquisition. This acquisition was eventually completed on 10 March 2003 having taken many months to negotiate. Tullett also released its Preliminary results for the year ended 31 December 2002 on RNS on 24 March 2003. A copy has been posted on its website: www.tullib.com.

The key factors that 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 follows in Finance and Administration.

PERFORMANCE OF DIVISIONS AND SUBSIDIARIES

The following table indicates the contributions made by each of our divisions/ subsidiaries:

Turnover	2002 £'000	2002 %	2001 £'000	2001 %
Larger Companies & QUEST™	20,231	21.1	25,208	24.4
Smaller Companies	32,210	33.5	19,397	18.8
Investment Trusts	6,202	6.5	23,929	23.2
Fixed Interest	4,100	4.3	3,817	3.7
UK Private Clients	6,101	6.3	2,656	2.6
Collins Stewart Inc	8,130	8.5	8,927	8.6
Collins Stewart (CI)	19,027	19.8	19,282	18.7
	96,001	100.0	103,216	100.0

Collins Stewart Limited

Larger Companies

Turnover was down by 20% in 2002. Market conditions were poor throughout the whole year, with the relentless bear market being exacerbated by high levels of volatility. 2003 has begun in similar fashion to 2002 and we expect sentiment to remain bearish driven by most world economies falling further into the doldrums. We are continuing to recruit from the large number of people who are now available in the larger companies arena in order to expand our research capabilities, and in sales in order to match the development of QUEST™.

QUEST™

QUEST™ Plus was launched in early 2003. Stock coverage has been widened to include North American and Asian equities and QUEST™ has been redeveloped to integrate all the various QUEST™ products and make the interface more user-friendly.

Our continued aim is to make QUEST™ the product of choice for international equity portfolio managers for the evaluation of corporate performance and share valuation.

Smaller Companies

Smaller Companies revenues were up 66% on 2001 to £32.2m, primarily from corporate fees. This was a record year for Smaller Companies Corporate Finance, with total fees booked of some £24.8m (2001: £14.2m). We advised on 29 transactions, raising £518m (2001: £260m). We ended the year with 81 clients, up from 73 at last year-end. This is a strong and growing client base, which we intend to develop further in 2003, with the likelihood that we will develop more corporate relationships as competitors withdraw from this area.

The results from secondary market trading reflected the very difficult conditions being experienced throughout the small cap arena.

Investment Trusts

2002 was a difficult year which, in secondary trading, was characterised by clients selling and liquidity vanishing, particularly in split capital investment trusts. Corporate fees of £4.7m (compared to £19.8m in 2001) were also affected by adverse sector sentiment.

As we stated in the prospectus issued on 23 January 2003, the activities of the Investment Trust division in connection with split capital investment trusts are being investigated by the FSA. Further information is set out in the Compliance section below.

Fixed Interest

2002 was another successful year for the division. Income from market making and commission increased to £4.1m in 2002, a 7% increase on the previous year, which itself represented a 27% increase on the previous year. The division has benefited from the continued strength of institutional business and good demand from retail brokers.

UK Private Clients

The first full year of ownership of the UK private client division has been devoted to initiatives to integrate the business. There have been significant changes to improve client service. A large number of clients have moved from advisory to discretionary arrangements and more clients are taking advantage of the nominee services. We have also created two new "fund of fund" products as a way of servicing smaller clients in a more efficient way.

Funds under management decreased by only £90m in 2002 to just over £1 billion. Given the considerable falls in value in the equity markets over the year, this represents a significant achievement for the division. During the year discretionary managed funds increased from £198m to £299m. This is in line with Group strategy to move more funds into discretionary arrangements.

Collins Stewart (CI) Limited

2002 was a reasonable year for the Channel Islands operation, with pre-tax profits of some £6.8m, down from £7.5m in 2001. Funds under management at the end of 2002 totalled £1.2bn, compared to £1.27bn at the end of 2001. The decrease of 5% is a significant achievement against the backdrop of the equity markets.

In January 2002 we launched two hedge funds whose investment methodology is based on QUEST™ triAngle™ methodology. The UK fund produced a return of 8.2% since its launch and outperformed the FTSE 350 index by 32% and the CSFB/ Tremont Index by 21.3% in that time. The Euro fund in the same period produced a loss of 0.8% but outperformed the Eurotop 300 Index by 29% and the CSFB/ Tremont Index by 18%. These funds remain small, but we intend to extend our marketing of them, once they have established a longer track record. Two new divisions were established in January 2003: Guernsey Investment Management – offering portfolio management via direct equities (based on QUEST™), and the addition of stockbroking services in the Isle of Man.

Collins Stewart Inc

Gross revenues for 2002 were £8.1m down from £8.9m in 2001. Despite this, the business developed during 2002, dealing for 79 institutions compared to 62 in 2001. Although commission income generated in UK stocks was down for the year, income from other European equities increased. During 2002 a facility to trade in ADRs was added to our product offering.

FINANCE AND ADMINISTRATION

Turnover

The following table indicates the contributions made by each of the major areas of activity. As can be seen, Group turnover was down on the previous year by some 7%.

	2002 £'000	2002 %	2001 £'000	2001 %
Market making/ principal turns	8,025	8.4	10,667	10.3
Agency commissions	48,808	50.8	49,999	48.4
Corporate fees	29,676	30.9	35,264	34.2
Management fees	8,858	9.2	7,108	6.9
Other	634	0.7	178	0.2
	96,001	100.0	103,216	100.0

All areas of the Group's operations were affected by the continuing adverse market conditions. Although management fees increased in 2002, this was largely as a result of the first full year's contribution of the UK private client division and Collins Stewart Property Fund Management. A full year's contribution from the UK private client division also offset some of the lower commissions generated by the Larger Companies division.

Corporate fees generated by Smaller Companies were considerably higher than the previous year. However, this was unable to offset the shortfall in fees from the investment trust division. Similarly, market making suffered from losses on the investment trust books sustained because of the major loss of liquidity in split capital investment trust stocks.

Expenditure

Overall, in light of the lower turnover achieved by the Group, we reduced our administrative expenditure by £4.8m during the year to £66.5m. The key costs for the Group relate to staff and premises and the main changes in expenditure are explained below:

Staff Costs

Staff costs decreased by 13% from £51.5m to £44.9m 2002. As in previous years remuneration remains highly geared towards incentive payments and these were considerably reduced in light of the lower revenues generated by the Group. Bonuses were reduced by 31% to £22.9m, £2.4m of which came from directors' bonuses which were down 50% on the previous year. As a result, salaries formed 48% of total pay compared to 33% in the previous year. Staff salaries increased overall by £4.5m, largely as a result of the inclusion of the UK private client division and Collins Stewart Property Fund Management for a full year. Staff numbers employed by the Group rose from 385 at the start of the year to 416 at the year-end. Staff costs as a percentage of revenues amounted to 46% (2001: 49%).

Establishment Costs

The new offices at 9th Floor, 88 Wood Street were occupied for the first full year in 2002. Additionally new leases were taken on over space on the 8th floor of 88 Wood Street to accommodate the new UK private client division in May 2001 and February 2002.

Operating Profit

The Group's operating profit before goodwill amortisation fell by 2% from £32.9m in 2001 to £32.2m on revenues down 5% from £104.3m to £98.7m. The operating margin increased from 31.6% in 2001 to 32.6% in 2002, as cost savings largely compensated for the lower income and through improved contributions from the UK private client division and Collins Stewart Property Fund Management. The main area of saving was in lower staff costs, primarily lower bonuses, as explained in Staff Costs above.

Amortisation

All goodwill arising on significant acquisitions made to date by Collins Stewart Holdings is being amortised over a 20-year period. The appropriateness of this amortisation period is reviewed annually. The amortisation charge of £6.6m in 2002 compared to £6.2m in 2001 reflects the impact of the first full year of ownership of the UK private client division. The goodwill amortisation charge will substantially increase in 2003 when Tullett's results are consolidated into the Group accounts.

Interest

In the year ended 31 December 2002 the Group had a net interest expense of £0.1m (2001: £0.7m). The reduction is largely due to the lower amortisation of capitalised debt costs in 2002.

Taxation

The Group has a taxation rate of approximately 30% in the UK, 20% in the Channel Islands and 46% in the USA. The tax charge for 2001 has been restated to take account of FRS 19: Deferred Taxation. This led to a release of £1.2m of tax provided in connection with future dividend remittances from Collins Stewart (CI) to the UK.

Dividends

The Board is proposing a final dividend for 2002 of 4.5p (2001: 4.5p), bringing the total dividend for the year to 6.75p (2001: 6.75p). This implies a dividend cover of 1.9 based on basic earnings, and 2.9 based on earnings before goodwill amortisation.

The ordinary shares allotted pursuant to the placing and open offer and offers for Tullett are also entitled to receive the final dividend. Since these shares were allotted after the year-end, these dividends, which total some £3.7m, will be treated as an interim dividend in respect of the year to 31 December 2003.

On 6 March 2003, the Company paid the final dividend on its preference shares. This amounted to £0.16m in respect of the "B" preference shares for the period from 1 January 2002 to 6 March 2003 (calculated at a rate of 4p per share per annum) and £3.14m in respect of the "A" preference shares for the same period, (calculated at a rate of 6p per share for 2002 and 9p per share per annum in the period to 6 March 2003). No further preference dividends will be payable.

Return on Capital Employed

The average return on capital employed for the year, measured by dividing the operating profit before goodwill amortisation by average shareholders funds (including cumulative goodwill written off) and average long-term debt less average cash balances, was 26% for the year (2001: 30%). The main reason for the fall in ROCE is that the Group retained greater capital during the year in preparation for the redemption of the preference shares.

Cashflow

Cash generated by operations (excluding the reduction in client settlement moneys of £1.7m (2001: reduction of £5.1m)) after servicing of finance and taxation during 2002 was £10.1m (2001: £19.1m). After investment of £2.1m in fixed assets and acquisition of subsidiaries, repayment of £4.5m of borrowings and distribution of £6.9m in dividends to ordinary shareholders, the Group reduced its cash position (excluding client moneys) by £3.4m (2001: cash inflow of £0.8m). Client settlement moneys are detailed in note 32.

Funding Structure

On 23 January 2003 the Company announced the proposed acquisition of Tullett and the redemption of its preference share capital, accompanied by an equity fundraising of £148m and an increase in the Group's borrowing facility of £50m.

The preference shares had been issued as part of the funding of the MBO of Collins Stewart Limited. The coupon on the "A" preference shares increased to 9% (calculated on nominal value plus share premium) on 1 January 2003 and the "B" preference shares carried a coupon of 4% (calculated on nominal value plus share premium). Both classes of preference share were redeemable pari passu.

The preference shares were redeemed on 6 March 2003 out of the proceeds of the placing and open offer which was completed in February. The redemption allowed the Company to save the increased coupon on the preference share capital whilst still retaining a capital base to allow borrowings to be taken on as part of the funding of the acquisition of Tullett.

The borrowing facility with Bank of Scotland has been increased from £14.75m at the end of December 2002 to £64.75m in March 2003. In addition, Tullett has $15m borrowings with Royal Bank of Scotland. Despite the increased borrowings, the enlarged Group will continue to maintain substantial net liquid resources to meet its settlement requirements. In addition to net cash, the Group will continue to have the benefit of a £10m revolving credit facility from Bank of Scotland.

Of the additional borrowings, £45m was in the form of subordinated debt, which is treated as capital by the Financial Services Authority. These subordinated loans can only be repaid other than in accordance with their repayment schedule if at the time of repayment Collins Stewart meets certain capital adequacy guidelines. The new loan was redenominated into US dollar loans on 18 March 2003 as part of the Group's policy to hedge its investment in its new US and Hong Kong subsidiaries.

Throughout 2002, Collins Stewart remained comfortably within the capital adequacy guidelines set by the Financial Services Authority. At the year-end the Group still had capital in excess of 200% of its regulatory requirement. Net cash at the end of 2002 amounted to £41.5m compared to £43.7m at the end of 2001. This represents some 28% of the Group's net assets (2001: 30%).

Compliance

During 2002 Collins Stewart filed all its regulatory returns on a timely basis and maintained regular contact with its regulators.

As we stated in the prospectus accompanying the share issue in January 2003, the split capital investment trust sector has been subject to review by the House of Commons Select Committee and the FSA. Collins Stewart, as an active participant within the investment trust sector acts as corporate broker and/or financial adviser to a large number of split capital investment trusts, has sponsored fundraisings by these trusts and in some cases acts as fund manager.

On 20 January 2003 Collins Stewart received a notification from the FSA that it was being investigated in connection with its activities in the split capital investment trust sector. Collins Stewart has supplied information to the regulator and has co-operated with all its requests.

Collins Stewart has conducted a review of its activities in the split capital investment trust sector. The Board of Collins Stewart believes that the Group has no material liability in relation to involvement in split capital investment trusts.

Corporate Governance

The firm's corporate governance policies are set out in the Report on Corporate Governance. However, given the attention focused on our recent EGM, we deal below specifically with the matters raised with us by shareholders and proxy voting agencies concerning our EGM.

As mentioned in the Chairman's report, considerable comment was made by proxy voting agencies and the media at the time of the EGM to approve the Tullett deal about "bundling" of the proposal to introduce a new share option scheme with the resolution to approve the acquisition. There was much wringing of hands in the Corporate Governance departments of the proxy voting agencies, in some cases leading to recommendations to shareholders not to vote in favour of the Tullett acquisition.

The background was that in order to obtain the support of the Tullett Board for the offer and to secure acceptance from its shareholders, we had to agree on an appropriate share option scheme for key Tullett staff. The Tullett shareholders were particularly concerned to ensure this since they would become significant shareholders in Collins Stewart. We are satisfied that the offer for Tullett could not have proceeded without meeting this requirement. Hence the need to "bundle" the resolutions in order to reflect the reality of the situation.

In the event, the Company received the support of its shareholders with over 98% of the 84m shares being voted (79% of the issued ordinary share capital) being cast in favour of the acquisition of Tullett.

Whilst the Board is committed to adopting prudent corporate governance procedures, it is not always in shareholders' interests to adhere to rigid guidelines. We would welcome a more reasoned and sensible approach from proxy voting agencies and some corporate governance commentators.

A number of our shareholders have asked for further information on the new Tullett share option scheme and we set this out in the Report on Directors' Remuneration.

FUTURE DEVELOPMENTS AND OUTLOOK

One of the key projects for the Company in the coming year is the integration of the Tullett business into the Group. This process has already commenced, with each party seeing scope for benefiting from the other's resources.

Although Collins Stewart's equity business continues to be challenged by the difficult equity markets, Tullett has benefited from volatility in some of its core markets and has enjoyed a strong start to 2003.

We will consider making further acquisitions in the future to develop Tullett's business, taking advantage of the consolidation that is taking place in the inter-dealer broker sector. As with all our acquisitions, our focus will be on generating shareholder value and no acquisitions will be considered unless they meet this criterion.

Terry Smith
Chief Executive
27 March 2003

Keith Hamill (aged 50) – 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 and Moss Bros Group PLC, 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.

Terry Smith (aged 49) – 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.

Helen Smith (aged 31) – Group 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.

Bruce Collins (aged 51) – Executive Director, Tullett

Bruce Collins joined Tullett in 1980, initially working in the Interest Rate area, before moving to Bahrain where he was general manager. In 1994 he moved to Tokyo as Regional Director where he built Interest Rate Derivative and Equity Derivative teams. He was promoted to Managing Director, Asia in 1997 before returning to London as Managing Director, Europe in 1999. In October 2000 he became Tullett Group Chief Executive. He was appointed to the Collins Stewart Holdings Board on 10 March 2003.

Terry Hitchcock (aged 51) – Executive Director, Collins Stewart

Terry Hitchcock was a Non-executive director until 4 November 2002 when he was appointed Executive Director responsible for Larger Companies, Collins Stewart Inc and the QUEST™ team. He co-founded Collins Stewart in 1991. He resigned as an executive director of Collins Stewart in 1998 and was appointed as a Non-executive director in 1999.

Stephen Jack (aged 45) – Executive Director, Tullett

Stephen Jack trained as a Chartered Accountant with Price Waterhouse. He worked for Midland Bank International before joining Kleinwort Benson Group where he became Finance Director of Kleinwort Benson Limited, the group's banking business. After the acquisition of Kleinwort Benson by Dresdner Bank in 1995 he became joint Financial Controller of Dresdner Kleinwort Benson and Deputy Chief Operating Officer for London. In 1999 he joined ING Barings as Global Chief Financial Officer. He joined Tullett as Tullett Group Chief Financial Officer in September 2001. He was appointed to the Collins Stewart Holdings Board on 10 March 2003.

David Clark (aged 55) – Independent Non-executive Director

David Clark worked for Bankers Trust, Commerzbank and Midland Bank before being appointed Treasurer, Europe of HSBC Holdings in 1992. In 1995 he joined Bankgesellschaft Berlin AG becoming Managing Director of Bankgesellschaft Berlin (UK) plc until June 1999. He was Senior Adviser to the Major Financial Groups Division of the Financial Services Authority until March 2003. He was appointed as a non-executive director of Tullett in September 2000 and to the Collins Stewart Holdings Board on 10 March 2003.

Rob Lucas (aged 40) – 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 and Kwik-Fit 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.

John Spencer (aged 59) – 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 a non-executive director of Numerica Group PLC and 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.

President

Andy Stewart (aged 51) – formerly 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. He resigned as a director of the Company on 24 March 2003 and was appointed President on the same day.

The directors present their report, together with the audited financial statements of the Company and its subsidiaries for the year ended 31 December 2002.

Principal Activities

Collins Stewart is a financial services group whose activities in 2002 spanned institutional and private client stockbroking, market making, corporate finance, fund management and the supply of on-line financial information. On 10 March 2003 the Company completed the acquisition of Tullett plc, an international inter-dealer broker.

The main subsidiary undertakings through which the Group conducts its business are set out in note 15.

Results and Dividends

The results for the year are set out in the profit and loss account on page 34.

The directors recommend a final dividend for the year of 4.5p (2001: 4.5p) on each ordinary share, bringing the total dividend per ordinary share to 6.75p per share (2001: 6.75p) amounting to £6.872m (2001: £6.875m). The ordinary shares allotted pursuant to the placing and open offer and offers for Tullett are also entitled to receive the final dividend. Since these shares were allotted after the year-end, these dividends, which total some £3.722m, will be treated as an interim dividend in respect of the year to 31 December 2003. The proposed preference share dividend in respect of 2002 amounted to £2.6m (2001: £2.6m). Further details are contained in note 11.

The final ordinary dividend, if approved, will be paid on 5 June 2003 to ordinary shareholders whose names were on the register on 9 May 2003.

Review of the Year and Future Developments

A review of the Group's trading during the year and its future development is set out in the Operating and Financial 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 throughout the year were as follows:

Keith Hamill (Independent Non-executive chairman)
Andy Stewart* (Executive deputy chairman)
Terry Smith (Chief Executive)
Helen Smith
Terry Hitchcock
Rob Lucas (Non-executive director)
John Spencer (Senior Independent Non-executive director)

*Andy Stewart resigned as a director on 24 March 2003 and was appointed as President of the Company on the same date.

Terry Hitchcock was a Non-executive director to 4 November 2002, an Executive director thereafter.

On 10 March 2003 the following directors were appointed:

Bruce Collins
Stephen Jack
David Clark (Independent Non-executive director)

Bruce Collins, Stephen Jack and David Clark were appointed since the last AGM and accordingly offer themselves for election at the forthcoming AGM. Keith Hamill, John Spencer and Rob Lucas retire by rotation at the next AGM and, being eligible, offer themselves for re-election. Biographical details of directors are set out on pages 13 and 14.

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:

	2002		2001	
	Ordinary shares of 25p	"B" preference shares of 1p (iii)	Ordinary shares of 25p	"B" preference shares of 1p
Keith Hamill (i)	15,822	–	15,822	–
Andy Stewart	4,400,000	329,666	4,400,000	329,666
Terry Smith	8,800,000	659,333	8,800,000	659,333
Helen Smith	2,200,000	164,833	2,200,000	164,833
Terry Hitchcock	660,000	98,900	660,000	98,900
Rob Lucas (ii)	133,294	–	133,294	–
John Spencer	31,645	–	31,645	–

(i) Keith Hamill acquired an additional 2,182 ordinary shares pursuant to the placing and open offer which was completed on 19 February 2003.

(ii) Rob Lucas is beneficially interested in these ordinary shares, which are held by Capital Ventures Nominees Limited. On 23 January 2003 he sold 66,647 ordinary shares.

(iii) On 6 March 2003 all of the "B" preference shares of 1p were redeemed by the Company in accordance with a notice given under the articles of association.

Other than disclosed in the notes above, at the date of this document, there have 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 28.

Directors' Loans

Collins Stewart Limited issued secured loan notes at par on 1 March 1996 to various directors. The amounts owing at the year-end are summarised below. These loan notes are referred to at notes 19 and 25 and terms attaching to them are stated therein.

	2002 £'000	2001 £'000
A M Stewart and spouse	2,359	2,367
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:

Ordinary shares of 25p	Number	Percentage of class
The Collins Stewart Holdings plc Employee Share Ownership Trust	24,212,258	12.81
The Tokyo Tanshi Co., Ltd	9,131,453	4.83
Lazard Freres & Co	6,748,065	3.57
Toscafund Limited	6,371,724	3.37
Morgan Stanley Securities Limited	6,364,233	3.37
Oppenheimer Funds, Inc	5,725,636	3.03

Half the shares held by the directors and the Group's ESOTs are subject to selling restrictions, whereby the shares cannot be disposed of within a period of approximately one year from the date of these accounts.

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. In particular:

- the Board takes regular account of social and ethical matters affecting the Group; environmental issues are not considered on a regular basis as these are not considered a high risk;
- the Group carries out regular risk reviews of various aspects of its business, which take account, inter alia, of social and ethical matters;
- the Board considers that it receives adequate information to make assessments of the social, environmental and ethical matters which affect its business;
- there are systems of risk management in place to manage the significant risks facing the Group.

The Company's risk management process is described in the Report on Corporate Governance.

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.

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.

None of Collins Stewart's activities involve any significant health and safety risks. During the year there were no injuries, illnesses or dangerous occurrences which needed to be reported under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995.

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 2002 for supplier payments, other than stockbroking transactions which are settled sooner in accordance with market practice, were 36 days for the Group (2001: 37) and 32 days (2001: 15) for the Company.

Special Business at the Annual General Meeting

At the Annual General Meeting on 29 May 2003 resolutions 11 to 15 will be proposed under special business.

Under resolution 11 it is proposed to grant the directors authority to allot unissued shares in the capital of the Company up to a nominal amount of £15,746,328 representing approximately 33 per cent of the issued share capital of the Company.

Resolution 12 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 £2,361,949 representing approximately 5% of the Company's issued share capital.

Resolution 13 is to change the Company's name to Collins Stewart Tullett plc. This is to reflect the change in emphasis of the Company's activities.

Under resolution 14 it is proposed to replace the existing Articles of Association with new articles which remove reference to the preference share capital and employee loans put in place at the time of the MBO in 2000 and now redeemed or repaid. The new articles additionally bring the articles up to date so that, inter alia, the report and accounts can be distributed electronically and proxy votes for shareholders' meetings can be cast through the CREST system and amend the directors' borrowing powers. Further information is provided at the end of the accounts.

Resolution 15 seeks to obtain authority for the directors to purchase up to 18,895,593 ordinary shares, being 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 11, 12 and 15 will expire at the conclusion of the annual general meeting to be held in 2004 or 15 months after the passing of such resolutions (whichever is the earlier).

Events since the Balance Sheet Date

Events since the balance sheet date are explained in note 35 to the accounts.

Political and Charitable Donations

During the period under review, no political donations were made by the Group (2001: £nil). Charitable donations amounting to £11,000 (2001: £45,000) 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
27 March 2003

corporate governance report

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 2002 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.

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 five Executive and four Non-executive directors, whose biographies are set out on pages 13 and 14. Keith Hamill, the Non-executive Chairman, John Spencer, the senior Non-executive director and David Clark are independent of management for the purposes of the Combined Code. Keith Hamill and John Spencer both have the benefit of share options granted to them prior to the Company's flotation. The Board considers that the value of these accounts is not sufficiently material to compromise the independence of these directors. The Board proposes to review the position on options once the final Higgs report has been published and adopted. Rob Lucas was not considered independent during the year because of his representation of a major shareholder. However, that shareholder, CVC, disposed of virtually its entire shareholding in Collins Stewart on 23 January 2003.

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. 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 31 and a statement on going concern is set out below.

The Board has a schedule of eight meetings per annum to discuss the Group's ordinary course of business. Additional meetings are arranged as required. The Board 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.

Beneath the Board there is a structure of delegated authority which sets out the authority levels allocated to the Executive Committee, individual directors and senior management. The Executive Committee comprises the Executive Directors of the Company.

The terms of the directors' service agreements and letters of appointment are summarised in the Report on Directors' Remuneration. 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, Bruce Collins, Stephen Jack and David Clark will be subject to election as this will be the first AGM after their appointment. Keith Hamill, John Spencer and Rob Lucas will retire by rotation and, being eligible, seek re-election. Resolutions proposing their 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 comprises Keith Hamill, the Non-executive Chairman, who acts as Chairman of the Audit Committee and John Spencer. Both members are independent Non-executive directors, and are chartered accountants. Terry Hitchcock stood down when he was appointed an Executive director. 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 by invitation. 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 three times during the course of 2002. During the year the Audit Committee reviewed the cost effectiveness, objectivity and independence of the auditors. The auditors disclosed the level of fees received in respect of the various services provided by their firm in addition to audit during 2002. They confirmed to the Audit Committee that they did not believe that the level of non-audit fees had affected their independence. The Audit Committee's policy is to use the most appropriate advisers for non-audit work taking account of the need to maintain independence.

Remuneration Committee

The Remuneration Committee comprises John Spencer (Chairman) and Keith Hamill, both independent Non-executive directors. 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. The full Board is responsible for agreeing the remuneration of the Non-executive directors. The Chief Executive attends certain parts of meetings of the Remuneration Committee by invitation. Further details of the Company's policies on remuneration, service contracts and share options are given in the Report on Directors' Remuneration.

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 2002. The appointments of Bruce Collins, Stephen Jack and David Clark were considered by the full Board as part of the proposed acquisition of Tullett; no external advertising or external advice was used in connection with these appointments. The Board considered that the knowledge and experience of the new directors in connection with Tullett would be an important asset to the Board.

Internal Control and Risk Management

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 year, 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 2002 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. However, following the acquisition of Tullett, an internal audit function will be established and it is intended that its role should be developed during the course of 2003.

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 and Tullett has an Executive Committee comprising members of the senior management team, which consider all major operational projects and trading developments.

Both Collins Stewart and Tullett have Risk Control Functions and Risk Review Committees. The Committees, which comprise directors and members of the senior management team, are responsible for considering the work prepared by the Risk Control Functions, including detailed risk reviews of the major operating areas, as well as considering ad hoc issues which arise in the ordinary course and implementing changes to control procedures. Summaries of the key findings of the risk reviews are submitted to the Audit Committee periodically. It is intended that the Risk Control Functions of Collins Stewart and Tullett will be brought together over the course of 2003.

Each of Collins Stewart and Tullett has a Compliance department which is responsible for carrying out regular checks that procedures are being implemented in compliance with the rules of the Financial Services Authority. The Compliance officers are in regular contact with the Executive directors, report formally to the Board and periodically to the Audit Committee.

The Collins Stewart Compliance department has assisted the Board to conduct an internal review of the Company's activities in the split capital investment trust sector to ensure that all the risks have been properly identified and to ensure that adequate risk management procedures are in place to control these risks.

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. Further information is provided on the Collins Stewart (CI) website at www.ci.collins-stewart.com and on QUEST™ at www.csquest.com. Information on the Tullett business is published on its own website at www.tullib.com. The Chairman's Statement and Operating and Financial Review in this report and accounts 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 or on request.

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 proposed at general meetings are disclosed at those meetings and are published on the Company's website.

Constitution of the Remuneration Committee

The Remuneration Committee comprises John Spencer, who is chairman and Keith Hamill, both independent Non-executive directors. 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 Directors' Remuneration

This report is divided into the following sections:

- Policies concerning the Executive directors who held office during the year and whose remuneration was determined by the Remuneration Committee;
- Non-executive director remuneration arrangements;
- Financial summary of directors' remuneration and share options;
- Details of the remuneration arrangements for the Tullett Executive directors who were appointed after the year-end and whose remuneration arrangements have not been determined by the Remuneration Committee, together with details of the share option scheme established for Tullett staff. The terms of David Clark's appointment were agreed by the Board. Accordingly his terms are dealt with in paragraph 2 below.

1. Executive Directors who held office during the year

Components of Packages

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. 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.

The components of the director remuneration packages for Terry Smith, Helen Smith and Terry Hitchcock are: basic salary, performance bonus, private medical and death in service insurance. No pension contributions are made in respect of these directors, nor does any of them 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 Terry Smith, Helen Smith or Terry Hitchcock. This is because they all 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 the future.

Salary and Performance Bonuses

As a general principle, the Remuneration Committee favours highly variable remuneration depending upon performance for both Executive directors and staff. In determining directors' bonuses, the Remuneration Committee takes into account the extent to which performance has generated returns in excess of a satisfactory return on capital, relative share price performance and absolute share price performance. The outcome of this process is then compared with the remuneration of comparable companies for similar performance.

The Executive directors' bonus pool is divided between the Executive directors taking into account the relative importance of the operations for which the individual is responsible and the performance of those operations as well as the individual's own contribution to the business. In the Chief Executive's case the performance of the whole business is considered.

In 2002 basic pay once again remained at the previous year's level of £100,000 per annum for each of the Executive directors. Bonus payments were considerably lower than those paid in the previous year as a result of the Company's absolute share price performance. The total shareholder return achieved by Collins Stewart since its flotation in comparison to the FTSE Mid 250 Index and the FTSE Speciality and Other Financials Index is set out in the graph in paragraph 3 below.

Service Contracts

Terry Smith and Helen Smith each have a service contract which is terminable on 12 months notice. Terry Hitchcock's service contract provides for notice of 3 months to be given by the Company and 12 months by him. Collins Stewart is entitled to terminate the service agreements of Terry Smith and Helen Smith by paying salary and bonus calculated by reference to the bonus paid to that director in the previous year, pro rated until the date of termination. The Company is entitled to terminate Terry Hitchcock's service agreement by paying three months salary.

2. Non-executive Directors

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.

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 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 David Clark may be terminated by the Company or the relevant director by 12 months written notice and Rob Lucas' appointment can be terminated without notice. The Board's intention is that Non-executive directors should normally be appointed for a specified period, initially for three years, with subsequent three year extensions being at the Board's discretion, but so that such appointments continue to be subject to the termination arrangements as set out above.

Keith Hamill and John Spencer were granted share options before the Company's flotation. There is no intention for further options to be granted to Non-executive directors. Further details are provided in paragraph 3 below.

3. Summary of Directors' Remuneration and Share Options

Directors' Remuneration

The following table shows a breakdown of the remuneration of individual directors for the year ended 31 December 2002 with comparative information for the year ended 31 December 2001:

	Salaries and Fees		Benefits		Performance Related Bonuses		Total	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Executive Directors								
Andy Stewart	100	100	1	2	200	1,800	301	1,902
Terry Smith	100	100	1	1	1,500	2,100	1,601	2,201
Helen Smith	100	100	1	1	300	300	401	401
Terry Hitchcock (i)	15	–	1	1	175	125	191	126
Non-executive Directors								
Keith Hamill (ii)	48	48	–	–	–	–	48	48
Rob Lucas	–	–	–	–	–	–	–	–
John Spencer	24	24	–	–	–	–	24	24

Notes:

(i) *Terry Hitchcock was appointed an Executive director on 4 November 2002. Prior to that he was a Non-executive director of the Company.*

(ii) *Keith Hamill's services are provided by Aldrington Investments Ltd.*

Andy Stewart resigned as a director on 24 March 2003 and was appointed President of the Company on the same date. He will receive no severance payment in connection with his resignation. Andy Stewart will continue to hold 4.4m shares acquired pursuant to the MBO, to which the selling restrictions will continue to apply.

Directors' Share Options

Details of the directors' share options outstanding at 31 December 2002 and 31 December 2001 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 awarded or exercised during the year ended 31 December 2002 (2001: nil) nor did any lapse.

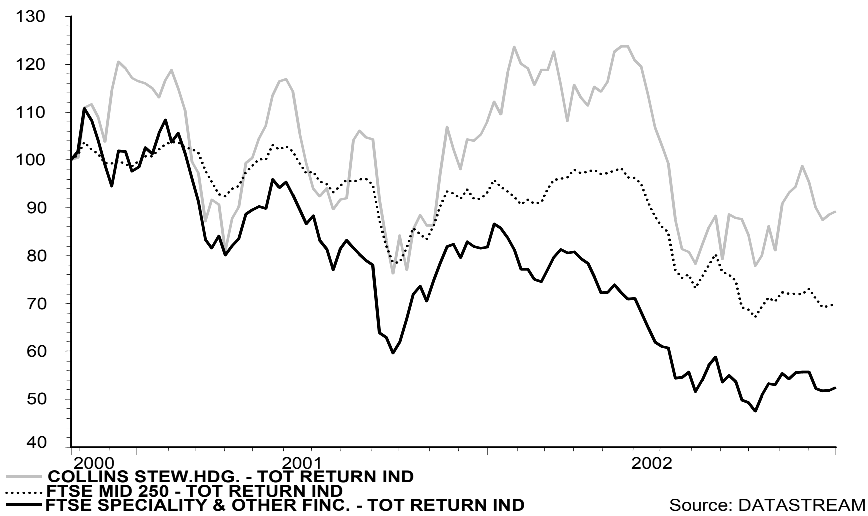
The share options granted under the Unapproved Share Option Scheme no 2 are subject to a performance condition being met, based on the Company's return on capital employed exceeding the median for the FTSE Mid 250 Index. The Board regards the return on capital employed as a key financial indicator and one which aligns the option holder's interests with those of shareholders. The FTSE Mid 250 Index was selected as the most appropriate comparator group for the Company.

The market price of the Company's ordinary shares ranged from a low of 255p to a high of 448p during the year. At 31 December 2002 it was 313p.

In addition to the above options, Andy Stewart and Terry Smith had been granted options over 2,878,923 and 2,638,979 ordinary shares in Collins Stewart Limited when that company was a subsidiary undertaking of Singer & Friedlander Group plc. These options, which had 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. Under an acquisition agreement relating to the MBO, Singer and Friedlander transferred all these shares to Collins Stewart Holdings plc for no consideration.

Performance Graph

The following graph shows the Company's performance compared with the performance of the FTSE Mid 250 Index and the FTSE Speciality & Other Financials Index, measured by total shareholder return from the date of the Company's flotation in October 2000 to the end of December 2002:



4. Remuneration of the Tullett Executive Directors

The Tullett Executive directors, Bruce Collins and Stephen Jack, joined the Board on 10 March 2003. They are employed under service contracts which were put in place prior to the acquisition of Tullett and accordingly the Remuneration Committee did not negotiate the terms of their remuneration.

Components of Packages

The components of Bruce Collins' and Stephen Jack's remuneration packages are basic salary and performance bonus, subject to a minimum guaranteed income, plus private medical, permanent health and death in service insurance. In addition, Bruce Collins is a member of the Tullett defined benefit pension scheme and Stephen Jack is a member of the Tullett defined contribution scheme.

Salary and Performance Bonuses

Bruce Collins receives a basic salary of £625,000. In the year to 31 December 2003 he is entitled to a bonus equal to 4% of the profit before tax of the Tullett Group (if such PBT is between £0-40m) and a further amount equal to 8% of the PBT in excess of £40m (such percentages calculated after deducting the bonus). His guaranteed minimum annual income is £1m. Tullett has committed to pay him a pension of at least £82,000 per annum from age 55.

Stephen Jack is entitled to receive a basic salary of £250,000 plus a bonus equal to 1.75% of the profit before tax of the Tullett Group for the year to 31 December 2003 (after taking into account that bonus). His guaranteed minimum annual income is £550,000. Tullett makes a contribution to the Tullett defined contribution pension scheme of 6% of his basic pay up to the statutory cap.

After 2003 the bonus arrangements for Bruce Collins and Stephen Jack will be replaced by a discretionary scheme established by the Remuneration Committee.

Service Contracts

Bruce Collins and Stephen Jack are both employed under service contracts entered into with Tullett before the acquisition of the company by Collins Stewart. Both service contracts are for a fixed period due to expire on 31 December 2004. The agreements are terminable by either party giving to the other 12 months' notice provided that such notice shall not expire before 31 December 2004.

Tullett is entitled to terminate the service agreements with Bruce Collins and Stephen Jack by paying salary and a pro rata portion of bonus in lieu of notice.

The New Share Option Plan for Tullett staff

The Collins Stewart Holdings plc 2003 Share Option Scheme was established in March 2003 by the Company as part of the offer for Tullett. The new share option plan allows for up to 8.5m ordinary shares to be put under option on behalf of Tullett staff, limited to a maximum of 2.125m per year. The performance conditions attaching to the options granted in the first year, measurable over a one year period, with two years continued service thereafter required, are set out below:

In order for any options to be exercisable, the following conditions must have been met:

- The return on capital employed for the Collins Stewart Group must exceed the median for the FTSE Mid 250 companies;
- The post tax return on capital employed for Tullett must exceed a predetermined rate. For 2003 this is 17.5%.

Once the above targets have been achieved, the number of options which can be exercised will depend on the level of PBT and pre-tax margin achieved by Tullett. In respect of options granted in 2003, the PBT to be achieved by Tullett must exceed £38.3m and the pre-tax margin must also exceed 8%. At this level only 20% of the options granted will be exercisable. Options exercisable increase as pre-tax profits and pre-tax margins increase. All of the options granted in respect of 2003 will be exercisable if the return on capital employed targets are met and Tullett achieves pre-tax profits of £44.3m with a pre-tax margin of at least 9%. The above conditions were selected so that options are only exercisable upon achievement of targets by both the wider Collins Stewart group and also Tullett. As stated above, the Board considers that return on capital employed is a key financial indicator. Accordingly no share options may be exercised unless Collins Stewart outperforms the FTSE Mid 250 index and Tullett also achieves the targets set by the Board. Thereafter Tullett staff are increasingly rewarded depending on the level of profitability which Tullett contributes to the Group. Performance is measured over a one year period as it is intended that options should be granted under this scheme annually.

By order of the Board

D Dyer Bartlett
Company Secretary
27 March 2003

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 2002 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses and the related notes 1 to 35. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the directors' remuneration report that is described in note 6 as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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. They are also responsible for the preparation of the other information contained in the annual report including the directors' remuneration report. Our responsibility is to audit the financial statements and the part of the directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions 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 of the Financial Services Authority, 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 including the unaudited part of the directors' remuneration report 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 and the part of the directors' remuneration report described as having been audited. 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 and the part of the directors' remuneration report described as having been audited 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 and the part of the directors' remuneration report described as having been audited.

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 2002 and of the profit of the group for the year then ended; and
- the financial statements and part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche
Chartered Accountants and Registered Auditors
London

27 March 2003

consolidated profit and loss account

for the year ended 31 december 2002

	Notes	2002 £'000	2001 £'000 (restated)*
Turnover	2	96,001	103,216
Administrative expenses			
Goodwill amortisation		(6,581)	(6,150)
Other expenses		(66,513)	(71,366)
		(73,094)	(77,516)
Other operating income	3	2,713	1,075
Operating profit	2, 4	25,620	26,775
Exceptional item: profit on sale of fixed asset investments in continuing operations	7	–	6,684
Profit on ordinary activities before interest		25,620	33,459
Interest receivable and similar income		2,495	3,523
Interest payable and similar charges	8	(2,604)	(4,203)
Profit on ordinary activities before taxation		25,511	32,779
Taxation on profit on ordinary activities	9	(9,503)	(10,406)
Profit on ordinary activities after taxation		16,008	22,373
Equity minority interests		(143)	5
Profit for the year attributable to shareholders of Collins Stewart Holdings plc		15,865	22,378
Dividends			
Ordinary dividend on equity shares	11	(6,872)	(6,875)
Preference dividend on non-equity shares	11	(2,602)	(2,602)
Retained profit for the year		6,391	12,901
Earnings per share			
Basic	12	13.02p	19.18p
Diluted	12	12.86p	19.00p
Basic before goodwill amortisation and exceptional item	12	19.48p	19.64p

All of the Group's turnover and operating profit were derived from continuing activities.

** The consolidated profit and loss account for the year ended 31 December 2001 has been restated for the adoption of FRS 19: Deferred Taxation as detailed in note 1.*

consolidated statement of total recognised gains and losses

for the year ended 31 december 2002

	Notes	2002 £'000	2001 £'000
Profit for the year attributable to shareholders of Collins Stewart Holdings plc		15,865	22,378
Currency translation differences		(110)	11
Total recognised gains and losses for the year		15,755	22,389
Prior year adjustment*	21	1,220	
Total recognised gains and losses since the last annual report and financial statements		16,975	

** The statement of total recognised gains and losses for the year ended 31 December 2001 has been restated for the adoption of FRS 19: Deferred Taxation as detailed in note 1.*

consolidated balance sheet
as at 31 december 2002

	Notes	2002 £'000	2001 £'000 (restated)*
Fixed assets			
Intangible assets	13	114,380	120,891
Tangible assets	14	6,441	6,866
Investments	15	104	103
		120,925	127,860
Current assets			
Investments	16	9,470	14,625
Debtors	17	84,426	103,323
Cash at bank and in hand	18	61,860	66,299
		155,756	184,247
Creditors: amounts falling due within one year	19	(119,627)	(158,170)
Net current assets		36,129	26,077
Total assets less current liabilities		157,054	153,937
Creditors: amounts falling due after more than one year	20	(6,356)	(9,595)
Provisions for liabilities and charges	21	(445)	(368)
Equity minority interests		(150)	(158)
Net assets		150,103	143,816
Capital and reserves			
Called up share capital	22, 23	27,003	27,003
Share premium account	23	98,316	98,310
Profit and loss account	23	24,784	18,503
		150,103	143,816
Shareholders' funds			
Equity		105,503	99,216
Non equity		44,600	44,600
		150,103	143,816

** The consolidated balance sheet as of 31 December 2001 has been restated for the adoption of FRS 19: Deferred Taxation and the reclassification of bank loan maturity dates as detailed in note 1.*

Approved by the Board of Directors on 27 March 2003 and signed on its behalf by:

T C Smith
Chief Executive

	Notes	2002 £'000	2001 £'000 (restated)*
Fixed assets			
Investments	15	151,667	151,667
Current assets			
Investments	16	198	182
Debtors	17	7,391	7,145
Cash at bank and in hand	18	214	480
		7,803	7,807
Creditors: amounts falling due within one year	19	(18,056)	(20,159)
Net current liabilities		(10,253)	(12,352)
Total assets less current liabilities		141,414	139,315
Creditors: amounts falling due after more than one year	20	(6,160)	(9,260)
Net assets		135,254	130,055
Capital and reserves			
Called up share capital	22, 23	27,003	27,003
Share premium account	23	98,316	98,310
Profit and loss account	23	9,935	4,742
		135,254	130,055
Shareholders' funds			
Equity		90,654	85,455
Non equity		44,600	44,600
		135,254	130,055

** The company balance sheet as of 31 December 2001 has been restated for the reclassification of bank loan maturity dates as detailed in note 1.*

Approved by the Board of Directors on 27 March 2003 and signed on its behalf by:

T C Smith
Chief Executive

consolidated statement of cash flows

for the year ended 31 december 2002

	Notes	2002 £'000	2001 £'000
Net cash inflow from operating activities	29	21,404	25,875
Returns on investments & servicing of finance:			
Interest received		2,658	3,434
Interest paid		(2,047)	(2,629)
Preference dividends paid		(2,602)	(1,573)
Dividends paid to minorities		–	(34)
		(1,991)	(802)
Taxation:			
Corporation tax paid		(9,076)	(8,843)
Overseas tax paid		(1,925)	(2,213)
		(11,001)	(11,056)
Capital expenditure and financial investments:			
Purchase of tangible fixed assets		(1,823)	(6,346)
Proceeds from sale of tangible fixed assets		–	7
Sale of fixed asset investments	7	–	6,684
		(1,823)	345
Acquisitions and disposals:			
Purchase of subsidiary undertakings		(220)	(17,408)
Equity dividends paid		(6,877)	(3,581)
Net cash outflow before financing		(508)	(6,627)
Financing:			
Issue of ordinary share capital		6	12,500
Share issue costs		–	(242)
Repayment of bank debt net of issue costs		(4,050)	(9,868)
Repayment of secured loan notes		(488)	(13)
		(4,532)	2,377
Decrease in cash	30, 31	(5,040)	(4,250)

1. Accounting Policies

Basis of Preparation

The financial statements have been prepared in accordance with applicable accounting standards and UK company law. The accounting policies which are set out below, are the same accounting policies as those applied in the accounts for the year ended 31 December 2001 other than in respect of deferred tax.

The Group has adopted Financial Reporting Standard 19: Deferred Taxation for the year ended 31 December 2002. This has led to a restatement of the comparatives for the year ended 31 December 2001: the deferred tax charge has been reduced by £995,000. A further £225,000 has been credited to opening reserves. The creditor balance at 31 December 2001 has been reduced by £1,220,000.

The Group has also restated the balance sheet comparatives for the year ended 31 December 2001 for the reclassification of bank debt by its maturity date. This has led creditors greater than one year to be decreased by £7,330,000 and creditors less than one year to be increased by this amount.

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 2002. 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	4 years
Office equipment	4 years
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.

Securities Long and Short Positions

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 recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries and associates only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in future has been entered into by the subsidiary or associate.

Deferred tax assets and liabilities are not discounted.

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 32. 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 been waived by the Collins Stewart Holdings plc ESOT but not by the Collins Stewart (CI) Limited ESOT. The dividend income arising on shares which have not yet vested unconditionally pursuant to employee awards, is excluded 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 operated 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 2002, together with comparatives for the year ended 31 December 2001, was as follows:

	UK £'000	Channel Islands £'000	USA £'000	Total £'000
2002				
Turnover	71,709	16,162	8,130	96,001
Operating profit	17,823	4,928	2,869	25,620
Net assets	127,385	22,000	718	150,103
2001				
Turnover	76,376	17,913	8,927	103,216
Operating profit	16,582	6,570	3,623	26,775
Net assets	121,476	21,890	450	143,816

The following table indicates the contributions to turnover made by each major category of activity. Some of these activities are carried out across a number of different divisions/subsidiaries:

	Market making/ principal turns £'000	Agency com-missions £'000	Corporate fees £'000	Manage-ment fees £'000	Other income £'000	Total £'000
2002	8,025	48,808	29,676	8,858	634	96,001
2001	10,667	49,999	35,264	7,108	178	103,216

An analysis of operating profit and net assets by business class has not been included as the directors believe that to do so would be seriously prejudicial to the interests of the Group.

3. Other Operating Income

Other operating income comprises:

	2002 £'000	2001 £'000
Net interest receivable on clients' free money	984	680
Other income	1,729	395
	2,713	1,075

4. Operating Profit

Operating profit is stated after charging:

	2002 £'000	2001 £'000
Depreciation of owned assets	2,223	1,550
Amortisation of intangible fixed assets	6,581	6,150
Operating lease rentals	2,644	1,840
Auditors' remuneration:		
Audit work in the UK	153	138
Audit work overseas	33	33
Non-audit work	120	157

5. Staff Costs

The aggregate employment costs of staff and directors were:

	2002 £'000	2001 £'000
Wages, salaries, bonuses and incentive payments	40,037	45,092
Social security costs	4,180	5,126
Other pension costs	655	491
Other	–	63
Payment on termination	–	696
	44,872	51,468

The average number of directors and employees of the Group during the year, all of whom were employed in financial services, was 408 (2001: 320).

6. Directors

The aggregate emoluments for the directors for the year ended 31 December 2002 charged to the profit and loss account was £2,566,000 (2001: £5,466,000). The remuneration paid to each of the directors is disclosed in the Report on Directors' Remuneration on pages 25 to 30.

No pension contributions were made in respect of any of the directors (2001: £nil).

Further details of directors' emoluments and interests are included in the Report of the Directors on pages 15 to 20 and in the Report on Directors' Remuneration on pages 25 to 30. These details include, as specified for audit by the UK Listing Authority, an analysis, by director, of salary and other payments and benefits on page 27, an analysis of directors' share interests on page 16 and share options on page 28, all of which form part of these audited financial statements.

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

During the year ended 31 December 2001, 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

	2002 £'000	2001 £'000
Bank loans and overdrafts	218	392
Subordinated loan interest	885	1,807
Amortisation of debt costs	1,309	1,736
Other interest payable	192	268
	2,604	4,203

9. Taxation on Profit on Ordinary Activities & Exceptional Item

The taxation charge is made up as follows:

	2002 £'000	2001 £'000 (restated)*
Current tax:		
UK corporation tax	7,827	7,377
UK corporation tax on exceptional item	–	1,010
Overseas tax	1,581	2,067
Adjustment in respect of prior year UK corporation tax		39
Adjustment in respect of prior year overseas tax	–	(37)
	9,408	10,456
Deferred tax:		
Origination/(reversal) of timing differences	95	(50)
Deferred tax on exceptional item	–	995
Adjustment in respect of prior year deferred tax	–	(995)
	9,503	10,406

* Adoption of FRS19: Deferred Taxation has required a change in the method of accounting for deferred tax. As a result the comparative figure for the tax on ordinary activities and exceptional item for 2001 has been restated from the previous reported charge of £11,401,000 to £10,406,000. The prior year adjustments in respect of FRS 19 are summarised in note 21. The impact of adopting FRS19 on the 2002 results is an increase to the tax charge of £23,000.

The tax assessed for the year is higher than that resulting from applying the standard rate of corporation tax in the UK of 30% as explained below:

	2002 £'000	2001 £'000 (restated)*
Profit on ordinary activities before tax	25,511	32,779
Tax on profit on ordinary activities at standard rate of 30%	7,653	9,833
Factors affecting charge for the period:		
Capital allowances less than /(in excess of) depreciation	60	(18)
Non allowable expenditure (including goodwill)	2,236	2,224
Release of deferred tax creditor	(35)	–
Utilisation of tax losses	(2)	(19)
Unrelieved losses	–	58
Higher tax rate on overseas earnings	108	124
Lower tax rate on overseas earnings	(612)	(1,768)
Adjustment in respect of prior years	–	22
Total actual current tax	9,408	10,456

10. Profit of the Parent Company

The parent company's profit after tax for the financial year amounted to £14,667,000 (2001: £10,385,000).

11. Dividends

	2002	2001
	£'000	£'000
Equity dividends on ordinary shares		
Interim paid (2.25p) (2001: 2.25p)	2,292	2,292
Final proposed (4.5p) (2001: 4.5p)	4,580	4,583
	6,872	6,875
Non-equity dividends on preference shares		
Proposed	2,602	2,602
	9,474	9,477

The trustee of the Company ESOT has waived its right to dividends due on 3.8m ordinary shares. The dividends on 0.7m unallocated ordinary shares held by the Collins Stewart (CI) ESOT are also excluded in the above numbers. The amount waived/excluded in respect of the interim ordinary dividend was £97,000 (2001: £98,000) and in respect of the final 2002 ordinary dividend, £200,000 (2001: £197,000). The amount waived/excluded in respect of the "A" and "B" preference shares was £8,000 (2001: £8,000).

The 82m ordinary shares allotted pursuant to the placing and open offer and offers for Tullett are also entitled to receive the final dividend. Since these shares were allotted after the year-end, these dividends, which total some £3.7m, will be treated as an interim dividend in respect of the year to 31 December 2003.

12. Earnings per Share

Earnings	2002	2001
	£'000	£'000
		(restated)*
Earnings for the purposes of the basic and diluted earnings per share	13,263	19,776
Goodwill amortisation	6,581	6,150
Exceptional item	–	(6,684)
Taxation on exceptional item	–	1,010
Earnings for the purposes of basic earnings per share before goodwill and exceptional items	19,844	20,252

Weighted average shares	2002	2001
	No. '000	No. '000
Number of ordinary shares at start of year	101,893	103,101
Shares acquired by the ESOTs from staff leaving the Group	(6)	(1,773)
Share issues	1	1,789
Basic earnings per share denominator	101,888	103,117
Issuable on exercise of options	1,224	944
Diluted earnings per share denominator	103,112	104,061

* *restated for the adoption of FRS 19: Deferred Taxation as detailed in note 1.*

13. Intangible Fixed Assets

	Group £'000	Company £'000
Cost		
At 1 January 2002	130,341	–
Additions	70	–
At 31 December 2002	130,411	–
Amortisation		
At 1 January 2002	9,450	–
Charge for the period	6,581	–
At 31 December 2002	16,031	–
Net book value		
At 31 December 2002	114,380	–
At 31 December 2001	120,891	–

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 2002	92	7,791	604	2,932	11,419
Reclassification	–	486	(12)	(474)	–
Additions	–	1,516	23	284	1,823
Disposals	–	(2,515)	(92)	(48)	(2,655)
Foreign exchange difference	–	(26)	(17)	–	(43)
At 31 December 2002	92	7,252	506	2,694	10,544
Depreciation					
At 1 January 2002	6	3,909	372	266	4,553
Reclassification	–	152	(3)	(149)	–
Charge for the period	1	1,823	55	344	2,223
Disposals	–	(2,515)	(92)	(48)	(2,655)
Foreign exchange difference	–	(15)	(3)	–	(18)
At 31 December 2002	7	3,354	329	413	4,103
Net book value					
At 31 December 2002	85	3,898	177	2,281	6,441
At 31 December 2001	86	3,882	232	2,666	6,866

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 (iii)	England and Wales	Property management	75%

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

Group Investment in Securities

The Group's investments in securities were as follows:

	£'000
At 1 January 2002	103
Additions	1
At 31 December 2002	104

Investments in securities comprise unlisted equity shares which were held at their cost.

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

Company Investment in Subsidiary Undertakings

	Shares in subsidiary undertakings £'000	Loans to subsidiary undertakings £'000	Total £'000
Cost			
At 31 December 2001 & 2002	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	2002 £'000	2001 £'000
Long positions in equity and debt securities		
Listed in the UK	7,879	12,553
Listed overseas	436	634
Unlisted UK companies	370	963
Unlisted overseas companies	244	–
Long positions in share options		
Listed in the UK	343	293
Own shares	198	182
	9,470	14,625

Company	2002 £'000	2001 £'000
Own shares	198	182

During 2002, 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 £16,000 (2001: £176,000). These investments are included in the Group balance sheet in accordance with UITF 13.

17. Debtors

Group	2002 £'000	2001 £'000
Trade debtors	79,082	98,117
Prepayments and accrued income	1,371	1,427
Other debtors	3,866	3,535
Corporation tax	10	116
Deferred tax – timing differences	97	128
	84,426	103,323

Company	2002 £'000	2001 £'000
Prepayments and accrued income	165	127
Other debtors	172	18
Corporation tax	–	106
Amounts due from subsidiary undertakings	7,054	6,894
	7,391	7,145

18. Cash at Bank and in Hand

Cash at bank and in hand was denominated in:

Group	2002 £'000	2001 £'000
Sterling	50,640	53,325
Euros	945	938
US dollars	4,019	4,172
Other	233	195
	55,837	58,630
Client settlement balances	6,023	7,669
	61,860	66,299

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

19. Creditors: Amounts Falling Due Within One Year

Group	2002 £'000	2001 £'000 (restated)*
Bank overdraft	2,010	1,023
Trade creditors	64,169	91,772
Securities – short positions	1,769	3,651
Other creditors	1,274	3,164
Secured loan notes (see below)	4,542	5,030
Bank debt	7,689	7,330
Corporation tax	5,193	6,893
Accruals and deferred income	25,799	32,122
Proposed dividends	7,182	7,185
	119,627	158,170

* *restated for the reclassification of bank debt by its maturity as detailed in note 1.*

Company	2002 £'000	2001 £'000 (restated)
Bank debt	7,689	7,330
Corporation tax	117	–
Accruals and deferred income	3,068	5,644
Proposed dividends	7,182	7,185
	18,056	20,159

Bank Overdraft

The bank overdraft is denominated in the following currencies:

Group	2002 £'000	2001 £'000
Sterling	1,929	973
US dollars	71	7
Euros	10	43
	2,010	1,023

Secured Loan Notes

The secured loan notes are also referred to in note 24, disclosing related party transactions, and in note 25 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	2002 £'000	2001 £'000 (restated)
Subordinated loans	5,250	9,250
Bank loans	1,000	1,000
Cost of raising subordinated debt and bank loans	(90)	(990)
Others	196	335
	6,356	9,595

* *restated for the reclassification of bank debt by its maturity as detailed in note 1.*

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

	2002 £'000	2001 £'000 (restated)
Between one and two years	6,160	9,260
Between two and five years	196	335
	6,356	9,595

Company	2002 £'000	2001 £'000 (restated)
Subordinated loans	5,250	9,250
Bank loans	1,000	1,000
Cost of raising subordinated debt and bank loans	(90)	(990)
	6,160	9,260

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

	2002 £'000	2001 £'000 (restated)
Between one and two years	6,160	9,260

Subordinated Loans

The subordinated loans were entered into pursuant to the MBO on 26 May 2000. They were restated on the Company flotation in October 2000 and in connection with the Tullett acquisition on 10 March 2003 and are unsecured. The lender is the Governor and Company of the Bank of Scotland.

Group and Company	2002	2001
	£'000	£'000
The Governor and Company of the Bank of Scotland	13,750	17,800

	2002	2001
	£'000	£'000
Repayment period		
Due within one year	8,500	8,550
Due between one and two years	5,250	9,250
	13,750	17,800

These loans accrue interest at 1.5% above LIBOR. The loans were repayable in full by 30 June 2004. Since the balance sheet date, the loans have been restated, and are now repaid in instalments up to 31 December 2007.

A repayment of £4,050,000 was scheduled for December 2002. This has been delayed until 30 June 2003 as part of the restatement of the borrowing facilities pursuant to the acquisition of Tullett.

Bank Loans

The bank loan is secured by a floating rate charge over the Company's assets and was due for repayment by 30 June 2004. Since the year-end, it has been deferred to 2007 and increased to £5m as part of the restatement of the borrowing facilities pursuant to the acquisition of Tullett.

There is also an undrawn revolving credit facility of £10,000,000, which at the balance sheet date was available to the Group until 30 June 2004. Pursuant to the restatement of the borrowing facilities for acquisition of Tullett, this facility is now available until 2007.

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.

21. Provisions for Liabilities and Charges

A provision of £445,000 (2001 restated: £368,000) has been made for deferred taxation.

Deferred Taxation

Group

Provision for deferred taxation has been made as follows:–

	2002 £'000	2001 £'000
Deferred tax provision	445	368
Deferred tax asset (included in other Debtors)	(97)	(128)
Net deferred tax liability	348	240

Deferred tax comprises:	2002 £'000	2001 £'000
Accelerated capital allowances	(74)	(128)
Other timing differences (net)	422	368
Net deferred tax liability	348	240

Movements during the year:	2002 £'000
As previously reported	1,499
Prior year adjustment	(1,220)
Reversal of prior year timing difference	(39)
At 1 January 2002 as restated	240
Currency translation and other adjustments	13
Charge to profit and loss account	95
At 31 December 2002	348

The adoption of FRS 19: Deferred Taxation has required changes in the method of accounting for deferred tax assets and liabilities. As a result of these changes in accounting policy, the comparatives have been restated as follows:

	Deferred tax £'000	Profit and loss reserve £'000	Shareholders' funds £'000
2001 deferred tax liability as previously reported	1,680		
2001 deferred tax asset as previously reported	(181)		
As previously reported	1,499	17,283	142,596
Adoption of FRS19 at 1 January 01	(225)	225	225
During year ended 31 December 01	(995)	995	995
Adoption of FRS 19 at 31 December 01	(1,220)	1,220	1,220
2001 restated	279	18,503	143,816

The Company has no provision for deferred taxation.

22. Share Capital

	2002 No. '000	2001 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	106,228	106,226
"A" preference shares of 1p	41,303	41,303
"B" preference shares of 1p	3,297	3,297
	150,828	150,826

	2002 £'000	2001 £'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	26,557
"A" preference shares of 1p	413	413
"B" preference shares of 1p	33	33
	27,003	27,003

The rights of the preference shares, all of which were redeemed on 6 March 2003, are described below.

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 31 December 2002; (b) 9 per cent from 1 January 2003 to 31 December 2004; and (c) 15 per cent from 1 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 26 June 2002, 2,360 shares were allotted at 292p per share upon exercise of options granted under the Sharesave scheme 2000.

Share Options

At 31 December 2002 the following options over ordinary shares had been granted under the Company's share option schemes and were outstanding:

	At 1 January 2002	Granted	Lapsed	Exercised	At 31 December 2002	Exercise Price	Exercise Period
Sharesave scheme	742,565	–	(49,876)	(2,360)	690,329	292p	1.1.2006-30.6.2006
	–	202,244	(35,564)	–	166,680	415p	1.7.2007-31.12.2007
Approved share option scheme	18,986	–	(9,493)	–	9,493	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	–	(1,190,507)	–	790,507	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
	5,291,363	202,244	(2,285,440)	(2,360)	3,205,807		

Options granted under the Sharesave scheme during 2000 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 granted under the Sharesave scheme in 2002 were granted at market price.

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 28.

23. Reserves

Group	Share capital account £'000	Share premium account £'000	Profit and loss account £'000	Total £'000
At 1 January 2001 restated for FRS 19	26,221	86,834	5,591	118,646
Retained profit for the year as previously reported	–	–	11,906	11,906
Prior year adjustment in respect of FRS 19	–	–	995	995
Ordinary share capital placed	782	11,718	–	12,500
Costs of share issue	–	(242)	–	(242)
Foreign currency translation	–	–	11	11
At 31 December 2001 restated for FRS 19	27,003	98,310	18,503	143,816
Retained profit for the year	–	–	6,391	6,391
Issue of shares	–	6	–	6
Foreign currency translation	–	–	(110)	(110)
At 31 December 2002	27,003	98,316	24,784	150,103

Company	Share capital account £'000	Share premium account £'000	Profit and loss account £'000	Total £'000
At 1 January 2001	26,221	86,834	3,834	116,889
Retained profit for the year	–	–	908	908
Ordinary share capital placed	782	11,718	–	12,500
Costs of share issues	–	(242)	–	(242)
At 31 December 2001	27,003	98,310	4,742	130,055
Retained profit for the year	–	–	5,193	5,193
Issue of shares	–	6	–	6
At 31 December 2002	27,003	98,316	9,935	135,254

24. 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 £3,171,000 (2001: £3,179,000).

25. Directors' Material Interest in Contracts

	2002 £'000	2001 £'000
A M Stewart and spouse	2,359	2,367
T J Hitchcock and spouse	812	812
	3,171	3,179

As stated in note 24 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.

26. Commitments

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

Operating leases	2002 Buildings £'000	2001 Buildings £'000	2002 Other £'000	2001 Other £'000
Annual commitments on leases expiring:				
– within one year	–	43	42	26
– within two to five years	319	2,359	69	48
– over five years	2,520	216	–	–
	2,839	2,618	111	74

27. Capital Commitments

Collins Stewart Limited has contracted to spend approximately £142,000 in 2003 (2002: £900,000) for the continued development of the QUEST™ system.

28. 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.

As at the time of signing these accounts, there were 34 outstanding complaints received by Group companies relating to advice given to clients in connection with split capital investment trusts. Each complaint has been investigated in accordance with the Group's complaints procedures and within the guidelines set by the applicable regulatory authority. The directors believe that no provision in respect of these complaints is required in the accounts for the year ended 31 December 2002.

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

	2002 £'000	2001 £'000
Operating profit	25,620	26,775
Depreciation of tangible assets	2,223	1,550
Goodwill amortisation	6,581	6,150
Loss on sale of fixed assets	–	83
Movement in deferred income	(139)	335
Increase in net market and client balances	(8,569)	(3,242)
Decrease/(increase) in net investment positions	3,272	(2,205)
Increase in other debtors	(444)	(2,081)
Decrease in other creditors	(7,314)	(1,490)
Currency translation differences	174	–
Net cash inflow from operating activities	21,404	25,875

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

	2002 £'000	2001 £'000
Decrease in cash during the year	(5,040)	(4,250)
Cash outflow from repayment of loans & loan notes	4,538	9,861
Debt issue costs	–	20
Amortisation of debt costs	(1,309)	(1,736)
Translation difference	(386)	–
(Decrease)/increase in net funds resulting from cash flows	(2,197)	3,895
Net funds at 1 January 2002	43,656	39,761
Net funds at 31 December 2002	41,459	43,656

31. Analysis of Net Funds

	At 1 January 2002 £'000 (restated)*	Cash flow £'000	Non-cash items £'000	Exchange differences £'000	At 31 December 2002 £'000
Cash in hand and at bank	58,630	(2,407)	–	(386)	55,837
Client settlement moneys	7,669	(1,646)	–	–	6,023
Overdraft	(1,023)	(987)	–	–	(2,010)
	65,276	(5,040)	–	(386)	59,850
Loan notes due within one year	(5,030)	488	–	–	(4,542)
Loans due within one year	(7,330)	50	(409)	–	(7,689)
Loans due after one year	(9,260)	4,000	(900)	–	(6,160)
Total net funds	43,656	(502)	(1,309)	(386)	41,459

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

** restated for the reclassification of bank loan maturity as detailed in note 1.*

32. Client Moneys

At 31 December 2002 client moneys held were £229,105,000 (2001: £143,227,000). This comprised £6,023,000 (2001: £7,669,000) of balances held by the Group on behalf of clients to settle outstanding bargains and £223,082,000 (2001: £135,558,000) 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.

33. 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 £8,025,000 (2001: £10,667,000). 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 year. 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. In 2002, the Group did 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 loan notes outstanding which are secured by a cash deposit. The interest income on the deposit is matched against the interest due on the loan notes.

34. 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 until after publication of these accounts as to 50% of such shares, 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. As explained in note 35, the preference shares were all redeemed on 6 March 2003.

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 28m ordinary shares held by the Group's ESOTs, some 2.6m ordinary shares (2001: 3.1m) had not been allocated to specific employees and a further 1.9m ordinary shares (2001: 1.2m) had been allocated conditionally or were under option to employees. Of the above shares held by Group ESOTs, the Company's ESOT held some 2.0m ordinary shares (2001: 2.4m) which had not been allocated to specific employees and a further 1.9m ordinary shares (2001: 1.2m) 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 313p per share.

Both ESOTs held "A" and "B" preference shares which have been redeemed since the year-end. The redemption moneys in respect of shares subscribed by staff through the Company ESOT have been returned to staff. The redemption moneys in respect of shares subscribed by staff through the Collins Stewart (CI) ESOT will be returned to staff in accordance with their original subscription arrangements.

Dividends on shares held by the Company ESOT which have not vested unconditionally have been waived. Dividends on shares held by the Collins Stewart (CI) ESOT 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: Earnings per share. All shares which have not vested unconditionally pursuant to awards to employees are excluded 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.

35. Post Balance Sheet Events

On 23 January 2003 the Company announced offers for the entire issued and to be issued share capital of Tullett plc. The offers valued Tullett plc at approximately £250m. The acquisition was completed on 10 March 2003 at which time the Company had received acceptances in respect of the entire issued ordinary share capital. Pursuant to the offers, 68m new ordinary shares were issued.

On 23 January 2003 the Company also announced a placing and open offer of 14.65m new ordinary shares at 308p per share to raise approximately £44.6m net of expenses to fund the redemption of all the Company's issued preference shares. On 6 March 2003 the Company redeemed all the issued "A" and "B" preference shares.

The combined fund raising associated with the Tullett offers and the placing and open offer totalled £148m. In addition the Company increased its borrowing facilities with Bank of Scotland by £50m to £64.75m. The existing loan agreements were amended and restated, thus the existing security structure remained in place. The restated borrowings comprise £58.75m subordinated debt and £6m secured loans which are repayable over the 5 years to the end of December 2007. In addition, Bank of Scotland provided a £1.1m secured loan note facility to enable the Company to issue loan notes pursuant to the Tullett offers.

On 18 March 2003 £45m of the subordinated loan was redenominated into US dollars as part of the Company's strategy to hedge its investment in its new US subsidiaries.

summary of key changes to the articles of association

The new articles of association are based on draft articles that have been approved by the United Kingdom Listing Authority ("UKLA"), amended to be consistent (so far as practicable) with the Company's current articles. For the majority of clauses there is no material difference between the current and the new articles, except for the phrasing. The key differences are set out below in three sections: generic amendments; additions to the current articles; and deletions to the current articles.

1. **Generic amendments**

1.1 ***Electronic Communications***

The Companies Act 1985 (Electronic Communications) Order 2000 (the "Order") came into force on 22 December 2000. Although no changes to a company's articles are required by the Order, it is the recommended best practice of the Institute of Chartered Secretaries and Administrators ("ICSA") that companies should take steps to amend their articles to reflect the provisions of the Order as soon as is practicable. Although a company may have the benefit of certain provisions of the Order notwithstanding any provision to the contrary in its articles, the board considers that it is preferable to make certain amendments to the company's articles, so as to avoid any inconsistencies or anomalies and so as to afford maximum flexibility in respect of the company's ability to make use of electronic communications. The new articles therefore incorporate all the recommended provisions, including the ability for the company to send notices to its shareholders electronically and to post notices on its website.

1.2 ***CREST***

The revised Uncertificated Securities Regulations (as updated in 2001) now provide that CRESTCo is obliged to maintain a record of uncertificated shares on an 'operator register'. It is this register and not the original company register of shares that will now be open to inspection in respect of uncertificated securities (although the company is obliged to reconcile the entries on the company register with the entry on the operator register regularly). The new articles contain provisions relating to the operator register.

On 20 January 2003 CRESTCo Limited announced the introduction of an electronic proxy voting service. The proxy voting service allows companies, agents and investors to liase electronically regarding company meetings. The new articles allow members to appoint and instruct a proxy by electronic means and enable the company to announce a meeting and the result of a meeting via the CREST system.

1.3 ***Borrowing Powers***

The provisions that determine the extent to which the company may borrow money have been altered and increased. The new provisions are in accordance with ABI guidelines.

2. **Principal additions made to the current articles**

2.1 ***Extended definitions section***

A number of definitions have been added and certain definitions have been altered to conform with the new articles. This will make the interpretation of the new articles simpler and quicker.

2.2 ***Share fractions (Article 37)***

The board's powers to deal with the entitlement of members to fractions of shares have been extended to apply where shares have been divided or sub-divided.

2.3 ***Convening of extraordinary general meetings (Article 42)***

Article 42 clarifies that, at a meeting convened on a requisition, no business may be transacted except that stated by the requisition or proposed by the board.

2.4 ***Right to vote at meetings and adjourned meetings (Articles 43(F) and 52(C))***

For the purposes of determining which persons are entitled to attend or vote at a meeting (43(F)) or an adjourned meeting (52(C)), and how many votes those persons may cast, the company is empowered to specify in the notice of the meeting a time, not more than 48 hours before the time fixed for the meeting, by which a person must be entered on the relevant register of securities to have the right to attend or vote at the meeting.

2.5 ***Postponement of general meetings (Article 45)***

Article 45 empowers the board to postpone general meetings if they consider it to be impractical or unreasonable to hold the meeting at the time or place specified in the notice of meeting.

2.6 ***Power to adjourn meeting (Article 51)***

Article 51 clarifies that the chairman may adjourn the meeting if necessary, in order to give all persons entitled to do so a reasonable opportunity of speaking and voting at the meeting.

2.7 ***Business at adjourned meeting (Article 53)***

Article 53 confirms the general position that no business may be transacted at an adjourned meeting other than the business which might properly have been transacted at the meeting from which the adjournment took place.

2.8 ***Security of a meeting (Article 55)***

Article 55 gives more detail of the arrangements that the board is entitled to take to ensure the security of a meeting.

2.9 ***Procedure on a poll (Article 57)***

Article 57(C) provides that at least seven clear days' notice shall be given, specifying the time and place at which a poll should be taken, if these details are not announced at the meeting at which the poll is demanded.

2.10 ***Proxy votes valid although authority revoked (Article 63)***

Article 63 clarifies that a vote by proxy will not be valid where the company has received notice of revocation of appointment or authority of the proxy (either in written or electronic form) more than 48 hours before the meeting. In the case of a meeting adjourned for more than 48 hours, such notice of revocation must be received more than 24 hours before the meeting. Where the meeting is adjourned for less than 48 hours the notice may be delivered at the adjourned meeting.

2.11 ***Objections to voting (Article 65)***

Article 65 clarifies that an objection only invalidates the decision of the meeting on any resolution if, in the opinion of the chairman, it is of sufficient magnitude to affect the decision of the meeting.

2.12 ***Directors subject to retirement (Article 77)***

Article 77 clarifies that the directors to retire on each occasion shall be determined on the basis of the composition of the board at the start of business on the date of the notice convening the AGM.

2.13 ***Vacation of office by director (Article 82)***

The existing scope of this provision is to be extended to provide that the board may resolve that a director's office is vacated where a director and his alternate director are absent, without the permission of the board, from board meetings for six consecutive months. The article also provides that when a person ceases to be a director such person also ceases to be on any committee of the board (whereas the existing articles allow non-directors to act on these committees).

2.14 ***Alternate directors (Articles 83-86 and 90)***

The new articles give more detail of the arrangements relating to the appointment of alternate directors.

Article 83 provides that a director may appoint another director or another person approved by the board and willing to act as an alternate director.

Article 84 provides for the revocation of the appointment of an alternate director.

Article 85 provides that an alternate director will be entitled to receive notices of all meetings of the board and all committees of the board of which his appointor is a member and in the absence of his appointor is entitled to attend and vote at the meetings and exercise all powers, rights, duties and authorities of his appointor. Alternate directors do not count towards the quorum because it would be inappropriate for unelected alternates to be able to make significant decisions about the running of the company without any directors, who are directly accountable to the shareholders, being present.

Article 86 provides that an alternate director is deemed to be an officer of the company and not the agent of the director appointing him.

Article 90 provides that an alternate director is not entitled to a fee from the company for his services. Any fee is payable out of the fee paid to his appointor. However the company shall repay expenses incurred by an alternate director in the performance of his duties.

2.15 ***Directors' fees (Article 87)***

Article 87 empowers the board to arrange for part of a fee payable to a director to be provided in the form of fully-paid shares in the capital of the company.

2.16 ***Directors' interests (Article 104)***

Article 104 confirms that the company may by ordinary resolution suspend or relax the provisions relating to the disclosure of directors' interests and may ratify any contract or proposal not properly authorised by reason of non-disclosure of directors' interests.

2.17 ***Payment of scrip dividends (Article 129)***

Article 129 enables the board, with the prior sanction of an ordinary resolution of the shareholders, to allot to holders of a particular class of shares who elect to receive them, further shares of that class or ordinary shares, credited as fully paid, instead of cash in respect of all or any part of any dividend.

2.18 ***Accounts to be sent to members etc (Article 133)***

Article 133 provides that the board may determine the persons entitled to receive copies of the annual accounts and relevant reports by reference to those persons entered on the register on a particular day. This day may not be more than 21 days before the copies are sent out.

3. **Principal deletions to the current articles**

3.1 ***Preference shares***

References to preference shareholders and preference shares have been removed because all preference shares have been redeemed.

3.2 ***Managers' loans***

References to a manager or managers' loans have been removed because these have been repaid.

3.3 ***Listing Rules***

The articles have been updated to reflect changes to the Listing Rules of the UKLA.

3.4 ***Share certificates (Article 11)***

The existing provisions have been changed to the extent that it is no longer necessary for a share certificate to state the name of any external registrars appointed by the company or the address at which transfers of shares should be lodged.

3.5 ***Auditors (Article 22.4)***

Article 22.4 regarding the appointment of auditors and the validity of acts done by any person acting as auditor has been removed since it is covered by the general law.

3.6 ***Indemnification of officers (Article 142)***

The existing provisions have been changed to the extent that an auditor is no longer entitled to be indemnified by the company against liabilities incurred by him in performance of his duties as auditor to the company. This reflects best practice on this point.

notice of annual general meeting

collins stewart holdings plc
registered in England no 3904126

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 29 May 2003 at 3.00 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 2002 together with the reports of the directors and the auditors thereon.
2. To receive and adopt the report on directors' remuneration.
3. To elect as a director Bruce Collins who was appointed to the Board since the last AGM.
4. To elect as a director Stephen Jack who was appointed to the Board since the last AGM.
5. To elect as a director David Clark who was appointed to the Board since the last AGM.
6. To re-elect as a director Keith Hamill (member of the audit, remuneration and nominations committees) who retires by rotation.
7. To re-elect as a director John Spencer (member of the audit, remuneration and nominations committees) who retires by rotation.
8. To re-elect as a director Rob Lucas (member of the nominations committee) who retires by rotation.
9. To reappoint Deloitte & Touche as auditors of the Company and to authorise the Board to fix their remuneration.
10. That a final dividend in respect of the year ended 31 December 2002 be declared payable at the rate of 4.5p per ordinary share of 25p on 5 June 2003 to shareholders registered at the close of business on 9 May 2003.

SPECIAL BUSINESS

Ordinary Resolution

11. 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 £15,746,328 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

12. That, subject to and conditional upon the passing of resolution 11 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 11 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, record dates 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 held by an approved depository or 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 £2,361,949 representing approximately 5% of the current issued share capital of the Company and shall expire at the conclusion 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.

13. That the name of the Company be changed to Collins Stewart Tullett plc.

14. That the regulations contained in the document submitted to this meeting and, for the purpose of identification, signed by the chairman hereof be approved and adopted as the articles of association of the Company in substitution for and to the exclusion of all the existing articles thereof.

15. 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 share") provided that:

    (a) the maximum number of ordinary shares hereby authorised to be purchased shall be 18,895,593;

    (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 next annual general meeting of the Company 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

27 March 2003

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 Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU) 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. The proposed new articles of association will similarly be available for inspection.*
4. *Pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995 changes to entries in the register of members after 6.00pm on Tuesday 27 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 27 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 13 and 14 of the annual report and accounts.*

COLLINS STEWART

Collins Stewart Holdings plc

9th Floor
88 Wood Street
London
EC2V 7QR