COLLINS ◆ STEWART ◆ TULLETT

Collins Stewart Tullett
annual report 2003

Photographs on the cover are of Tullett Liberty's London offices.

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collins stewart tullett plc
registered in england no: 3904126

group overview

Collins Stewart Tullett (formerly Collins Stewart Holdings) is a global financial services group listed on the London Stock Exchange. Its two trading groups are Collins Stewart, one of the leading independent UK stockbrokers and Tullett Liberty, the world's second largest inter-dealer broker. The Group employs some 2,200 staff operating in 21 jurisdictions.

Collins Stewart's activities span institutional and private client stockbroking, market making, corporate finance, fund management and the supply of on-line financial information. Collins Stewart's main quantitative research is its QUEST™ on-line share evaluation system which provides analysis of European, North American and Asian companies.

Tullett Liberty operates as an intermediary in the wholesale financial markets, facilitating the trading activities of its clients, in particular commercial and investment banks. Tullett Liberty's business comprises four major product groups: Fixed Income Securities and their derivatives, Treasury Products, Interest Rate Derivatives and Equities. In addition, it has an information sales business and interests in energy broking.

Tullett Liberty operates a "hybrid" business model which involves voice broking services being provided to its clients through direct lines to trading desks supported by proprietary screens which display historical data, analytics and real time prices.

The year 2003 was an outstanding year for Collins Stewart Tullett. We achieved our most important strategic development since the Company's flotation in 2000, significantly strengthening and diversifying the business through the acquisition of Tullett Liberty in March. At the same time both the Collins Stewart and Tullett Liberty businesses reported record years. Total shareholder return rose 44% during 2003, 6% ahead of the FTSE Mid 250 index and 11% ahead of the FTSE Speciality and Other Financials index.

Pro forma turnover increased 7% to £555.3m, and pro forma operating profit before goodwill was up 27% at £87.2m. Pro forma earnings per share before goodwill and exceptionals were up 32%. The Board has decided to increase the final dividend to 5.25p, making a total dividend for the year of 7.75p, up 15% (2002: 6.75p).

At £127.9m, up 33% over 2002, Collins Stewart's turnover was the highest since its founding in 1991. The Smaller Companies division had its second record year in a row, more than doubling revenues over the previous year to £64.9m. It was also ranked second by deal size in the 2003 IPO tables for Europe/Middle East/Africa (Source: Dealogic).

Much of the success of this business can be attributed to the innovative and imaginative approach to meeting clients' financing requirements. In particular, Collins Stewart developed the new technique, "AIPO™", short for Accelerated Initial Public Offering. The first transaction to use this technique, Northumbrian Water's IPO, was awarded global IPO of the year by IFR magazine.

Despite a weakening US dollar, Tullett Liberty generated its best ever turnover and profits and made a strong first contribution to Group results. In 2003 it grew turnover (excluding businesses sold) by 4% year-on-year to £427.4m, with improved performance, as at the interim stage, from fixed income and interest rate derivatives.

At the interim stage we reported the litigation with a former employee of Collins Stewart and ensuing litigation against the Financial Times in respect of their coverage of the matter. Both cases are proceeding satisfactorily but will not come to court for some time.

The Company continues to have a strong performance culture, with emphasis on staff equity participation. To this end we have established a new equity incentive scheme for Tullett Liberty to align the interests of senior staff more with those of shareholders. This scheme will use market purchased equity, thus avoiding shareholder dilution. It is designed to drive forward margin improvement in the Tullett Liberty business as well as foster a greater sense of ownership.

Andy Stewart resigned as President of Collins Stewart Tullett plc at the end of 2003. Bruce Collins resigned in April 2004 and Derek Tullett is to retire as President of Tullett Liberty later in 2004. We thank all three for their contribution over many years to each of the respective businesses. Bernie Leaver, who was previously a Managing Director of Lehman Europe and member of the Lehman European Board, has joined the Board as an independent Non-executive director.

As we look forward to the forthcoming year, the Board is very optimistic about the prospects for the Company. Trading conditions in all our major markets are positive; we believe that Collins Stewart will make further significant progress through, inter alia, use of innovative financing methods and that Tullett Liberty should be able to enhance further its franchise both organically and by acquisition.

Keith Hamill
Chairman

29 April 2004

chief executive's review

OVERVIEW

These are the first report and accounts produced by the Company since the acquisition of Tullett Liberty in March 2003. The nature and scope of the Group's activities have altered materially since the acquisition and the current Group is now a major diversified financial services business operating throughout the world.

In addition to our traditional equity stockbroking business, we now trade in a wide range of financial instruments including, inter alia, deposits, foreign exchange, bonds (government, corporate and mortgage-backed) and other securities, interest rate and other derivatives. Some 77% of pro forma turnover and 50% of operating profit before goodwill in 2003 were derived as an inter-dealer broker in non-equity markets. In 2002 92% of turnover arose in the UK and Channel Islands; in 2003, 54% was generated in the same region.

Diversification has always been the cornerstone of the Group strategy and the acquisition of Tullett Liberty is the most important step the Company has taken in implementing this strategy to date. The spread of revenues is intended to protect profitability against a downturn in any specific area of business. We continue to seek further ways of diversifying our business.

All areas of our business have prospered in 2003 with some notable successes in particular areas. Collins Stewart had an outstanding year, with turnover at a record £127.9m. Corporate Finance played a major role in this result, but some of our other divisions were also able to take advantage of improved conditions in their respective markets in the second half of 2003.

Collins Stewart's Corporate Finance department led innovation in its field in 2003 with the introduction of the Accelerated Initial Public Offering ("AIPO™"). This caused much excitement in the market and a number of our competitors are seeking to replicate the structure. Collins Stewart's view is that there is no substitute for original expertise.

The Northumbrian Water deal which utilised AIPO™ has won a large number of prestigious awards including, inter alia, Global IPO from International Financing Review, Best European Corporate M&A Deal of the Year from Euromoney, European IPO of the Year and UK M&A Deal of the Year from Financial News and Equity Deal of the Year from Treasurer Magazine. Collins Stewart itself was also named Mid Market Adviser of the Year by Acquisitions Monthly.

The continued improvement in Tullett Liberty's performance was assisted by favourable market conditions; volatility in the yield curve and heavy market activity in virtually all fixed income securities, especially in the first half, played to Tullett Liberty's particular product strengths. However, we believe that our commitment to a hybrid strategy – using appropriate technology to support and augment the skills of our voice brokers and our ability to take advantage of the investment in, and reorganisation of, the business carried out through 2001 and 2002 – have been even more important factors in the improved performance.

Since acquiring Tullett Liberty, we have developed its investments in Japan and the oil broking sector. In August, Tullett Liberty's longstanding 20% holding in the Totan Derivatives Co was sold and a 20% holding acquired in an affiliated interest rate derivative broker, The TIU Derivatives Co, (subsequently re-named Totan Capital Markets Co). This reorganisation of our interests generated £9m in cash. In October, Tullett Liberty acquired 100% of Starsupply Energy, and thereby controlling interests in this company's oil broking subsidiaries (previously associate interests) in London and Singapore, for £4.9m in cash before expenses.

At the start of 2004 we introduced the Collins Stewart Equity Incentive Plan for Tullett Liberty senior management. This scheme, which utilises market purchased shares and is thus not dilutive for shareholders, is an important step in our strategy to improve Tullett Liberty's margins. We also consider it important that senior management should share in some of the value that an improvement in margins will create for shareholders. Options have been granted over 4.6m shares at nil exercise price under this scheme and will vest fully only if all the performance targets and service conditions are met. Details of the margin performance condition attaching to the options which were granted in January are set out in the Operating Margin section of the Group Finance Director's report.

PERFORMANCE OF THE BUSINESSES

As we said at the interim stage, it is intended that the Collins Stewart and Tullett Liberty businesses should retain their own brand identity and in most respects continue to be managed as separate businesses. Accordingly, we deal with the performance of each of the brands separately below.

COLLINS STEWART

Turnover	2003		2002	
	£m	%	£m	%
Larger Companies and QUEST™	25.2	19.7	28.4	29.5
Smaller Companies	64.9	50.8	32.2	33.6
Investment Trusts	6.7	5.2	6.2	6.5
Fixed Interest	3.5	2.7	4.1	4.3
Private Clients	27.6	21.6	25.1	26.1
	127.9	100.0	96.0	100.0

Turnover	2003		2002	
	£m	%	£m	%
Market Making	13.0	10.2	8.0	8.4
Commissions	44.6	34.9	48.8	50.8
Corporate Finance	59.2	46.3	29.7	30.9
Management Fees	10.8	8.4	8.9	9.2
Other income	0.3	0.2	0.6	0.7
	127.9	100.0	96.0	100.0

Larger Companies and QUEST™

The Larger Companies and QUEST™ division's turnover was 11% down on the previous year. Market conditions in the first quarter were especially tough with the FTSE 100 index bottoming out at around 3300 during March. Although market levels and activity recovered after the end of the Gulf War, the FTSE 100 closed at just under 4500 at the end of the year, still 14% down on the level at the start of 2002.

2003 saw greater interaction between the Larger Companies, Smaller Companies and Collins Stewart Inc teams. We were able to utilise our distribution capability to assist in some of the larger fundraisings, the revenues from which are included in Smaller Companies. We expect this co-operation to develop further in future.

During the year we continued to develop our business, opening offices in Paris and Dublin and hiring new European salesmen to market to prospective continental European clients. The new QUEST™ model was launched in the first half following two years of software development. In the second half salesmen were hired to promote our new QUEST™ Far Eastern product, based on our expanded QUEST™ universe, and the response from new and existing clients has been encouraging. We continue to explore new hiring opportunities.

Smaller Companies

Smaller Companies turnover more than doubled in 2003 to £64.9m (2002: £32.2m) with the majority of the increase generated by Corporate Finance fees. This was another record year for the Corporate Finance Department, with total fees and placing commissions on corporate deals of £57.4m (2002: £24.8m).

We advised on 52 transactions (2002: 29) which raised a total of £1,252m for our clients (2002: £518m). The highlights of the year were two innovative transactions, Northumbrian Water and Center Parcs, using the AIPO™ structure pioneered by us. Collins Stewart is the only broker to have used the AIPO™ structure to compete successfully in auctions for disposals of assets. The Northumbrian Water deal, as mentioned above, has won numerous awards for the firm.

Collins Stewart finished second in the 2003 IPO tables by deal size for Europe/Middle East/Africa (Source: Dealogic). Our client base also increased to 89 (2002: 81) as at the year end.

Investment Trusts

The start of 2003 saw the Investment Trust market continue the downward trend of 2002. Poor markets for the first quarter led to poorer liquidity. Corporate activity slowed almost to a standstill. Following the market recovery after March, conditions for the sector gradually improved, and a number of areas began to produce good returns, notably the private equity specialists and zero dividend preference shares. Secondary market trading recovered during the year and that side of our business performed well.

Although market liquidity began to improve, the volume of corporate activity was slow to respond until the last quarter. It is pleasing to note that, despite the difficult conditions, we were able to increase our corporate finance turnover over the previous year; we also advised on the largest issue of the year.

Overall revenues in the second half of 2003 were more than double the first half and we are optimistic that this improvement will continue in 2004.

Fixed Interest

The Fixed Interest division's turnover, at £3.5m, was down 14% on the previous year. Market conditions were volatile throughout the year which had a negative impact on market making.

Since the year end, a new team has joined Collins Stewart to develop a convertibles business and expand the Fixed Interest division. The team was previously with West LB Panmure and is one of the most highly regarded convertibles teams in London.

Private Clients

The Private Client division produced a creditable performance despite a difficult start to the year as a result of equity market conditions in the first quarter of 2003. At the interim stage, revenues were behind 2002, but subsequently recovered to improve on the previous year by 10%. At the end of the year, the division had assets under management of £2.3bn.

Across the division, progress has been made in building upon the quality of the revenue streams following the integration of the UK business. Our discretionary funds under management increased by 20% and fee income increased to £10.8m, from £8.9m in 2002.

TULLETT LIBERTY

Tullett Liberty (formerly Tullett plc) was acquired on 10 March 2003 and thus the consolidated results for the Collins Stewart Tullett Group only include the results of the Tullett Liberty businesses since that date. However, in order to give a better presentation of the trends in its business, the following commentary and analyses review performance for the year ended 31 December 2003 and compare results to the previous year.

The following tables analyse turnover on a product and regional basis. The communication sales business, which was sold with effect from 1 January 2003, has been shown separately to facilitate comparison.

Turnover	Pro forma 2003		Pro forma 2002	
	£m	%	£m	%
Securities Broking	240.4	56.3	240.1	58.4
Derivatives, Money Broking and Energy	179.1	41.9	160.1	38.9
Information Sales	7.9	1.8	11.1	2.7
	427.4	100.0	411.3	100.0
Communication Sales	–		12.3	
	427.4		423.6	

	Pro forma 2003		Pro forma 2002	
	£m	%	£m	%
Europe	194.3	45.4	179.5	43.6
North America	196.5	46.0	202.2	49.2
Asia Pacific	36.6	8.6	29.6	7.2
	427.4	100.0	411.3	100.0
Communication Sales	–		12.3	
	427.4		423.6	

Note: The segmental analysis of Tullett Liberty's operating profit before goodwill and the pro forma profit and loss account for the year ended 31 December 2003 are set out in Appendix 1 at the back of the financial statements.

Europe

Our European operations' turnover increased by 8% over the previous year. In 2001 and, to a lesser extent, in 2002 this region was the subject of a reorganisation and rationalisation exercise which eliminated loss-making desks and non-core activities. The benefits of this work have been seen in 2003 with all the main product areas reporting turnover ahead of the prior year. Higher levels of activity and reduced one-off costs have had a further positive impact on margins. Whilst fixed income performed particularly strongly during the first half, turnover from interest rate derivatives was consistently strong throughout the period.

North America

The North American operations once again performed strongly although this performance was masked by the weakening of the US dollar. The average exchange rate used to translate our US dollar results in 2003 was more than 9% weaker than that used for 2002. In US dollar terms North American turnover was 6% higher than 2002. Our broadly based fixed income business was the cornerstone of this performance with all the debt markets, as attested by the results of the US investment banks, being extremely active. This level of activity also assisted our interest rate derivative business which was again a strong performer throughout 2003. During the second half of the year we invested in a number of areas which were relatively underperforming and expect to see improved returns in 2004 as a result.

Asia Pacific

Our businesses in Hong Kong and Singapore were adversely affected for a number of months in the first half by the concerns created by the SARS virus. In addition, earnings in Hong Kong were subject to the same exchange rate factors as North America. Despite this, turnover in the region was up 24% on 2002 and margins again improved on the prior year due to our strength in indigenous currency derivatives as well as proactive management of less profitable desks.

Technology

We have continued with our focused investment in technology, aiming to implement systems, processes and infrastructure capable of being leveraged as the business grows organically or through acquisition. Use of our Marker broker platform both internally and externally continues to expand as we extend its capabilities to cover further product areas. A major development and deployment effort this year has been on our post-trade Straight Through Processing capability – a service we call "post:marker". Launched in June, this service has been well received.

Other Activities

Turnover from information sales has fallen on a year on year basis. Trading conditions for our traditional data vendor customer base have continued to be difficult and this has adversely impacted the level of sales, particularly in the first half. The development of new services led to an encouraging improvement in turnover and operating profits in the second half.

The acquisition of Starsupply Energy's crude and petroleum broking operations (previously associate interests) in London and Singapore in October has given us a profitable platform from which to grow our presence in the energy markets.

COMPLIANCE

During the year, the Financial Services Authority's investigation into the split capital investment trust sector continued. Collins Stewart has supplied information to the regulator and co-operated with its requests. At this point in time, the firm has not been notified of any findings.

The FSA is in the process of developing, inter alia, the Integrated Prudential Source Book. We have been following developments to ensure that the Group is prepared for any new regulatory requirements.

The enlarged Group continues to maintain substantial excesses of regulatory capital in all its regulated entities and at the Group level. The Company is following developments in the consultation process concerning the UK implementation of the Financial Groups Directive, but at this stage, does not anticipate that there will be any material adverse impact upon the Group's capital adequacy requirements.

FUTURE DEVELOPMENTS AND OUTLOOK

The outlook for the markets in which the Group predominately operates is generally favourable. Debt issuance, particularly by governments, should continue and derivative markets should be active; trading conditions and sentiment have also improved in the equity markets. Whilst the weakening dollar will, despite steps we have taken to mitigate it, have an adverse impact on the consolidation of Tullett Liberty's results, active markets are favourable to the business.

A number of investment opportunities in the IDB market, both smaller and larger, have been identified and we intend to explore these further over the course of 2004. We remain of the view that the IDB market is an important area for the development of our business in the future.

Terry Smith
Chief Executive

29 April 2004

Results

The following table shows the results for the year together with those for 2002. The statutory reported results are based on the acquisition method of accounting and accordingly only include the results of Tullett Liberty from 10 March 2003. To facilitate comparison, we have included pro forma information prepared as if the acquisition of Tullett Liberty and the redemption of the Company's preference shares (which was completed at the same time as the acquisition) had taken place on 1 January 2002.

	Statutory		Pro forma	
	2003	2002	2003	2002
	£m	£m	£m	£m
Turnover				
Continuing operations	127.9	96.0	127.9	96.0
Acquisitions	346.0	–	427.4	423.6
	473.9	96.0	555.3	519.6
Operating profit before goodwill				
Continuing operations	44.0	32.2	44.0	32.2
Acquisitions	33.8	–	43.2	36.5
	77.8	32.2	87.2	68.7
Operating profit after goodwill	64.0	25.6	71.8	53.3
Profit before tax	69.4	25.5	77.2	52.0
Earnings per share:				
Basic	23.2p	13.0p	23.7p	14.1p
Diluted	22.8p	12.9p	23.3p	14.0p
Basic before goodwill and exceptionals	28.8p	19.5p	29.8p	22.6p

Note: The assumptions made in the preparation of the pro forma financial information are set out in Appendix 2 at the back of the financial statements.

Reported turnover of the enlarged Group increased by £377.9m, of which Tullett Liberty, in the period since 10 March, accounted for £346.0m. Collins Stewart's continuing operations increased turnover by £31.9m, an improvement of 33%. Reported operating profits before goodwill, at £77.8m, were up 142%, Tullett Liberty contributing some three quarters of this increase.

Collins Stewart's improved results were driven by an excellent performance from the Corporate Finance department which commenced in the first half and gathered further momentum in the second half. Importantly, some recovery was also achieved by other divisions of the business, despite continuing difficult market conditions in their respective sectors.

Setting aside the 2002 results of the communication sales business which was sold at the start of 2003, Tullett Liberty's pro forma turnover increased by 4%. Using consistent exchange rates for translation the underlying improvement was 7%. Tullett Liberty's pro forma operating profits before goodwill were nearly 22% better.

Reported basic earnings per share improved 78% to 23.2p and reported basic earnings per share before goodwill and exceptionals improved 48% to 28.8p. The improvement in EPS was partially the result of better trading in 2003, but a factor was also the acquisition of Tullett Liberty on a lower effective PE rating than that enjoyed by the Company.

Reported diluted earnings per share improved 77% to 22.8p. The dilution adjustments were in respect of share options and £5m of contingent share capital which may be issued as deferred consideration to Tullett Liberty shareholders in November 2004 as an alternative for cash. The price at which any such shares would be issued is the market value immediately prior to the settlement of the deferred consideration.

The average pro forma return on capital employed for the year, measured by dividing reported operating profit before goodwill by average shareholders' funds (including cumulative amortised goodwill) and average long term debt less average cash balances was 24% (2002: 18%). Last year Collins Stewart produced a return on capital employed of 26%. The 2003 pro forma lower return on capital employed reflects the lower returns on the investment in the Tullett Liberty business.

Operating Profit and Margins

Collins Stewart's operating margin before goodwill improved by 0.8% to 34.4% as the firm benefited from the increased activity.

Tullett Liberty's operating profits before goodwill for the year, set out in Appendix 1 at the back of the financial statements and adjusted to exclude the communication sales business, were nearly 15% better and operating returns, at 10.1%, were 0.9% up on 2002. This was the result of a combination of higher trading levels and the proactive management of unprofitable areas.

Tullett Liberty continues to focus on improving its operating margins and to this end the new equity incentive scheme implemented in January 2004 has a performance condition designed to target improved operating margins. In order for the options to vest, operating margins must improve in any of the next three years to at least 13%, 3% ahead of the margin achieved in 2003, and full vesting will not occur until margins improve to over 17%.

Accounting charges in relation to these option grants are likely initially to offset the margin benefit to be derived by the new scheme as the options have been granted at nil exercise price. However, the Board expects considerable benefits to derive in the medium to long term.

Pensions

Tullett Liberty operates a pension scheme in the UK which historically incorporated both defined benefit and defined contribution elements. With effect from 1 May 2003 all future accrual of members' entitlements is on a defined contribution basis. Nevertheless the defined benefit section of the scheme continues to run a substantial deficit.

The Company included the post tax pension scheme deficit of £24.4m as a fair value adjustment on the acquisition of Tullett Liberty. At the year end this deficit had fallen to £21.4m, but this improvement has not been recorded in the accounts.

Exceptional Item

The exceptional profit of £4.5m relates to the reorganisation of the Group's Japanese associate interests detailed in the Chief Executive's Review.

Taxation

The Group's reported tax charge increased to 34.4% of pre-tax profits before goodwill amortisation, compared to 29.6% in 2002. This is because the Tullett Liberty business has a higher effective tax rate owing to the proportion of profits generated in New York (where aggregate corporate tax rates are 47%) and generally higher levels of disallowed expenditure.

Dividends

The Board is proposing a final dividend per share for 2003 of 5.25p, an increase of 17%. The final dividend is payable on 10 June 2004 to shareholders on the register on 21 May 2004. This brings the total ordinary dividend per share to 7.75p, an increase of 15%.

The total ordinary dividend of £18.0m in the accounts includes £3.7m paid at the time of the 2002 final dividend to shareholders who became members subsequent to the 2002 year end. This was therefore treated as an interim dividend in respect of 2003.

The dividend cover (excluding the £3.7m dividend referred to above) on basic earnings was 2.8 (2002: 1.9) and 3.4 (2002: 2.9) on basic earnings before goodwill and exceptional items. The increase in dividend reflects both the Company's strong performance in 2003 and also the positive trading outlook for 2004.

The Company intends to continue with its policy of maintaining an appropriate level of dividend cover whilst taking into account growth in earnings and future expansion plans. The Company will only seek to retain distributable profits when it expects to earn above average returns from the deployment of the funds retained.

The preference dividend of £0.7m represents the final dividend prior to redemption. All of the Company’s “A” and “B” preference shares were redeemed on 6 March 2003.

Acquisitions and Disposal

Tullett Liberty was acquired on 10 March 2003 for a consideration of £250.4m. Goodwill arising on the acquisition amounted to £176.9m which is being amortised over 20 years. The main fair value adjustment in calculating the goodwill is the recognition of the post tax deficit, calculated under FRS 17, in the Tullett Liberty pension fund of £24.4m.

In April the disposal of Tullett Liberty’s communication sales business to GS Capital Partners 2000 was completed. The sale generated more than £8m of cash for the Group. The gain from this transaction was a pre-acquisition item for the Group; it was dealt with as a fair value adjustment and accordingly does not appear as a discontinued operation on the face of the profit and loss account.

In August, Tullett Liberty sold its 20% holding in it Japanese associate, realising an exceptional profit of £4.5m. At the same time, a direct 20% holding in affiliated Totan Capital Markets was acquired for £7.7m in cash. Taken together these transactions realised a net £9m of cash for the Group. Goodwill of £5.6m arose on the investment which is being amortised over a ten year period.

In October, Tullett Liberty acquired 100% of Starsupply Energy Limited, and thereby controlling interests in this company’s oil broking subsidiaries (previously associate interests) in London and Singapore, for £4.9m in cash before expenses. The goodwill arising on this acquisition was £4.7m, which will be amortised over a ten year period.

The continuing appropriateness of the amortisation periods adopted for the Group’s investments is reviewed each year.

Funding Structure

The acquisition of Tullett Liberty was funded by a mixture of cash and shares. Some £218m (net of expenses) of new ordinary shares were allotted, borrowings were increased by £50m and £1.1m of loan notes were issued; a further £5m cash consideration was deferred to November 2004. At the time of its acquisition, Tullett Liberty had net funds of approximately £89m.

At the same time as completing the acquisition of Tullett Liberty, the Company additionally issued 14.6m new ordinary shares to raise £44.6m (net of expenses) to fund the redemption of all of the Company’s preference shares. The coupon on the “A” preference shares, the majority of the outstanding preference shares, was due to increase markedly in 2003 and accordingly it became more attractive to replace this capital with ordinary shares.

The maintenance of a strong capital base enabled the Company to take on the £50m additional borrowings as part of the funding of the acquisition of Tullett Liberty. To this end the loan from Bank of Scotland was increased from £14.8m at the end of December 2002 to £64.8m at the time of the acquisition, and the Company retained a working capital facility of a further £10m. At the same time, Tullett Liberty retained its working capital facility of $15m with Royal Bank of Scotland. During the year, the Royal Bank of Scotland working capital facility has been repaid in full and £7.9m of the Bank of Scotland loan has been repaid.

Of the additional £50m borrowings taken on to fund the Tullett Liberty acquisition, £45m was in the form of subordinated debt which is treated as capital by our regulator, the Financial Services Authority. The new subordinated loan was redenominated into US dollars in March 2003 as part of the Group’s hedging policy, which is described in greater detail below. At the year end $68.7m of this loan was outstanding.

The Group maintains substantial net liquid resources throughout the trading entities to meet its settlement requirements. At the year end the Group had net funds of £183.5m (2002: £41.5m).

Cashflow

The Group was strongly cash generative during the year, increasing cash resources by £119m (2002: £5m decrease). Operating activities after tax and financing costs generated £100m (2002: £8.4m) of this increase. The acquisition of Tullett Liberty and the investment in Starsupply were largely funded through the issue of shares and increased borrowings.

Hedging and Treasury Management

Profits of the Group’s overseas subsidiaries are translated at average exchange rates. During the second half of 2003, based on management’s view that the US dollar was likely to remain weak against sterling for at least the next 18 months, steps were taken to reduce the impact of this development on the Group’s reported results by taking out a number of FX options contracts. This strategy realised a gain of £0.5m in December 2003. In addition, approximately 70% of the expected 2004 US dollar profits of subsidiaries reporting in US dollars (or linked currencies) and some 70% of expected 2004 US dollar revenues which arise in Tullett Liberty entities reporting in sterling, have been protected at worst case exchange rates around US$1.74 to £1. Similarly steps have been taken to protect approximately 50% of euro denominated revenues at a worst case rate of 1.51 euros to £1.

In January 2004 we established a new equity incentive scheme for Tullett Liberty senior management which utilises market purchased shares. The Company has hedged the cost of acquiring shares to satisfy option exercises under this scheme.

Cash management policies are in place to ensure that funds not committed to supporting the Group’s activities are only placed with a limited number of pre-approved institutions. There is a strong focus on maintaining liquidity and the duration of deposits is limited to six months. Regular cash forecasts are carried out to ensure that funds are available to meet business development needs as well as corporate requirements.

International Financial Reporting Standards

The Company is currently conducting a review of the implications of the introduction of international financial reporting standards for the Group’s accounts. Our work to date indicates that the standards which are most likely to affect the Company’s reported results are those in relation to goodwill, pensions and share based payments.

Outlook

The outlook for the Company is positive. We have a strong balance sheet and capital position to support the Company’s future development strategy.

Helen Smith
Group Finance Director

29 April 2004

Keith Hamill (aged 51) – Chairman

Keith Hamill joined the Board as Chairman (which is a non-executive role) in September 2000. He is currently chairman of Travelodge-Little Chef and Luminar plc, a non-executive director of Electrocomponents plc and Pro-Chancellor 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. He is currently Chairman of the Audit and Nominations Committees and a member of the Remuneration Committee.

Terry Smith (aged 50) – 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 32) – Group Finance Director

Helen Smith started her career with Singer & Friedlander in 1990, 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. She is a chartered certified accountant.

Terry Hitchcock (aged 52) – Executive Director, Collins Stewart

Terry Hitchcock was appointed an Executive Director in November 2002. He is responsible for Smaller Companies Broking, Larger Companies, Collins Stewart Inc and the QUEST™ team. He co-founded Collins Stewart in 1991.

Stephen Jack (aged 46) – Executive Director, Tullett Liberty

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 Liberty as Group Chief Financial Officer in September 2001. He was appointed to the Collins Stewart Tullett Board on 10 March 2003.

David Clark (aged 56) – 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 is non-executive chairman of Charity Bank and non-executive director of Caf Bank. He was appointed as a non-executive director of Tullett Liberty in September 2000 and to the Collins Stewart Tullett Board on 10 March 2003. He is a member of the Audit Committee.

Bernie Leaver (aged 57) – Independent Non-executive Director

Bernie Leaver was appointed a director in August 2003 and is a member of the Remuneration Committee. Bernie was formerly a Managing Director of Lehman Europe from 1988 to 2002 and a member of the Lehman European Board. Prior to that he was the senior partner of C T Pulley and a main board director at Hoare Govett.

Rob Lucas (aged 41) – 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 Kwik-Fit Group Limited and IG Holdings Limited. He worked for Marconi as an engineer until 1987 when he moved into private equity investment with 3i plc. He is a partner of CVC Capital Partners.

John Spencer (aged 60) – Senior 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 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, Numerica Group PLC and Chief Executive of Snell & Wilcox Limited.

report of the directors

The directors present their report, together with the audited financial statements of the Company and its subsidiaries for the year ended 31 December 2003.

Principal Activities

Collins Stewart Tullett plc (formerly Collins Stewart Holdings plc) is a financial services group whose activities span institutional and private client stockbroking, inter-dealer broking, market making, corporate finance, fund management and the supply of online financial information. The main subsidiary undertakings through which the Group conducts its business are set out in note 35.

Results and Dividends

The results of the year are set out in the profit and loss account on page 42.

The directors recommend a final dividend for the year of 5.25p (2002: 4.5p) per ordinary share, bringing the total dividend per ordinary share to 7.75p (2002: 6.75p) amounting to £18.0m (2002: £6.9m). This includes £3.7m dividend declared as the final dividend for 2002 but treated as an interim dividend in 2003 as the shares were allotted in 2003. The final dividend, if approved, will be paid on 10 June 2004 to ordinary shareholders whose names were on the register on 21 May 2004.

A final dividend of £3.3m, £0.7m of which related to 2003, was paid on the Company's £44.6m preference shares all of which were redeemed on 6 March 2003 (2002: £2.6m).

Review of the Year and Future Developments

A review of the Group's trading during the year and its future developments is set out in the Chief Executive's and Group Finance Director's Reviews.

Directors

The directors who held office throughout the year were as follows:

Keith Hamill (Non-executive Chairman)
Terry Smith (Chief Executive)
Helen Smith
Terry Hitchcock
Rob Lucas (Non-executive director)
John Spencer (Senior independent Non-executive director)
Bruce Collins – appointed 10 March 2003, resigned 27 April 2004
Stephen Jack – appointed 10 March 2003
David Clark (Independent Non-executive director) – appointed 10 March 2003
Bernie Leaver (Independent Non-executive director) – appointed 1 August 2003
Andy Stewart – resigned 24 March 2003

Bernie Leaver was appointed since the last AGM and accordingly offers himself for election at the forthcoming AGM. The Board considers that Bernie Leaver is a valuable new independent Non-executive director with an extensive knowledge of financial markets and accordingly proposes that he should be elected to the Board. In accordance with the Company's Articles of Association, Terry Smith, Helen Smith and Terry Hitchcock retire by rotation at the next AGM and, being eligible, offer themselves for re-election. Biographical details of the directors (other than Andy Stewart and Bruce Collins, who have both resigned) are set out on pages 17 to 18.

Directors' Interests

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

	2003 No	2002 No
Keith Hamill	33,799	15,822
Terry Smith	8,800,000	8,800,000
Helen Smith (i)	2,125,000	2,200,000
Bruce Collins	192,540	–
Terry Hitchcock	660,000	660,000
Stephen Jack	146,739	–
David Clark	–	–
Bernie Leaver	–	–
Rob Lucas	66,647	133,294
John Spencer	39,542	31,645

(i) *Helen Smith sold 500,000 shares on 26 March 2004.*

(ii) *The Collins Stewart Tullett plc Employee Share Ownership Trust held 1,285,258 shares at 31 December 2003 (2002: 1,940,258) which had not been allocated to staff or were subject to share options. The beneficiaries of the trust are the employees of the Group, including the executive directors. Under schedule 13 of the Companies Act 1985 the executive directors are deemed to be interested in these shares.*

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 ordinary share capital of the Company since the year end.

Directors' share options are set out in the Report on Directors' Remuneration.

Directors' Loans

At the year end, the following amounts were due to directors:

	2003 £'000	2002 £'000
Terry Hitchcock	145	812
Bruce Collins	310	–
Stephen Jack	150	–

Terry Hitchcock held secured loan notes issued by Collins Stewart Limited. Bruce Collins and Stephen Jack held guaranteed loan notes issued by the Company. The terms of these loan notes are also set out in note 18.

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% or more of the issued ordinary share capital of the Company:

	No	%
Fidelity International and FMR Corp.	17,112,561	9.05
The Collins Stewart Tullett plc Employee Share Ownership Trust	16,587,808	8.77
The Tokyo Tanshi Co, Limited	9,131,453	4.83
Lazard Freres & Co	6,748,065	3.57
The Scottish Widows Partnership Ltd	5,756,127	3.04
Oppenheimer Funds, Inc	5,725,636	3.03

Social, Environmental and Ethical Matters

The Board has adopted policies with regard to the social, environmental and ethical matters which affect the business. These govern, inter alia, the type of business which is transacted, the way in which business is conducted and the approach to training and incentivising staff. In particular:

- The Board takes regular account of social and ethical matters affecting the business; environmental issues are not considered on a regular basis as these are not regarded as a high risk;
- The Board periodically carries out formal assessments of the significant risks to its business which take account of social and ethical matters affecting both short and long term value. The opportunities to create value arising from certain social and ethical stances are taken into account when formulating policies;
- 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 which could affect the business.

The Group's risk management process together with a brief overview of the significant risks which could affect the business are described in the Report on Corporate Governance.

Environmental Policy

The nature of the Group's activities is such that it has a minimal direct 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 some waste paper is recycled and some energy saving practices are employed.

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. The ownership of shares in the Company is encouraged by the Board, who consider share ownership as 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.

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 such terms and conditions have been complied with. The Company has no trade creditors.

Special Business at the Annual General Meeting

At the Annual General Meeting to be held on 3 June 2004 resolutions 9 to 12 will be proposed under special business.

Resolution 9 deals with the proposed grant of a share option to Stephen Jack. This option, which is detailed in the Report on Directors' Remuneration is outside the Company's share option schemes and accordingly requires shareholder approval.

Under resolution 10 it is proposed to grant the directors authority to allot unissued shares in the capital of the Company up to a nominal amount of £15,762,269 representing approximately 33% of the issued share capital of the Company as at the date of this document.

Resolution 11 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. It is also proposed that any shares which are purchased by the Company, held in treasury and subsequently resold will be covered by this authority. This authority is limited to the issue of equity securities in connection with rights issues and otherwise up to a nominal amount of £2,364,340 representing approximately 5% of the Company's issued share capital as at the date of this document.

Resolution 12 seeks to obtain authority for the directors to purchase up to 18,914,723 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 share 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 10, 11 and 12 will expire at the conclusion of the annual general meeting to be held in 2005 or 15 months after the passing of such resolutions (whichever is the earlier).

For this forthcoming AGM shareholders will be able to utilise the CREST proxy voting service to lodge their proxy votes. Details of how this will operate are included in the notes to the notice of annual general meeting at the back of this report and accounts and on the proxy form.

Events since the Balance Sheet Date

Events since the balance sheet date are summarised in note 34 to the accounts.

Political and Charitable Donations

During 2003 no political donations were made by the Group (2002: nil). Charitable donations amounting to £1m (2002: £11,000) were made to various charities globally. This included Tullett Liberty New York office's donation of a day's revenue of £991,000 to charities associated with the 11 September 2001 tragedy. This was the third year that this donation has been made.

Auditors

On 1 August 2003 Deloitte & Touche, the Company's auditors transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of section 26(5) of the Companies Act 1989. A resolution to re-appoint Deloitte & Touche LLP as the Company's auditor will be proposed at the forthcoming Annual General Meeting.

BY ORDER OF THE BOARD

Diana Dyer Bartlett
Company Secretary

29 April 2004

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 both the Combined Code which applied to the Company during 2003 and the Revised Combined Code adopted by the Financial Services Authority following the Higgs and Smith reviews.

Throughout the year ended 31 December 2003 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 Combined Code was revised in July 2003, to apply to accounting periods commencing after 1 November 2003. The Board is reviewing the changes necessary to its procedures under the Revised Combined Code.

The manner in which the Company has applied the principles of good governance set out in the Combined Code during 2003 is outlined below.

Directors

The Board now comprises four Executive and five Non-executive directors, whose biographies are set out in pages 17 and 18. Keith Hamill, the Chairman (a non-executive role), John Spencer, the senior Non-executive director, David Clark and Bernie Leaver were considered independent of management for the purposes of the Combined Code during 2003. Rob Lucas was not considered independent during the year because of his representation of a major shareholder. That shareholder disposed of substantially all its shareholding on 23 January 2003. It is intended that the implications of the recommendations in the Revised Combined Code concerning the proportion of independent non-executive directors on boards should be addressed in 2004.

The 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 senior independent Non-executive director. The senior independent Non-executive director has the responsibility of dealing with any shareholders who have concerns which contact through the normal channels of chairman, chief executive or group finance director has failed to resolve or for which such contact is inappropriate. The Board believes that these arrangements facilitate the effective management of the business and provide a strong control environment.

The directors' 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 39 and a statement on going concern is set out below.

Board Administration

The Board has a schedule of eight meetings per annum to discuss the Group's ordinary course of business. Every effort is made to arrange these meetings so that all directors can attend, although occasionally this is not possible. Additional meetings are arranged as required. The Non-executive directors met separately on a number of occasions during 2003. Meetings of the Non-executive directors without the Executive directors present and also without the Chairman present will be incorporated into the Board's annual calendar.

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, agreeing policies and procedures, 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 corporate and business issues under review. All Board meetings are minuted and any unresolved concerns are recorded in such minutes.

Beneath the Board there is a structure of delegated authority which sets out the authority levels allocated to the individual directors and senior management.

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 June, Bernie Leaver will be subject to election as this will be the first AGM after his appointment. Terry Smith, Helen Smith and Terry Hitchcock 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 currently comprises Keith Hamill, the Chairman, who acts as Chairman of the Audit Committee, John Spencer and David Clark. All members are considered independent Non-executive directors, and Keith Hamill and John Spencer are chartered accountants. The membership of the Audit Committee will be reviewed in 2004 in light of recommendations set out in the Revised Combined Code. However, in view of his experience in related areas, the Board has asked the Chairman to continue to chair the Audit Committee until this review has been completed.

The Company's external 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 five times during the course of 2003.

Throughout 2003 the Committee's terms of reference included monitoring the integrity of the financial statements, reviewing the scope and findings of the external audit, assessing the independence and objectivity of the external auditors, monitoring the internal audit function, and reviewing the effectiveness of the Company's internal control procedures, overseeing and assessing the risk control system.

During the year the Audit Committee reviewed the cost effectiveness, objectivity and independence of the external auditors. The auditors disclosed the level of fees received in respect of the various services provided by their firm in addition to audit during 2003. 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 additionally considered the professional and regulatory guidance on auditor independence and were satisfied with the auditors' representations. The Audit Committee's policy is to use the most appropriate advisers for non-audit work, taking account of the need to maintain independence. Some tax consultancy work was outsourced to another firm of accountants following completion of a tender exercise.

Since the year end the Committee's terms of reference have been extended to take account of recommendations set out in the Revised Combined Code. The Committee will, in future, be responsible for reviewing arrangements by which staff may, in confidence, raise concerns about improprieties.

The terms of reference of the Audit Committee will be available for inspection during normal business hours on any week day (other than public holidays) at the Company's offices from the date the notice of Annual General Meeting is posted until the conclusion of the Annual General Meeting.

Remuneration Committee

The Remuneration Committee comprises John Spencer as Chairman, Keith Hamill and Bernie Leaver, all deemed independent Non-executive directors. The membership of the Committee will be reviewed during 2004 in light of recommendations set out in the Revised Combined Code. In 2003 the Committee was 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 was responsible for agreeing the remuneration of the Non-executive directors.

Since the year end, the Committee's terms of reference have been extended, to take into account provisions set out in the Revised Code on Corporate Governance. The revised terms of reference provide for the Remuneration Committee additionally to determine the remuneration of the Chairman and to recommend and monitor the level and structure of remuneration for senior management. The Chairman will not participate in any discussions concerning his own remuneration.

The terms of reference of the Remuneration Committee will be available for inspection during normal business hours on any week day (other than public holidays) at the Company's offices from the date the notice of Annual General Meeting is posted until the conclusion of the Annual General Meeting.

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 Chairman) who is joined by Terry Smith (the Chief Executive), John Spencer and Rob Lucas (both Non-executive directors). The membership of the Nominations Committee is being considered in light of the Revised Combined Code recommendation that a majority of the members should be independent 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 was responsible for recommending to the Board the appointment of Bernie Leaver. The Committee believes the Company will benefit from Bernie Leaver's extensive experience of financial markets and independent judgment.

Risk Management and Internal Control

The Board is responsible for setting the Group's risk appetite, ensuring that it has an appropriate and effective risk management framework and confirming that senior management take the necessary steps to manage the identification, monitoring, control and reporting of risks. The Board is also 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 the risk management systems and to report to the Board thereon.

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

The key risks facing the business may be categorised as market, credit and operational risks. These risks are assessed before any new business is established and reviewed on a day to day basis as part of the normal management process.

Risk management and the operation of the internal control systems within the Group are primarily the responsibility of the Executive directors and the senior management of the Group's two main businesses. These individuals are allowed commercial independence and flexibility within parameters agreed by the Board to ensure that risks are clearly owned and managed on a day to day basis and that systems of control operate effectively.

Following the acquisition of Tullett Liberty a number of changes were made to the Group's policies and procedures to reflect its new business and risk profile. In particular, steps were taken to amend levels of delegated authority, and new management information flows to the Board and its committees were introduced.

Under the overall supervision of the Board and the Chief Executive, the Collins Stewart and Tullett Liberty management teams continue to implement their respective business development plans and monitor operational projects. The Executive directors monitor trading on a daily basis and ensure that the appropriate controls are exercised over the Group's operations. The Board considers the monthly management accounts, budgets and plans and discusses any issues arising therefrom.

Whilst the Board has approved an overarching set of Group Risk Management Principles and Policies, the risk profiles of the two businesses, which are markedly different, are monitored by separate Risk Committees. The Risk Committees form part of the embedded internal control processes of the Group and report on these to the Board.

Each of the businesses has a separate compliance function which ensures that all the Group's entities meet the rules of the regulators in each of the jurisdictions in which the Group operates. The compliance officers are in regular contact with the Executive directors and report to the Risk Committees, the Audit Committee and the Board as appropriate.

So that internal controls meet the same high standard across the whole of the Group, single corporate functions have been established for Finance, Tax, Legal and Risk (which supports both Risk Committees) and an enterprise-wide approach taken to insurance. In addition, a new Internal Audit function has now been established, responsible under the supervision of the Audit Committee, for reviewing the activities of the Group globally.

The Audit Committee has conducted a formal review of the effectiveness of the Group's internal control systems for 2003, considering reports from management and the work of the Risk and Internal Audit functions. The review covered all key controls, including financial, operational and compliance controls, as well as the Group's risk management systems. The findings of the review were reported to and considered by the Board.

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. A new website, www.cstplc.com, has been launched during 2003 providing information for shareholders on the Group's activities, announcements and meetings. Websites for various operating subsidiaries also exist providing information on products and services.

There is regular dialogue with institutional investors, fund managers and analysts, including presentations around the time of the results announcements and also on request. Following formal presentations to shareholders, the Company's brokers additionally provide feedback to the Board from shareholders. The Chairman maintains informal relations with shareholders when necessary and is available to those shareholders who have a policy of regular contact or who wish to discuss specific matters. During the year the Company consulted, considered and took account of the views of some shareholders on the new share incentive scheme which the Company has established for staff of Tullett Liberty.

The Chairman's Statement, the Chief Executive's and Group Finance Director's Reviews in this report and accounts include a detailed review of the business and future developments. More background on the Group is additionally included for the first time this year, to assist those shareholders who are less familiar with our business.

The Board uses the Annual General Meeting to communicate with investors and welcomes their participation. The Chairman aims to ensure that all of the directors are available at Annual General Meetings to answer questions and meet shareholders. The proxy votes cast on each resolution proposed at general meetings are disclosed at those meetings and are published on the Company's website. To encourage shareholder participation, for the forthcoming Annual General Meeting, the Company will, for the first time, offer those shareholders whose shares are held via the CREST system, the opportunity to submit their proxy votes utilising CREST.

report on directors' remuneration

Policy on Directors' Remuneration

This report is divided into the following sections:

- Policies concerning remuneration
- Details of current remuneration arrangements
- Financial summary of directors' remuneration and share options
- Details of the share option proposed to be granted to Stephen Jack after the AGM

The information contained in section 3 of this report (other than the graph) and the pensions information in section 2 have been audited.

1. Policies concerning Remuneration

Executive Directors

The policies concerning the remuneration of Executive directors are set by the Remuneration Committee. The Remuneration Committee comprises John Spencer, who is chairman, Keith Hamill and Bernie Leaver. All of the members are independent Non-executive directors. The Chief Executive attends meetings by invitation.

The policy of 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.

As a general principle, the Remuneration Committee favours highly variable remuneration depending upon performance for both Executive directors and staff. In determining Executive directors' bonuses, the Remuneration Committee takes into account a number of performance measures: 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 the process is then compared with the remuneration of comparable companies for similar performance.

The Company's policy is for the Executive directors' bonus pool to be divided between the Executive directors taking into account the relative importance of the operations for which the individual is responsible, 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 2003 the above policy was amended to take account of bonus arrangements for Bruce Collins and Stephen Jack agreed and contracted by the previous board of Tullett Liberty prior to that company's acquisition by the Group. These arrangements meant that those directors were entitled to higher bonuses than they may have been if their bonuses had been determined in accordance with the Company's policy.

Historically the Company has not granted share options to its Executive directors as they had the benefit of substantial equity interests in the Company dating from the management buy-out in 2000. Share incentivisation has always been a cornerstone of Company policy and share options have been and will be used in the future for those Executive directors who did not have the benefit of participating in the management buy-out.

In the event that any of the Executive directors wished to take up a non-executive appointment with another company, the Remuneration Committee would be amenable to such a proposal, provided that the time commitment involved would not be too onerous and any fees would be remitted to the Company.

Non-executive Directors

In 2003 fees of all Non-executive directors were set by the Board. The Non-executive directors were not involved in any discussions or decision by the Board about their own remuneration. In reviewing levels of fees paid to the Non-executive directors, the Board considers both the committee and other responsibilities of the relevant directors and the fees paid to non-executive directors of other similar organisations.

From 2004 onwards the remuneration of the Chairman will be reviewed (in his absence) by the Remuneration Committee in accordance with guidelines set out in the Revised Combined Code.

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 have both completed a three year appointment and the Board has resolved that they both be appointed for a further three year period.

2. Details of Current Remuneration Arrangements

Executive Directors

Components of Packages

The components of the remuneration packages for Terry Smith, Helen Smith and Terry Hitchcock are basic pay, performance bonus, private medical and death in service insurance. No pension contributions are made in respect of these directors. No share options have been granted to them (other than those under the Company's Sharesave Scheme 2000, details of which are set out below). This is because they all have the benefit of substantial equity holdings in the Company acquired pursuant to the management buy-out of Collins Stewart Limited carried out in May 2000. This policy may change in the future.

Stephen Jack's remuneration package comprises the same components as those for the other Executive directors, and in addition he has the benefit of a guaranteed minimum income, permanent health insurance and pension entitlements under the Tullett Liberty Pension Scheme, which is a non-contributory scheme. Bruce Collins had a similar package until he resigned in April 2004. Share options have been granted to Stephen Jack under the Collins Stewart Tullett plc 2003 Share Option Scheme.

None of the Executive directors has the benefit of a car financed by the Company.

Salary, Performance Bonus and Guaranteed Income

The basic salary for each of Terry Smith, Helen Smith and Terry Hitchcock once again remained at the same level as previous years – ie £100,000. Stephen Jack's basic salary was £250,000 and Bruce Collins' basic salary was £625,000. Bruce Collins and Stephen Jack's salaries were agreed and contracted by the Tullett Liberty board prior to the acquisition of Tullett Liberty by the Company. None of the Executive directors received any directors' fees from any companies outside the Collins Stewart Tullett Group.

Terry Smith, Helen Smith and Terry Hitchcock were again each entitled to a discretionary bonus in 2003. The bonus levels were significantly higher than the previous year as a result of the Company's strong performance, the value created for the Group following the acquisition of Tullett Liberty and the Company's strong relative and absolute share price performance.

Bruce Collins and Stephen Jack were entitled to a minimum formula-based bonus in 2003, agreed and contracted by the Tullett Liberty board prior to the acquisition of Tullett Liberty by the Company. Bruce Collins' bonus was equal to 4% of the profit before tax of the Tullett Liberty Group up to £40m and 8% thereafter (such percentages calculated after deducting bonuses). His total package for 2003 therefore exceeded the guaranteed minimum of £1m to which he was entitled during the year. Stephen Jack was entitled to 1.75% of the profit before tax of the Tullett Liberty Group (such percentage calculated after deducting bonuses). His total package for 2003 also exceeded the guaranteed minimum of £550,000 to which he was entitled during the year.

A graph depicting the Company's total shareholder return in comparison to other companies in the FTSE mid 250 index and the FTSE Speciality and Other Financials index is included in section 3 below.

Pensions

Tullett Liberty had committed to pay Bruce Collins a pension from the age of 55 of £82,000 per annum. There is a defined contribution underpin to this benefit but it is not anticipated that this will be relevant. In the period from 10 March 2003 to the year end Bruce Collins' pension entitlements and corresponding transfer values under the defined benefit section of the Tullett Liberty Pension Scheme developed as follows:

	£
Gross increase in accrued pension	3,153
Increase in accrued pension net of inflation	1,479
Total accrued pension at 31 December 2003	72,538
Value of net increase in accrual over the period	23,884
Total change in transfer value during the period	12,237
Value of accrued pension at 31 December 2003	925,865
Value of accrued pension at 10 March 2003	913,628

Notes:

(i) Pension accruals shown are the amounts which would be paid annually on retirement based on service to the end of the period.

(ii) Transfer values have been calculated in accordance with section 8.1 of guidance note GN11 issued by the actuarial profession.

(iii) The value of the net increase in accrual over the period represents the incremental value to the director of his service during the period, calculated on the assumption that service had been terminated at the end of the period. It is based on the accrued pension increase net of inflation.

(iv) The change in the transfer value includes the effect of fluctuations in the transfer value due to factors beyond the control of the Company and directors, such as stockmarket movements.

(v) Voluntary contributions paid by the director and resulting benefits are not shown.

(vi) Bruce Collins' early retirement pension, assuming he had left service on 31 December 2003 and retired immediately, would have been £63,957 pa.

(vii) The transfer value does not represent a sum paid or payable to Bruce Collins, but rather a potential liability of Tullett Liberty.

Tullett Liberty makes a contribution of 6% of basic pay up to the statutory cap to the Tullett Liberty defined contribution pension scheme in respect of Stephen Jack. In the period from 10 March 2003 to the year end this contribution amounted to £6,000. In the event of Stephen Jack's death in service, his spouse is entitled to a pension of approximately £25,000 pa.

Service Contracts

Terry Smith, Helen Smith and Stephen Jack have service contracts which are terminable by either party giving the other 12 months' notice. Terry Hitchcock's service contract provides for notice of 3 months to be given by the Company and 12 months to be given by him. The Company 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 and Terry Hitchcock's service agreement may be terminated by paying 3 months' salary. Tullett Liberty is entitled to terminate the service agreement of Stephen Jack by paying salary and a pro rata portion of the bonus due in respect of the year of termination in lieu of notice.

Bruce Collins resigned as a director on 27 April 2004. The Board has agreed to pay him up to £1.75m compensation for loss of office over his notice period under his service contract (which was entered into by the board of Tullett Liberty prior to that company's acquisition by the Group). A mitigation principle has been agreed whereby this sum would be reduced if Bruce Collins accepted a new appointment during the notice period. In addition, Bruce Collins will retain the share option granted to him in 2003.

Non-executive Directors

During 2003 the Non-executive director remuneration was reviewed to take account of the increased size of the Company and changes in market rates (but not the increased responsibilities arising from the Revised Combined Code). With effect from 1 June 2003 the Chairman's pay was increased to £100,000 pa, the senior independent Non-executive director's remuneration was increased to £32,000 pa and the remuneration of other Non-executive directors was increased to £27,500 pa. None of the Non-executive directors receive any benefits from the Company. Where payments are made to companies for the services of a director, an adjustment to these rates is made to take account of the fact that the Company is unable to reclaim all of its VAT.

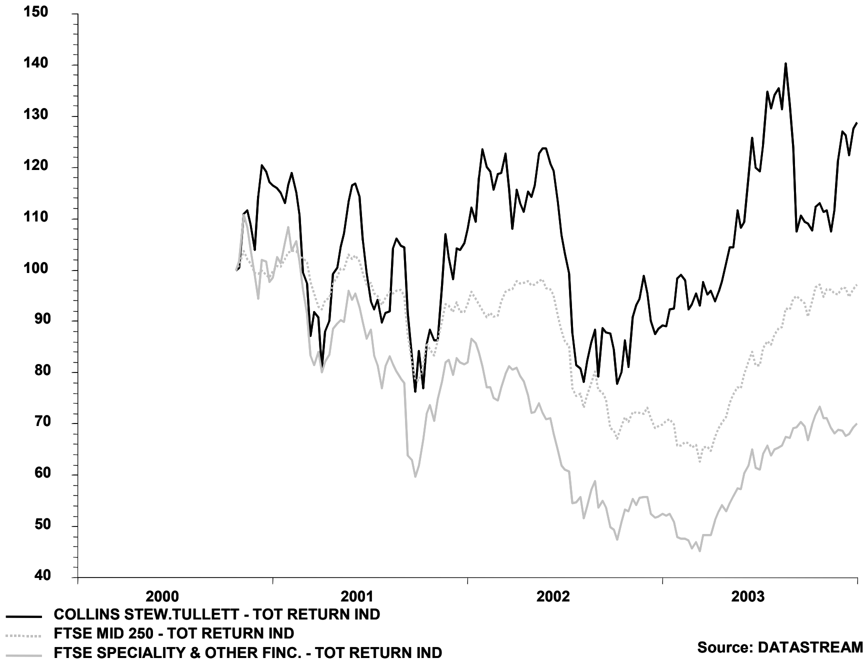
The Non-executive directors' appointments terminate if the director is not re-appointed following his retirement pursuant to the Articles of Association, if he is otherwise removed from the Board by operation of law or pursuant to the Articles of Association, if he resigns or does not offer himself for re-election by shareholders. In addition, the appointments of Keith Hamill, John Spencer, David Clark and Bernie Leaver may be terminated by the Company or the relevant director by 12 months' written notice and Rob Lucas' appointment can be terminated without notice.

Keith Hamill and John Spencer had both been granted options prior to the Company's flotation. These options were exercised in December 2003 and there is no intention for further options to be granted to Non-executive directors in future.

3. Summary of Directors' Remuneration and Share Options

Performance Graph

The following graph shows the Company's performance compared with the performance of the FTSE Mid 250 Index and the FTSE Speciality and Other Financials Index, measured by total shareholder return from the date of the Company's flotation in October 2000 to the end of December 2003:



The Board believes that the above indices are most relevant to the Company as they comprise either businesses of similar size or engaged in the financial services industry.

Directors' Remuneration

The following table shows a breakdown of the remuneration of individual directors for the year ended 31 December 2003 with comparative information for the year ended 31 December 2002:

	Salaries and Fees		Benefits		Bonuses		Total	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Executive directors								
Terry Smith	100	100	2	1	3,400	1,500	3,502	1,601
Helen Smith	100	100	1	1	800	300	901	401
Terry Hitchcock	100	15	2	1	600	175	702	191
Bruce Collins (i)	520	–	2	–	1,830	–	2,352	–
Stephen Jack (i)	208	–	2	–	701	–	911	–
Andy Stewart (ii)	25	100	2	1	–	200	27	301
Non-executive directors								
Keith Hamill (iv)	78	48	–	–	–	–	78	48
Rob Lucas (iv)	24	–	–	–	–	–	24	–
John Spencer	29	24	–	–	–	–	29	24
David Clark (i)	20	–	–	–	–	–	20	–
Bernie Leaver (iii)	11	–	–	–	–	–	11	–

Notes:

(i) The remuneration information for Bruce Collins, Stephen Jack and David Clark was in respect of the period from 10 March 2003 when Tullett Liberty was acquired by the Company. The remuneration paid to each of them respectively for the year ended 31 December 2003 was £2,823,000, £1,094,000, and £56,000.

(ii) Andy Stewart resigned as a director on 24 March 2003. He received no severance payment in connection with his resignation.

(iii) Bernie Leaver was appointed to the Board on 1 August 2003.

(iv) Fees were paid to Aldrington Investments Ltd in respect of Keith Hamill's services in the first five months. After that time Keith Hamill's fees were paid through the payroll. Rob Lucas' services are provided by CVC Capital Partners Ltd.

(v) The above table does not include pension contributions in respect of Bruce Collins or Stephen Jack.

Directors' Share Options

Details of the share options held by directors who held office at the end of the year are set out below:

	Options at 1 January 2003	Granted	Exercised	Options at 31 December 2003	Earliest exercise date	Expiry date	Exercise price
Sharesave scheme 2000							
Terry Smith	5,779	–	–	5,779	1.1.2006	30.6.2006	292p
Helen Smith	5,779	–	–	5,779	1.1.2006	30.6.2006	292p
		–					
Non-executive unapproved scheme							
Keith Hamill	127,532	–	(127,532)	–	16.10.2003	15.10.2010	316p
John Spencer	63,766	–	(63,766)	–	16.10.2003	15.10.2010	316p
2003 Share option scheme							
Bruce Collins	–	120,000	–	120,000	29.4.2006	28.4.2013	349p
Stephen Jack	–	120,000	–	120,000	29.4.2006	28.4.2013	349p

No consideration was paid by any of the directors in respect of the granting of any of the above share options.

Keith Hamill and John Spencer each exercised respectively 127,532 and 63,766 share options during the year, which had been granted prior to the Company's flotation in 2000, under the Non-executive unapproved share option scheme. The options, which had an exercise price of 316p, were exercised on 18 December 2003 at which time the market price of a Collins Stewart Tullett ordinary share was 414.5p. Each director sold enough shares on that date to finance the cost of acquiring shares on the exercise of the options and the tax arising thereon. After meeting such costs, Keith Hamill retained 15,795 of the shares arising on exercise and John Spencer retained 7,897 shares.

The share options granted to Bruce Collins and Stephen Jack were subject to performance conditions being satisfied in 2003, including inter alia, return on capital employed targets for each of Tullett Liberty and the Collins Stewart Tullett Group and pre-tax profit targets. These targets were met in full.

The market price of the Company's ordinary shares ranged from a low of 312p to a high of 493.5p during the year. At 31 December 2003 it was 442.5p.

4. Details of share option proposed to be granted to Stephen Jack after the AGM

It is proposed that a share option be granted to Stephen Jack. This option does not fall within any of the Company's existing share option schemes and accordingly shareholders' consent to grant this option will be sought at the forthcoming AGM.

As with the options granted to Tullett Liberty senior management under the Collins Stewart Tullett plc Equity Incentive Plan (described in the Group Finance Director's Review), the main aim of the option is to drive the targeted improvement in Tullett Liberty's operating margins.

The Remuneration Committee proposes to grant an option over 106,045 ordinary shares to Stephen Jack. At the date of this document the option has an intrinsic value of approximately £450,000. It is proposed that the following terms would apply:

- The option will have an exercise price of nil and will be exercisable between the period of 3-10 years after the date of grant.
- In order for the option to vest, Tullett Liberty's turnover must exceed £400m in each of the financial years 2004-6 and Tullett Liberty's operating margins must improve in any two consecutive years in the next three years to at least 13% (3% ahead of the margin achieved in 2003). At 13% operating margin, 30% of the shares subject to the option vest; at 15% operating margin 65% of the shares subject to the option vest; full vesting will not occur until margins improve to over 17%. The operating margin is calculated before charging any FRS 20 or similar accounting costs to the profit and loss account. Following achievement of the operating margin target, the option is only exercisable if the director remains employed by the Group for a further 12 months.
- In the event that a significant acquisition is made by Tullett Liberty during the performance period, the performance conditions are measured up until the time that the acquisition is completed. Provided the operating margin target is achieved during this period, and the number of shares subject to the option will be pro rated. If the performance target has not been met prior to such a significant acquisition being made, the option will lapse. A significant acquisition is an acquisition of a business with an annual turnover of more than £100m.

Resolution 9 in the Notice of Annual General Meeting at the back of this document deals with the proposed option grant.

By order of the Board

Diana Dyer Bartlett
Company Secretary

29 April 2004

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 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 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 TULLETT PLC

We have audited the financial statements of Collins Stewart Tullett plc for the year ended 31 December 2003 which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the balance sheets, the consolidated cash flow statement 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 report on directors' remuneration that is described 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 report on directors' remuneration. Our responsibility is to audit the financial statements and the part of the report on directors' remuneration 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 report on directors' remuneration 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 or 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 report on directors' remuneration 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 report on directors' remuneration 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 report on directors' remuneration 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 report on directors' remuneration 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 2003 and of the profit of the group for the year then ended; and
- the financial statements and the part of the report on directors' remuneration described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors

London
29 April 2004

consolidated profit and loss account

for the year ended 31 december 2003

	Notes	2003 £m	2002 £m
Turnover			
Continuing operations		127.9	96.0
Acquisitions		346.0	–
	2	473.9	96.0
Administrative expenses			
Amortisation of goodwill:			
Continuing operations		(6.6)	(6.6)
Acquisitions		(7.2)	–
		(13.8)	(6.6)
Other expenses:			
Continuing operations		(87.6)	(66.5)
Acquisitions		(314.9)	–
		(402.5)	(66.5)
Total administrative expenses		(416.3)	(73.1)
Other operating income			
Continuing operations		3.7	2.7
Acquisitions		2.7	–
	3	6.4	2.7
Operating profit			
Continuing operations		37.4	25.6
Acquisitions		26.6	–
	2,4	64.0	25.6
Net share of operating profits in associates			
Acquisitions		0.5	–
Exceptional item: profit on reorganisation of associates	5	4.5	–
Net interest receivable/(payable)	8	0.4	(0.1)
Profit on ordinary activities before taxation		69.4	25.5
Taxation on profit on ordinary activities	9	(28.7)	(9.5)
Profit on ordinary activities after taxation		40.7	16.0
Equity minority interests		(0.6)	(0.1)
Profit for the year attributable to shareholders of Collins Stewart Tullett plc		40.1	15.9
Dividends paid and proposed			
Ordinary dividend on equity shares	11	(18.0)	(6.9)
Preference dividend on non-equity shares	11	(0.7)	(2.6)
Retained profit for the year		21.4	6.4
Earnings per share			
Basic	12	23.2p	13.0p
Diluted	12	22.8p	12.9p
Basic before amortisation of goodwill and exceptional item	12	28.8p	19.5p

consolidated statement of total recognised gains and losses

for the year ended 31 december 2003

	2003 £m	2002 £m
Profit for the year attributable to shareholders of Collins Stewart Tullett plc	40.1	15.9
Foreign currency translation differences:		
Subsidiaries	(2.8)	(0.1)
Associates	(0.1)	–
Total recognised gains and losses since the last annual report and financial statements	37.2	15.8

consolidated balance sheet

as at 31 December 2003

	Notes	2003 £m	2002 £m
Fixed assets			
Intangible assets	13	282.2	114.4
Tangible assets	14	25.6	6.4
Associates	15	8.0	–
Other fixed asset investments	15	1.7	0.1
		317.5	120.9
Current assets			
Debtors	16	444.5	84.4
Investments	17	54.6	9.5
Cash at bank and in hand		209.9	61.9
		709.0	155.8
Creditors: amounts falling due within one year	18	(555.6)	(119.7)
Net current assets		153.4	36.1
Total assets less current liabilities		470.9	157.0
Creditors: amounts falling due after more than one year	19	(71.8)	(6.4)
Provisions for liabilities and charges	20	(4.6)	(0.4)
Net assets		394.5	150.2
Capital and reserves			
Called up share capital	21	47.3	27.0
Share premium account	22	195.9	98.3
Merger reserve	22	100.4	–
Profit and loss account	22	43.3	24.8
		386.9	150.1
Shareholders' funds			
Equity		386.9	105.5
Non equity		–	44.6
		386.9	150.1
Equity minority interests		7.6	0.1
		394.5	150.2

Approved by the Board of Directors on 29 April 2004 and signed on its behalf by:

Terry Smith
Chief Executive

	Notes	2003 £m	2002 £m
Fixed assets			
Investments in subsidiary undertakings	15	402.1	151.7
Current assets			
Debtors	16	23.4	7.4
Investments	17	–	0.2
Cash at bank and in hand		3.2	0.2
		26.6	7.8
Creditors: amounts falling due within one year	18	(30.4)	(18.1)
Net current liabilities		(3.8)	(10.3)
Total assets less current liabilities		398.3	141.4
Creditors: amounts falling due after more than one year	19	(43.2)	(6.2)
Provisions for liabilities and charges	20	(0.7)	–
Net assets		354.4	135.2
Capital and reserves			
Called up share capital	21	47.3	27.0
Share premium account	22	195.9	98.3
Merger reserve	22	100.4	–
Profit and loss account	22	10.8	9.9
		354.4	135.2
Shareholders' funds			
Equity		354.4	90.6
Non equity		–	44.6
		354.4	135.2

Approved by the Board of Directors on 29 April 2004 and signed on its behalf by:

Terry Smith
Chief Executive

consolidated statement of cash flows

for the year ended 31 December 2003

	Notes	2003 £m	2002 £m
Net cash inflow from operating activities	29	130.2	21.4
Dividends from associates		0.1	–
Returns on investments and servicing of finance:			
Interest received		4.0	2.7
Interest paid		(3.3)	(2.1)
Interest element of finance lease rental payments		(0.2)	–
Preference dividends paid		(3.3)	(2.6)
		(2.8)	(2.0)
Taxation:			
Corporation tax paid		(11.7)	(9.1)
Overseas tax paid		(15.8)	(1.9)
		(27.5)	(11.0)
Capital expenditure and financial investments:			
Purchase of tangible fixed assets		(7.4)	(1.8)
Proceeds from sale of tangible fixed assets		0.1	–
Proceeds from sale of fixed asset investments		0.1	–
		(7.2)	(1.8)
Acquisitions and disposals:			
Purchase of subsidiary undertakings		(134.4)	(0.2)
Net cash acquired with subsidiary undertakings		33.0	–
Investment in associate		(7.7)	–
Disposal of associate		16.7	–
		(92.4)	(0.2)
Equity dividends paid		(13.1)	(6.9)
Net cash outflow before management of liquid resources and financing		(12.7)	(0.5)
Management of liquid resources:			
Sale of current asset investments		5.2	–
Purchase of current asset investments		(2.8)	–
		2.4	–
Financing:			
Issue of ordinary share capital		148.6	–
Share issue costs		(2.6)	–
Redemption of preference shares		(44.6)	–
Net increase / (repayment) of bank debt		33.2	(4.0)
Net repayment of loan notes		(3.3)	(0.5)
Debt issue costs		(0.7)	–
Capital element of finance lease rental payments		(0.9)	–
		129.7	(4.5)
Increase/(decrease) in cash	30	119.4	(5.0)

1. Accounting Policies

Basis of Accounting

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 2002 other than as stated below.

Tullett Liberty has a number of investments in associates and a defined benefit pension scheme and accordingly the Group accounting policies have been extended to incorporate policies on pensions and associates.

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 Tullett plc and all its subsidiary undertakings, drawn up to 31 December each year. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of during the year are included in the consolidated profit and loss account from or to the date on which control passed.

In accordance with section 230(4) of the Companies Act 1985 Collins Stewart Tullett 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, commissions, brokerage 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. This has been estimated at 20 years in respect of the acquisition of Collins Stewart Limited, its UK private client division and Tullett Liberty Limited and 10 years in respect of less material 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.

Finance Costs

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:

Equipment, fixtures, fittings and motor vehicles	10% - 33% pa
Leasehold land and buildings (short/long)	over the period of the lease
Freehold land and buildings	1% pa

Associates

Entities other than subsidiary undertakings, in which the Group has a participating interest and over whose operating and financial policies the Group exercises a significant influence are treated as associates and are accounted for using the equity method. The Group financial statements include the appropriate share of associates' results and retained reserves based on audited accounts to 31 December each year, with the exception of Totan Capital Markets Co. Ltd. and Parekh (Forex) Private Limited, which have a 31 March year end and therefore 31 December management accounts have been used. Goodwill arising on the acquisition of associates is accounted for in accordance with the policy set out above. Any unamortised balance of goodwill is included in the carrying value of the investment in associates.

Fixed Asset Investments

Fixed asset investments are shown at cost less provision for impairment.

Current Asset Investments

Current asset investments, other than positions in securities, are stated at the lower of cost and net realisable value. 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.

Assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date. Adjustments arising from the retranslation of the opening net assets are dealt with through reserves.

Profits and losses of overseas subsidiary undertakings, joint ventures and associates are translated into sterling at the average of the month-end exchange rates for the year and the difference in relation to closing rates is accounted for through reserves.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid or recovered using the tax rates and based on laws that have been enacted or substantively enacted by the balance sheet date.

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.

A net deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

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.

Leases and Hire Purchase Commitments

Assets held under finance leases are capitalised and depreciated over the shorter of the period of the lease and their useful lives. Assets held under hire purchase contracts are capitalised and depreciated over their useful lives.

The interest element of the rental obligations in respect of finance leases is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

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

Pension Costs

Defined contributions made to employees' personal pension plans are charged to the profit and loss account as and when incurred. The expected annual cost of defined benefit pensions is calculated on the advice of actuaries and charged to the profit and loss account so as to spread the cost of pensions over the average service lives of employees in the schemes. Variations from the regular pension cost are spread over the expected remaining service lives of current employees in the schemes. Differences between the amounts funded and the amounts charged to the profit and loss account are treated as either provisions or prepayments in the balance sheet.

All pension scheme assets are held separately from those of the Group in separate trustee administered funds.

Inter-dealer Broker Settlement Balances

Certain Group companies are involved as principal in the purchase and simultaneous commitment to sell securities between third parties. Such trades are complete only when both sides of the deal are settled, and so the Group is exposed to risk in the event that one side of the transaction remains unmatched. In order to reflect the substance of these transactions, the amounts due to and payable by counterparties in respect of matched principal business expected to settle in the normal course of trading are offset and the net amount is included within trade debtors or trade creditors as appropriate. For information purposes, the gross amounts are disclosed in notes 16 and 18.

Outstanding transactions which have gone beyond settlement date and where neither side of the transaction has settled are shown gross and are included within trade debtors and trade creditors in notes 16 and 18. Transactions where one side has settled but the other remains outstanding are also shown gross on the balance sheet within trade debtors or trade creditors.

Capital Instruments

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

Derivative Financial Instruments

The Group uses derivative financial instruments to reduce exposure to foreign exchange risk. For a forward foreign exchange contract to be treated as a hedge the instrument must be related to actual foreign currency assets or liabilities or a probable commitment. It must involve the same currency or similar currencies as the hedged item and must also reduce the risk of foreign currency exchange movements on the Group's operations. Gains and losses arising on these contracts are recognised in the accounts when the hedged transaction has itself been reflected in the Group's accounts.

Client Money

The Group holds money on behalf of clients in accordance with the client money rules of the Financial Services Authority. Such money and the 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 money is included within other operating income.

Securities Borrowing

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

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 Tullett 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.

2. Segmental Analysis of Turnover, Profit before Taxation and Net Assets

Geographical Area

	Europe		North America		Pacific Basin and Australasia		Group	
	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	2002 £m
Turnover								
Collins Stewart	120.1	87.9	7.8	8.1	–	–	127.9	96.0
Tullett Liberty	156.8	–	158.6	–	30.6	–	346.0	–
	276.9	87.9	166.4	8.1	30.6	–	473.9	96.0
Operating profit before goodwill								
Collins Stewart	41.4	29.3	2.6	2.9	–	–	44.0	32.2
Tullett Liberty	5.7	–	22.9	–	5.2	–	33.8	–
	47.1	29.3	25.5	2.9	5.2	–	77.8	32.2
Amortisation of goodwill								
Collins Stewart							(6.6)	(6.6)
Tullett Liberty							(7.2)	–
Operating profit							64.0	25.6
Share of associates' operating profit: Tullett Liberty	(0.4)	–	(0.3)	–	1.4	–	0.7	–
Amortisation of goodwill	–	–	–	–	(0.2)	–	(0.2)	–
	(0.4)	–	(0.3)	–	1.2	–	0.5	–
Exceptional items							4.5	–
Finance charges (net)							0.4	(0.1)
Profit on ordinary activities before taxation							69.4	25.5
Net assets								
Collins Stewart	130.7	149.5	1.3	0.7	–	–	132.0	150.2
Tullett Liberty	111.1	–	79.7	–	63.7	–	254.5	–
Share of associates' net assets – Tullett Liberty	(0.4)	–	(0.3)	–	8.7	–	8.0	–
	241.4	149.5	80.7	0.7	72.4	–	394.5	150.2

Class of business

	Stockbroking, corporate finance and fund management 2003 £m	2002 £m	Derivatives money broking and energy 2003 £m	2002 £m	Securities broking 2003 £m	2002 £m	Information sales 2003 £m	2002 £m	Group 2003 £m	2002 £m
Turnover										
Collins Stewart	127.9	96.0	–	–	–	–	–	–	127.9	96.0
Tullett Liberty	–	–	146.7	–	192.9	–	6.4	–	346.0	–
	127.9	96.0	146.7	–	192.9	–	6.4	–	473.9	96.0
Operating profit before goodwill										
Collins Stewart	44.0	32.2	–	–	–	–	–	–	44.0	32.2
Tullett Liberty	–	–	15.5	–	16.4	–	1.9	–	33.8	–
	44.0	32.2	15.5	–	16.4	–	1.9	–	77.8	32.2
Amortisation of goodwill										
Collins Stewart									(6.6)	(6.6)
Tullett Liberty									(7.2)	–
Operating profit									64.0	25.6
Share of associates' operating profit:Tullett Liberty	–	–	0.7	–	–	–	–	–	0.7	–
Amortisation of goodwill	–	–	(0.2)	–	–	–	–	–	(0.2)	–
	–	–	0.5	–	–	–	–	–	0.5	–
Exceptional items									4.5	–
Finance charges (net)									0.4	(0.1)
Profit on ordinary activities before taxation									69.4	25.5
Net assets										
Collins Stewart	132.0	150.2	–	–	–	–	–	–	132.0	150.2
Tullett Liberty	–	–	95.4	–	143.1	–	16.0	–	254.5	–
Share of associates' net assets – Tullett Liberty	–	–	8.0	–	–	–	–	–	8.0	–
	132.0	150.2	103.4	–	143.1	–	16.0	–	394.5	150.2

3. Other Operating Income

Other operating income comprises:

	2003 £m	2002 £m
Net interest receivable on clients' free money	1.2	1.0
Other income	5.2	1.7
	6.4	2.7

4. Operating Profit

Operating profit is stated after charging:

	2003 £m	2002 £m
Depreciation of owned assets	7.8	2.2
Depreciation of assets held under finance leases and hire purchase contracts	0.5	–
Amortisation of goodwill arising on subsidiary undertakings	13.8	6.6
Amortisation of goodwill arising in respect of associates	0.2	–
Operating lease rentals	9.6	2.6
Auditors' remuneration:		
Audit work in the UK	0.4	0.2
Audit work overseas	0.7	–
Non-audit work	0.2	0.1

During 2003 an additional £0.9m was paid to Deloitte & Touche LLP, the Group's auditor, in connection with the acquisition of Tullett Liberty and accompanying fundraising in March. This fee was capitalised as a cost of the acquisition.

5. Exceptional Item: Profit on Reorganisation of Associates

In August 2003, Tullett Liberty sold its 20% holding in The Totan Derivatives Co., Ltd., realising a profit of £4.5m. A direct 20% holding in the affiliated TIU Derivatives Co. Ltd. (subsequently re-named Totan Capital Markets Co. Ltd.) was acquired at the same time.

6. Staff Costs

The aggregate employment costs of staff and directors were:

	2003 £m	2002 £m
Wages, salaries, bonuses and incentive payments	269.6	40.0
Social security costs	22.0	4.2
Other pension costs	4.0	0.7
	295.6	44.9

The average number of directors and employees of the Group during the year, all of whom were employed in financial services, was 2,092 (2002: 408). Staff were employed in the following geographical regions:

	2003 No	2002 No
Europe	1,240	398
North America	595	10
Asia/Pacific	257	–
	2,092	408

7. Directors

Details of directors' emoluments and interests are included in the Report on Directors' Remuneration and in the Report of the Directors. These details include, as specified for audit by the Financial Services Authority, an analysis, by director, of salary and other payments and benefits on page 36, an analysis of directors' share interests on page 20 and share options on page 37, all of which form part of these audited financial statements.

8. Net Interest Receivable / (Payable)

	2003 £m	2002 £m
Interest receivable and similar income	5.0	2.5
Interest payable and similar charges		
Bank loans and overdrafts	(2.8)	(1.1)
Finance charges payable under finance leases and hire purchase	(0.1)	–
Amortisation of debt costs	(1.0)	(1.3)
Amortisation of discount	(0.2)	–
Other interest payable	(0.5)	(0.2)
	(4.6)	(2.6)
Net interest receivable / (payable)	0.4	(0.1)

9. Taxation on Profit on Ordinary Activities

	2003 £m	2002 £m
Current tax:		
UK corporation tax	20.4	7.8
Double tax relief	(3.7)	–
	16.7	7.8
Overseas tax	12.2	1.6
Share of associates' tax	0.7	–
Prior year UK Corporation tax over provided	(0.1)	–
Prior year overseas Corporation tax under provided	0.1	–
	29.6	9.4
Deferred tax:		
(Reversal) / origination of timing differences	(0.9)	0.1
	28.7	9.5

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:

	2003 £m	2002 £m
Profit on ordinary activities before tax	69.4	25.5
Tax on profit on ordinary activities at standard rate of 30%	20.8	7.6
Factors affecting charge for the year:		
Capital allowances less than depreciation	–	0.1
Disallowable expenditure	3.4	0.2
Goodwill amortisation (non-deductible)	4.2	2.0
Unrelieved losses	0.4	–
Non-taxable income	(1.3)	–
Different tax rates on overseas earnings	2.2	(0.5)
Adjustment in respect of prior years	(0.1)	–
Total current tax	29.6	9.4

10. (Loss) / Profit of the Parent Company

The parent company's loss after tax for the financial year amounted to £3.8m (2002: profit of £14.7m).

11. Dividends

	2003 £m	2002 £m
Equity dividends on ordinary shares		
Interim paid (2.5p) (2002: 2.25p)	8.3	2.3
Final proposed (5.25p) (2002: 4.5p)	9.7	4.6
	18.0	6.9
Non-equity dividends on preference shares		
Dividend paid	0.7	2.6
	18.7	9.5

The trustee of the Company ESOT has waived its right to dividends due on 3.9m ordinary shares. The dividends on 1.1m 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 £0.1m (2002: £0.1m) and in respect of the final 2003 ordinary dividend, £0.3m (2002: £0.2m).

The 82m ordinary shares allotted pursuant to the placing and open offer, and offers for Tullett Liberty were entitled to receive the 2002 final dividend. Since these shares were allotted after the year-end, these dividends, which total some £3.7m, were treated as an interim dividend in respect of the year to 31 December 2003.

12. Earnings per Share

Earnings	2003 £m	2002 £m
Profit for the financial year	40.1	15.9
Preference dividends	(0.7)	(2.6)
Earnings for the purposes of the basic and diluted earnings per share	39.4	13.3
Amortisation of goodwill	14.0	6.6
Exceptional item	(4.5)	–
Earnings for the purposes of basic earnings per share before amortisation of goodwill and exceptional item	48.9	19.9

Weighted average shares	2003 No. (m)	2002 No. (m)
Number of ordinary shares at start of year	101.8	101.9
Shares acquired by the ESOTs	(0.3)	–
ESOT allocations	0.1	–
Vested share options	0.3	–
Share issues	68.1	–
Basic earnings per share denominator	170.0	101.9
Issuable on exercise of options	2.1	1.2
Contingently issuable shares *	0.9	–
Diluted earnings per share denominator	173.0	103.1

** Contingently issuable shares relate to the deferred consideration payable in respect of the acquisition of Tullett Liberty detailed in note 13.*

13. Intangible Fixed Assets

	Group £m
Cost	
At 1 January 2003	130.4
Additions	181.6
At 31 December 2003	312.0
Amortisation	
At 1 January 2003	16.0
Charge for the period	13.8
At 31 December 2003	29.8
Net book value	
At 31 December 2003	282.2
At 31 December 2002	114.4

The Company has no intangible fixed assets.

Acquisitions during the Year

Tullett Liberty

On 10 March 2003, the Company acquired Tullett Liberty Limited (formerly Tullett plc), an inter-dealer broker. The consideration was £250.4m as set out below. This included deferred consideration of £5m payable in November 2004, stated at its net present value as of the date of acquisition, and expenses.

The book value of net assets acquired with Tullett Liberty together with a summary of the fair value adjustments made were as follows:

	Book value on acquisition £m	Fair value adjustments £m	Provisional fair value £m
Tangible fixed assets, associates and other fixed asset investments	40.2	–	40.2
Debtors	201.6	9.5	211.1
Investments	32.0	–	32.0
Cash and short term deposits	71.8	–	71.8
Creditors falling due in less than one year	(230.1)	(8.7)	(238.8)
Creditors falling due in more than one year	(10.0)	(24.4)	(34.4)
Provisions for liabilities and charges	(0.4)	(0.9)	(1.3)
Minority interests	(4.9)	(2.2)	(7.1)
	100.2	(26.7)	73.5
Goodwill arising			176.9
Purchase consideration			250.4
Purchase consideration comprised:			
Cash			120.9
Issue of shares			116.9
Deferred consideration			4.6
Costs of acquisition			8.0
			250.4

The book values of assets and liabilities have been taken from the consolidated management accounts of Tullett Liberty at the date of acquisition.

The largest single fair value adjustment is the recognition of the deficit in Tullett Liberty's defined benefit pension scheme and the associated deferred tax asset. This gave rise to a post tax adjustment of £24.4m.

All fair value adjustments are provisional and may be subject to adjustment in the year ending 31 December 2004.

Tullett Liberty earned a profit after taxation and minority interests of £22.3m, in the year ended 31 December 2003, of which £1.0m arose in the period from 1 January 2003 to 10 March 2003. The summarised profit and loss account and statement of total recognised gains and losses for the period from 1 January 2003 to 10 March 2003, the date of acquisition, were as follows:

Profit and loss account

	£m
Turnover	81.4
Amortisation of goodwill	(0.2)
Administrative expenses	(72.7)
Other operating income	0.6
Operating profit	9.1
Share of operating losses in associates	(0.1)
Exceptional items	(4.1)
Net interest	0.3
Profit on ordinary activities before taxation	5.2
Taxation	(4.1)
Profit on ordinary activities after taxation	1.1
Minority interests	(0.1)
Profit for the period	1.0

Statement of total recognised gains and losses

	£m
Profit for the financial period	1.0
Foreign currency translation differences:	
Subsidiaries	2.2
Associates	0.1
Total recognised gains and losses for the period	3.3

Starsupply

On 23 October 2003, Tullett Liberty acquired 100% of Starsupply Energy (since renamed Starsupply Tullett Energy), and thereby controlling interests in this company's oil broking subsidiaries (previously associate interests) in London and Singapore, for £5.5m in cash including £0.6m of expenses. The goodwill arising on this acquisition was £4.7m, which will be amortised over a ten year period.

Disposal during the year

In April 2003, the disposal of Tullett Liberty's communication sales business to GS partners 2000 was completed. The sale generated some £8m of cash for the Group. The gain from this transaction was a pre-acquisition item for the Group; it was dealt with as a fair value adjustment and accordingly does not appear as a discontinued operation on the face of the profit and loss account. At the interim stage, the disposal proceeds had been prudently estimated at £5m, but an additional £3m has since been received.

14. Tangible Fixed Assets

Group	Land and Buildings			Equipment, Fixtures, Fittings and Motor Vehicles	
	Freehold £m	Long Leasehold £m	Short Leasehold £m	£m	Total £m
Cost					
At 1 January 2003	0.1	–	2.7	7.7	10.5
Reclassification	–	–	(0.2)	0.2	–
Additions	–	–	–	7.5	7.5
Acquisition of subsidiary undertakings	–	4.0	2.2	18.7	24.9
Disposals	–	–	–	(2.4)	(2.4)
Amounts written off	–	(0.7)	–	(0.3)	(1.0)
Foreign exchange difference	–	(0.4)	0.1	(1.2)	(1.5)
At 31 December 2003	0.1	2.9	4.8	30.2	38.0
Depreciation					
At 1 January 2003	–	–	0.4	3.7	4.1
Reclassification	–	–	0.2	(0.2)	–
Charge for the period	–	0.2	0.5	7.6	8.3
At 31 December 2003	–	0.2	1.1	11.1	12.4
Net book value					
At 31 December 2003	0.1	2.7	3.7	19.1	25.6
At 31 December 2002	0.1	–	2.3	4.0	6.4

Company

The Company does not own or lease any tangible fixed assets.

15. Fixed Asset Investments

Group	Associates £m	Other fixed asset investments £m
At 1 January 2003	–	0.1
Acquired with subsidiary	13.6	1.8
Share of profits retained by associated undertakings	(0.3)	–
Exchange adjustments	–	(0.1)
Additions	2.1	–
Disposals	(12.3)	(0.1)
Transfer to subsidiary	(0.5)	–
	2.6	1.7
Goodwill arising in year	5.6	–
Amortisation and impairment for the year	(0.2)	–
At 31 December 2003	8.0	1.7

The principal investments in associates are listed in note 35.

Other fixed asset investments comprise principally 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 balance sheet.

In August 2003, Tullett Liberty sold its 20% holding in the Totan Derivatives Co., Ltd, realising a profit of £4.5m. A direct 20% holding in the TIU Derivatives Co. Ltd, (subsequently re-named Totan Capital Markets), a leading interest rate derivative broker, was acquired for £7.7m in cash. Taken together these transactions realised a net £9m of cash for the Group. Goodwill of £5.6m arose on the investment which is being amortised over a ten year period.

Company	Shares in subsidiary undertakings £m	Loans to subsidiary undertakings £m	Total £m
Cost			
At 1 January 2003	138.9	12.8	151.7
Additions	250.4	–	250.4
At 31 December 2003	389.3	12.8	402.1

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.

The principal subsidiary undertakings are listed in note 35.

16. Debtors

	Group		Company	
	2003	2002	2003	2002
	£m	£m	£m	£m
Trade debtors	413.1	79.1	–	–
Prepayments and accrued income	10.0	1.4	–	0.2
Other debtors	10.3	3.8	0.1	0.2
Corporation tax	3.8	–	1.2	–
Amounts due from subsidiary undertakings	–	–	21.9	7.0
Amounts due from associated undertakings	0.1	–	–	–
Deferred tax	7.2	0.1	0.2	–
	444.5	84.4	23.4	7.4

Deferred tax derives from short term timing differences. As at 31 December 2003 the deferred tax asset was classified as due within one year, as the timing differences are expected to reverse within the subsequent 12 months.

Included in trade debtors are subsidiary companies' net positions with brokers, dealers and clearing houses of £0.8m. These net positions comprise amounts payable of £73,837.0m (2002: nil) and amounts receivable of £73,837.8m (2002: nil), in respect of transactions not yet due for settlement. Also included in trade debtors are past due date settlement balances of £270.1m (2002: nil).

17. Current Asset Investments

	2003	2002
Group	£m	£m
Long positions in securities		
Listed in the UK	8.9	8.3
Listed overseas	0.4	0.4
Unlisted in the UK	0.8	0.4
Unlisted overseas	0.2	0.2
	10.3	9.3
Other investments	44.3	–
Investments in own shares	–	0.2
	54.6	9.5

	2003	2002
Company	£m	£m
Investments in own shares	–	0.2

Other investments consist principally of time deposits at banks, other financial institutions and placed on the money markets, treasury bills, gilts and certificates of deposit.

The investments in own shares are included in the Group balance sheet in accordance with UITF 13.

18. Creditors: Amounts Falling Due Within One Year

Group	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Bank overdraft	14.7	2.0	–	–
Obligations under finance leases and hire purchase contracts	0.9	–	–	–
Trade creditors	357.0	64.2	–	–
Securities – short positions	2.8	1.8	–	–
Loan notes	1.3	4.5	1.1	–
Subordinated loan	8.5	8.6	8.5	8.6
Cost of raising subordinated and secured loans	(0.2)	(0.9)	(0.2)	(0.9)
Corporation tax	27.5	5.2	–	0.1
Tax and social security	13.2	1.3	–	–
Other creditors	4.4	–	–	–
Accruals and deferred income	115.8	25.8	11.3	3.1
Proposed dividends	9.7	7.2	9.7	7.2
	555.6	119.7	30.4	18.1

Included in trade creditors are subsidiary companies' net positions of £nil (2002: £nil) comprising amounts payable and receivable of £190.9m (2002: nil) in respect of transactions not yet due for settlement. Also included in trade creditors are past due date settlement balances of £258.0m (2002: nil).

Loan Notes

Secured loan notes

Secured loan notes were issued by Collins Stewart Limited on the acquisition of Collins Hitchcock Stewart Whitaker in 1996. The loan notes, which are secured by cash deposits of the same amount, are redeemable in 2006 or earlier at the holder's request. 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 loan notes. Interest is payable half yearly in arrears at a rate of $^3/_8$% below LIBOR.

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.

Guaranteed unsecured loan notes

Guaranteed unsecured loan notes were issued by the Company in connection with the acquisition of Tullett Liberty in March 2003. Cash deposits of the same amount are held by the Governor and Company of the Bank of Scotland, the guarantor. The loan notes are redeemable in 2008 or earlier at the holder's request. Interest is payable half yearly in arrears at a rate of 1% below LIBOR.

The guaranteed unsecured 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.

Details of the subordinated loan and the costs of raising such debt are included in note 19 below.

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

Group	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Secured loan	2.0	1.0	2.0	1.0
Subordinated loan	41.6	5.3	41.6	5.3
Cost of raising subordinated and secured loans	(0.4)	(0.1)	(0.4)	(0.1)
Obligations under finance leases and hire purchase contracts	2.3	–	–	–
Other creditors	26.3	0.2	–	–
	71.8	6.4	43.2	6.2

Secured Loan

The secured loan was originally entered into pursuant to the management buy-out in May 2000. It was restated and increased on the Company's flotation in October 2000 and again in connection with the acquisition of Tullett Liberty on 10 March 2003. The loan is secured by a fixed and floating rate charge over the Company's assets. The loan bears interest at 1.26% above LIBOR and is repayable on 31 December 2007.

The following information relates to creditors falling both within and after more than one year.

Subordinated Loan

The subordinated loan was originally entered into pursuant to the management buy-out in May 2000. It was restated on the Company's flotation in October 2000 and again restated and increased in connection with the acquisition of Tullett Liberty on 10 March 2003. The loan is unsecured and subordinated to other creditors. The lender is the Governor and Company of the Bank of Scotland. Immediately after inception of the loan, £45m of the loan was redenominated into US dollars. The US dollar part accrues interest at 1.5% above US LIBOR and the sterling part accrues interest at 1.51% above UK LIBOR. The loan is repayable in instalments over the period to 31 December 2007.

Group and Company	2003 £m	2002 £m
The Governor and Company of the Bank of Scotland	50.1	13.8

Cost of Raising Debt and Loans

Costs of raising debt finance of £6.1m incurred on 26 May 2000 in connection with the management buy-out, and £0.7m as part of the acquisition of Tullett Liberty 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.

20. Provisions for Liabilities and Charges

Group	Deferred tax £m	Provisions £m	Total £m
At 1 January 2003	0.4	–	0.4
Acquired with subsidiary	1.3	–	1.3
Charged to P&L account	0.3	2.6	2.9
At 31 December 2003	2.0	2.6	4.6

Deferred Taxation

Group

Provision for deferred taxation has been made as follows:	2003 £m	2002 £m
Deferred tax provision	2.0	0.4
Deferred tax asset (included in debtors note 16)	(7.2)	(0.1)
Net deferred tax (asset)/ liability	(5.2)	0.3

Deferred tax comprises:	2003 £m	2002 £m
Accelerated capital allowances	(1.0)	(0.1)
Other timing differences (net)	(1.7)	0.4
Tax losses	(2.5)	–
Net deferred tax (asset)/ liability	(5.2)	0.3

Movements during the year:	2003 £m
At 1 January 2003	0.3
Acquired with subsidiary	(4.9)
Charge to profit and loss account	(0.9)
Currency translation and other adjustments	0.3
At 31 December 2003	(5.2)

The Company has no provision for deferred taxation.

At the year end the Group and Company held provisions respectively of £2.6m (2002: nil) and £0.7m (2002: nil) relating to costs associated with litigation.

21. Share Capital

	2003 No. '000	2002 No. '000
Authorised		
Ordinary shares of 25p	284.7	150.0
"A" preference shares of 1p	–	41.3
"B" preference shares of 1p	–	3.3
	284.7	194.6
Allotted, issued and fully paid		
Ordinary shares of 25p	189.1	106.2
"A" preference shares of 1p	–	41.3
"B" preference shares of 1p	–	3.3
	189.1	150.8

	2003 £m	2002 £m
Authorised		
Ordinary shares of 25p	71.2	37.5
"A" preference shares of 1p	–	0.4
"B" preference shares of 1p	–	–
	71.2	37.9
Allotted, issued and fully paid		
Ordinary shares of 25p	47.3	26.6
"A" preference shares of 1p	–	0.4
"B" preference shares of 1p	–	–
	47.3	27.0

Movements during the Year

On 19 February 2003 14.6m shares were allotted at 308p per share pursuant to the placing and open offer to fund the redemption of the Company's preference shares.

On 6 March 2003 all of the Company's 41.3m "A" preference shares and 3.3m "B" preference shares were redeemed at their issue price of £1 per share.

On 10 March 2003 68.1m ordinary shares were allotted pursuant to completion of the offer for Tullett Liberty; 32.2m shares were allotted to Tullett Liberty shareholders at 337p per share, and 35.9m shares were allotted for cash at 308p per share.

On 18 December 2003 0.2m shares were allotted at 316p per share upon exercise of options granted under the Non-executive unapproved share option scheme.

Share Options

At 31 December 2003 the following options over ordinary shares had been granted under the Company's share option schemes and were outstanding:

	At 1 January 2003	Granted	Lapsed	Exercised	At 31 December 2003	Exercise Price	Exercise Period
Sharesave scheme	690,329	–	(55,477)	–	634,852	292p	1.1.2006-30.6.2006
	166,680	–	(21,051)	–	145,629	415p	1.7.2007-31.12.2007
Approved share option scheme	9,493	–	–	–	9,493	316p	16.10.2003-15.10.2010
	41,592	–	–	–	41,592	288.5p	5.4.2004-4.4.2011
Unapproved share option scheme	790,507	–	–	–	790,507	316p	16.10.2003-15.10.2010
	1,315,908	–	–	–	1,315,908	288.5p	5.4.2004-4.4.2011
Non-executive unapproved share option scheme	191,298	–	–	(191,298)	–	316p	16.10.2003-15.10.2010
2003 share option scheme		2,125,000	–	–	2,125,000	349p	29.4.2006-28.4.2013
	3,205,807	2,125,000	(76,528)	(191,298)	5,062,981		

Options granted under the Sharesave scheme during 2000 at 292p per share 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 (415p).

22. Reconciliation of Shareholders' Funds

Group	Share capital account £m	Share premium account £m	Merger reserve £m	Profit and loss account £m	Total shareholders' funds £m
Shareholders' funds at 1 January 2003	27.0	98.3	–	24.8	150.1
Retained profit for the year	–	–	–	21.4	21.4
Issue of ordinary shares	20.7	144.4	100.4	–	265.5
Redemption of preference shares	(0.4)	(44.2)	–	–	(44.6)
Costs of share issue	–	(2.6)	–	–	(2.6)
Foreign currency translation	–	–	–	(2.9)	(2.9)
Shareholders' funds at 31 December 2003	47.3	195.9	100.4	43.3	386.9

The merger reserve (under s.131 of the Companies Act 1985) arose on the issue of new shares by the Company in order to finance the acquisition of Tullett Liberty.

Company	Share capital account £m	Share premium account £m	Merger reserve £m	Profit and loss account £m	Total shareholders' funds £m
Shareholders' funds at 1 January 2003	27.0	98.3	–	9.9	135.2
Retained profit for the year	–	–		(3.8)	(3.8)
Issue of ordinary shares	20.7	144.4	100.4	–	265.5
Redemption of preference shares	(0.4)	(44.2)	–	–	(44.6)
Costs of share issues	–	(2.6)	–	–	(2.6)
Foreign currency translation	–	–	–	4.7	4.7
Shareholders' funds at 31 December 2003	47.3	195.9	100.4	10.8	354.4

23. Financial Assets and Liabilities

The following tables analyse the Group's financial assets and liabilities by interest rate profile, maturity and foreign currency. With the exception of the table (e) of currency exposures, short term debtors and creditors have been excluded from the disclosures contained in this note, as permitted by FRS 13: Derivatives and Other Financial Instruments: Disclosures.

23. Financial Assets and Liabilities (continued)

(a) Interest rate profile of financial assets As at 31 December 2003	At fixed interest rates £m	At floating interest rates £m	Non-interest bearing £m	Total £m
Sterling	2.3	165.9	8.3	176.5
US dollar	–	59.6	4.6	64.2
Euro	–	15.0	1.3	16.3
Other currencies	–	8.6	2.6	11.2
	2.3	249.1	16.8	268.2

As at 31 December 2002	At fixed interest rates £m	At floating interest rates £m	Non-interest bearing £m	Total £m
Sterling	3.1	56.7	6.1	65.9
US dollar	–	4.0	0.2	4.2
Euro	–	1.0	–	1.0
Other currencies		0.2	–	0.2
	3.1	61.9	6.3	71.3

Financial assets at fixed interest rates comprised corporate bonds and non-convertible preference shares. All other interest bearing financial assets have a maturity of less than one year. Non-interest bearing assets represent unlisted equity investments, deposits to secure clearing facilities and cash from normal trading activities not placed on deposit.

(b) Interest rate profile of financial liabilities As at 31 December 2003	At fixed interest rates £m	At floating interest rates £m	Non-interest bearing £m	Total £m
Sterling	1.9	22.0	2.0	25.9
US dollar	–	40.9	–	40.9
Euro	2.1	6.0	–	8.1
Other currencies	–	5.3	–	5.3
	4.0	74.2	2.0	80.2

As at 31 December 2002	At fixed interest rates £m	At floating interest rates £m	Non-interest bearing £m	Total £m
Sterling	0.4	20.3	1.3	22.0
US dollar	–	0.1	–	0.1
Euro	–	–	0.1	0.1
	0.4	20.4	1.4	22.2

The interest rate applicable to non-trading sterling fixed rate borrowings was 9.44% (2002: n/a) and the rate for Euro fixed rate borrowings (finance lease obligations) was 7.85% (2002: nil). The sterling and Euro finance lease liabilities are repayable by instalments until 2005 and 2008 respectively. The subordinated and secured loans (floating rate borrowings) bear interest rate terms set out in note 19. All remaining floating rate borrowings bear interest based on relevant national LIBOR equivalents.

(c) Maturity profile of financial liabilities	**31 December 2003 £m**	**31 December 2002 £m**
Payable:		
Within one year or on demand	34.8	16.0
Between one and two years	9.5	6.2
Between two and five years	35.9	–
	80.2	22.2

(d) Borrowing facilities	**31 December 2003 £m**	**31 December 2002 £m**
The Group had undrawn committed facilities expiring:		
Between two and five years	10.0	10.0

23. Financial Assets and Liabilities (continued)

(e) Foreign currency exposures

The table below is intended to give an indication of the sensitivity of the Group's results to fluctuations in currency exchange rates. It shows the net monetary assets and liabilities held by group companies that were not denominated in their functional currencies (other than foreign currency borrowings treated as hedges of net investments in overseas operations) that were unhedged and therefore may give rise to exchange gains and losses that would flow through to the group's profit and loss account.

Most of the activities of the Group are transacted in local currencies and consequently do not expose the Group to significant foreign currency risk as recognised in the profit and loss account. Such risk does, however, arise from the funding of the Group's business. In addition to the exposures shown in the table, the Group has a significant investment in companies with US$ or US$ linked functional currencies, retranslation gains and losses which are taken through the consolidated statement of total recognised gains and losses. The book value of this investment at 31 December 2003 was US$84.7m. Over the year the Group reduced this currency exposure through dollar denominated borrowings. In March 2003 £45m subordinated loan was redenominated into US dollars as part of the Group's hedging policy. At the year end US$68.7m of this loan was outstanding, and is excluded from the table below.

As at 31 December 2003	Sterling £m	US dollars £m	Euro £m	Other currencies £m	Total £m
Sterling	–	3.0	4.2	(1.0)	6.2
Euro	0.3	–	–	–	0.3
Other currencies	–	10.0	–	0.2	10.2
	0.3	13.0	4.2	(0.8)	16.7

As at 31 December 2002	Sterling £m	US dollars £m	Euro £m	Other currencies £m	Total £m
Sterling	–	4.1	0.9	0.2	5.2
	–	4.1	0.9	0.2	5.2

(f) Fair value

The book value of the Group's financial assets and liabilities (which exclude all short term debtors and creditors) were not materially different to their fair values in either year.

(g) Gains and losses on hedges

The Group entered into forward foreign currency contracts to eliminate the currency exposures that arise on foreign currency transactions and entered into cylinder options to manage its earnings translation exposure.

Gains and losses on instruments used for hedging by the Group, are not recognised until the exposure that is being hedged, is itself recognised. Unrecognised gains and losses on these hedging instrument are as follows:

	Gains £m	Losses £m	Total net gains/losses £m
Unrecognised gains and losses on hedges at 1 January 2003	–	–	–
Unrecognised gains on hedged at 31 December 2003	1.4	–	1.4
Of which: Gains expected to be recognised in 2004	1.4	–	1.4

The main risks affecting the financial assets and liabilities are as follows:

Market Risk

The Group is exposed to market risk in respect of both its trading in equities and debt instruments and its role as an intermediary between buyers and sellers of financial instruments. The Group makes markets in smaller company stocks, investment trusts and fixed interest securities, primarily in order to facilitate liquidity in the securities of clients to whom it acts as market maker, broker or adviser. These positions are carried in current assets and liabilities at fair value. The year-end positions are considered to be representative of the Group's exposure throughout the year. Limits are set on the size of individual and aggregate positions. Day to day risk monitoring is undertaken by senior management. The revenue generated in the year from trading in financial assets and liabilities was £13.0m (2002: £8.0m).

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

Foreign Currency Risk

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

During 2003 the Group redenominated £45m of subordinated debt into US dollars to hedge its net investment in subsidiaries whose accounts are drawn up in US dollars or currencies which are linked to the US dollar.

Interest Rate Risk

The Group retains substantial net cash resources to provide settlement liquidity, which earn interest at short term deposit rates. Some settlement balances do not earn interest.

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 19.

24. Related Party Transactions

Pursuant to the acquisition of Collins Hitchcock Stewart Whitaker in 1996, secured loan notes issued to certain directors by Collins Stewart Limited and remaining outstanding at the year-end, were £0.1m (2002: £0.8m).

Pursuant to the acquisition of Tullett Liberty in March 2003, £0.5m guaranteed unsecured loan notes were issued by the Company to directors and remained outstanding at the year-end.

Further details concerning the above loan notes are set out in notes 18 and 25.

25. Directors' Material Interest in Contracts

	2003 £m	2002 £m
Secured loan notes		
Terry Hitchcock and spouse	0.1	0.8
Guaranteed unsecured loan notes		
Bruce Collins	0.3	–
Stephen Jack and spouse	0.2	–

These amounts relate to loan notes issued on the acquisition of subsidiary undertakings. The terms applying to the loan notes are summarised in note 18.

26. Financial Commitments

Capital commitments are as follows:

Group	2003 £m	2002 £m
Contracted but not provided for	0.2	0.1
Finance leases entered into	3.2	–
	3.4	0.1

At 31 December 2003, the Group had annual commitments under non-cancellable operating leases as set out below:

Group	2003 Buildings £m	2002 Buildings £m	2003 Other £m	2002 Other £m
Annual commitments on leases expiring:				
- within one year	1.5	–	0.2	–
- within two to five years	1.6	0.3	–	0.1
- over five years	6.8	2.5	–	–
	9.9	2.8	0.2	0.1

27. 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 24 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. Provisions for the costs of dealing with such claims have been made where appropriate.

28. Pension Commitments

The pension cost figures used in these financial statements comply with SSAP24: Pension Costs. The Group operates a number of pension schemes throughout the world which, with one exception, are defined contribution schemes. The Tullett Liberty UK scheme used to provide benefits based on final pensionable pay. The scheme was closed to new members in 1991 and since May 2003 future accrual on a defined benefit basis has ceased. Employees in service in 1991 receive benefits on the better of a defined contribution and defined benefit basis. The assets of all schemes are held in separate trustee administered funds.

The total pension cost for the Group was £4.0m (2002: £0.7m); £0.8m (2002: £0.7m) relates to the overseas schemes. The pension cost relating to the defined benefit scheme is assessed in accordance with the advice of a qualified actuary using the projected unit method. The latest actuarial valuation of the scheme was at 1 May 2001. The assumptions which have the most significant effect on the results of the valuation are the rate of return on investments, the rates of increase in salaries, the level of the internal scheme cap above which salaries are not pensionable and the rate of Limited Price Indexation (LPI) on pensions in payment where appropriate. It was assumed in calculating the pension cost that: investment returns will average 7% per annum before retirement and 5.5% after retirement; inflationary and promotional salary increases will average 4.5% per annum; the internal salary cap will be unchanged at £175,000 per annum; and that LPI pension increases will average 2.5% per annum.

At the date of the latest actuarial valuation as at 1 May 2001, the market value of the assets of the UK scheme was £72.9m and the market value of the assets was sufficient to cover 97.5% of the benefits that had accrued to members. Up until 31 December 2001, the Company paid pension contributions in the UK at the rate of 13% of pensionable salaries for pre 1991 employees with defined benefits, 7% for post 1991 employees with defined contributions and 1% for life assurance only members. The level of contributions paid into the scheme in respect of defined benefit members was increased to 15.6% of pensionable salaries with effect from 1 January 2002. At the time of the latest actuarial valuation the level of contribution was expected to remove the deficit over 5 years, if the assumptions were borne out in practice.

The Group's actuarial advisers are currently carrying out investigations to determine the impact of market movements since the last actuarial valuation on the scheme's funding level and resulting contribution requirement.

Included in creditors is £0.9m (2002: nil) in respect of contributions payable to Group pension schemes, of which nil (2002: nil) related to the overseas schemes.

28. Pension Commitments (continued)

FRS 17: Retirement Benefits

A new pension cost accounting standard, FRS17, requires the Company to disclose the following information about the defined benefit scheme, recording the scheme assets at their period end market value, compared to the discounted value of the actuarial liability as at the same date.

The Group operates a scheme providing a hybrid of defined benefits and defined contributions for members who joined the scheme prior to 1 November 1991. The defined benefit element ceased accruing for this group of members from 1 May 2003; from this date they accrued benefits on a defined contribution basis only. The scheme provides defined contribution benefits for members who joined the scheme on or after 1 November 1991. A full actuarial valuation was carried out at 1 May 2001 and updated to 31 December 2003 by a qualified independent actuary.

The results of the actuarial valuation which are set out below exclude the defined contribution assets and liabilities. Employer contributions amounting to £1.9m (15.6% per annum of pensionable salaries) (2002: nil) have been paid in the year for defined benefit members.

The measurement bases required by FRS17 are likely to give rise to significant fluctuations in the reported amounts of the defined benefit scheme's assets and liabilities from year to year, and do not necessarily give rise to the need for changes in the required contribution rate, which is recommended by the independent actuary based on the expected long term rate of return on the defined benefit scheme's assets.

The major assumptions used by the actuary were (in normal terms):

	2003 %
Rate of increase in salaries	4.1
Rate of increase of LPI pensions in payment	2.5
Discount rate	5.4
Inflation assumption	2.6

The assets in the scheme in respect of defined benefit members and the expected rates of return were:

	Expected return %	Ammount £m
Equities	6.8	53.6
Bonds	4.8	–
Cash	3.75	6.6
Total market value of assets		60.2
Actuarial value of liability		(90.7)
Recoverable deficit in the scheme		(30.5)
Related deferred tax asset		9.1
Net pension liability		(21.4)

28. Pension Commitments (continued)

The Group financial statements assuming the pension deficit calculated under FRS17 was recognised in the financial statements at the year end, would be presented as follows:

	2003
Group balance sheet	£m
Net assets	394.5
Fair value adjustment on acquisition of Tullett Liberty	24.4
Net pension deficit at 31 December 2003	(21.4)
Net assets including pension deficit	397.5

	2003
Analysis of the amount that would be charged to operating profit:	£m
Current service cost	0.4
Past service cost	–
Total operating cost	0.4

	2003
Analysis of net return on pension scheme:	£m
Expected return on pension scheme assets	2.8
Interest on pension scheme liabilities	(4.4)
Net return	(1.6)

	2003
Analysis of amount that would be recognised in the Statement of Total Recognised Gains and Losses:	£m
Annual return less expected return on pension scheme assets	5.2
Experience losses arising on scheme liabilities	(0.9)
Loss arising from changes in assumptions underlying the present value of scheme liabilities	(4.6)
Actuarial loss that would be recognised in the statement of total recognised gains and losses	(0.3)

Analysis of movements in deficit during the period:	£m
At 1 January 2003	–
Deficit in the scheme acquired with Tullett Liberty	(30.1)
Total operating charge	(0.4)
Net return on assets	(1.6)
Actuarial loss	(0.3)
Contributions	1.9
Deficit at 31 December 2003	(30.5)

History of experience gains and losses:	2003
Difference between expected return and actual return on pension scheme assets	
– amount	£5.2m
– % of scheme assets	9%
Experience gains/(losses) on scheme liabilities	
– amount	£(0.9)m
– % of the present value of scheme liabilities	-1%
Total actuarial (loss)/gain recognised in the statement of total recognised gains and losses	
– amount	£(0.3)m
– % of the present value of scheme liabilities	0%

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

	2003 £m	2002 £m
Group operating profit	64.0	25.6
Depreciation of tangible fixed assets	8.2	2.2
Amortisation of goodwill	13.8	6.6
Tangible fixed assets written off	1.0	–
Doubtful debts and other provisions	(0.2)	–
Decrease in net investment positions	–	3.3
(Increase) / decrease in debtors	(143.4)	18.6
Increase / (decrease) in creditors	184.3	(34.8)
Increase in provisions for liabilities and charges	2.7	–
Decrease in long term creditors	(0.2)	(0.1)
Net cash inflow from operating activities	130.2	21.4

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

	2003 £m	2002 £m
Increase / (decrease) in cash during the year	119.4	(5.0)
Cash inflow from increase in long term loans	(51.1)	–
Cash outflow from repayment of loans and loan notes	21.1	4.5
Debt issue costs	0.7	–
Cash outflow from lease financing	0.9	–
Increase in current asset investments and term deposits	(2.4)	–
Acquired with subsidiary:		
Finance leases	(4.0)	–
Loans due within one year	(9.5)	–
Current asset investments and term deposits	70.3	–
Increase / (decrease) in net funds resulting from cash flows	145.4	(0.5)
Amortisation of debt issue costs	(1.0)	(1.3)
Currency translation differences	(2.4)	(0.4)
Increase / (decrease) in net funds	142.0	(2.2)
Net funds at the start of the year	41.5	43.7
Net funds at the end of the year	183.5	41.5

31. Analysis of Net Funds

	At 1 January 2003 £m	Cash flow £m	Acquired with subsidiary* £m	Non-cash items £m	Exchange differences £m	At 31 December 2003 £m
Cash in hand and at bank	55.9	126.7	–	–	(2.5)	180.1
Client settlement money	6.0	5.4	–	–	–	11.4
Overdraft	(2.0)	(12.7)	–	–	–	(14.7)
	59.9	119.4	–	–	(2.5)	176.8
Loan notes repayable within one year	(4.5)	3.2	–	–	–	(1.3)
Loans due within one year	(7.7)	9.1	(9.5)	(0.9)	0.7	(8.3)
Loans due after one year	(6.2)	(41.6)	–	(0.1)	4.7	(43.2)
Finance leases and hire purchase	–	0.9	(4.0)	–	(0.1)	(3.2)
	(18.4)	(28.4)	(13.5)	(1.0)	5.3	(56.0)
Current asset investments:						
Term deposits	–	(5.2)	38.3	–	(1.6)	31.5
Securities	–	2.8	32.0	–	(3.6)	31.2
	–	(2.4)	70.3	–	(5.2)	62.7
Total net funds	41.5	88.6	56.8	(1.0)	(2.4)	183.5

* *Excludes cash at bank and overdrafts*

Deposits of £18.4m (2002: nil) in cash at bank and in hand on the balance sheet, maturing in less than three months and greater than one day, have been included within term deposits in current asset investments in the analysis of net funds.

Included within current asset investments on the balance sheet are long positions in securities of £10.3m (2002: £9.5m), which are not included in the analysis of net funds.

Securities within current asset investments above include amounts held by certain subsidiary undertakings in order to secure clearing facilities.

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

32. Client Money

At 31 December 2003 client money held was £218.4m (2002: £229.1m). This comprised £11.4m (2002: £6.0m) of balances held by the Group on behalf of clients to settle outstanding bargains and £207.0m (2002: £223.0m) 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. Employee Share Ownership Trusts

The Collins Stewart Tullett 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 management buy-out. These trusts were to hold, as trustee and nominee, shares which were subscribed by employees of the Group pursuant to the management buy-out.

Shares acquired by the ESOTs from staff who have left the Group under the bad leaver agreements are 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 20.1m ordinary shares held by the Group's ESOTs, some 2.4m ordinary shares (2002: 2.6m) had not been allocated to specific employees and a further 2.6m ordinary shares (2002: 1.9m) had been allocated conditionally or were under option to employees. Of the above shares held by Group ESOTs, the Company's ESOT held some 1.3m ordinary shares (2002: 2.0m) which had not been allocated to specific employees and a further 2.6m ordinary shares (2002: 1.9m) 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 442.5p (2002: 313p) per share.

Both ESOTs held "A" and "B" preference shares which were redeemed on 6 March 2003. 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.

34. Post Balance Sheet Events

On 7 January 2004 a new share option scheme was established for the benefit of Tullett Liberty staff. On 8 January options were granted over 4.6m shares at nil price. The full cost of these options will be charged to the profit and loss account in accordance with FRS 20: Share Based Payments during the performance period which spans the next three financial years. The options are subject to performance conditions detailed in the Group Finance Director's Review and are exercisable between three to ten years after grant date. Shares required to meet option exercises will be shares purchased in the market and will accordingly not dilute shareholders' interests; such share purchases have been hedged by the Company.

35. Principal Subsidiary Undertakings and Associates

At 31 December 2003, the following companies were the Group's principal trading subsidiary undertakings and associates:

Principal subsidiary undertakings	Country of incorporation	Principal activities	Issued ordinary shares, all voting
Tullett Liberty Pty. Limited	Australia	Derivatives and money broking	100%
Tullett Liberty (Canada) Limited	Canada	Derivatives and money broking	100%
Collins Stewart Limited	England	Stockbroking	100%
Collins Stewart Property Fund Management Limited	England	Property management	75%
Starsupply Tullett Energy Limited	England	Energy broking	90.2%
Tullett Liberty (Equities) Limited	England	Securities broking	100%
Tullett Liberty Limited	England	Holding company	100%
Tullett Liberty (Securities) Limited	England	Securities broking	100%
Tullett Liberty (Treasury and Derivatives) Limited	England	Derivatives and money broking	100%
Collins Stewart Tullett France S.A.S.	France	Securities broking	100%
Tullett Liberty Capital Markets (France) S.A.S.	France	Derivatives and money broking	100%
Collins Stewart Asset Management Limited	Guernsey	Investment fund management	100%
Collins Stewart (CI) Limited	Guernsey	Stockbroking	100%
Collins Stewart Fund Management Limited	Guernsey	Investment fund management	100%
Tullett Financial Information (C.I.) Limited	Guernsey	Information sales	100%
Tullett Liberty (Hong Kong) Limited	Hong Kong	Derivatives and money broking	100%
Tullett Liberty Japan Limited	Japan	Derivatives and money broking	100%
Tullett Liberty Nederland B.V	Netherlands	Securities broking	100%
Starsupply Tullett Energy Pte. Ltd.	Singapore	Energy broking	76.8%
Tullett Liberty Pte. Ltd.	Singapore	Derivatives and money broking	51%
Collins Stewart Inc	USA	Stockbroking	100%
Tullett Liberty Inc.	USA	Derivatives and money broking	100%
Tullett Liberty Brokerage Inc.	USA	Securities broking	100%
Tullett Liberty Securities Inc.	USA	Securities broking	100%

All the above subsidiary undertakings are owned indirectly, with the exception of Collins Stewart Limited and Tullett Liberty Limited, which are owned directly.

35. Principal Subsidiary Undertakings and Associates (continued)

Associates	Country of incorporation	Principal activities	Issued ordinary shares, all voting
Tullett Liberty (Bahrain) Company W.L.L. *	Bahrain	Derivatives and money broking	49%
Natsource Tullett (Europe) Limited **	England	Energy broking	45.4%
Parekh (Forex) Private Limited	India	Derivatives and money broking	26%
Totan Capital Markets Co. Ltd.	Japan	Derivatives and money broking	20%
Natsource Tullett Scandinavia A.S. **	Norway	Energy broking	45.4%
Wall Street Tullett Liberty Limited	Thailand	Derivatives and money broking	49%
Wall Street Tullett Liberty Securities Limited	Thailand	Derivatives and money broking	49%
Natsource LLC	USA	Energy broking	20%

** The Group's interest in the trading results is 85% but it is not consolidated as the Group does not have sufficient voting control.*
*** The Group's interest includes an indirect interest of 13.65% held via its 20% holding in Natsource LLC.*

All associates are held indirectly. They all have a 31 December year end with the exception of Totan Capital Markets Co. Ltd. and Parekh (Forex) Private Limited, which have a 31 March year end.

Tullett Liberty Group Unaudited Pro Forma Information

	2003 (Unaudited) £m	2002 £m
Turnover	427.4	423.6
Operating costs		
Before amortisation of goodwill	(387.5)	(389.7)
Amortisation of goodwill	(1.3)	(1.2)
	(388.8)	(390.9)
Other operating income	3.3	2.6
Operating profit	41.9	35.3
Net share of operating profits in associates	(0.1)	0.2
Exceptional items	(4.1)	(6.0)
Associates' share of release of prior period provision for fixed asset investments	–	2.3
Profit on sale of operations and termination of business	4.5	1.2
Profit on ordinary activities before interest and tax	42.2	33.0
Net interest receivable / (payable)	0.4	(0.5)
Profit on ordinary activities before taxation	42.6	32.5
Taxation on profit on ordinary activities	(19.8)	(15.9)
Profit on ordinary activities after taxation	22.8	16.6
Equity minority interests	(0.5)	(0.7)
Profit on ordinary activities after taxation	22.3	15.9

The above profit and loss accounts have been adjusted as follows:

- The profit arising on the sale by Tullett Liberty of the communication sales business early in 2003 has been excluded from the 2003 profit and loss account as this was dealt with as a fair value adjustment in the Collins Stewart Tullett Group accounts.
- Costs relating to the acquisition of Tullett Liberty by the Company have been included in exceptional items (2003: £4.1m; 2002: £2.3m).

Tullett Liberty Group Segmental Analysis – Operating Profit

	2003 (Unaudited)	2002
Geographical Area	£m	£m
Europe	9.5	0.8
North America	27.3	30.9
Pacific Basin and Australasia	6.4	6.0
	43.2	37.7
Communication Sales	–	(1.2)
Amortisation of goodwill	(1.3)	(1.2)
	41.9	35.3

	2003 (Unaudited)	2002
Class of Business	£m	£m
Derivatives, Money Broking & Energy	18.9	15.6
Securities Broking	22.4	19.1
Information Sales	1.9	3.0
	43.2	37.7
Communication Sales	–	(1.2)
Amortisation of goodwill	(1.3)	(1.2)
	41.9	35.3

Note: The above analysis has been prepared on the same basis as the aforementioned profit and loss account.

Collins Stewart Tullett Group Unaudited Pro Forma Information

The following pro forma information has been prepared to facilitate understanding of the trends in the enlarged Group's business.

	2003 (Unaudited) £m	2002 (Unaudited) £m
Turnover	555.3	519.6
Operating costs		
Before amortisation of goodwill	(475.2)	(456.2)
Amortisation of goodwill	(15.4)	(15.4)
	(490.6)	(471.6)
Other operating income	7.1	5.3
Operating profit	71.8	53.3
Net share of operating profits in associates	0.4	0.7
Exceptional items	–	(3.7)
Associates' share of release of prior period provision for fixed asset investments	–	2.3
Reorganisation of associates and profit on sale of operations	4.5	1.2
Profit on ordinary activities before interest and tax	76.7	53.8
Net interest receivable/ (payable)	0.5	(1.8)
Profit on ordinary activities before taxation	77.2	52.0
Taxation on profit on ordinary activities	(32.8)	(25.1)
Profit on ordinary activities after taxation	44.4	26.9
Equity minority interests	(0.7)	(0.8)
Profit attributable to shareholders	43.7	26.1
Earnings per share		
Basic	23.7p	14.1p
Diluted	23.3p	14.0p
Basic before goodwill amortisation and exceptionals	29.8p	22.6p

The pro forma results have been prepared under the assumption that the acquisition of Tullett Liberty and the redemption of the Company's preference shares took place on 1 January 2002.

Adjustments have been made as follows:

- The equity and debt raised to fund the acquisition of Tullett Liberty and the redemption of the Company's preference shares have been included from 1 January 2002. Interest rates applying to the debt are those used throughout 2003.
- Amortisation of goodwill arising on the purchase of Tullett Liberty has been amortised at a consistent rate over 20 years from 1 January 2002.
- Deal costs incurred by Tullett Liberty in relation to its acquisition by Collins Stewart have been excluded.
- The profit arising on the sale by Tullett Liberty of the communication sales business at the beginning of 2003 has been excluded from the 2003 profit and loss account as this was dealt with as a fair value adjustment.
- Dividends on the Tullett Liberty preference shares and interest paid on the Tullett Liberty staff participation bonds, all of which were acquired by the Company, have been added back to the profit and loss account.
- Corporation tax arising on the above has been adjusted accordingly.

Notice is hereby given that the Annual General Meeting of Collins Stewart Tullett plc (the "Company") will be held at 9th Floor, 88 Wood Street, London EC2V 7QR on 3 June 2004 at 3.00pm. 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 2003 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 Bernie Leaver (member of the Remuneration Committee) who has been appointed to the Board since the last Annual General Meeting.
4. To re-elect as a director Terry Smith who retires by rotation.
5. To re-elect as a director Helen Smith who retires by rotation.
6. To re-elect as a director Terry Hitchcock who retires by rotation.
7. To reappoint Deloitte & Touche LLP as auditors of the Company (to hold office from the conclusion of the meeting until the conclusion of the next general meeting at which accounts are laid), and to authorise the Board to fix their remuneration.
8. That a final dividend in respect of the year ended 31 December 2003 be declared payable at the rate of 5.25p per share on 10 June 2004 to shareholders registered at the close of business on 21 May 2004.

SPECIAL BUSINESS

Ordinary Resolutions

9. To grant an option to Stephen Jack as detailed in the report on directors' remuneration set out in the report and accounts for the year ended 31 December 2003.
10. That the authority to allot relevant securities (as defined in section 80 of the Companies Act 1985 (the "Act")) conferred on the directors by article 4(B) of the Company's articles of association be renewed (unless previously renewed, varied or revoked by the Company in general meeting) until the conclusion of the next annual general meeting of the Company or fifteen months after the date on which this resolution is passed, whichever is the earlier, and for that period, the "section 80 amount" shall be £15,762,269.

Special Resolutions

11. That, the authority to allot equity securities (as defined in section 94 of the Companies Act 1985 (the "Act")) conferred on the directors by article 4(C) of the Company's articles of association be renewed (unless previously revoked or varied by special resolution of the Company in general meeting), until the conclusion of the next annual general meeting of the Company or fifteen months from the date of the passing of this resolution whichever is the earlier, and for that period the "section 89 amount" shall be £2,364,340, and that the power conferred on the directors by this resolution 11 shall also apply to a sale of treasury shares (as defined in section 162A(3) of the Act), by virtue of section 94(3A) of the Act.
12. That the Company be generally and unconditionally authorised to make market purchases (as defined by section 163 of the Companies Act 1985) of its ordinary shares of 25p each in the capital of the Company ("ordinary shares") provided that:

    (a) the maximum number of ordinary shares hereby authorised to be purchased shall be 18,914,723;
    (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

Diana Dyer Bartlett
Company Secretary

29 April 2004

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

collins stewart tullett plc
registered in england no 3904126

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. A form of proxy is enclosed; alternatively if you hold shares in uncertificated form (ie in CREST) you may vote using the CREST system (please see the notes below).*
2. *To be valid, an instrument appointing a proxy in hard copy form must be deposited at the office of the Company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU not less than 48 hours before the time of the meeting. Alternatively if you submit your proxy electronically through CREST, to be valid, the appropriate CREST message (regardless of whether it relates to the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy) must be transmitted so as to be received by the Company's registrars, Capita Registrars (ID RA10) by no later than 48 hours before the time of the meeting. The time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which Capita Registrars are able to retrieve the message by enquiry to CREST.*
3. *Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 changes to entries in the register of members after 6.00pm on Tuesday 1 June or on the date two days before any adjourned meeting (as the case may be) shall be disregarded in determining the rights of any member to attend or vote at the meeting or 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 1 June or on the date two days before the meeting or any adjourned meeting (as the case may be) shall be entitled to attend and vote at the meeting or any adjourned meeting (as the case may be) in respect of the number of shares registered in his name at that time.*
4. *CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using procedures described in the CREST manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.*
5. *In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual.*
6. *CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider takes) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.*
7. *The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.*
8. *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 (public holidays excepted) at the registered office of the Company from the date of this notice until the conclusion of the annual general meeting.*
9. *The reasons for the special business are explained in the directors' report.*
10. *Brief biographical notes about the directors proposed to be elected or re-elected are shown on pages 17 and 18 of the annual report and accounts.*

COLLINS ◆ STEWART ◆ TULLETT

Collins Stewart Tullett plc

9th Floor
88 Wood Street
London
EC2V 7QR