Collins Stewart Tullett

Annual Report 2005

contents

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group overview

Collins Stewart Tullett is a global financial services group listed on the London Stock Exchange. The Group comprises the world's second largest inter-dealer broker and a leading independent UK stockbroking business.

The inter-dealer broker business trades under the Tullett Prebon brand and is an intermediary in the wholesale financial markets, facilitating the trading activities of market participants, particularly commercial and investment banks. The business covers five major product groups: Fixed Income Securities and their derivatives, Interest Rate Derivatives, Treasury Products, Equities and Energy. In addition, the business has an information sales activity. The Group operates a hybrid business model with liquidity pools being managed by voice brokers supported by proprietary screens which display historical data, analytics and real time prices.

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

The Group has approximately 3,000 staff in 29 countries covering all the significant financial markets.

chairman’s statement

The Company achieved a good set of results in 2005. Revenue was £798m (2004: £584m) and operating profit before exceptionals was £131m (2004: £88m) reflecting the benefit of the acquisition of Prebon in October 2004 and reorganisation of the inter-dealer broking (“IDB”) business. Earnings per share before exceptional items were up 46% at 42.2p per share. Total shareholder return was 53% in comparison to the return of 30% achieved by both the FTSE mid 250 Index and the FTSE General Financials Index. From the Company’s flotation in 2000 up until the end of 2005, total shareholder return was 108% in comparison to the return of 57% achieved by the FTSE mid 250 Index and 2% achieved by the FTSE General Financials Index. The Board has decided to propose an increased final dividend per share of 11p (2004: 5.75p) bringing the total dividend for the year to 14p, an increase of 65%. This increase in dividend reflects the growth in the Company’s underlying earnings.

We announced in November that the Board had terminated talks with all third parties about a possible take-over of the Company after concluding that the terms of any such offer would not match shareholders’ reasonable expectations for the valuation of the Company. At the same time, the Board announced that it would focus on other means to deliver significant further value to shareholders.

To this end the Board has decided to demerge the Collins Stewart stockbroking business and to return at least £300m excess capital to shareholders. The rules which will govern regulatory capital requirements from 1 January 2007 have not yet been finalised and will affect the timing and manner of the return. The transactions will involve the introduction of a new holding company using a court approved scheme of arrangement followed by a capital reduction to achieve the demerger and facilitate the return of capital. We will provide an update at the AGM. Following a demerger, Terry Smith will remain the Group Chief Executive of the Company as well as taking on the role of Chairman of the stockbroking business.

During the year we were delighted to appoint Richard Kilsby as a Non-executive director. Richard has a wealth of experience in the financial markets, having been Vice Chairman of the virt-x stock exchange and an executive director of The London Stock Exchange. He has since taken over the chairmanship of the Audit Committee.

Since the year end the Company has settled its long running libel litigation with the Financial Times. Collins Stewart received an apology in the UK edition of the Financial Times and on FT.com, compensation and payment of all its legal expenses. The Board regards this as a very satisfactory outcome and wishes the new editorial team at the Financial Times well.

The current outlook for both of our businesses is positive and the Board is confident that the corporate restructuring proposed above will deliver significant value to the Company’s shareholders.

Keith Hamill
Chairman

27 April 2006

operating and financial review

The directors, in preparing this Operating and Financial Review, have sought to comply with the Reporting Standard 1: Operating and Financial Review issued by the Accounting Standards Board in 2006.

OBJECTIVES, STRATEGY AND KEY PERFORMANCE INDICATORS

The Board's principal objective for the Group is to maximise returns to shareholders over the medium to long term with an acceptable level of risk. This includes both fundamental returns generated by the business and the returns delivered through share price appreciation and dividends.

Our strategy is to act as a consolidator in the inter-dealer broker sector, seeking to attain the economies of scale which will deliver superior returns; and to develop the pre-eminent independent equity stockbroking business in London and the Channel Islands focusing on mid market corporate finance, independent research and private clients.

The Board has established a framework which is designed to facilitate the delivery of its strategy and to monitor the Company's performance against its targets. At a strategic level the Board utilises key performance indicators such as return on average capital employed to assess performance and assist in decision-taking. In addition, the Board monitors total shareholder return, both in an absolute sense and relative to various stockmarket indices.

At an operational level, detailed planning and the production of a comprehensive annual budget, regular reforecasts and monthly financial information enable performance to be monitored by executive management of the Group's two businesses and by the Board. Daily performance information is also produced to assist executive management at different levels.

Financial information tabled to the Board compares actual performance against budgets, forecasts, the prior year and the performance of competitors, and contains both trend analysis and key performance indicators to facilitate interpretation of results. Turnover, contribution and operating margin analyses are the most important high level performance indicators. At an operational level more detailed indicators such as employee costs as a percentage of revenues, revenues per broker and broker to support staff ratios are utilised. Cash flow forecasts are also a key control both at a local and group level.

OVERVIEW OF 2005

The year 2005 was another successful year for the Group, both in terms of progress with its strategic development and the financial performance of both the IDB and stockbroking businesses.

The integration of the Tullett Liberty and Prebon businesses was completed during the year in line with plan. The IDB business now trades as Tullett Prebon in most jurisdictions and utilises common systems, infrastructure and facilities in virtually all locations. The success of the integration exercise is demonstrated by the scale of the enlarged business (some 1,700 brokers generating more than £670m in revenues and offices in 26 countries) and its performance – underlying operating margin before exceptionals and double running costs on the combined Tullett Prebon turnover was 14.8% compared to 11.6% achieved by Tullett Liberty in 2004.

Notwithstanding the integration exercise we continued to hire brokers to enhance our capabilities in certain product areas and locations and stabilise the Singapore and Hong Kong offices which had been damaged by the aggressive recruitment tactics of our competitors in the first half of the year. The most significant hiring involved the acquisition of the former Burlington Cash Equities business in New York. We also strengthened our Fixed Income business in London. At the same time we have entered some new product areas, notably forward freight agreements and property derivatives. In October 2005 we launched a partnership with Capital Shipbrokers, Island Shipbrokers in Singapore and MJLF of Stamford, Connecticut to develop a forward freight agreement trading business. In November 2005 we established a strategic partnership with international property advisers, DTZ, to generate new products for the growing property derivatives sector.

We also achieved two “firsts” in Asia Pacific which evidence the health of our business in that region despite the staff changes that have occurred. In May we opened the first IDB business in South Korea to be wholly owned by a foreign firm. In December, together with our partner, Shanghai International Trust & Investment Corporation Limited, a subsidiary of Shanghai International Group, one of China’s largest state-owned enterprises, we opened a joint venture in Shanghai, the first inter-dealer broker in that country to include foreign participation.

Collins Stewart marginally increased its revenues and operating profits. During the year the firm once again pioneered another new corporate finance technique, introducing the concept of the Special Purpose Acquisition Corporation to the UK market. This technique and the AIPO™ developed in 2003 confirm the firm’s status as a leading innovator in the stockbroking sector.

Also in 2005 Collins Stewart developed its private client business by acquiring the Jersey and Isle of Man based stockbroking and asset management business of Insinger de Beaufort (International) Limited. The acquisition brought with it £0.4 billion of funds under management and further strengthens Collins Stewart’s already leading position in the Channel Islands and the Isle of Man.

Both our IDB and stockbroking divisions received important awards in 2005. Clients voted Tullett Prebon as Risk Magazine’s No.1 Broker in the same year that we completed our integration of the Tullett Liberty and Prebon businesses. We were also ranked No.1 by our clients in 23 categories - more than any other firm. In addition, in the FX Week Best Banks Awards for 2005, Tullett Prebon was named Best Broker in both Forward FX and Emerging Markets Forward FX.

Collins Stewart’s client, Foseco, was named IPO of the year by Shares Magazine, for which the firm was credited with being both sole Broker and Financial Adviser. The Private Client business also won three awards from Investors Chronicle: Best Advisory Stockbroker – Security and Administration; Best Advisory Stockbroker for Customer Service; and Best Portfolio Manager. Two other Corporate Finance clients collected AIM Awards: Media Square plc for Best Use of AIM and Hamworthy plc for Best Technology.

Financial Performance

The following table shows the results for 2005 compared with those for 2004. These results are presented in accordance with International Financial Reporting Standards ("IFRS") and the comparative figures have been re-stated accordingly. The principal IFRS adjustments in 2004 are detailed below in the IFRS section. The Group's full accounting policies, as well as reconciliations of the comparative information to the UK GAAP numbers reported last year, are set out in the notes to the consolidated financial statements.

	2005 £m	2004 £m
Revenue		
Inter-dealer broking	676.4	464.9
Stockbroking	121.7	119.0
	798.1	583.9
Operating profit before exceptional items		
Inter-dealer broking	91.4	48.6
Stockbroking	40.0	39.2
	131.4	87.8
Operating profit after exceptional items	93.1	39.3
Profit before tax	97.6	34.2
Earnings per share		
Basic	29.3p	10.5p
Diluted	28.9p	10.3p
Basic before exceptional items	42.2p	29.0p

Revenues increased by £214m (37%) and operating profit before exceptional items by more than £43m (some 50%) compared to 2004. The bulk of both increases was attributable to the development of the IDB business which now accounts for 85% (2004: 80%) of revenues and 70% (2004: 55%) of operating profit before exceptional items.

The Group operating margin before exceptional items was 16.5% compared with 15.0% for 2004 despite the enlargement of the IDB business which structurally has lower margins than stockbroking. The uplift in margin principally reflects the benefits of the integration of the IDB business.

Reported basic and diluted earnings per share have been calculated after £38.3m of exceptional items (2004: £48.5m) charged to the profit and loss account in respect of the costs of reorganising the IDB business, and in 2004, in respect of both reorganisation costs and the contribution to the split capital investment trust settlement fund. Importantly, earnings per share before exceptional items rose 46% from 29.0p to 42.2p. The average return on capital employed during the year was 23.8% (2004: 22.2%). This was measured by dividing reported operating profit before exceptional items by average shareholders' funds (after adding back cumulative amortised goodwill and the post tax impact of reorganisation costs) plus average long term debt less cash and cash equivalents.

The Tullett Prebon IDB Business

The following tables analyse revenue by region and product group. The 2004 revenue figures include Prebon from 13 October and the North American Energy broking business acquired from Natsource from the end of June.

Revenue	2005		2004	
	£m	%	£m	%
Europe	317.2	47	221.9	48
North America	287.5	42	196.0	42
Asia Pacific	71.7	11	47.0	10
	676.4	100	464.9	100

Revenue	2005		2004	
	£m	%	£m	%
Fixed Income Securities	193.9	29	179.5	39
Treasury Products	180.9	27	98.5	21
Interest Rate Derivatives	163.1	24	113.3	24
Equities	71.8	10	42.2	9
Energy	53.3	8	21.5	5
Information Sales	13.4	2	9.9	2
	676.4	100	464.9	100

The absolute increase in revenues primarily reflects the impact of the Prebon acquisition. Whilst the geographic distribution of revenues is, by and large, unchanged, the business now has a much better product balance. Revenues from Treasury Products, Interest Rate Derivatives and Energy, all products where Prebon had a leading position, were significantly higher year on year. In Equities the increase in revenues primarily reflects the acquisition of the Burlington Capital Markets business at the start of the year.

Exchange rate volatility throughout the year and our strong position in the non-bank cash markets drove the performance in Treasury Products. Similarly, movements in the yield curve and interest rate changes assisted our Interest Rate Derivatives business. Customer feedback, demonstrated by our success in a number of league tables in important trade journals, indicates that we have leading positions in a number of these product areas. The improvement in Fixed Income Securities revenues was driven by the stronger platform the business now has in Credit Derivatives. This more than offset the adverse impact of relatively low levels of corporate new issuance and pressure on commissions on Cash Bond products. Acquisitions have enhanced both the Cash Equities and Equity Derivatives areas, particularly in North America. Similarly the Tullett Prebon Energy franchise has grown as a result of a number of recent acquisitions and was well placed to take advantage of markets which have become steadily more active in recent years owing to the increased participation of banks and investment banks as principals.

Tullett Prebon's operating profit before exceptional items was £91.4m, a £43m increase over 2004. This equates to an operating margin before exceptionals of 13.5% for the combined business compared with the 11.6% margin achieved by Tullett Liberty last year and the 5-6% margins reported by Prebon prior to acquisition. The significant improvement in profits and returns is a testimony to the success of the integration exercise. The reorganisation was phased over the course of the year and the "double running" costs associated with staff and technology made redundant and premises vacated are estimated to amount to £9m. Adding back these costs the underlying operating profit before exceptional items for the Tullett Prebon business would have been £100.4m and the underlying margin 14.8%.

The reorganisation of the broking desks in North America and Europe was substantially completed by the end of 2004. The focus for 2005, therefore, was on integrating the broking operations in the Asia Pacific region and completing the rationalisation of IT infrastructure, support functions and premises in all regions. These exercises were essentially finished by the end of the third quarter. Some 280 staff left the business during the year as part of the integration process with nearly 170 staff leaving from IT and other support functions. A further £38.3m of reorganisation costs were incurred during the year, taking total costs for the reorganisation programme to £86.9m (including £10.1m of contractual completion payments reported as a cost of acquisition in 2004). This has achieved annualised savings of some £72m compared to the aggregate 2004 cost run rates of Tullett Liberty and Prebon, some £12m higher than the savings initially targeted when we acquired Prebon.

Average revenues per broker in 2005 for the Tullett Prebon business were approximately £370,000 compared with £350,000 per broker for the Tullett Liberty business (excluding Prebon) in 2004. As broker productivity at Prebon was at least 15% less than that at Tullett Liberty this again demonstrates the strength of the combined business. Broker employment costs averaged some 58% of broking revenues compared to 56% in Tullett Liberty in 2004 (excluding Prebon). Prebon employment costs were higher than those in Tullett Liberty, and in a year of reorganisation some slippage in this ratio was always likely. At year end the average ratio of brokers to support staff, a measure of operational efficiency, was 2.4: 1 compared with 2.1: 1 for Tullett Liberty (excluding Prebon) during 2004.

In Europe the Prebon acquisition has enabled us to make further improvements to the profile and performance of the business. The fact that the integration process of the broking desks in London was essentially complete by the start of the year also clearly assisted performance. Treasury Products - spot, forward and derivatives activities in foreign exchange and cash deposit business - accounted for nearly 40% of the region's turnover. Revenues from Interest Rate Derivatives and Energy, where Prebon's activities were complementary to those of Tullett Liberty, also grew significantly. A number of under-performing desks were closed. Operating profits before exceptional items for the region increased from £19m to £42m and operating margins before exceptionals improved from 8.6% to 13.1%.

The London based IDB business suffered disruption at the end of August owing to a fire in the basement of our head office, Cable House. This interrupted trading in some products but the implementation of our disaster recovery programme ensured that most products were fully operational again very soon after the fire. Insurance claims have been made, and in large part settled, in respect of the costs incurred and the revenues lost as a result of the fire.

North American revenues increased by £92m with the former Burlington Cash Equities business contributing around £20m to this growth. Prebon did not have significant securities broking operations and therefore the growth has been in Treasury Products, Interest Rate Derivatives and in Energy. All these product groups made much better profits and returns than Tullett Liberty achieved on a standalone basis in 2004. However, there was no significant improvement in the fixed income markets over 2004 and accordingly Fixed Income Securities revenues were flat year on year. Whilst many broking desks were integrated by the end of 2004, it was only in May that the Interest Rate Derivatives teams were merged and by mid-year most product groups and support functions were co-located in New Jersey. Operating profits before reorganisation costs from the region increased from £25m to £41m and operating margins before exceptionals improved from 12.8% to 14.3%.

Asia Pacific suffered significant disruption during the year as a result of competitor activity and integration processes in three key locations. Some 50 Prebon brokers in Singapore were poached by BGC in February 2005, leading us to integrate the separate Tullett Liberty and Prebon offices in this location more quickly than originally planned. We continue to seek appropriate compensation from BGC. In April the two Hong Kong offices were merged and in September the separate Sydney businesses were brought together following the agreed transfer of a team to ICAP. Despite all these changes the revenues generated in the region were double those delivered by Tullett Liberty in 2004. We have strong Treasury Products and Interest Rate Derivatives franchises in the region, the latter encompassing a joint venture in Tokyo which has a leading position in the local market. As noted above, in May we commenced trading onshore in Korea and in December we opened a joint venture with SITICO in Shanghai.

The Asia Pacific region reported operating profits before exceptional items of £8.7m for the year compared to £4.6m for 2004. It should be noted that these results were boosted by a number of payments from competitors associated with staff changes.

Information Sales revenues increased as a result of the Prebon acquisition. A new management team in this area is working on new products and markets and to derive benefits from the increased pricing information available from the integrated business.

The Collins Stewart Stockbroking Business

Revenue	2005		2004	
	£m	%	£m	%
Smaller Companies	42.0	35	41.4	35
Larger Companies and QUEST™	26.9	22	27.7	23
Private Clients	37.8	31	33.6	28
Investment Trusts	8.2	7	8.9	8
Trading	6.8	5	7.4	6
	121.7	100	119.0	100

Revenue	2005		2004	
	£m	%	£m	%
Market making	8.0	7	13.5	11
Commissions	49.0	40	47.8	40
Corporate finance income	46.4	38	42.3	36
Management fees	15.3	12	13.4	11
Other	3.0	3	2.0	2
	121.7	100	119.0	100

Collins Stewart produced revenues and operating profits before exceptional items 2% above 2004. The operating margin was once again over 30% at 33% (2004: 33%) reflecting the breadth and strength of Collins Stewart's business. The 2004 revenue figures have been restated in line with industry practice to include interest earned on client money which was previously included in other operating income. This amounted to £1.5m in 2004.

The prior year analysis of revenue has been amended following the creation of a new division, Trading, which includes the Fixed Interest teams and Australian securities market making. This resulted in a re-categorisation of £1.0m of revenue from Smaller Companies to Trading. Additionally, where Larger Companies and Trading participated in transactions led by Smaller Companies, £2.7m of revenue has been reclassified from Smaller Companies to Larger Companies (£2m) and Trading (£0.7m).

During the year the Smaller Companies team advised on 56 transactions (2004: 40) raising £1.0 billion of funds for clients (2004: £0.7 billion). Noteworthy within the overall picture of growth, the firm maintained its reputation for innovation with the introduction to the UK market of Special Purpose Acquisition Corporations ("SPACs"), three of which were launched during the year. Although the value of funds raised in 2005 exceeded those raised in 2004, 2004 benefited from the AIPO™ of PD Ports.

The Private Client business continued to grow steadily, with funds under management rising from £2.5 billion at the end of 2004 to £3.2 billion at the end of 2005. Discretionary funds accounted for £2.5 billion (2004: £1.9 billion). The acquisition in October of the Jersey and Isle of Man based private client business of Insinger de Beaufort (International) Limited contributed £1.6m to revenue and £0.4 billion of the increase in funds under management. The integration of this business was completed before the year end and we are already growing revenues and achieving cost savings. At the end of 2005 we also transferred the London settlement function to our office in Guernsey to improve operating efficiency.

The Investment Trust team achieved a creditable performance with revenue of £8.2m (2004: £8.9m) despite the fact that most of the original team left the firm in July. During the second half of the year the team was substantially rebuilt and executed two significant fundraisings, with £0.1 billion of the £0.3 billion raised in the year being achieved by the new team.

The mainstay of the Trading business in 2005 continued to be the fixed interest business whose trading activity was adversely impacted by challenging conditions in the convertibles markets. Other trading areas performed well. At the end of the year, Collins Stewart incorporated its Proprietary Trading interests into a partnership with a leading team who were formerly with First New York Securities, LLC. The team will be developing its business through a new joint venture named Berkshire Investment Managers LLP.

Other Operating Income

Other operating income at £23.9m in 2005 was significantly above the 2004 level of £3.5m. The majority of the increase related to insurance claims in respect of costs incurred and revenues lost as a result of the fire at the Group's head office in August 2005 and to staff movements in Asia. The additional costs giving rise to the insurance claims and compensation payments were included in administrative expenses.

Litigation

In December the court adjourned the long-running legal case with CSFB HOLT in the USA to allow settlement discussions to take place. It is expected that this litigation will be settled shortly. In January 2006 the Company also settled its litigation with the Financial Times as reported in the Chairman's statement. The other significant outstanding litigation is the Tullett Prebon's claim for damages against BGC, following the unlawful poaching of staff in Singapore.

Exceptional Items

The exceptional items of £38.3m all related to the costs associated with the integration of Prebon. The integration exercise was completed before the year end and accordingly no further integration costs are anticipated. The 2004 comparative of £48.5m comprised reorganisation costs of £38.5m and a £10m contribution to the split capital investment trust settlement fund.

Net Finance Income

The Group had net finance income in 2005 of £4.5m compared to a net finance expense in 2004 of £3.7m. An unrealised gain on the equity swap entered into to hedge the Company's obligations under the Tullett Liberty Equity Incentive Plan more than offset the higher interest cost of the Company's eurobond which was issued in August 2004.

Taxation

The effective rate of tax on profit before exceptional items reduced from 42.4% in 2004 to 37.5%. Owing to the integration of the IDB business and the distribution of exceptional items taxable profits are far more heavily weighted to Europe in 2005 (where the UK standard tax rate of 30% is the key determinant) whereas in 2004 the majority of taxable profits arose in North America (where effective tax rates are nearer 50%). The improved performance and growth in profits from the IDB business have also reduced the impact of disallowable items on the effective rate. The stockbroking business benefits from the lower corporate taxes payable in the Channel Islands.

The underlying effective rate of tax for the year, calculated after excluding exceptional items and prior year adjustments, was 35%, with the IDB business having a rate of approximately 41% and the stockbroking business a rate of 24%.

Dividends

The Board is proposing a final dividend per share for 2005 of 11p per share. The final dividend, if approved, is payable on 15 June 2006 to shareholders on the register on 26 May 2006. This brings the total ordinary dividend per share payable out of 2005 earnings to 14p (2004: 8.5p), an increase of 65%.

The dividend cover based on earnings before exceptional items was 3.0 (2004: 3.2). The increase in dividend reflects the Group's strong underlying performance in 2005, successful completion of the integration of the IDB business and the positive trading outlook for 2006.

Acquisitions

We made a number of small acquisitions during 2005: the Burlington Cash Equities business in New York in January, the minority shareholdings of our long-standing Tullett Liberty associates in Singapore in February and the Jersey and Isle of Man based Private Client stockbroking business of Insinger de Beaufort (International) Limited in October. The consideration paid in respect of all these acquisitions amounted to £8.8m and deferred consideration of up to £3.8m is payable in the next two years in respect of the Private Client acquisition.

Cashflow

During the year the Group generated cash from its operations before tax and interest of £126m (2004: outflow of £37m) from operating profits after exceptional costs of £93m (2004: £39m). Non-cash items such as depreciation and the write down of assets acquired with Prebon accounted for £22m (2004: £18m) of the difference. Working capital management produced £10m cash, compared to an outflow in 2004 of £94m (which was affected by the settlement of a number of Prebon related liabilities and an increase in year end trading positions and receivables).

The Group had a net interest outflow in the year of £2.4m (2004: inflow of £0.1m) which reflected the full year cost of the Eurobond issued in August 2004.

The Group paid tax of £24m in 2005 (2004: £40m), benefiting from tax relief on reorganisation costs and utilisation of Prebon's tax losses.

There was comparatively little financial investment in the business in 2005 as the focus was on reorganisation. Net investment (excluding interest received) of £23.3m was largely on fixed assets purchased to facilitate the reorganisation of the IDB business. This compared to the £58.0m outflow in 2004 as a result of investment in Prebon and the Natsource Energy business.

Cash used in financing activities amounted to £18.7m primarily reflecting dividends paid – there were minimal new funds raised or repaid. This compares to the inflow in 2004 of £91.4m as the Company raised funds to acquire Prebon and to refinance its borrowings.

Net cash and cash equivalents increased by £57.5m in 2005 (2004: decrease of £43.6m) and net funds increased by £68.3m to £123.1m at the end of 2005.

Receipts from and Returns to Members

There were no returns to members, other than dividends, in either 2005 or 2004. Receipts from shareholders amounted to £1.3m on the exercise of share options. In 2004 total cash raised through share issues net of costs and option exercises amounted to £58.1m.

Financing and Treasury

The Group maintained its investment grade credit ratings from Fitch and Moody's at BBB and Baa2 respectively, throughout the 2005 integration period. During the year we improved the focus on liquidity and cash management to ensure that a high degree of financial flexibility was maintained. To this end, all free cash generated by the operating companies is returned to and controlled by the Group treasury function. At 31 December 2005 the Group had net cash and cash equivalents of £234.2m (2004: £169.1m) and net funds of £123.1m (2004: £54.8m).

Profits from the Group's overseas subsidiaries are translated at average exchange rates. The Group has in place FX option contracts to hedge income arising in US dollars. These contracts currently hedge US$60m of revenues and will mature in the period to June 2006. The contracts will reduce the impact to the Group should the US dollar depreciate beyond US$1.82: £1 over the period to 30 June 2006.

The Group's major balance sheet translation exposure is to the US dollar. The gross exposure amounts to some US$176m, represented by US and Hong Kong net tangible assets and the net exposure, after taking account of a structural cross currency hedge, amounts to some US$59m.

Regulatory Capital

The Group maintained regulatory capital comfortably in excess of its requirements throughout the year. During the year the Group obtained an FSA waiver from the requirement to meet a consolidated capital adequacy test under the current regulatory regime.

We continue to monitor developments in, and liaise proactively with the FSA with regard to, the regulatory capital framework which governs our business – in particular the EU Capital Requirements Directive which is currently expected to come into effect in 2007 and will impact the proposed capital return to shareholders.

International Financial Reporting Standards ("IFRS")

With effect from 1 January 2005 the Group has prepared its financial statements in accordance with IFRS. This required the Group to adopt new accounting policies in a number of areas, restate 2004 results as well as the opening and closing balance sheets for 2004 using these policies, and to make changes to the format of the primary reporting statements.

Probably the most significant change to the statutory accounts under IFRS is the balance sheet treatment of settlement balances. Under IFRS the Group can no longer follow the convention whereby each side of IDB matched principal transactions are included in the balance sheet only if they remain unsettled on the due settlement date. Instead, each side is now reported in the balance sheet on the date when the transactions are agreed. The change to trade date accounting has increased gross current assets and liabilities by £64 billion at 31 December 2005 (£71 billion at 31 December 2004). This new treatment does not represent any change in the nature of the underlying transactions or the risk profile of the Group as matched principal trades are subject to a "delivery versus payment" settlement regime and typically involve high quality assets and counterparties. Previously the outstanding balances were reported by way of a note to the accounts.

As a result of the changes in accounting policies it has also been necessary to: change the basis on which share options are charged to the Income Statement; financial assets as well as a small number of derivatives transactions entered into for financial risk management purposes are marked to market; and to end the amortisation of goodwill. As it is necessary to report shares of profits from associated companies net of tax, these are now shown below the taxation line in the Income Statement. A goodwill impairment test was carried out at the balance sheet date and no adjustment to the Group's results was necessary.

The table below reconciles the prior year results before tax previously reported under UK GAAP with those included in this announcement.

	2004 Operating Profit* £m	2004 Profit before Tax £m
As previously reported under UK GAAP	90.1	21.7
Impairment provision and reversal of goodwill amortisation	(2.2)	17.4
Pension costs and interest	(0.1)	(1.0)
Adjustment to share option charges	1.5	1.5
Valuation of financial instruments	(1.5)	(4.9)
Associates	–	(0.5)
As restated under IFRS	87.8	34.2

* before goodwill amortisation, exceptional items and associates

The notes to the statutory accounts include a complete list of the Group's revised accounting policies as well as detailed reconciliations of the opening and closing balance sheets and prior year income statements under UK GAAP and IFRS. The most material adjustments to consolidated shareholders' funds relate to cessation of goodwill amortisation and the treatment of the final dividend as a non-adjusting post balance sheet event.

The Statement of Recognised Income and Expense ("SORIE") contains a number of adjustments that did not feature in the former Statement of Total Recognised Gains and Losses. As well as the exchange differences arising on translation of the net assets of overseas activities and the offsetting hedge revaluation, the SORIE includes changes in the actuarial assessment of the net deficit on the Group's defined benefit pension schemes, tax associated with the fair value of the various derivative contracts and the charge in respect of share option awards.

In accordance with IFRS, dividends are now no longer shown on the face of the Income Statement, but as a movement in Retained Earnings, disclosed in the Reconciliation of shareholders' funds note. Dividends are now booked in the period in which they are declared by the Board.

The adoption of IFRS has had no impact on the Group's cash flow, risk profile, funding arrangements or dividend policy and no material impact on the Group's regulatory capital position.

Although the Group accounts are now produced under IFRS, the parent company accounts (and the UK subsidiary company accounts) continue to be produced using UK GAAP. This is largely to prevent the volatility in earnings caused by some of the IFRS accounting policies from affecting the Group's dividend policy or tax charge. The Group continues to be obliged to disclose the parent company (the Company) balance sheet and accordingly this has been included in the accounts together with the accounting policies used to prepare the Company accounts and notes to the Company balance sheet.

KEY RISKS AFFECTING THE BUSINESS

The key risks which the Group faces in its day to day operations can broadly be categorised as credit, market, operational and reputational risk. The governance structure in place to manage risks is described in the Corporate Governance Report. Further information on the specific risks which affect the financial assets and liabilities of the Group is also provided in note 21.

Credit risk is the risk of financial loss to the Group in the event that a client or counterparty fails to settle its contractual obligations to the Group. As a large proportion of the Group's business is contracted on an agency or intermediary basis, the main credit risk is actually more akin to a market risk, as the exposure in such cases is to movements in stock prices and foreign currency.

The Board has approved the general parameters within which credit risk is taken through a credit exposure framework. Within this overall framework specific limits are granted by the relevant Credit or Executive Committees or a number of Executive directors acting in accordance with their delegated authority. All counterparties are subject to regular review and assessment.

Cash management policies are also in place to ensure that funds not committed to supporting the Group's activities are only placed with approved institutions.

Market risk is the vulnerability of the Group to movements in the value of financial instruments: The stockbroking business takes positions in a number of preference shares, convertibles and equities within modest and tightly controlled limits. Aside from these activities, market risk can arise in those instances where one or both counterparties in a matched principal transaction fail to fulfil their obligations (i.e. an initially unsettled transaction) or through trade mismatches or other errors. The risk in these situations is restricted to short-term price movements in the underlying stock held or to be delivered by the Group and movements in foreign exchange rates. Policies and procedures exist to reduce the likelihood of such trade mismatches and, in the event that they arise, the Group's policy is to close out such positions immediately or, with senior management approval, to carry them with an appropriate hedge in place. All market risks arising across the Group are identified and monitored on a daily basis.

The corporate finance business will at times underwrite new issues of securities. Underwriting risk is the risk that the market or sub-underwriters fail to subscribe as anticipated to the security issue and the Group is obliged to take up the offering at the issue price. If the market price of the shares or securities falls below the issue price, a loss may be incurred. Underwriting arrangements are structured so as to mitigate the effect of this risk to the extent possible.

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems or external events. The overall objective of the Group's operational risk management approach is not to attempt to avoid all potential risks, but proactively to identify and assess risks and risk situations in order to manage them in an efficient and informed manner, always recognising the cost relative to the benefits. This approach enables the Group to exploit existing opportunities, increase business success, and protect and enhance shareholder value.

The Group's operational risk management framework is designed to:

- improve operational risk awareness and risk transparency in general;
- identify, measure and monitor key operational risks which affect the Group from both internal and external environments;
- identify and manage risks effectively so as to derive commercial benefit by minimising regulatory (and consequently economic) capital requirements as a result of a lower risk profile;
- provide operational risk information to executive management and the Group Risk Committee on the status of operational risk within the Group, and to act as an early warning on risks that could prejudice the future value or viability of the Group; and
- protect the Group's stakeholders.

Line managers in front office and support functions have the day to day responsibility for ensuring that the Group operates in accordance with its operational risk management framework.

Reputational risk is the risk that the Group's ability to do business will be damaged as a result of its reputation being tarnished. Clients rely on the Group's integrity and probity. The Group has policies and procedures in place to manage this risk to the extent possible which include, inter alia, procedures for employee hiring and the taking on of new business, approving corporate finance transactions and conduct of business rules.

FUTURE DEVELOPMENTS AND OUTLOOK

In the first week of 2006 we launched TradeBlade™, our new electronic trading platform, with US dollar Repo trading, the first of a planned roll out of products. This represents the first stage of our development of an electronic broking capability which will form part of our future strategic plans. The new platform has had a successful start and is already supporting significant trading volumes. We initiated this project at the request of our clients and look forward to their support, particularly as more products are rolled out on the platform in the coming months.

The Company is in the process of establishing the boards and senior management teams which will take the inter-dealer and stockbroking businesses forward following the Group reorganisation and demerger of the Collins Stewart business.

The Group has had a strong start to 2006 with both the IDB and stockbroking businesses producing revenues and profits substantially ahead of the same period last year. Collins Stewart's corporate finance order book is strong and the firm has had a record start to the year in terms of number of transactions completed. Tullett Prebon has so far achieved margin and revenue targets ahead of our expectations. Conditions are favourable in most areas of the markets in which the Group operates and the Board is accordingly positive about the prospects in the first half.

Terry Smith
Chief Executive

27 April 2006

board of directors

Keith Hamill (aged 53) – Chairman

Keith Hamill joined the Board as Chairman (which is a non-executive role) in September 2000. He is currently chairman of Travelodge 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 and Chairman of the CBI Financial Reporting Panel. He is Chairman of the Nominations Committee.

Terry Smith (aged 52) – 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.

Stephen Jack (aged 48) – Group Finance Director

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 and, after the acquisition of Kleinwort Benson by Dresdner Bank in 1995, 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 and as Group Finance Director with effect from 1 January 2005.

Louis Scotto (aged 55) – Executive Director, IDB Business

Louis Scotto started his career as Marketing Manager of AT&T. He joined Garban in 1981 as head of Technology and became President of Garban Computer Systems. In 1984 he left to join Mabon Nugent, becoming General Partner and Chief Administrative Officer. In 1993 he joined Liberty Brokerage as Managing Director, responsible for creation of US Corporate Bonds and Mortgage-Backed Bond business. Based in London from 1994 to 1999, he built the business of Liberty Eurasia. In 1999, he was named Global Chief Operating Officer of Liberty Brokerage and then Group Chief Operating Officer of Tullett Liberty and subsequently named Chief Executive in April 2004. He was appointed to the Group Board in June 2004.

David Clark (aged 58) – 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 a 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 and the Nominations Committee.

Michael Fallon MP (aged 53) – Independent Non-executive Director

Michael Fallon joined the Board in September 2004 and is chairman of the Remuneration Committee and a member of the Audit Committee and the Nominations Committee. He is the founder of Just Learning Limited, a company which builds and operates nurseries, and the Conservative MP for Sevenoaks. He is also a member of the Treasury Select Committee of the House of Commons, chairing the Sub-Committee which scrutinises the Inland Revenue and Customs and Excise Departments. He was Opposition spokesman on Trade and City matters from 1997-1998. He was previously a director of Quality Care Homes PLC.

Richard Kilsby (aged 53) – Independent Non-executive Director

Richard Kilsby joined the Board on 3 June 2005 and is chairman of the Audit Committee and a member of the Remuneration and the Nominations Committees. He currently holds a number of board positions in privately held financial sector companies and is a founding partner of Efficient Frontiers, a consultancy firm specialising in capital markets. He has formerly held many positions in finance and the City including: Vice Chairman of the virt-x stock exchange (created by the merger of the Swiss Exchange with Tradepoint), Chief Executive of Tradepoint (an AIM quoted electronic exchange), and an Executive director of the London Stock Exchange responsible for listing, secondary regulation and the introduction of the SETS trading system. He was previously an audit partner at Price Waterhouse.

Bernard Leaver (aged 59) – Independent Non-executive Director

Bernard Leaver was appointed a director in August 2003 and is a member of the Remuneration Committee and the Nominations Committee. He 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.

John Spencer (aged 62) – Senior Independent Non-executive Director

John Spencer was appointed a director in September 2000 and is the senior independent Non-executive director, and a member of the Audit, Remuneration and Nominations Committees. 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 previously non-executive chairman of Softtechnet.com plc, a director of 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 2005.

Principal Activities

Collins Stewart Tullett plc is a financial services group comprising two trading groups: the second largest global inter-dealer broking business, trading as Tullett Prebon, and a leading independent UK stockbroking business, trading as Collins Stewart. The main subsidiary undertakings through which the Group conducts its business are set out in note 41 to the consolidated financial statements.

Results and Dividends

The results of the year are set out in the consolidated income statement on page 43.

The directors recommend a final dividend for the year of 11p (2004: 5.75p) per ordinary share, bringing the total dividend per ordinary share to 14p (2004: 8.5p). The final dividend, if approved, will be paid on 15 June 2006 to ordinary shareholders whose names are on the register on 26 May 2006.

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 Operating and Financial Review.

Directors

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

Keith Hamill (Non-executive Chairman)
Terry Smith (Chief Executive)
Stephen Jack (Group Finance Director)
Louis Scotto
Terry Hitchcock – resigned 31 March 2005
David Clark (Independent Non-executive director)
Michael Fallon (Independent Non-executive director)
Richard Kilsby (Independent Non-executive director) – appointed 3 June 2005
Bernard Leaver (Independent Non-executive director)
John Spencer (Senior Independent Non-executive director)

Richard Kilsby was appointed since the last AGM and accordingly offers himself for election at the forthcoming AGM. In accordance with the Company's Articles of Association, Keith Hamill, Terry Smith and Bernard Leaver retire by rotation at the next AGM and, being eligible, offer themselves for re-election. Biographical details of the directors who are in office at the date of this annual report are set out on pages 18 to 19.

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, together with comparatives for the previous year or the date of appointment, were as follows:

	2005 No	2004 No
Keith Hamill	58,299	46,299
Terry Smith	8,800,000	8,800,000
Stephen Jack	154,239	146,739
Louis Scotto	68,112	55,612
David Clark	–	–
Michael Fallon	2,000	–
Richard Kilsby	–	–
Bernard Leaver	–	–
John Spencer	32,897	39,542

Note: The Collins Stewart Tullett plc Employee Share Ownership Trust held 367,758 shares at 31 December 2005 (2004: 435,258) which had not been allocated to staff or had not been 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.

On 5 January 2006 Terry Smith acquired 5,779 ordinary shares following the exercise of an option granted under the Collins Stewart Tullett plc Sharesave Scheme 2000. Since the year end there have been no further changes to the directors' shareholdings.

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

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	%
Toscafund Limited	29,469,754	13.9
Legal & General Group plc	23,675,085	11.2
Barclays plc	12,494,274	5.9
Morgan Stanley Securities	8,369,285	3.9
Lazard Freres & Co LLC	6,748,065	3.2
Aviva plc	6,578,144	3.1
Deutsche Bank AG	6,424,299	3.0

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; and
- There are systems of risk management in place to manage the significant risks which could affect the business.

The Group's risk management process is described in the Corporate Governance Report and a brief overview of the significant risks which could affect the business is included in the Operating and Financial Review.

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 to meet statutory requirements or 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 all persons, having regard to their particular aptitudes. For the purposes of training, career development and promotion, the Group is committed to fairness and its policy is not to discriminate against any persons with regard to, inter alia, gender, age, disability, sexual orientation, religious or political beliefs but to develop and promote based on individual ability and the needs of the business.

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 Group'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.

Special Business at the Annual General Meeting

At the Annual General Meeting to be held on 8 June 2006 resolutions 9 to 11 will be proposed under special business.

Under resolution 9 it is proposed to grant the directors authority to allot unissued shares in the capital of the Company up to a nominal amount of £17,694,844 representing approximately 33% of the issued share capital of the Company as at the date of this document.

Resolution 10 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 for cash will be covered by this authority. This authority is limited to the issue of equity securities in connection with rights issues, open offers or similar issues and otherwise up to a nominal amount of £2,654,226 representing approximately 5% of the Company's issued share capital as at the date of this document.

Resolution 11 seeks to obtain authority for the directors to purchase up to 21,233,813 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 (exclusive of expenses payable by the Company in connection with the purchase). The minimum price which may be paid for an ordinary share will be 25p (exclusive of expenses payable by the Company in connection with the 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 9 to 11 will expire at the conclusion of the annual general meeting to be held in 2006 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 39 to the consolidated financial statements.

Political and Charitable Donations

During 2005 no political donations were made by the Group (2004: nil). Charitable donations amounting to £0.1m (2004: £0.1m) were made to various charities globally.

Auditors

A resolution to re-appoint Deloitte & Touche LLP as the auditors will be proposed at the forthcoming Annual General Meeting.

BY ORDER OF THE BOARD

Diana Dyer Bartlett
Company Secretary

27 April 2006

The directors are responsible for the corporate governance of the Group. They support the principles of good corporate governance and code of best practice laid down by the Revised Combined Code adopted by the Financial Services Authority following the Higgs and Smith reviews.

Throughout the year ended 31 December 2005 the Board believes it has complied with the principles and provisions recommended by the Revised Combined Code.

The manner in which the Company has applied the principles of good governance set out in the Revised Combined Code during 2005 is outlined below.

Directors

The Board comprises three Executive directors, five Non-executive directors and the Chairman, whose biographies are set out on pages 18 to 19. All of the Non-executive directors are considered to be independent under any of the relevant codes and regulations.

The Chairman's role under the Company's arrangements is as a non-executive and the current Chairman, Keith Hamill, is independent of the Company and the management under most general definitions. The Chairman is responsible for the conduct of the Board and its oversight of the Company's affairs and strategy and the administration of the Board. The Chief Executive, Terry Smith, is responsible for the management of the business, the co-ordination of its activities and the development of strategy. John Spencer has been nominated by the Board as Senior Independent Non-executive director. The Senior Independent Non-executive director has responsibility for 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 40 and a statement on going concern is set out below.

The Board has established Audit, Remuneration and Nominations Committees to which it has delegated some of its responsibilities. Each of the Committees has detailed terms of reference and a schedule of business to be transacted during the year. The responsibilities of each of the Committees together with an overview of their meetings during the year are described below.

The Board and Committee attendance record of the directors who held office at the end of the year is as follows:

Director	Board*	Audit Committee	Remuneration Committee	Nominations Committee
Executive directors				
Terry Smith	10/10			
Stephen Jack	10/10			
Louis Scotto	10/10			
Non-executive directors				
Keith Hamill	10/10	4/4		1/1
David Clark	10/10	4/5		1/1
Michael Fallon	10/10	4/5	3/3	1/1
Richard Kilsby	6/6	3/3		
Bernard Leaver	9/10		2/3	1/1
John Spencer	9/10	4/5	3/3	1/1

*excludes meetings of committees of the Board appointed to complete business approved by the Board or routine business.

In addition to the above the Chairman met twice with the Non-executive directors without the Executive directors being present and the Senior Independent Non-executive director met once with the other Non-executive directors without the Chairman being present to evaluate the Chairman's performance. Appropriate feedback was provided following these meetings.

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; additional meetings are arranged as required. During the year additional meetings were required to deal with specific projects such as the discussions regarding the possible offer for the Company.

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, budgets and borrowings 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, Richard Kilsby will be subject to election as this will be the first AGM after his appointment. The Board considers that Richard Kilsby's extensive knowledge of the City and the financial sector will be of value to the Board and accordingly proposes that he should be elected. Keith Hamill, Terry Smith and Bernard Leaver will retire by rotation and, being eligible, seek re-election.

Reviews of the performance of the Board, its Committees and individual directors in respect of the previous financial year have been undertaken. In this process, consideration was given to whether the Board or Committee fulfilled its terms of reference satisfactorily, whether the terms of reference needed to be revised, whether the administration operated effectively and whether individual directors performed their roles effectively. The Non-executive directors are responsible for assessing the effectiveness of the Chairman (in his absence). The Chairman has confirmed that the performance of the Non-executive director seeking re-election (Bernard Leaver) has been reviewed and that he continues to make a valuable contribution to the Board and demonstrate commitment to his role. Resolutions proposing his election are set out in the Notice of Annual General Meeting at the back of this document.

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

The terms and conditions of appointment of the Non-executive directors will be available for inspection during normal business hours on any weekday (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.

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 Company arranges insurance cover in respect of legal action against the directors. The Company Secretary is responsible for ensuring that the Board keeps up to date with key changes in legislation which affect the Company.

Audit Committee

The Board requested Keith Hamill to continue to chair the Audit Committee until a new Non-executive director was appointed who could be classified as a "financial expert" for governance and regulatory purposes. On 5 December 2005 the Board appointed Richard Kilsby as chairman of the Audit Committee. Following Richard's appointment, Keith Hamill is no longer a member of the Audit Committee but attends Committee meetings by invitation. The other members of the Audit Committee are John Spencer, David Clark and Michael Fallon, all of whom are independent Non-executive directors.

The Company's external auditors, the Chairman, the Executive directors and the heads of Risk Control and Internal Audit 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 2005.

Throughout 2005 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 and making recommendations for the re-appointment or removal of the external auditors, monitoring the internal audit function, reviewing the effectiveness of the Company's internal control procedures, and overseeing and assessing the risk control system. These terms of reference were extended during the year to include responsibility for reviewing arrangements by which staff may, in confidence, raise concerns about improprieties.

During the year the Audit Committee reviewed the cost effectiveness, objectivity and independence of the external auditors and the level of fees received in respect of the various services provided by them in addition to the audit during 2005. The auditors 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 was 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. To this end, the Committee concluded that the auditors would be best placed to provide work required in connection with the discussions regarding the possible offer for the Company. The Committee considered the detailed knowledge of the Company and the sector would enable the auditors to complete the work on a more timely and cost effective basis than another firm. The Audit Committee did not consider that the level of fees associated with such a project would be of such significance to its auditors that their objectivity or independence would be called into question.

The Audit Committee is responsible for reviewing the interim and preliminary announcements of results and the statutory accounts prior to their approval by the Board. When conducting the review, the Committee considers the continuing appropriateness of the accounting policies, judgements made in the production of the numbers and the adequacy and appropriateness of disclosures. The Committee has been given regular updates on the Group's progress with respect to the introduction of International Financial Reporting Standards and the likely impact on the financial statements.

The Committee has reviewed arrangements by which staff may, in confidence, raise concerns about improprieties in matters of financial reporting or other matters. In conducting the review, the Committee also took into account whether the policies were in line with the recommendations set out in CP101 published by the Financial Services Authority.

The Audit Committee received reports from the internal audit function during the year and reviewed the schedule of work proposed by the internal audit department, the resources available to carry out the schedule and key findings. A system of reporting to follow up on all matters raised by both internal and external audit was taken into account in assessing the effectiveness of the internal audit function.

The terms of reference of the Audit Committee will be available for inspection during normal business hours on any weekday (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 Michael Fallon, who is the Committee's Chairman, Bernard Leaver, John Spencer, and since the year end, Richard Kilsby, all of whom are independent Non-executive directors. The Board has delegated the following responsibilities to the Remuneration Committee: agreeing the remuneration of the Executive directors and the Chairman, recommending and monitoring the structure of remuneration of senior management and granting share options under the Company's share option schemes.

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 and Chairman attend 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) and all of the Non-executive directors are members.

The Nominations Committee is responsible for proposing candidates for appointment to the Board, having regard to the balance of skills, knowledge and experience of the Board. For non-executive appointments, the Committee also considers the time commitment involved in the appointment in arriving at its decision, and this is now included in all new letters of appointment.

The Nominations Committee was responsible for recommending to the Board the appointment of Richard Kilsby, having first interviewed a number of candidates. The Committee believes the Company will benefit from Richard's extensive experience of financial services and the regulatory environment in which the UK and North American businesses operate as well as his business experience and independent judgement.

The Nominations Committee retained the services of an external search consultancy to assist it in Richard Kilsby's appointment.

The terms of reference of the Nominations 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.

Risk Management and Internal Control

The Board is responsible for setting the Group's risk appetite and ensuring that it has an appropriate and effective risk management framework and monitors the ongoing process for identifying, evaluating, managing and reporting the significant risks faced by the Group. 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 and risk management systems and to report to the Board thereon. This process has been in place for the year under review and up to the date of approval of the annual report, is reviewed regularly by the Board and accords with the Turnbull guidance appended to the Revised Combined Code.

The key risks facing the business are described in the Operating and Financial Review. These risks are assessed before any new business is established and monitored on a day to day basis as part of the normal management process. The Group has adopted a single set of policies for the management of risk to be applied across all activities.

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. 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.

Under the overall supervision of the Board and the Chief Executive, the IDB and stockbroking management teams continue to implement their respective business development plans and monitor operational projects. The Executive directors monitor activities 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.

The Risk Committee is responsible for developing policies and monitoring mechanisms which ensure that the Group operates in accordance with the Board's risk appetite. The Head of Group Risk Control reports to the Chief Executive. The members of the Risk Committee are the Chief Executive, who acts as chairman, the Group Finance Director, the chief executives of the IDB and the stockbroking businesses and the Head of Group Risk Control. The minutes of the Risk Committee are circulated to the Board.

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.

A Group Risk Control team, which forms part of the embedded risk management process, is responsible for ensuring that the Risk Committee, Executive directors and senior management receive appropriate information and exception reports to comply with the Group's risk management principles and policies for maintaining the Group's risk assessment system. The reports provided, cover inter alia, the current status of existing controls, audits, loss events, and any required action plans to remedy any identified shortcomings in the control environment.

The Group has investments in a number of joint ventures and associated companies. Where the Group is not directly involved in the management of the investment, it can influence, through board representation, but not control, the internal control systems present in those entities. The Board's review of the effectiveness of the system of internal controls in those entities is consequently less comprehensive than in its directly owned subsidiaries.

The Audit Committee conducted a formal review of the effectiveness of the Group's internal control systems for 2005, 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.

Compliance

The IDB and stockbroking businesses have separate compliance functions which ensure 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 Committee, the Audit Committee and the Board as appropriate.

The Group is regulated on a consolidated basis by the FSA. During the year the Company ensured that its controls were consistent with the Integrated Prudential Source Book. The FSA is expected to alter the calculation of regulatory capital with the introduction of the Capital Requirements Directive in 2007. The enlarged Group continues to maintain substantial excesses of regulatory capital in all its regulated entities and at the Group level and does not envisage any difficulties arising from any changes to be introduced to the regulation of its businesses.

Internal Audit

The Group has an internal audit function which undertakes reviews and provides objective analysis, appraisals, advice and recommendations concerning the activities reviewed. Internal Audit uses a risk-based, disciplined approach to both selection of areas for review and assessment thereof. The proposed schedule of activities of the internal audit department is approved by the Audit Committee, and all internal audit reports are copied to the members of the Audit Committee. The Head of Internal Audit has a reporting line to the Audit Committee and has access at any time to the Chairman of the Audit Committee.

Going Concern

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

Relations with Shareholders

The Board recognises the importance of communications with shareholders. The Company's website, www.cstplc.com, provides information for shareholders on the Group's activities, announcements, shareholder presentations 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. The Senior Non-executive director and the other Non-executive directors are available to meet with shareholders, should such meetings be requested.

The Operating and Financial Review in this report and accounts includes a detailed review of the business and future developments. The Government decided last year to withdraw the requirement for companies to produce an Operating Financial Review. However, we have continued to incorporate this information to assist shareholders, particularly new shareholders, to gain a fuller understanding of the Group's 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, those shareholders whose shares are held via the CREST system, are offered the facility to submit their proxy votes via CREST.

Policy on Directors' Remuneration

This report has been prepared in accordance with Schedule 7A to the Companies Act 1985. The report also meets the relevant requirements of the Listing Rules of the Financial Services Aithority.

This report is divided into the following sections:

- Policies concerning remuneration
- Details of current remuneration arrangements
- Financial summary of directors' remuneration and share options

The information contained in section 3 of this report (other than the graph) has been audited.

Although under the Revised Combined Code, the Board is not required to submit this Report on Directors' Remuneration for approval at the Annual General Meeting every year, the Board has resolved to do so, to provide a means for shareholders to communicate their continuing support or otherwise to the development of the Company's policy on the remuneration of its directors.

1. Policies concerning Remuneration

Executive Directors

The policies concerning the remuneration of Executive directors are set by the Remuneration Committee. The Remuneration Committee comprises Michael Fallon, who is the Committee's Chairman, Richard Kilsby, Bernard Leaver and John Spencer. All of the members are considered independent Non-executive directors. The Chairman and Chief Executive attend 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 and varies these measures depending upon circumstances. It regards the bonuses as discretionary and (unless otherwise disclosed) none of the arrangements with directors are intended to override this discretion or create any entitlement to a bonus when the Committee does not consider the payment of a bonus to be appropriate.

Decisions on bonuses are made retrospectively after the results for the period are known. In recent years in arriving at the amounts which it might be appropriate to allocate for bonuses, the Committee has particularly taken into account, as a guideline, a formula based on the extent to which performance has generated returns in excess of cost of capital, relative shareholder returns and absolute share price performance. Return on capital and shareholder returns have generally been weighted equally by the formula. In considering the possible distribution of the amount arising from the formula, the Remuneration Committee also takes account of performance relative to the Company's plans and the reasons for any variances. There is no cap to the total bonuses calculated, but the Remuneration Committee may exercise its discretion as to whether to distribute all or any of the amounts calculated. Competitors' remuneration of Executive directors is also taken into account to the extent that performance is comparable.

The Company's policy is for the amounts available for discretionary bonuses to be allocated to Executive directors taking into account the relative importance of the operations for which the individual is responsible, the performance of those operations and the individual's own contribution to the business. In the Chief Executive's case, the performance of the whole business is considered. In the event that these factors did not justify the payment of the amounts available under the guideline the calculated amount for distribution would be reduced and in some circumstances it could be increased to take account of individual contributions. Unless otherwise stated no director has a contractual entitlement to receive a bonus.

Non-executive Directors

In 2005 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.

The terms of reference of the Remuneration Committee provide that the remuneration of the Chairman will be reviewed by the Remuneration Committee. The Chairman will not attend the meetings of the Committee when this is being considered.

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 below.

2. Details of Current Remuneration Arrangements

Executive Directors

Components of Packages

The components of the remuneration packages for all the Executive directors are basic pay, performance bonus, private medical and death in service insurance. In addition, the Company makes pension contributions for Stephen Jack and provides him with permanent health insurance.

Share options have been granted to both Stephen Jack and Louis Scotto under the Collins Stewart Tullett plc 2003 Share Option Scheme and the Tullett Liberty Equity Incentive Plan. No share options have been granted to Terry Smith (other than those under the Company's Sharesave Scheme 2000). This is because he has 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.

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

Salary and Performance Bonuses

The annual basic salaries of Terry Smith, Stephen Jack and Louis Scotto were £650,000, £300,000 and $875,000, respectively. None of the Executive directors received any directors' fees from any companies outside the Group.

The Remuneration Committee determined that total bonus levels for directors should be increased having taken into account, in particular, the return on capital employed achieved by the Group in 2005 in excess of its cost of capital and total shareholder returns compared to other companies in the sector. In 2005 the Company's total shareholder return at 53% greatly exceeded the 30% return achieved by each of the FTSE mid 250 index and FTSE General Financials index.

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

Pensions

Tullett Prebon Limited makes a contribution of 6% of basic pay up to the statutory cap to the defined contribution section of the Tullett Liberty pension scheme in respect of Stephen Jack. During 2005 this contribution amounted to £6,000 (2004: £6,000).

Service Contracts

All the Executive directors have service contracts which are terminable by either party giving the other 12 months' notice. The Company is entitled to terminate the Executive directors' service agreements by paying 12 months' salary.

Non-executive Directors

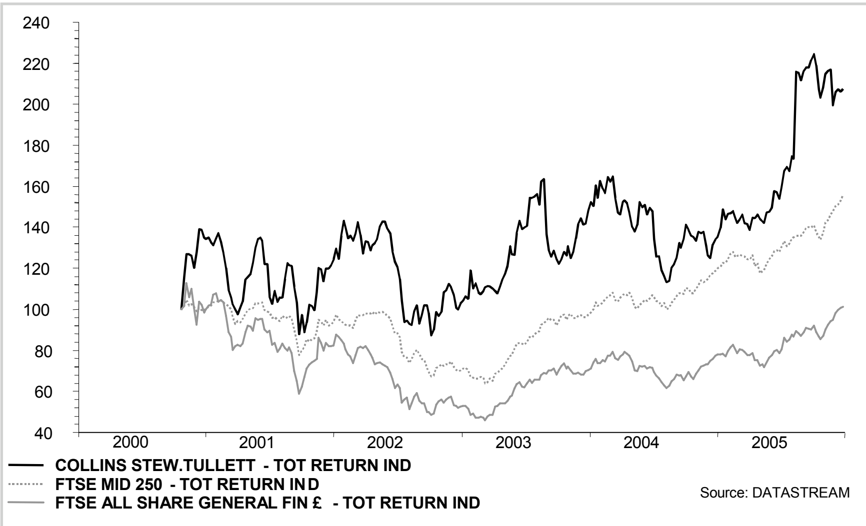
The fees paid to the Chairman were increased to £130,000 pa during the year; the Senior Independent Non-executive director's and Committee Chairmen's remuneration is £36,000 pa and the other Non-executive directors receive £32,000 pa. None of the Non-executive directors receive any benefits from the Company.

A Non-executive director's appointment terminates 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, or if he resigns or does not offer himself for re-election by shareholders. In addition, the appointment may be terminated by the Company or the relevant director by 12 months' written notice.

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 General Financials Index, measured by total shareholder return from the date of the Company's flotation in October 2000 to the end of December 2005:



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 2005 with comparative information for the year ended 31 December 2004:

	Salaries and Fees		Benefits		Bonuses		Total	
	2005 £000	2004 £000	2005 £000	2004 £000	2005 £000	2004 £000	2005 £000	2004 £000
Executive directors								
Terry Smith	650	237	1	2	2,925	2,868	3,576	3,107
Stephen Jack (i)	300	263	3	2	400	387	703	652
Louis Scotto (ii)	482	252	3	2	1,455	951	1,940	1,205
Terry Hitchcock(iv)	13	83	–	2	–	–	13	85
Former directors	–	308	–	2	–	–	–	310
Non-executive directors								
Keith Hamill	115	100	–	–	–	–	115	100
David Clark	32	29	–	–	–	–	32	29
Michael Fallon	32	11		–	–	–	32	11
Richard Kilsby (iii)	19	–	–	–	–	–	19	–
Bernard Leaver	32	29	–	–	–	–	32	29
John Spencer	36	34	–	–	–	–	36	34
Former directors	–	18	–	–	–	–	–	18
	1,711	1,364	7	10	4,780	4,206	6,498	5,580

Notes:

(i) The above table does not include pension contributions in respect of Stephen Jack of £6,000 (2004: £6,000).

(ii) Louis Scotto's remuneration for 2004 is in respect of the period from the date of his appointment on 3 June 2004. For the full year his remuneration totalled £2.1m.

(iii) Richard Kilsby was appointed to the Board on 3 June 2005.

(iv) Terry Hitchcock resigned from the Board on 31 March 2005.

Directors' Share Options

Details of the number of shares over which share options were held by directors who held office at the end of the year are set out below:

	Options at 1 January and 31 December 2005	Earliest exercise date	Expiry date	Exercise price
Sharesave Scheme 2000				
Terry Smith	5,779	1.1.2006	30.6.2006	292p
2003 Share Option Scheme				
Stephen Jack	120,000	29.4.2006	28.4.2013	349p
Louis Scotto	120,000	29.4.2006	28.4.2013	349p
Tullett Liberty Equity Incentive Plan				
Stephen Jack	3,835	3.6.2007	2.6.2014	Nil
	102,210	13.10.2007	12.10.2014	£1 in total
Louis Scotto	47,720	13.1.2007	12.1.2014	Nil
	10,106	22.4.2007	21.4.2014	Nil
	366,263	13.10.2007	12.10.2014	£1 in total

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

The share options granted to Stephen Jack and Louis Scotto under the 2003 Share Option Scheme 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 share options granted to Stephen Jack and Louis Scotto under the Tullett Liberty Equity Incentive Plan prior to October 2004 were subject to performance conditions which were to be measured up until the date when a substantial acquisition was completed by the Company. The acquisition of Prebon, which completed on 13 October 2004, constituted such an acquisition and accordingly the targets were measured up until that date, giving rise to part of each option vesting and the balance lapsing. Further options were granted on 13 October 2004 to replace the element of the aforementioned options which had lapsed. The new options, which are exercisable from 13 October 2007, are subject to performance conditions being satisfied during the next three years, including improvements in operating margins and turnover levels. Full vesting will not take place until operating margins before option charges reach 18%. These targets were agreed under the previous accounting standards regime and will not be restated for this purpose under International Financial Reporting Statement format.

In the event of a take-over offer for the Company, the options granted under the Tullett Liberty Equity Incentive Plan may only be exercised early at the Board's discretion; options granted under the 2003 Share Option Scheme, which was introduced before the equity incentive plan, automatically vest on completion of a take-over offer and are exercisable within the following 42 days.

Since the year end Terry Smith has exercised his option under the Sharesave Scheme 2000 over 5,779 shares.

The market price of the Company's ordinary shares ranged from a low of 395p to a high of 646p during the year. At 31 December 2005 it was 595p.

On behalf of the Board

Michael Fallon
Chairman of the Remuneration Committee

27 April 2006

statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements. The directors are required to prepare financial statements for the Group in accordance with International Financial Reporting Standards (IFRS) and have chosen to prepare financial statements for the Company in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP).

In the case of IFRS accounts, International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standard Board's "Framework for the Preparation and Presentation of Financial Statements". In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards. Directors are also required to:

- select and apply accounting policies properly;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

In the case of UK GAAP accounts, the directors are required 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 profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report and directors' remuneration report which comply with the requirements of the Companies Act 1985.

The directors are responsible for the maintenance and integrity of the company website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

independent auditors' report to the members of collins stewart tullett plc on the IFRS group financial statements

We have audited the group financial statements of Collins Stewart Tullett plc for the year ended 31 December 2005 which comprise the consolidated income statement, the consolidated statement of recognised income and expense, the consolidated balance sheet, the consolidated cash flow statement and the related notes 1 to 42. These group financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the report on directors' remuneration that is described as having been audited.

We have reported separately on the individual company financial statements of Collins Stewart Tullett plc for the year ended 31 December 2005.

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

The directors' responsibilities for preparing the annual report, the report on directors' remuneration and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted for use in the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the group 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 International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the group financial statements give a true and fair view in accordance with the relevant financial reporting framework and whether the group 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 and Article 4 of the IAS Regulation. We also report to you if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' transactions with the company and other members of the group is not disclosed.

We also report to you if, in our opinion, the company has not complied with any of the four directors' remuneration disclosure requirements specified for our review by the Listing Rules of the Financial Services Authority. These comprise the amount of each element in the remuneration package and information on share options, details of long term incentive schemes, and money purchase and defined benefit schemes. We give a statement, to the extent possible, of details of any non-compliance.

We review whether the corporate governance report reflects the company's compliance with the nine provisions of the 2003 FRC 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 statement on internal control covers 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 report of the directors 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 we consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements.

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the group 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 group financial statements, and of whether the accounting policies are appropriate to the company's circumstances, 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 group 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 group financial statements and the part of the report on directors' remuneration described as having been audited.

Opinion
In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRS as adopted for use in the European Union, of the state of the group's affairs as at 31 December 2005 and of its profit for the year then ended; and

- the group 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 and Article 4 of the IAS Regulation.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
London, United Kingdom

27 April 2006

consolidated income statement

for the year ended 31 December 2005

	Notes	2005 £m	2004 £m
Revenue	3	798.1	583.9
Other operating income	4	23.9	3.5
Administrative expenses			
Exceptional items:			
Reorganisation costs	5	(38.3)	(38.5)
Split capital contribution		–	(10.0)
Other administrative expenses		(690.6)	(499.6)
Total administrative expenses		(728.9)	(548.1)
Operating profit		93.1	39.3
Loss on disposal of associates		–	(1.4)
Finance income	8	24.9	15.5
Finance costs	9	(20.4)	(19.2)
Profit before tax		97.6	34.2
Taxation	10	(36.6)	(14.5)
Profit of consolidated companies		61.0	19.7
Share of results of associates		0.7	1.0
Profit for the year	6	61.7	20.7
Attributable to:			
Equity holders of the parent		61.0	19.9
Minority interests		0.7	0.8
		61.7	20.7
Earnings per share			
Basic	12	29.3p	10.5p
Diluted	12	28.9p	10.3p

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

consolidated statement of recognised income and expense

for the year ended 31 December 2005

	Notes	2005 £m	2004 £m
(Losses)/gains on cash flow hedges		(7.2)	3.2
Exchange differences on translation of foreign operations		7.9	(3.6)
Actuarial gains/(losses) on defined benefit pension schemes		0.9	(5.6)
Taxation on items taken directly to equity		0.4	1.7
Net income/(expense) recognised directly in equity		2.0	(4.3)
Profit for the year	6	61.7	20.7
Total recognised income and expenses for the year		63.7	16.4
Attributable to:			
Equity holders of the parent		63.0	15.6
Minority interest		0.7	0.8
		63.7	16.4

consolidated balance sheet

as at 31 December 2005

	Notes	2005 £m	2004 £m
Non-current assets			
Goodwill	13	428.0	421.3
Other intangible assets	14	2.8	9.3
Land, buildings, furniture, fixtures, equipment and other motor vehicles	15	24.3	22.0
Interest in associates	16	2.8	1.0
Other financial assets	18	5.7	5.7
Deferred tax assets	19	31.0	37.8
Derivative financial instruments	21	–	6.5
		494.6	503.6
Current assets			
Trade and other receivables	20	64,408.3	71,598.4
Trading investments	18	90.6	93.4
Cash and cash equivalents	32(b)	235.3	183.1
Derivative financial instruments	21	5.4	–
		64,739.6	71,874.9
Total assets		65,234.2	72,378.5
Current liabilities			
Trade and other payables	22	(64,435.8)	(71,609.5)
Financial liabilities	23	(15.2)	(27.4)
Interest bearing loans and borrowings	24	(1.8)	(16.1)
Retirement benefit obligation	38	(2.0)	(1.5)
Tax liabilities		(32.6)	(23.3)
Derivative financial instruments	21	(1.9)	(4.0)
		(64,489.3)	(71,681.8)
Net current assets		250.3	193.1
Non-current liabilities			
Interest bearing loans and borrowings	24	(153.1)	(151.8)
Retirement benefit obligation	38	(34.6)	(36.9)
Deferred tax liabilities	19	(1.0)	–
Long-term provisions	26	(7.2)	(9.5)
Other long-term payables	27	(3.3)	(3.1)
Derivative financial instruments	21	(1.2)	–
		(200.4)	(201.3)
Total liabilities		(64,689.7)	(71,883.1)
Net assets		544.5	495.4
Equity			
Share capital	28	53.1	53.0
Share premium account	29	250.9	249.7
Merger reserve	29	121.5	121.5
Hedging and translation reserves	29	0.3	(0.4)
Retained earnings	29	116.3	66.1
Total shareholders' equity	29	542.1	489.9
Minority interest		2.4	5.5
Total equity		544.5	495.4

The financial statements were approved by the board of directors and authorised for issue on 27 April 2006 and are signed on its behalf by:

Terry Smith
Chief Executive

consolidated cash flow statement

as at 31 December 2005

	Notes	2005 £m	2004 £m
Net cash from/(used in) operating activities	32(a)	84.0	(90.0)
Investing activities			
Outflow from purchases of trading investments		(1.9)	(0.9)
Interest received		15.5	13.0
Dividends received from associates		–	0.3
Proceeds on disposal of furniture, fixtures and equipment		–	0.4
Proceeds on disposal of available-for-sale investments		1.2	–
Proceeds on disposal of interest in associate		–	7.0
Purchase of intangible fixed assets		(1.6)	–
Purchase of furniture, fixtures and equipment		(13.0)	(5.9)
Acquisition of subsidiary and minority interest (net of cash acquired)		(7.1)	(58.9)
Investment in associates		(0.9)	–
Net cash used in investment activities		(7.8)	(45.0)
Cash flows from financing activities			
Dividends paid	11	(18.3)	(14.9)
Issue of ordinary share capital		1.3	59.5
Share issue costs		–	(1.4)
Repayment of borrowings		(1.2)	(99.5)
Issue of debt		–	149.5
Debt issue costs		–	(0.9)
Repayment of obligations under finance leases		(0.5)	(0.9)
Net cash (used in)/from financing activities		(18.7)	91.4
Net increase/(decrease) in cash and cash equivalents		57.5	(43.6)
Net cash and cash equivalents at the beginning of the year		169.1	214.2
Effect of foreign exchange rate changes		7.6	(1.5)
Net cash and cash equivalents at the end of the year	32(b)	234.2	169.1
Cash and cash equivalents		235.3	183.1
Overdrafts		(1.1)	(14.0)
Net cash and cash equivalents	32(b)	234.2	169.1

1. General information

Collins Stewart Tullett plc is a company incorporated in Great Britain under the Companies Act 1985. The address of the registered office is given on page 1. The nature of the Group's operations and its principal activities are set out in note 3 and in the operating and financial review on pages 4 to 17.

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

The consolidated financial statements of Collins Stewart Tullett plc and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS).

At the date of authorisation of these financial statements IFRS 7: Financial Instruments: Disclosures was in issue but not yet effective. The directors anticipate that the adoption of this standard in future periods will have no material impact on the financial statements of the Group, except for additional disclosures on financial instruments. The relevant standard will come into effect for periods commencing on or after 1 January 2007.

2. Summary of significant accounting policies

Basis of accounting
The consolidated financial statements have been prepared in accordance with IFRS for the first time. The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS are given in note 42. The financial statements have also been prepared in accordance with IFRS adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation.

Following the acquisition of Prebon, the Group has reconsidered and amended the basis upon which it amortises upfront payments from 1 January 2005. The change in accounting estimate more appropriately reflects the period of service to which the bonuses relate. In prior years they were amortised over a 12 month period. Under the revised treatment, £13.5m of prepaid bonuses have been included in Trade and other receivables in the balance sheet as at 31 December 2005 (2004: £1.1m).

These financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. The financial statements are rounded to the nearest hundred thousand (expressed as millions to one decimal place – £m), except where otherwise indicated. The principal accounting policies adopted are set out below.

Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (and its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the indentifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, after taking into account previously recognised goodwill, the excess is immediately recognised in the profit and loss.

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

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

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

All significant inter-company transactions and balances between Group entities are eliminated on consolidation.

Investment in associates
An associate is an entity over which the Group is in a position to exercise significant influence, but does not control or jointly control, through participation in the financial and operating policies decisions of the investee.

The results and assets and liabilities of associates are included in these financial statements using the equity method of accounting except when classified as held for sale. Investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of the associates in excess of the Group's interest in those associates are not recognised.

Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets of the associate at the date of acquisition is recognised as goodwill. Any deficiency of the cost of acquisition below the Group's share of the fair value of the identifiable net assets of the associate at the date of acquisition (i.e. discount on acquisition) is credited in the profit and loss in the year of acquisition.

Where a Group company transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate. Losses may provide evidence of impairment of the asset transferred in which case appropriate provision is made for impairment.

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

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

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

Where the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the joint venture, except where unrealised losses provide evidence of an impairment of the asset transferred.

Goodwill

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

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

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

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

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

Intangible assets

Software and software development costs

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

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

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

Acquired separately or from a business combination

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

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

	Software Purchased or Developed	Software Licences
Useful life	Finite	Finite
Method used	3 years straight-line	Amortised over life of licences
Internally generated or acquired	Internally generated and acquired	Acquired
Impairment testing/ recoverable amount testing	Method reviewed at each financial year-end	Method reviewed at each financial year-end

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

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

Revenue also includes interest receivable on segregated client money accounts. Other interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Other dividend income from investments is recognised when the shareholders' right to receive the payment is established.

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

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

Furniture, fixtures, equipment and motor vehicles	10%-33% pa
Short and long leasehold land and buildings	over the period of the lease
Freehold land	nil
Freehold buildings	1% pa

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

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

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

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

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

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

Investments in securities
Investments in securities, which do not relate to inter-dealer broker settlement balances (see below), are recognised and derecognised on a trade-date basis where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned. Investments are initially measured at cost, excluding transaction costs, which are expensed immediately.

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

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

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

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

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

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

After initial recognition, interest-bearing loans and borrowings are measured at amortised cost using the effective interest rate method. Amortised cost is calculated taking into account any issue costs and any discounts or premium on settlement. Gains and losses are recognised in the income statement when the liabilities are derecognised or impaired, as well as through the amortisation process.

Trade and other receivables
Trade and other receivables are settled within normal market cycles. Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost.

Trade and other payables
Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost.

Derivative financial instruments
The Group uses derivative financial instruments such as foreign currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. The Group had entered into an equity swap to hedge market risk on the Group's future commitment to purchase own shares under the share option schemes. Such derivative financial instruments are recorded on balance sheet at fair value. The Group does not use derivative financial instruments for speculative purposes.

The fair value of forward exchange contracts and interest rate swaps is calculated on a discounted cash flow basis using relevant market data on foreign exchange and interest rates.

For the purpose of hedge accounting, hedges are classified as either fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability; or cash flow hedges where they hedge an exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a forecast transaction.

In relation to fair value hedges that meet the IAS 39 requirements for hedge accounting, any gain or loss from re-measuring the hedging instrument at fair value is recognised immediately in the income statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the income statement. Where the adjustment is to the carrying amount of a hedged interest-bearing financial instrument, the adjustment is amortised to the income statement such that it is fully amortised by maturity.

In relation to cash flow hedges to hedge forecast transactions which meet the IAS 39 requirements for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in the income statement.

When the hedged forecast transactions result in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial carrying amount of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same period in which the hedged transaction affects the income statement; for example, when the future sale actually occurs.

For derivatives that do not qualify for cash flow hedge accounting, any gains or losses arising from the changes in fair value are taken directly to the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, for a cash flow hedge, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is immediately recognised in the income statement.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

Client money
The Group holds money on behalf of clients in accordance with the client money rules of the Financial Services Authority and other regulatory bodies. Such money and the corresponding liabilities to clients are not shown on the face of the balance sheet as the Group is not beneficially entitled thereto. The amounts held on behalf of clients at the balance sheet date are stated at note 37. The net return received on managing client money is included within Revenue.

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

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

De-recognition of financial instruments
The de-recognition of financial instruments takes place when all the de-recognition criteria of IAS 39 are met and the Group no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all of the cash flows attributable to the instrument are passed through to an independent third party.

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

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

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

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

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

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

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

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

Leases
Assets held under finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Retirement benefit costs
Defined contributions made to employees' personal pension plans are charged to the income statement as and when incurred.

For defined benefit retirement benefit plans, the cost of providing the benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the year in which they occur. They are recognised outside the income statement and are presented in the statement of recognised income and expense.

Past service cost is recognised immediately to the extent that the benefits have already vested, and is otherwise amortised on a straight-line basis over the average period until the amended benefits become vested.

The amount recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to the unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

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

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

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

Employee Share Ownership Trusts
Dividends have been waived by the trustees of both Collins Stewart Tullett plc ESOT and Collins Stewart (CI) Limited ESOT on shares, which have not yet vested unconditionally pursuant to employee awards. Such shares are excluded from the denominator in the earnings per share calculation.

3. Business and geographic segments

For management purposes, the Group is currently organised into two operating divisions: stockbroking and inter-dealer broking. These divisions are the basis on which the Group reports its primary segment information.

	Inter-dealer broking		Stockbroking		Group	
	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m
Revenue						
Europe	317.2	221.9	115.1	111.5	432.3	333.4
North America	287.5	196.0	6.6	7.5	294.1	203.5
Asia Pacific	71.7	47.0	–	–	71.7	47.0
Total revenue	676.4	464.9	121.7	119.0	798.1	583.9
Operating profit before exceptionals						
Europe	41.6	19.0	39.2	36.9	80.8	55.9
North America	41.1	25.0	0.8	2.3	41.9	27.3
Asia Pacific	8.7	4.6	–	–	8.7	4.6
	91.4	48.6	40.0	39.2	131.4	87.8
Exceptional items*						
Europe	(19.4)	(30.7)	–	(10.0)	(19.4)	(40.7)
North America	(12.0)	(7.2)	–	–	(12.0)	(7.2)
Asia Pacific	(6.9)	(0.6)	–	–	(6.9)	(0.6)
	(38.3)	(38.5)	–	(10.0)	(38.3)	(48.5)
Operating profit						
Europe	22.2	(11.7)	39.2	26.9	61.4	15.2
North America	29.1	17.8	0.8	2.3	29.9	20.1
Asia Pacific	1.8	4.0	–	–	1.8	4.0
	53.1	10.1	40.0	29.2	93.1	39.3
Loss on disposal of associates					–	(1.4)
Finance income					24.9	15.5
Finance costs					(20.4)	(19.2)
Profit before tax					97.6	34.2
Taxation					(36.6)	(14.5)
Profit of consolidated companies					61.0	19.7
Share of results of associates					0.7	1.0
Profit for the year					61.7	20.7

* Exceptional items comprise reorganisation costs in both 2005 and 2004 and split capital investment trust settlement contribution in 2004.

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

	Inter-dealer broking 2005 £m	Inter-dealer broking 2004 £m	Stockbroking 2005 £m	Stockbroking 2004 £m	Group 2005 £m	Group 2004 £m
Other information						
Capital additions	14.9	7.4	0.7	0.3	15.6	7.7
Depreciation and amortisation	9.2	8.8	1.8	1.7	11.0	10.5
Impairment losses recognised in income	5.4	2.2	–	–	5.4	2.2
Expenses arising from share option plans	4.6	2.6	1.9	2.7	6.5	5.3

	Inter-dealer broking 2005 £m	Inter-dealer broking 2004 £m	Stockbroking 2005 £m	Stockbroking 2004 £m	Group 2005 £m	Group 2004 £m
Balance sheet						
Assets						
Segment assets	64,675.8	72,008.6	506.6	343.2	65,179.4	72,351.8
Unallocated corporate assets					54.8	26.7
Consolidated total assets					65,234.2	72,378.5
Liabilities						
Segment liabilities	64,227.1	71,593.0	304.1	127.2	64,531.2	71,720.2
Unallocated corporate liabilities					158.5	162.9
Consolidated total liabilities					64,689.7	71,883.1

Geographical area	Europe 2005 £m	Europe 2004 £m	North America 2005 £m	North America 2004 £m	Asia Pacific 2005 £m	Asia Pacific 2004 £m	Group 2005 £m	Group 2004 £m
Other information								
Capital additions	10.5	5.1	3.9	2.0	1.2	0.6	15.6	7.7
Balance sheet								
Segment assets	2,984.9	2,039.7	61,822.7	69,888.0	31.5	39.8	64,839.1	71,967.5
Unallocated corporate assets							395.1	411.0
Consolidated total assets							65,234.2	72,378.5

Segment assets and liabilities exclude all inter-segment balances.

4. Other operating income

Other operating income includes insurance claims of £7.1m (2004: nil), in large part settled, in respect of costs incurred and revenues lost as a result of fire at the Company's head office, Cable House, in London. Also included are payments received from competitors in relation to staff movements.

Interest earned on client money which was previously included in Other operating income has been reclassified and is now included within Revenue. As a result of this change the comparative figures have been restated; decreasing Other operating income by £1.5m and increasing Revenue by £1.5m.

5. Reorganisation costs

Reorganisation costs comprise £38.3m (2004: £38.5m) associated with the reorganisation of the IDB business following the acquisition of Prebon. This amount includes incremental costs of £4.6m arising from the further write down of Prebon information technology systems.

6. Profit for the year

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

	2005 £m	2004 £m
Net foreign exchange (gains)/losses	2.5	(1.5)
Depreciation of building, furniture, fixtures, equipment and motor vehicles (note 15)	9.6	8.1
Amortisation of intangible assets (note 14)	1.4	2.4
Impairment of goodwill	–	2.2
Staff costs (note 7)	534.4	361.1
Auditors' remuneration for audit services (see below)	1.9	2.0

Amounts payable to Deloitte & Touche LLP, the Group's auditor, by the Company and its subsidiary undertakings in respect of non-audit services were £1.5m (2004:£0.2m).

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

	2005		2004	
	£m	%	£m	%
Audit services				
– statutory audit	1.4	41	1.5	68
– audit related regulatory reporting	0.5	15	0.5	23
	1.9	56	2.0	91
Further assurance services				
– due diligence	1.2	35	–	–
Other services				
– corporate finance advisory	0.3	9	0.2	9
	3.4	100	2.2	100

In 2004 an additional £1.2m was paid to Deloitte & Touche LLP, the Group's auditor, in connection with the acquisition of the Prebon Group and accompanying fundraising in October 2004. This fee was capitalised as part of the Prebon acquisition.

In addition to the amounts shown above, the auditors received fees of £5,438 (2004: £7,000) for the audit of a group pension scheme.

7. Staff costs

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

	2005 No.	2004 No.
Europe	1,583	1,384
North America	944	675
Asia Pacific	518	364
	3,045	2,423

The aggregate employment costs of staff and directors were:

	2005 £m	2004 £m
Wages, salaries, bonuses and incentive payments	489.3	326.1
Social security costs	33.7	26.8
Pension costs	4.9	2.9
Expense of share-based payments	6.5	5.3
	534.4	361.1

8. Finance income

	2005 £m	2004 £m
Interest receivable and similar income	10.8	9.7
Fair value gain on cross-currency interest rate swap	–	1.7
Fair value gain on equity swap	9.3	–
Return on pension plan assets	4.8	4.1
	24.9	15.5

9. Finance costs

	2005 £m	2004 £m
Interest payable on bank loans and overdrafts	12.2	7.7
Finance charges payable under finance leases and hire purchase contracts	0.4	0.4
Amortisation of debt issue costs	0.4	0.3
Amortisation of discount	–	0.2
Other interest payable	0.7	0.5
Total borrowing costs	13.7	9.1
Fair value loss on equity swap	–	3.9
Fair value loss on cross-currency interest rate swap	0.7	1.2
Interest cost on pension plan liabilities	6.0	5.0
	20.4	19.2

10. Taxation

	2005 £m	2004 £m
Current tax:		
UK corporation tax	8.4	20.5
Double tax relief	(0.7)	(10.2)
	7.7	10.3
Overseas tax	14.8	16.6
Prior year UK Corporation tax under provided	(0.6)	0.9
Prior year overseas tax over provided	2.8	(6.5)
	24.7	21.3
Deferred tax (note 19)		
Current year	13.9	(6.8)
Prior year deferred tax assets understated	(2.0)	–
	36.6	14.5

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

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

	2005 £m	%	2004 £m	%
Profit before tax	97.6		34.2	
Tax based on the UK Corporation Tax rate of 30% (2004: 30%)	29.3	30.0	10.3	30.0
Tax effect of expenses that are not deductible	10.6	10.9	8.1	23.7
Less: Tax effect of non-taxable gains	(3.1)	(3.2)	(0.1)	(0.3)
Less: Tax effect of stock options	(2.5)	(2.6)	(0.3)	(0.9)
Effect of different tax rates of subsidiaries	1.5	1.6	1.7	5.0
Unrelieved losses	0.6	0.6	0.3	1.0
Adjustment in respect of prior years	0.2	0.2	(5.5)	(16.1)
Tax expense and effective tax rate for the year	36.6	37.5	14.5	42.4

In addition to the income statement, deferred tax relating to the actuarial movement on defined benefit pension schemes amounting to £0.3m debit (2004: £1.5m credit) and to stock options amounting to £3.9m credit (2004: £0.2m credit) has been taken directly to equity.

11. Dividends

	2005 £m	2004 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2004 of 5.75p (2003: 5.25p) per share	12.0	9.7
Interim dividend for the year ended 31 December 2005 of 3.00p (2004: 2.75p) per share	6.3	5.2
	18.3	14.9
Proposed final dividend for the year ended 31 December 2005 of 11.0p (2004: 5.75p) per share	23.1	12.0

In respect of the current year, the directors proposed that the final dividend of 11p per share amounting to £23.1m would be paid to shareholders on 15 June 2006. This dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. The proposed dividend is payable to all shareholders on the Register of Members on 26 May 2006.

The ESOT trustees have waived their rights to dividends due on 2.7m ordinary shares. The amount waived/excluded in respect of the interim ordinary dividend was £0.1m (2004: £0.1m) and, in respect of the final 2005 ordinary dividend, £0.3m (2004: £ 0.2m).

12. Earnings per share

The calculation of basic and diluted earnings per share is based on the following data:

Earnings	2005 £m	2004 £m
Earnings for the purposes of the basic and diluted earnings per share	61.0	19.9
IDB reorganisation costs	38.3	38.5
Tax credit on reorganisation costs	(11.3)	(11.7)
Split capital investment trust contribution (net of tax)	–	7.0
Loss on disposal of associates	–	1.4
Earnings for the purposes of the basic earnings per share before exceptional items	88.0	55.1

Weighted average number of shares	2005 No. (m)	2004 No. (m)
Number of ordinary shares at start of year	207.6	184.2
ESOT allocations	0.4	0.2
Share option exercises	0.5	0.9
Share issues	–	4.7
Basic earnings per share denominator	208.5	190.0
Issuable on exercise of options	2.7	2.9
Diluted earnings per share denominator	211.2	192.9
Earnings per shares		
Basic	29.3p	10.5p
Diluted	28.9p	10.3p
Basic before exceptional items	42.2p	29.0p

There have been no other transactions involving ordinary shares or potential ordinary shares since the year ended 31 December 2005.

13. Goodwill

	2005 £m	2004 £m
Cost		
At 1 January	453.3	312.0
Revision to existing goodwill	(0.8)	(0.2)
Recognised on acquisition of a subsidiary	7.5	141.5
At 31 December	460.0	453.3
Accumulated impairment losses		
At 1 January	32.0	29.8
Impairment during the year	–	2.2
At 31 December	32.0	32.0
Carrying amount	428.0	421.3

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

	2005 £m	2004 £m
Tullett Prebon IDB business	311.8	313.5
Collins Stewart broking and corporate finance business	84.1	84.1
Collins Stewart Channel Islands and UK Private Client Division	23.7	23.7
Insinger de Beaufort (International) Limited	7.1	–
Burlington Cash Equities business	1.3	–
	428.0	421.3

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

14. Other intangible assets

	Purchased software £m	Developed software £m	Total £m
Cost			
At 1 January 2004	1.2	3.5	4.7
Additions	0.1	1.0	1.1
Acquisition of subsidiary	0.8	5.7	6.5
Foreign exchange differences	(0.1)	(0.2)	(0.3)
At 31 December 2004	2.0	10.0	12.0
Reclassifications	(0.4)	0.4	–
Additions	1.5	0.1	1.6
Impairment loss	–	(5.1)	(5.1)
Foreign exchange differences	0.3	0.6	0.9
Disposals	(1.9)	(1.8)	(3.7)
At 31 December 2005	1.5	4.2	5.7
Amortisation			
At 1 January 2004	0.4	0.1	0.5
Charge for the year	0.4	2.0	2.4
Foreign exchange differences	(0.1)	(0.1)	(0.2)
At 31 December 2004	0.7	2.0	2.7
Charge for the year	0.5	0.9	1.4
Impairment loss	–	(0.5)	(0.5)
Foreign exchange differences	0.2	0.4	0.6
Disposals	(1.1)	(0.2)	(1.3)
At 31 December 2005	0.3	2.6	2.9
Carrying amount			
At 31 December 2005	1.2	1.6	2.8
At 31 December 2004	1.3	8.0	9.3

The impairment loss on developed software arose in connection with the further write down of Prebon information technology systems.

15. Land, buildings, furniture, fixtures, equipment and motor vehicles

	Land and buildings			Furniture, fixtures, equipment and motor vehicles	
	Freehold	Long leasehold	Short leasehold		Total
	£m	£m	£m	£m	£m
Cost					
At 1 January 2004	0.1	2.9	4.8	25.5	33.3
Reclassification	–	0.7	(0.7)	–	–
Additions	–	–	0.4	6.2	6.6
Acquisition of subsidiary	–	–	1.0	2.9	3.9
Foreign exchange differences	–	(0.1)	–	(0.2)	(0.3)
Disposals	–	–	(0.4)	(17.6)	(18.0)
At 31 December 2004	0.1	3.5	5.1	16.8	25.5
Reclassification	–	0.6	–	(0.6)	–
Additions	–	0.4	6.7	6.9	14.0
Impairment loss	–	(0.8)	–	–	(0.8)
Foreign exchange difference	–	0.2	0.1	0.8	1.1
Disposals	–	(1.8)	(0.8)	(0.8)	(3.4)
At 31 December 2005	0.1	2.1	11.1	23.1	36.4
Accumulated depreciation					
At 1 January 2004	–	0.2	1.1	10.6	11.9
Reclassification	–	0.3	(0.3)	–	–
Charge for the year	–	0.1	0.8	7.2	8.1
Foreign exchange differences	–	–	–	0.2	0.2
Disposals	–	–	(0.2)	(16.5)	(16.7)
At 31 December 2004	–	0.6	1.4	1.5	3.5
Charge for the year	–	0.3	1.1	8.2	9.6
Foreign exchange differences	–	0.1	0.1	0.2	0.4
Disposals	–	(0.4)	(0.5)	(0.5)	(1.4)
At 31 December 2005	–	0.6	2.1	9.4	12.1
Carrying amount					
At 31 December 2005	0.1	1.5	9.0	13.7	24.3
At 31 December 2004	0.1	2.9	3.7	15.3	22.0

The carrying amount of the Group's furniture, fixtures, equipment and motor vehicles includes an amount of £3.9m (2004: £3.9m) in respect of assets under finance lease.

The impairment loss on long leasehold buildings arose in connection with the write down of the International Plaza building in Singapore.

16. Interest in associates

	2005 £m	2004 £m
Carrying amount of investment	2.8	1.0

	2005 £m	2004 £m
Aggregate amounts relating to associates:		
Total assets	7.2	9.3
Total liabilities	(1.4)	(2.6)
Revenues	7.3	10.1
Profit/(loss)	0.6	(0.5)

A list of the significant investments in associates, including the name, country of incorporation and proportion of ownership interest is given in note 41.

During the year the Group reclassified its investment in Natsource LLC from an associate investment to a financial asset due to a dilution of ownership. During the year the Group purchased a 33% share in Tullett Prebon SITICO (China) Limited.

17. Interest in joint ventures

On 17 October the Group acquired a 50% share in the ownership of Berkshire Investment Managers LLP.

The following amounts represent the summarised financial results of Berkshire Investment Managers LLP at 31 December 2005:

	2005 £m	2004 £m
Aggregate amounts relating to joint ventures:		
Total assets	2.4	–
Total liabilities	(2.1)	–
Net assets	0.3	–
Revenue	0.4	–
Profit	0.3	–

The Group has no other interest in joint ventures in 2005 (2004: nil).

18. Investments

Other financial assets

	2005 £m	2004 £m
Available-for-sale investments	3.2	3.2
Other investments	2.5	2.5
	5.7	5.7

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

Trading investments

	2005 £m	2004 £m
Long trading positions	49.5	55.0
Other trading investments	41.1	38.4
	90.6	93.4

Long trading positions are held at fair value. Other trading investments are stated at fair value and consist principally of time deposits at banks and other financial institutions and placed on the money markets and treasury bills held for settlement.

19. Deferred tax

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2005 £m	2004 £m
Deferred tax liabilities	(1.0)	–
Deferred tax assets	31.0	37.8
Net position	30.0	37.8

The movement for the year in the Group's net deferred tax position was as follows:

	2005 £m	2004 £m
At 1 January	37. 8	14.0
Acquired with subsidiary undertakings	–	14.8
Charge to income for the year	(11.9)	7.5
Charge to equity for the year	3.6	1.7
Transfer to corporation tax	(0.3)	–
Exchange differences	0.8	(0.2)
At 31 December	30.0	37.8

The following are the deferred tax liabilities and assets recognised by the group and movements thereon during the year.

	Consolidated balance sheet		Consolidated income statement	
	2005	2004	2005	2004
	£m	£m	£m	£m
Accelerated depreciation for tax purposes	3.6	7.6	(4.0)	2.4
Stock options	7.8	1.2	2.7	0.7
Other timing differences	5.8	13.0	(7.5)	2.4
Losses available for offset against future taxable income	1.8	4.5	(2.9)	1.3
Pensions	11.0	11.5	(0.2)	–
	30.0	37.8	(11.9)	6.8

At the balance sheet date, the Group has a potential tax benefit from unused tax losses of £6.3m (2004: £8.0m) available for offset against future profits. A deferred tax asset has been recognised in respect of £1.8m (2004: £4.5m) of such losses. No deferred tax assets had been recognised in respect of the remaining £4.5m (2004: £3.5m) due to the unpredictability of the necessary future profit streams.

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which a deferred tax liability has not been recognised was £3.1m (2004: £2.8m). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

Temporary differences arising in connection with interests in associates and joint ventures are insignificant.

20. Trade and other receivables

	2005	2004
	£m	£m
Trade debtors	116.7	100.4
Settlement balances	64,230.0	71,464.6
Other debtors	28.3	15.5
Prepayments	22.2	12.7
Corporation tax	8.8	5.2
Owed by joint ventures and associates	2.3	–
	64,408.3	71,598.4

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

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

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

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

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

21. Derivative financial instruments

Cross currency interest rate swap
In August 2004, the Group entered into a cross currency interest rate swap whereby it receives a fixed rate of interest of 8.25% and pays a variable rate equal to US LIBOR +2.69%. The notional amount of the swap is £64.2m with an exchange of principal of US$117m. The maturity date of the swap is in August 2009.

The swap has been designated and is effective as a fair value hedge of interest rate risk on £64.2m of the £150m Eurobond and a net investment hedge of US$117m of foreign operations (the dollar denominated assets and liabilities of United States and Hong Kong subsidiaries).

Fair value gains or losses on the effective portion of the net investment hedge are included in equity. The amount recognised in equity in the period for the net investment hedge was a loss of £7.2m (2004: gain of £3.2m).

At 31 December 2005 the fair value of the swap was as follows:

	2005 £m	2004 £m
Cross currency interest rate swap	(1.2)	6.5

Currency derivatives
The Group utilises currency derivatives to hedge significant future foreign currency transactions and cash flows. The Group is a party to a variety of forward foreign exchange contracts in the management of its exchange rate exposures. The instruments purchased are primarily denominated in the currencies of the Group's principal markets.

At 31 December 2005, the Group held ten foreign exchange contracts to hedge potential future receipts from customers denominated in US dollars and Euro for which the Group has forecast commitments. The Group also has two foreign exchange contracts outstanding at 31 December 2005 as hedges against potential future purchases of financial assets. The foreign exchange contracts are being used to reduce the Group's exposure to foreign exchange risk. The terms of these contracts are as follows:

	Maturity	Exchange rate
Sell		
US$58.8m*	January to June 2006	1.8245

* The amount shown is the total value of the foreign exchange contracts that mature over the six month period to 30th June 2006. The exchange rate is the weighted average exchange rate.

At the balance sheet date, the fair value of outstanding forward foreign exchange contracts was as below.

	2005 £m	2004 £m
Loss on forward foreign exchange contracts	(1.9)	(0.1)

The Group does not currently designate its currency derivatives as a hedging instrument.

Equity swap

The Group had entered into an equity swap to hedge market risk on the Group's future commitment to purchase own shares under the share option schemes. The nominal value of the swap at inception was £21.6m. It is intended to be held until maturity in January 2007. The collateral held on the equity swap (included in other debtors) is £7.0m. At the balance sheet date, the fair value of the equity swap that the Group has entered into is as below:

	2005 £m	2004 £m
Equity swap	5.4	(3.9)

The Group does not currently designate the equity swap as a hedging instrument.

Fair values

The carrying 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.

Interest rate risk

The following table sets out the carrying amount, by maturity, of the Group's financial instruments that are exposed to interest rate risk:

Year ended 31 December 2005

Fixed rate	<1 year £m	>1<2 years £m	>2<3 years £m	>3<4 years £m	>4<5 years £m	>5 years £m	Total £m
Obligations under finance leases and hire purchase contracts	(0.3)	(0.4)	(0.2)	(0.1)	(0.1)	(2.4)	(3.5)
Eurobond	–	–	–	(150.2)	–	–	(150.2)

Floating rate	<1 year £m	>1<2 years £m	>2<3 years £m	>3<4 years £m	>4<5 years £m	>5 years £m	Total £m
Cash and cash equivalents	235.3	–	–	–	–	–	235.3
Bank overdrafts	(1.1)	–	–	–	–	–	(1.1)
Loan notes	(0.1)	–	–	–	–	–	(0.1)

Year ended 31 December 2004

Fixed rate	<1 year £m	>1<2 years £m	>2<3 years £m	>3<4 years £m	>4<5 years £m	>5 years £m	Total £m
Obligations under finance leases and hire purchase contracts	(0.4)	(0.3)	(0.2)	(0.2)	(0.1)	(1.9)	(3.1)
Eurobond	–	–	–	–	(149.5)	–	(149.5)

Floating rate	<1 year £m	>1<2 years £m	>2<3 years £m	>3<4 years £m	>4<5 years £m	>5 years £m	Total £m
Cash and cash equivalents	183.1	–	–	–	–	–	183.1
Bank overdrafts	(14.0)	–	–	–	–	–	(14.0)
Loan notes	(1.3)	–	–	–	–	–	(1.3)

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Group that are not included in the above tables are short term and non-interest bearing and are therefore not subject to interest rate risk.

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.

Market risk
The Group is exposed to market risk in respect of both its trading in equities and debt instruments and in its role as an intermediary between buyers and sellers of financial instruments. The 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.

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 typically immaterial.

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

22. Trade and other payables

	2005 £m	2004 £m
Settlement balances	64,066.6	71,257.8
Other trade creditors	171.4	175.2
Tax and social security	23.3	23.2
Other creditors	6.6	7.6
Accruals and deferred income	167.9	145.7
	64,435.8	71,609.5

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

23. Financial liabilities

	2005 £m	2004 £m
Securities – short trading positions	15.2	27.4

24. Interest bearing loans and borrowings

	2005 £m	2004 £m
Obligations under finance leases (see note 25)	3.5	3.1
Loan notes	0.1	1.3
Bank overdrafts	1.1	14.0
Eurobond	150.2	149.5
	154.9	167.9

The borrowings are repayable as follows:

	2005 £m	2004 £m
On demand or within one year	1.8	16.1
In the second year	0.4	0.2
In the third to fifth years inclusive	152.7	151.6
	154.9	167.9

Analysis of borrowings by currency (excluding the effect of hedging accounting):

	Sterling £m	Euros £m	Other £m	Total £m
2005				
Obligations under finance leases	0.1	3.4	–	3.5
Bank overdrafts	1.1	–	–	1.1
Loan notes	0.1	–	–	0.1
Eurobond	150.2	–	–	150.2
	151.5	3.4	–	154.9
2004				
Obligations under finance leases	0.4	2.5	0.2	3.1
Bank overdrafts	14.0	–	–	14.0
Loan notes	1.3	–	–	1.3
Eurobond	149.5	–	–	149.5
	165.2	2.5	–	167.9

The average effective interest rates paid were as follows:

	2005 %	2004 %
Bank overdrafts	4.1	4.1
Loan notes	4.1	3.7
Bank loans	–	4.3
Eurobond	8.6	8.6

Current borrowings – loan notes
Guaranteed unsecured loan notes were issued by Collins Stewart Tullett plc in March 2003, of which £0.1m were outstanding at the year end (2004: £1.1m). 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.

Secured loan notes were issued by Collins Stewart Limited in 1996, none of which were outstanding at the year end (2004: £0.2m). The loan notes, which were secured by cash deposits of the same amount, were redeemed in December 2005. Interest was payable half yearly in arrears at a rate of 3/8% below LIBOR.

Non-current borrowings – £150m Eurobond
In August 2004 £150m 8.25% Step-Up Coupon Subordinated Notes due 12 August 2014 were issued. The notes, which are unsecured, are callable by the Company at any time after 12 August 2009 ("the Call Date"). After the Call Date the notes will bear interest calculated at 3.5% over the gross redemption yield of a gilt with a comparable maturity date.

The proportion of the Eurobond which has been designated as part of a fair value hedge with the cross currency interest rate swap (£64.2m, 2004: £64.2m) has been stated at fair value. The impact in 2005 was to increase the liability by £1.6m (2004: £1.2m).

Transaction costs are included in the carrying value of the debt and hence are recognised in the income statement through the effective interest rate.

In August 2004, bank loans of US$68.7m and £9.8m were repaid out of the proceeds of the Eurobond issue.

25. Obligations under finance leases

	Minimum lease payments		Present value lease payments	
	2005	2004	2005	2004
Amounts payable under finance leases:	£m	£m	£m	£m
Within one year	0.5	0.6	0.3	0.4
In the second to fifth years inclusive	1.5	1.6	0.8	0.8
After five years	2.8	2.5	2.4	1.9
	4.9	4.7	3.5	3.1
Less: future finance charges	1.4	1.6		
Present value of lease obligations	3.5	3.1		
Less: Amount due for settlement within 12 months (shown under current liabilities)			0.3	0.4
Amount due for settlement after 12 months			3.2	2.7

It is the Group's policy to lease certain items of office equipment under finance leases. The average lease term is 3-4 years (2004: 3-4 years). For the year ended 31 December 2005, the average effective borrowing rate was 8.50 % (2004: 8.46%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The fair value of the Group's lease obligations approximates their carrying amount.

The Group's obligations under finance leases are secured by a lessor's charge over the leased assets.

26. Provisions

	Onerous leases £m	Building dilapidations £m	Other £m	Total £m
At 1 January 2005	3.0	2.7	3.8	9.5
Additional provision in the year	3.5	–	0.3	3.8
Utilisation of provision	(2.1)	(1.6)	(2.4)	(6.1)
At 31 December 2005	4.4	1.1	1.7	7.2
Included in current liabilities				–
Included in non-current liabilities				7.2
				7.2

Onerous leases
The onerous lease provision represents the net present value of the future rental cost for the period until it is reasonably likely that the leasehold interest will be sold or sublet. The leases expire in between 4 and 8 years.

Building dilapidations
The building dilapidations provision represents the estimated cost of making good the dilapidations and disrepair on various leasehold buildings in London. The leases expire in between 1 and 13 years.

The Group held provisions of £0.1m (2004: £1.6m) relating to legal costs of which the payment dates are uncertain.

27. Other long term payables

	2005 £m	2004 £m
Other creditors	2.5	2.3
Accruals and deferred income	0.8	0.8
	3.3	3.1

Other creditors consist of the USA SERP 'C' scheme liability (see note 38) and deferred rent.

28. Share capital

	2005 No. (m)	2004 No. (m)
Authorised		
Ordinary shares of 25p	284.7	284.7
Allotted, issued and fully paid		
Ordinary shares of 25p	212.3	211.8
	2005 £m	**2004 £m**
Authorised		
Ordinary shares of 25p	71.2	71.2
Allotted, issued and fully paid		
Ordinary shares of 25p	53.1	53.0

Movements during the Year

During the year 200,000 shares were allotted at 316p per share and 220,000 shares were allotted at 349p per share upon exercise of options granted under the Company's share option schemes. The Company has one class of ordinary shares, which carry no right to fixed income.

29. Reconciliation of shareholders' funds

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

	Share capital £m	Share premium account £m	Merger reserve £m	Hedging and translation reserve £m	Retained earnings £m	Total shareholders' equity £m
Balance at 1 January 2004	47.3	195.9	100.4	–	59.7	403.3
Profit for the year	–	–	–	–	19.9	19.9
Dividends paid in the year					(14.9)	(14.9)
Issue of ordinary shares	5.7	55.2	21.1	–	–	82.0
Costs of share issue	–	(1.4)	–	–	–	(1.4)
Credit arising on share options	–	–	–	–	5.3	5.3
Actuarial loss on defined benefit pension schemes	–	–	–	–	(5.6)	(5.6)
Gains on cash flow hedges	–	–	–	3.2	–	3.2
Foreign currency translation	–	–	–	(3.6)	–	(3.6)
Taxation on items taken directly to equity	–	–	–	–	1.7	1.7
Balance at 1 January 2005	53.0	249.7	121.5	(0.4)	66.1	489.9
Profit for the year	–	–	–	–	61.0	61.0
Dividends paid in the year	–	–	–	–	(18.3)	(18.3)
Issue of ordinary shares	0.1	1.2	–	–	–	1.3
Credit arising on share options	–	–	–	–	6.5	6.5
Cash cancellation of share options	–	–	–	–	(0.3)	(0.3)
Actuarial gain on defined benefit pension schemes	–	–	–	–	0.9	0.9
Losses on cash flow hedges	–	–	–	(7.2)	–	(7.2)
Foreign currency translation	–	–	–	7.9	–	7.9
Taxation on items taken directly to equity	–	–	–	–	0.4	0.4
Balance at 31 December 2005	53.1	250.9	121.5	0.3	116.3	542.1

30. Share-based payments

The Group has a number of share incentive plans for the granting of non-transferable options to certain employees and executives. Options granted under the plans vest on the first day on which they become exercisable, which is typically 3 years after grant date. The maximum life of the options is ten years. These options are settled in equity once exercised and, dependent on the option scheme, will be settled either with new shares issued or shares purchased in the market. The exercise of options within some of the option schemes is also dependent on option holders meeting performance criteria, all of which are non-market conditions.

The following table summarises the share option schemes that existed during the 12 months to 31 December 2005 and the estimated fair values of options granted:

Share option scheme	Options outstanding 2005	Estimated fair value (3)
Sharesave scheme 2000 (4)	444,614	Not applicable
Sharesave scheme 2000	103,290	Not applicable
Approved Share Option Scheme (3)	73,161	104p
Unapproved Share Option Scheme (2,3)	4,100,718	105p-420p
2003 Share Option Scheme (1)	1,595,000	89p
Tullett Liberty Equity Incentive Plan (1,3)	4,342,504	342p-445p
Louis Scotto and Stephen Jack	468,473	374p
	11,127,760	

Notes:
(1) Subject to revenue and margin performance conditions.
(2) Subject to individual performance criteria for each option holder
(3) Grants of above options occurred on several dates
(4) The Sharesave scheme is an employee discount purchase share plan.

The weighted average contractual life for the share options outstanding as at 31 December 2005 is 7.6 years (2004: 8.0 years).

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

The model inputs for each option scheme are set-out below.

	Approved Share Option Scheme*	Unapproved Share Option Scheme*	2003 Share Option Scheme	Tullett Liberty Equity Incentive Plan*	Louis Scott and Stephen Jack
Share price at date of grant (p)	436	350-436	356	372-470	403
Exercise price (p)	451	1-449	349	Nil	Nil
Expected volatility	30%	18%-30%	30%	30%	30%
Expected life (years)	4	3-4	4	3-3.2	3.3
Risk free rate	4.5%	3.8%-4.5%	3.8%	4.5%	4.5%
Expected dividend yield	2.0%	2.0%	2.0%	2.0%	2.0%
Likelihood of ceasing employment before vesting	24%	0%-22%	16%	5%-23%	0%
Proportion meeting performance criteria	100%	100%	100%	75%	75%

* Grants within these schemes occurred on several dates – input ranges reflect the rates and terms applicable on grant date.

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

	2005 Number of options	2005 Weighted average exercise price (p)	2004 Number of options	2004 Weighted average exercise price (p)
Outstanding at start of the year	13,154,138	141	7,566,529	258
Granted during the year	690,000	225	8,232,959	100
Forfeited during the year	(1,062,186)	104	(892,959)	205
Exercised during the year	(1,654,192)	85	(1,752,391)	220
Outstanding at end of year	11,127,760	158	13,154,138	141
Exercisable at end of year	913,352	147	907,500	209

During the year 80,442 shares were options settled at their intrinsic value on the date of exercise (2004 nil).

The weighted average share price at the date of exercise for share options exercised during the year was 507p. The options outstanding at 31 December 2005 had an exercise price of nil to 451p, and a weighted average remaining contractual life of 7.5 years.

	2005 £m	2004 £m
Expense arising from share and share option plans	6.5	5.3

31. Acquisition of subsidiary

Insinger de Beaufort (International) Limited ("Insinger")
On 3 October 2005, the Group acquired 100% per cent of the issued share capital of Insinger for cash consideration of £8.6m. Insinger is a stockbroking and asset management company with offices in Jersey and the Isle of Man. This transaction has been accounted for by the acquistion method of accounting.

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

The goodwill arising on the acquisition of £7.1m. Insinger contributed £1.7m to revenue and £0.4m to the Group's profit before tax in the period from the date of acquisition to the balance sheet date.

If the acquisition of Insinger de Beaufort had been completed on the first day of the financial year, Group revenues for the period would have been £6.4m and Group profit attributable to equity holders of the parent would have been £0.9m higher.

Burlington Cash Equities Business ("Burlington")
In January 2005 the Group completed the acquisition of the Burlington business in New York.
The consideration for the deal was £1.6m in cash. The net assets acquired totalled £0.3m and goodwill arising on the acquisition amounted to £1.3m.

Tullett Liberty Pte. Ltd. and Tullett Liberty (Energy) Holdings Pte. Ltd ("Singapore Companies")
In February 2005 the Group bought out the remaining minority holding in the Singapore Companies. The total cash consideration was £2.6m and the net assets purchased totalled £3.6m. The excess of the Group's interest in the fair value of the share of net assets acquired over cost was £0.9m. After reassessment of the fair values, this excess has been offset against previously acquired goodwill relating to these entities.

32. Statement of cash flows

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

	2005 £m	2004 £m
Operating profit	93.1	39.3
Adjustments for:		
Loss on derivatives	1.7	1.5
Expense arising from share option plans	6.5	5.5
Profit on sale of other financial assets	(0.5)	–
Depreciation of furniture, fixtures and equipment	9.2	8.1
Amortisation of intangible assets	1.4	2.4
Write-down of goodwill	–	2.2
Assets written off	7.8	0.7
Decrease in provisions for liabilities and charges	(4.1)	(0.5)
Increase/(decrease) in non-current payables	0.1	(2.1)
Operating cash flows before movement in working capital	115.2	57.1
Decrease/(increase) in trade and other receivables	7,192.2	(8,524.9)
Increase in net long and short positions	(6.8)	(20.2)
(Decrease)/increase in trade and other payables	(7,175.0)	8,451.3
Cash generated from/(absorbed by) operations	125.6	(36.7)
Income taxes paid	(23.7)	(40.4)
Interest paid	(17.9)	(12.9)
Net cash flows from/(used in) operating activities	84.0	(90.0)

(b) Cash and cash equivalents

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

At 31 December 2005, the Group had available £15.0m (2004: £15.0m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise the following at 31 December:

	2005 £m	2004 £m
Cash and cash equivalents	235.3	183.1
Bank overdrafts	(1.1)	(14.0)
	234.2	169.1

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

	2005 £m	2004 £m
Net increase/(decrease) in cash and cash equivalents during the year	57.5	(43.6)
Cash inflow from increase in long term loans	–	(149.5)
Cash outflow from repayment of loans and loan notes	1.2	99.5
Debt issue costs	–	0.9
Cash outflow from lease financing	0.5	0.9
Decrease in trading investments	1.9	0.9
Acquired with subsidiary:		
Finance leases	–	(0.2)
Loans due within one year	–	(48.1)
Trading investments	–	15.1
Increase/(decrease) in net funds resulting from cash flows	61.1	(124.1)
Amortisation of debt issue costs and discount	(0.3)	(0.3)
Increase in finance leases	(0.9)	(0.6)
Currency translation differences	8.4	(3.7)
Increase /(decrease) in net funds	68.3	(128.7)
Net funds at the start of the year	54.8	183.5
Net funds at the end of the year	123.1	54.8

34. Analysis of net funds

	At 1 January 2005 £m	Cash flow £m	Non-cash items £m	Exchange differences £m	At 31 December 2005 £m
Cash in hand and at bank	132.9	76.8	–	6.0	215.7
Cash equivalents	43.2	(37.9)	–	1.6	6.9
Client settlement money	7.0	5.7	–	–	12.7
Overdraft	(14.0)	12.9	–	–	(1.1)
	169.1	57.5	–	7.6	234.2
Loans due within one year	(1.3)	1.2	–	–	(0.1)
Loans due after one year	(148.3)	–	(0.3)	–	(148.6)
Finance leases	(3.1)	0.5	(0.9)	–	(3.5)
	(152.7)	1.7	(1.2)	–	(152.2)
Trading investments	38.4	1.9	–	0.8	41.1
Total net funds	54.8	61.1	(1.2)	8.4	123.1

Loans due after one year are stated net of the fair value adjustment required by International Accounting Standard 39: Financial Instruments of £1.6m.

Trading investments above exclude long positions in securities of £49.5m (2004: £55.0m), which are included separately on the balance sheet.

Financial liabilities of £15.2m (2004: £27.4m) relating to short positions in securities do not form part of net funds.

35. 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 there from cannot be precisely quantified, it is not believed to be material.

36. Operating lease commitments

	2005 £m	2004 £m
Minimum lease payments under operating leases recognised in income for the year	17.4	7.2

At 31 December 2005 the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2005 Buildings £m	2004 Buildings £m	2005 Other £m	2004 Other £m
Within one year	9.7	9.6	0.3	0.4
Within two to five years	28.7	30.2	0.2	0.3
Over five years	36.4	41.4	–	–
	74.8	81.2	0.5	0.7

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of 10 years and rentals are reviewed annually based on movements in market rents.

37. Client money

Client money held was £368.4m (2004: £271.8m). This comprised £12.7m (2004: £7.0m) of balances held by the Group on behalf of clients to settle outstanding bargains and £355.7m (2004: £264.8m) 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.

38. Retirement benefit plans

The pension cost figures used in these financial statements comply with IAS 19: Employment benefits. The Group operates a number of pension schemes throughout the world, which, with the three exceptions identified below, are defined contribution schemes. The assets of all schemes are held separately from those of the Group, either in separate trustee administered funds or in contract-based policies of insurance, except for those held by Tullett Prebon in the US to match the liabilities of a supplemental executive retirement plan (SERP 'C').

The Group operates defined benefit schemes in the UK and in North America:

(i) 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.

(ii) The Prebon Yamane UK scheme provides benefits based on final pensionable pay with a money purchase underpin. The scheme was closed to new members in 1989 and as at the year end there were only two employees in service continuing to accrue additional pension entitlement. Since April 2006, future accrual has ceased.

(iii) The Prebon Yamane US SERP 'C' provides participants in the US and Canada with retirement benefits for 10 or 15 years at a specified dollar amount. The entitlement of the participants to the plan benefits vests over time in accordance with length of service, up to a maximum period of 10 years. SERP 'C' was introduced in 1992 and the last participant was admitted in 1999. The previous plan, SERP 'B', provided participants with a target retirement benefit, but all investment gains and losses are borne by the participant and plan 'B' is therefore treated as a defined contribution scheme.

The total pension cost for the Group charged to income was £4.9m (2004: £2.9m); £1.5m (2004: £1.1m) relates to overseas schemes. As at 31 December 2005, contributions of £2.3m (2004: £1.4m) due in respect of the current reporting period had not been paid over to the schemes, of which £0.3m (2004: £1.0m) related to the overseas schemes. Actuarial gains and losses, which arose over the year, have been recognised immediately in the Statement of Recognised Income and Expenses.

The latest actuarial valuations of the Tullett Liberty UK scheme and of the Prebon Yamane UK scheme (together, the "UK defined benefit schemes") were carried out as at 30 April 2004 and 1 January 2004 respectively by independent qualified actuaries. In both cases the present values of the defined benefit obligation, the related current service cost and any past service costs were measured using the projected unit credit method.

The present value of the vested liabilities under the Prebon Yamane USA SERP 'C' are recalculated monthly using an appropriate discount rate and the necessary additional accrual (or release of accrual) is made in the accounts of the relevant subsidiary undertaking as a pension cost. As at 31 December 2005 the SERP 'C' liability included in the balance sheet is £1.5m (2004: £1.5m).

The main financial assumptions used by the independent qualified actuaries of the UK defined benefit schemes to calculate the liabilities under IAS19 are set out below:

Key assumptions used:	2005 %	2004 %
Discount rate	4.70	5.30
Expected rate of salary increases	4.15	4.00
Rate of increase in LPI pensions in payment*	2.80	2.75
Inflation assumption	2.90	2.75

* This applies to pension accrued from 6 April 1997. The majority of current and future pensions receive fixed increases in payment of either 0% or 2.5%.

The assets in the UK defined benefit schemes and the expected rates of return were:

	2005 Expected Return %	2005 Assets £m	2004 Expected Return %	2004 Assets £m
Equities	7.00	86.2	7.00	68.1
Corporate Bonds	4.70	0.2	5.30	0.2
Government Bonds	4.25	8.8	4.50	8.1
Cash and Other	4.00 - 4.50	1.6	4.75	(1.0)
Weighted average return*	6.70		6.76	
Total fair value of schemes' assets		96.8		75.4

* The overall expected rate of return on the schemes' assets is a weighted average of the individual expected rates of return on each asset class. The actual return on schemes' assets was £22.5m (2004: £3.7m).

As at 31 December 2005, £0.7m of the fair value of the schemes' assets related to self-investment.

The amount included in the balance sheet arising from the Group's obligations in respect of the UK defined benefit schemes is as follows:

	2005 £m	2004 £m
Present value of funded defined benefit obligations	(133.4)	(113.8)
Fair value of schemes' assets	96.8	75.4
Deficit in schemes	(36.6)	(38.4)
This amount is presented in the balance sheet as follows:		
Current liabilities	(2.0)	(1.5)
Non-current liabilities	(34.6)	(36.9)
	(36.6)	(38.4)

The amounts recognised in profit and loss in respect of the UK defined benefit schemes are as follows:

	2005 £m	2004 £m
Current service cost	–	0.1
Interest cost	6.0	5.0
Expected return on schemes' assets	(4.8)	(4.1)
Expenses recognised in profit and loss	1.2	1.0

The charge for the period has been included in finance income and finance costs.

Movements in the present value of the defined benefit obligations in the current period were as follows:

	2005 £m	2004 £m
At 1 January	113.8	90.7
Obligations of scheme acquired with Prebon	–	14.1
Service cost	–	0.1
Interest cost	6.0	5.0
Actuarial gains and losses	16.8	6.7
Benefits paid	(3.2)	(2.8)
As 31 December	133.4	113.8

Movements in the fair value of scheme assets in the current period were as follows:

	2005 £m	2004 £m
At 1 January	75.4	60.2
Assets of scheme acquired with Prebon	–	11.7
Expected return on schemes' assets	4.8	4.1
Actuarial gains/(losses)	17.7	(0.1)
Contributions from the sponsoring companies	2.1	2.3
Benefits paid	(3.2)	(2.8)
As 31 December	96.8	75.4

The history of experience adjustments is as follows:

	At 31 December 2005 £m	At 31 December 2004 £m	At 31 December 2003 £m
Present value of funded defined benefit obligations	(133.4)	(113.8)	(90.7)
Fair value of schemes' assets	96.8	75.4	60.2
Scheme deficit	(36.6)	(38.4)	(30.5)

	2005	2004
Experience gains on schemes' assets		
Amount	£0.1m	£3.5m
Percentage of scheme liabilities	0.1%	3.1%
Experience gains/(losses) on schemes' assets		
Amount	£17.7m	£(0.1)m
Percentage of scheme assets	18.3%	(0.1)%

The estimated amounts of contributions expected to be paid into the UK defined benefit schemes during 2006 is £2.0m.

39. Events after the balance sheet date

The proposed final dividend has been detailed in Note 11.

Since the year end the Company has settled its long running libel litigation with the Financial Times. The Company received an apology in the UK edition of the Financial Times and on FT.com, compensation and payment of all its legal expenses.

The Company announced in November 2005 that the Board had terminated talks with all third parties about a possible take-over of the Company after concluding that the terms of any such offer would not match shareholders' reasonable expectations for the valuation of the Company. At the same time, the Board announced that it would focus on other means to deliver significant further value to shareholders. To this end, since the balance sheet date, the Board has decided to demerge the Collins Stewart stockbroking business and to return at least £300m excess capital to shareholders. The transactions will involve the introduction of a new holding company using a court approved scheme of arrangement followed by a capital reduction to achieve the demerger and facilitate the return of capital.

40. Related party transactions

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

Transactions between the Group and its associates and joint ventures are disclosed in note 20. The total amount owed by joint ventures and associates at 31 December 2005 was £2.3m, (2004: nil). £2.2m of this amount represents a cash facility extended to Berkshire Investment Managers LLP in order for the business to commence trading during the year.

Directors' and executives' remuneration
Remuneration of the directors who are the key management personnel of the Group during the year is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the individual directors is provided in the audited part of the report on directors' remuneration on pages 33 to 39.

	2005 £m	2004 £m
Short-term benefits	6.2	5.0
Share based payments	0.5	0.2
	6.7	5.2

Secured loan notes issued to Terry Hitchcock by Collins Stewart Limited at 31 December 2004 (£0.1m) were repaid on 31 December 2005.

41. Principal subsidiary undertakings and associates

At 31 December 2005, the following companies were the Group's principal trading subsidiary undertakings, principal intermediate holding companies and associates.

Subsidiary undertakings	Country of incorporation	Principal Activities	Issued ordinary shares, all voting
Prebon Yamane (Australia) Pty Limited	Australia	Derivatives and money broking	100%
Tullett Prebon (Australia) Pty. Limited (formerly Tullett Liberty Pty. Limited)	Australia	Derivatives and money broking	100%
Marshalls (Bahrain) WLL*	Bahrain	Derivatives and money broking	70%
Tullett Prebon Data Services Ltd. (formerly Prebon Data Services (Bermuda) Limited.)	Bermuda	Information sales	100%
Tullett Prebon Technology Data Services Ltd. (formerly Prebon Technology Data Services (Bermuda) Limited.)	Bermuda	Information sales	100%
Prebon Canada Limited	Canada	Derivatives and money broking	100%
Tullett Prebon Capital Markets France S.A.S. (formerly Tullett Liberty Capital Markets (France) SAS)	France	Derivatives and money broking	100%
Tullett Prebon France S.A.S. (formerly Collins Stewart Tullett France SAS)	France	Securities broking	100%
Collins Stewart Fund Management Limited	Great Britain	Investment fund management	100%
Collins Stewart Limited	Great Britain	Stockbroking	100%
Collins Stewart Property Fund Management Limited	Great Britain	Property management	75%
Fulton Prebon Group Limited	Great Britain	Holding company	100%
FPG Holdings Limited	Great Britain	Holding company	100%
Prebon Administration Limited	Great Britain	Holding company	100%
Prebon Group Limited	Great Britain	Holding company	100%
Prebon Limited (Japan branch)	Great Britain	Derivatives	100%
Prebon Technology Holdings Limited	Great Britain	Holding company	100%
Prebon Technology Limited (formerly Prebon Technology Service (UK) Limited)	Great Britain	IT support services	100%
Prebon Yamane International Limited	Great Britain	Holding company	100%
Tullett Liberty (European Holdings) Limited	Great Britain	Holding company	100%
Tullett Liberty (Number 2) Limited	Great Britain	Holding company	100%
Tullett Liberty (Oil & Energy) Holdings Limited	Great Britain	Energy broking	100%
Tullett Liberty (Oil & Energy) Limited	Great Britain	Energy broking	100%
Tullett Liberty (Overseas Holdings) Limited	Great Britain	Holding company	100%
Tullett Prebon (Equities) Limited (formerly Tullett Liberty (Equities) Limited)	Great Britain	Securities broking	100%
Tullett Prebon Limited	Great Britain	Holding company	100%
Tullett Prebon (Securities) Limited (formerly Tullett Liberty (Securities) Limited)	Great Britain	Securities broking	100%
Tullett Prebon (Treasury & Derivatives) Limited (formerly Tullett Liberty (Treasury and Derivatives) Limited)	Great Britain	Derivatives and money broking	100%
Tullett Prebon (UK) Limited (formerly Prebon Marshall Yamane (UK) Limited)	Great Britain	Derivatives and money broking	100%

* The Group's interest in the trading results is 90%.

Subsidiary undertakings	Country of incorporation	Principal Activities	Issued ordinary shares, all voting
Collins Stewart (CI) Limited	Guernsey	Stockbroking	100%
Collins Stewart (Offshore) Limited (formerly Insinger de Beaufort (International) Limited)	Guernsey	Stockbroking and asset management	100%
Collins Stewart Portfolio Management Limited (formerly Collins Stewart Asset Management Limited)	Guernsey	Investment fund management	100%
Tullett Prebon Information Limited (formerly Tullett Financial Information (C.I.) Limited)	Guernsey	Information sales	100%
Tullett Liberty (Hong Kong) Limited	Hong Kong	Derivatives and money broking	100%
Tullett Prebon (Hong Kong) Limited (formerly Prebon Yamane (Hong Kong) Limited)	Hong Kong	Derivatives and money broking	100%
PT. Inti Tullett Prebon Indonesia (formerly PT Inti Prebon Moneybrokers)	Indonesia	Derivatives and money broking	57%
Tullett Liberty Japan Limited	Japan	Derivatives and money broking	100%
Tullett Prebon Money Brokerage (Korea) Limited	Korea	Derivatives and money broking	100%
Tullett Prebon (Luxembourg) S.A. (formerly Prebon Yamane (Luxembourg) S.A.)	Luxembourg	Derivatives and money broking	100%
Brondgeest Van Hees International Securities BV (formerly Tullett Liberty Nederland B.V.)	Netherlands	Securities broking	100%
Tullett Liberty B.V.	Netherlands	Holding company	100%
Prebon Holdings B.V.	Netherlands	Holding company	100%
Tullett Prebon (Philippines) Inc. (formerly Prebon Philippines Inc.)	Philippines	Derivatives and money broking	51%
Prebon Yamane (Polska) SA	Poland	Derivatives and money broking	100%
Tullett Liberty (Energy) Holdings Pte. Ltd.	Singapore	Holding company	100%
Tullett Liberty (Oil & Energy) Pte. Ltd.	Singapore	Energy broking	100%
Tullett Liberty Pte. Ltd.	Singapore	Derivatives and money broking	100%
Tullett Prebon Energy (Singapore) Pte. Ltd. (formerly Prebon Energy (Singapore) Pte. Ltd.)	Singapore	Derivatives and money broking	100%
Tullett Prebon (Singapore) Limited (formerly Prebon Yamane (Singapore) Limited)	Singapore	Energy broking	100%
Prebon Yamane Financial Services (Singapore) Pte Limited	Singapore	Derivatives and money broking	100%
Cosmorex A.G.	Switzerland	Money broking	100%
Cosmorex Holdings A.G.	Switzerland	Holding company	100%
Collins Stewart Inc.	USA	Stockbroking	100%
CS Tullett Holdings Corp.	USA	Holding company	100%
Fulton Prebon Administration Services LLC	USA	Holding company	100%
Prebon Energy Inc	USA	Energy broking	100%
Prebon Financial Products Inc.	USA	Securities broking	100%
Prebon Futures Inc.	USA	Derivatives	100%
Prebon Securities Inc.	USA	Securities broking	100%
Prebon Yamane (USA) Inc.	USA	Derivatives and money broking	100%
Tullett Liberty Brokerage Inc.	USA	Securities broking	100%
Tullett Liberty Inc.	USA	Derivatives and money broking	100%
Tullett Liberty Securities Inc.	USA	Securities broking	100%
Tullett Prebon Holdings Corp. (formerly Collins Stewart Tullett Holdings Inc.)	USA	Holding company	100%

All the above subsidiary undertakings are owned indirectly, with the exception of Collins Stewart Limited, FPG Holdings Limited and Tullett Prebon Limited, which are owned directly. They all have a 31 December year end with the exception of Prebon Limited (Japan branch), which has a 31 March year end.

Joint Venture and Associates	Country of incorporation	Principal Activities	Issued ordinary shares, all voting
Berkshire Investment Managers LLP	Great Britain	Proprietary trading	50%
Tullett Liberty (Bahrain) Company W.L.L.**	Bahrain	Derivatives and money broking	49%
Tullett Prebon SITICO (China) Limited	China	Derivatives and money broking	33%
Parekh (Forex) Private Limited	India	Derivatives and money broking	26%
Prebon Yamane (India) Limited	India	Derivatives and money broking	48%
Fulton Prebon (Malaysia) Sdn Bhd	Malaysia	Derivatives and money broking	25%
Wall Street Tullett Liberty Limited	Thailand	Derivatives and money broking	49%
Wall Street Tullett Liberty Securities Limited	Thailand	Derivatives and money broking	49%

** The Group's interest in the trading results is 85%. The company is not consolidated as the Group does not have sufficient voting control to govern the financial and operating policies

All associates are held indirectly. They all have a 31 December year end with the exception of Parekh (Forex) Private Limited, which has a 31 March year end.

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

This is the first year that the company has presented its financial statements under International Financial Reporting Standards (IFRS). The last financial statements under UK GAAP were for the year ended 31 December 2004 and the date of transition to IFRS was therefore 1 January 2004. The following disclosures are required in the year of transition.

The Group has applied IFRS 1 *First time adoption of International Financial Reporting Standards* to provide a starting point for reporting under IFRS. The date of transition to International Financial Reporting and Accounting Standards was selected as 1 January 2004 and all comparative information in these financial statements has been restated to reflect the Group's adoption of International Financial Reporting Standards.

IFRS 1 contains a number of exemptions which companies are permitted to apply. The Group has elected:
– to present comparative information in accordance with IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement";
– not to restate its financial information for acquisitions occurring before 1 January 2004;
– to deem cumulative translation differences to be zero at 1 January 2004;
– to recognise all actuarial gains and losses on pensions and other post-retirement benefits directly in equity attributable to equity holders of the parent at 1 January 2004;
– to treat goodwill and fair value adjustments arising on acquisitions before the date of transition to IFRS as sterling denominated assets and liabilities;
– to apply IFRS 2 to all grants of equity instruments after 7 November 2002 that had not vested as of 1 January 2005.

Reconciliation of equity at 1 January 2004

The effect of the changes to the Group's accounting policies on the equity of the Group at the date of transition, 1 January 2004 was as follows:

	Note	31 December 2003 UK GAAP £m	Effect of transition to IFRS £m	1 January 2004 IFRS £m
Non-current assets				
Goodwill	**a**	282.2	–	282.2
Other intangible assets	**b**	–	5.3	5.3
Land, buildings, furniture, fixtures and equipment	**b**	25.6	(5.3)	20.3
Interests in associates	**c**	8.0	0.4	8.4
Other financial assets	**d**	1.7	2.2	3.9
Deferred tax assets	**e**	8.5	7.5	16.0
		326.0	10.1	336.1
Current assets				
Trade and other receivables	**f**	437.3	73,837.0	74,274.3
Trading investments	**g**	54.6	1.4	56.0
Cash and cash equivalents		209.9	–	209.9
		701.8	73,838.4	74,540.2
Total assets		1,027.8	73,848.5	74,876.3
Current liabilities				
Trade and other payables	**f**	(490.4)	(73,837.0)	(74,327.4)
Financial liabilities	**h**	(2.8)	–	(2.8)
Retirement benefit obligation	**i**	–	(2.0)	(2.0)
Tax liabilities		(27.5)	-	(27.5)
Interest bearing loans and borrowings	**j**	(25.2)	–	(25.2)
Short-term provisions	**k**	(9.7)	9.7	–
		(555.6)	(73,829.3)	(74,384.9)
Non-current liabilities				
Interest bearing loans and borrowings	**j**	(45.5)	–	(45.5)
Retirement benefit obligation	**i**	–	(28.5)	(28.5)
Deferred tax liabilities		(2.0)	–	(2.0)
Long-term provisions		(2.6)	–	(2.6)
Other long-term payables	**i**	(26.3)	24.4	(1.9)
		(76.4)	(4.1)	(80.5)
Total liabilities		(632.0)	(73,833.4)	(74,465.4)
Net assets		395.8	15.1	410.9
Equity				
Share capital		47.3	–	47.3
Share premium account		195.9	–	195.9
Merger reserve		100.4	–	100.4
Retained earnings	**n**	44.6	15.1	59.7
Total shareholders' equity		388.2	15.1	403.3
Minority interest		7.6	–	7.6
Total equity		395.8	15.1	410.9

Reconciliation of equity at 31 December 2004

The effect of the changes to the Group's accounting policies on the equity of the Group at the date of the last annual financial statements presented under UK GAAP, 31 December 2004 was as follows:

	Note	31 December 2004 UK GAAP £m	Effect of transition to IFRS £m	1 January 2005 IFRS £m
Non-current assets				
Goodwill	**a**	403.9	17.4	421.3
Other intangible assets	**b**	–	9.3	9.3
Land, buildings, furniture, fixtures and equipment	**b**	31.3	(9.3)	22.0
Interests in associates	**c**	1.9	(0.9)	1.0
Other financial assets	**d**	3.5	2.2	5.7
Derivative financial instruments		–	6.5	6.5
Deferred tax assets	**e**	29.4	8.4	37.8
		470.0	33.6	503.6
Current assets				
Trade and other receivables	**f**	402.1	71,196.3	71,598.4
Trading investments	**g**	136.6	(43.2)	93.4
Cash and cash equivalents		139.9	43.2	183.1
		678.6	71,196.3	71,874.9
Total assets		1,148.6	71,229.9	72,378.5
Current liabilities				
Trade and other payables	**f**	(410.9)	(71,198.6)	(71,609.5)
Financial liabilities	**h**	(27.4)	–	(27.4)
Retirement benefit obligation	**i**	–	(1.5)	(1.5)
Tax liabilities		(23.3)	–	(23.3)
Interest bearing loans and borrowings	**j**	(16.1)	–	(16.1)
Short-term provisions	**k**	(11.9)	11.9	–
Derivative financial instruments	**l**	–	(4.0)	(4.0)
		(489.6)	(71,192.2)	(71,681.8)
Non-current liabilities				
Interest bearing loans and borrowings	**j**	(150.6)	(1.2)	(151.8)
Retirement benefit obligation	**i**	–	(36.9)	(36.9)
Long-term provisions	**c**	(11.8)	2.3	(9.5)
Other long-term payables	**i**	(26.1)	23.0	(3.1)
Financial liabilities	**l**	–	–	–
		(188.5)	(12.8)	(201.3)
Total liabilities		(678.1)	(71,205.0)	(71,883.1)
Net assets		470.5	24.9	495.4
Equity				
Share capital		53.0	–	53.0
Share premium account		249.7	–	249.7
Merger reserve		121.5	–	121.5
Hedging and translation reserve	**m**	–	(0.4)	(0.4)
Retained earnings	**n**	40.8	25.3	66.1
Total shareholders' equity		465.0	24.9	489.9
Minority interest		5.5	–	5.5
Total equity		470.5	24.9	495.4

Notes to the reconciliation of equity due to IFRS

a Under UK GAAP goodwill was amortised over a period not exceeding 20 years. Adoption of IFRS has resulted in the Group ceasing annual goodwill amortisation and testing for impairment annually at the cash-generating unit level.

b On transition to IFRS the Group has recognised "Other intangible assets" in relation to purchased software, software licences and internally developed software. The effect of this was to reclassify balances previously held in "Land, buildings, furniture, fixtures and equipment" and balances held in "Accumulated depreciation: land, buildings, furniture, fixtures and equipment".

c UK GAAP always required losses from an associate to be deducted from the associate's carrying value. However, IFRS requires that an interest in an associate cannot fall below zero unless there is a demonstrable commitment to the associate to make good the investors' share of the losses (which would be recognised as a provision). On transition this has therefore resulted in an adjustment to "Interests in associates" and a corresponding adjustment to "Retained earnings".

d Under UK GAAP financial assets now classified as "available-for-sale", such as the shares held in Euroclear were carried at cost. Under IFRS these assets and their deferred tax impact are carried at fair value with changes in fair value being recognised through the statement of recognised income and expense. The resulting fair value adjustment to financial assets and the related deferred tax adjustment have been included in "Retained earnings".

e Under IFRS the deferred tax asset that was previously netted against the defined benefit pension liability has been reclassified to "Deferred tax assets". The tax effects of the other relevant IFRS adjustments on transition also adjust this balance.

f Under IFRS it is no longer possible for the Group to follow the convention whereby matched principal transactions are offset in the balance sheet until settlement date. These have now been grossed-up and included in "Trade and other receivables" and "Trade and other payables".

g Under IFRS "Current asset investments" such as securities and deposits to secure clearing facilities, have been reclassified as "Trading investments". Previously unrecognised gains on financial instruments have also been included within "Trading investments".

h Under IFRS "Securities - short positions" which were previously included within "Creditors: amounts falling due within one year" have been reclassified as "Financial liabilities".

i Under UK GAAP the pension deficit and its related deferred tax asset was recognised on the acquisition of Tullett Liberty and included net in "Other long-term payables". The choice has been taken to recognise all actuarial gains or losses through the SORIE. On transition to IFRS, the deferred tax asset in relation to the defined benefit pension scheme was reclassified to "Deferred tax assets" (see point e. above) and the pension deficit has been reclassified from "Other long-term payables" to "Retirement benefit obligation" in current and non-current liabilities.

j The classifications of current and non-current "Interest-bearing loans and borrowings" includes: obligations under finance leases, overdrafts, subordinated loans and loan notes previously classified within "Creditors: amounts falling due within one year" and "Creditors: amounts falling due after more than one year", respectively.

k Dividends declared after the balance sheet date accrued in the balance sheet under current UK GAAP will be treated as a non-adjusting post balance sheet event under IFRS. Therefore, the dividend accrued previously has been removed and retained earnings adjusted accordingly.

l Non-current "Financial liabilities" include derivative financial instruments used to hedge market risk on the required future purchase of shares to satisfy the share option scheme grants and represent the mark to market loss on the equity swap.

m IFRS requires the separate recognition of a cumulative foreign currency translation reserve in relation to the translation of investments in foreign operations. On transition to IFRS as at 1 January 2004, this reserve was reset to nil. All translation gains and losses have been reclassified from "Profit and loss reserve".

n The following illustrates the adjustments to retained earnings:

	1 January 2004 £m	31 December 2004 £m
Interests in associates (note c)	0.4	1.4
Other financial asset revaluation (note d)	2.2	2.2
Trading investment gain (note g)	1.4	0.4
Recognition of movement in retirement benefit obligation (note i)	4.6	4.5
Dividends declared post balance sheet date (note k)	9.7	11.9
Financial liabilities (note l)	–	(3.9)
Amortisation of goodwill	–	17.4
Pension costs and interest	–	(1.0)
Transfer to hedging and translation reserve (note m)	–	0.4
Actuarial losses on defined benefit schemes	–	(5.6)
Tax effect of the above	(3.2)	(2.4)
	15.1	25.3

The adoption of IFRS also resulted in an increase in share option expense of £1.6m. No restatement of reserves is required because there is a corresponding credit to reserves.

Reconciliation of profit for the year ended 31 December 2004
The changes in the accounting policies had the following effect on the profit reported for the year ended 31 December 2004:

	Note	31 December 2004 UK GAAP £m	Effect of transition to IFRS £m	Year to 31 December 2004 IFRS £m
Revenue		583.9	–	583.9
Administrative expenses	i	(565.4)	17.3	(548.1)
Other operating income		3.5	–	3.5
Net interest receivable	ii	0.6	(0.6)	–
Finance income	ii	–	15.5	15.5
Finance costs	ii	–	(19.2)	(19.2)
Loss on sale of business		(0.9)	(0.5)	(1.4)
Profit before tax		21.7	12.5	34.2
Tax expense	iii	(14.0)	(0.5)	(14.5)
Profit after tax		7.7	12.0	19.7
Share of results of associates	iv	–	1.0	1.0
Net profit		7.7	13.0	20.7
Attributable to minority interests		(0.8)	–	(0.8)
Profit for the period attributable to shareholders		6.9	13.0	19.9

Notes to the reconciliation of profit due to IFRS

i Adjustments to administrative expenses for IFRS are as follows:
- Reversal of amortisation of goodwill, resulting in a credit to the income statement.
- Difference arising on the calculation of share option charges under UITF 38 (UK GAAP) and IFRS resulting in a credit to the Income Statement.
- Change in accounting for hedges being a charge to the Income Statement.

ii IFRS requires that financial instruments that give rise to a financial asset or financial liability be recognised in the financial statements where they can be identified and reliably measured. The Group entered into a number of transactions during 2004 that require recognition under IFRS that were not recognised under UK GAAP. Items that have been included under Finance income and Finance costs are as follows:
- Unrecognised losses on the equity swap (Finance costs).
- Unrecognised gains on interest rate swaps (Finance income).
- Interest expense reclassified as Finance costs.
- Interest receivable reclassified Finance income.
- Interest costs on defined benefit pension plan liabilities (Finance costs).
- Expected return on defined benefit pension plan assets (Finance income).

iii The tax expense reflects the net tax effect of the income statement adjustments outlined above.

iv The share of results of associates is reported net of tax. The increase relates to the equity share of losses, which are not required to be taken up under IFRS (also refer to note (c) above) and the removal of goodwill amortisation, which does not arise under the IFRS impairment test.

Explanations of material adjustments to the cash flow statement for 2004

There have been no material adjustments to the cash flow statement for the year ended 31 December 2004 resulting from transition to IFRS. However, the presentation of the Consolidated Cash Flow Statement has changed, whereby cash flows are classified as operating, investing or financing and short term investments are now included as cash equivalents.

independent auditors' report to the members of collins stewart tullett plc on the company financial statements

We have audited the individual company financial statements of Collins Stewart Tullett plc for the year ended 31 December 2005 which comprise the balance sheet and the related notes 1 to 13. These individual company financial statements have been prepared under the accounting policies set out therein.

The corporate governance report and the report on directors' remuneration are included in the group annual report of Collins Stewart Tullett plc for the year ended 31 December 2005. We have reported separately on the group financial statements of Collins Stewart Tullett plc for the year ended 31 December 2005 and on the information in 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
The directors' responsibilities for preparing the annual report and the individual company financial statements in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the individual company financial statements give a true and fair view in accordance with the relevant financial reporting framework and whether the individual company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you 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 is not disclosed.

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

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the individual company financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, 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 individual company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the individual company financial statements.

Opinion

In our opinion:

- the individual company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005; and
- the individual company financial statements have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
London, United Kingdom

27 April 2006

company balance sheet

as at 31 december 2005

	Notes	2005 £m	Restated 2004 £m
Fixed assets			
Investment in subsidiary undertakings	4	596.7	571.8
Current assets			
Investments	5	0.1	1.5
Debtors due within one year	6	17.0	30.1
Debtors due after one year	6	–	6.5
Cash at bank and in hand		55.6	11.2
		72.7	49.3
Creditors: amounts falling due within one year	7	(13.5)	(15.8)
Net current assets		59.2	33.5
Total assets less current liabilities		655.9	605.3
Creditors: amounts falling due after more than one year	7	(170.0)	(148.3)
Provisions for liabilities and charges	8	–	(0.5)
Net assets		485.9	456.5
Capital and reserves			
Called-up share capital	9	53.1	53.0
Share premium account	10	250.9	249.7
Merger reserves	10	121.5	121.5
Profit and loss account	10	60.4	32.3
Shareholders' funds		485.9	456.5

The financial statements were approved by the board of directors and authorised for issue on 27 April 2006 and are signed on its behalf by:

Terry Smith
Chief Exectuive

1. Significant accounting policies

Basis of accounting
The separate financial statements of the company are presented as required by the Companies Act 1985. They have been prepared under the historical cost convention, modified by the inclusion of derivative financial instruments at fair value as described below, and in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice.

The principle accounting policies are summarised below. They have all been applied consistently throughout the year and preceding year, except for where changes have been made to previous policies on the adoption of new accounting standards during the year.

For the year ended 31 December 2005 the Company has adopted FRS 20: Share-based payments, FRS 21: Events after the balance sheet date, FRS 25: Financial instruments: Disclosure and Presentation, FRS 26: Financial instruments: Measurement and FRS 28: Corresponding amounts.

The adoption of each of these standards represents a change in accounting policy and the comparative figures have been restated accordingly. Details of the effect of the prior year adjustments are given in note 11.

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

For investments in subsidiaries acquired for consideration, including the issue of shares qualifying for merger relief, cost is measured by reference to the nominal value only of the shares issued. Any premium is ignored.

Derivative financial instruments
Derivative financial instruments classified within debtors and creditors, such as cross currency interest swaps and equity swaps are stated at fair value.

Any gains or losses arising from the changes in fair value are taken directly to the profit and loss account.

The Company does not currently designate derivative financial instruments as hedging instruments.

Share-based payments
Financial Reporting Standard 20: Share-based payment has been applied to all grants of equity instruments after 7 November 2002 that had not vested as of 1 January 2005 in accordance with the transitional provisions of that standard.

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

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

Foreign currencies
Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on retranslation are included in net profit or loss for the year.

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

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

After initial recognition, interest-bearing loans and borrowings are measured at amortised cost using the effective interest rate method. Amortised cost is calculated taking into account any issue costs, and any discounts or premium on settlement.

Gains and losses are recognised in the profit and loss account when the liabilities are derecognised or impaired, as well as through the amortisation process.

Taxation
Current taxation is provided at amounts expected to be paid (or recovered) using the tax rates and 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 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 Company's taxable profits and its results as stated in the financial statements that arise from the inclusions of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not they will be recovered. Deferred tax assets and liabilities are not discounted.

Cash flow statement
The results, assets and liabilities of the Company are included in the consolidated financial statements of Collins Stewart Tullett plc. Consequently, the Company has taken advantage of the exemption available from preparing a cash flow statement under the terms of FRS1 (revised): Cash flow statements.

2. Profit for the year

As permitted in section 230 of the Companies Act 1985 the Company has elected not to present its own profit and loss account for the year. Collins Stewart Tullett plc reported a profit for the financial year ended 31 December 2005 of £47.3m (2004 restated: £30.5m)

The auditors' remuneration for the audit services to the Company was £0.2m (2004: £0.2m).
The auditor's remuneration for non-audit services to the Company was £1.5m (2004: nil)

In 2004 an additional £1.2m was paid to Deloitte & Touche LLP, the Group's auditor, in connection with the acquisition of the Prebon Group and accompanying fundraising in October 2004. This fee was capitalised as part of the cost of acquisition as is classified as an investment in subsidiary undertakings.

3. Directors' emoluments and employee information

Certain directors are remunerated by the Company for their services to the Group as a whole. Full details of Directors' emoluments are given in the report on directors' remuneration in the Group consolidated financial statements. Amounts paid by the Company were as follows:

	2005 £m	2004 £m
Emoluments of employees, including Directors, comprised:		
Wages and salaries	3.8	3.9
Social security costs	0.4	0.4
Share based payments	0.1	0.1
	4.3	4.4

The Company had an average of 8 employees (including Directors) in 2005 (2004: 9).

4. Fixed asset investments

	Shares in subsidiary undertakings £m	Loans to subsidiary undertakings £m	Total £m
Cost			
At 1 January 2005	468.4	103.4	571.8
Reclassification from debtors	–	14.5	14.5
Revision to previous purchase consideration estimate	(0.3)	–	(0.3)
Exchange rate movement	–	10.7	10.7
At 31 December 2005	468.1	128.6	596.7

A detailed list of investments in subsidiaries can be found in note 41 of the Group financial statements.

A loan to a subsidiary of £14.5m was reclassified from debtors due within one year during 2005.

5. Investments

	2005 £m	2004 £m
Listed in the UK	–	0.4
Other investments	0.1	1.1
	0.1	1.5

6. Debtors

	2005 £m	2004 £m
Amounts falling due within one year:		
Amounts owed by group undertakings	3.1	17.1
Corporation tax	0.2	1.4
Deferred tax	0.1	0.2
Other debtors	7.6	10.7
Prepayments and accrued income	0.6	0.7
Derivative contracts	5.4	–
	17.0	30.1
Amounts falling due after one year:		
Derivative contracts	–	6.5
	17.0	36.6

Included in amounts owed by Group undertakings is nil (2004: £6.0m liability) in relation to the fair value of derivative contracts entered into with a subsidiary company.

7. Creditors

	2005 £m	2004 £m
Amounts falling due within one year:		
Amounts owed to Group undertakings	5.7	–
Loan notes	0.1	1.1
Accruals and deferred income	7.7	14.7
	13.5	15.8
Amounts falling due after one year:		
Derivative contracts	1.2	–
Amounts owed to Group undertakings	20.2	–
Eurobond	148.6	148.3
	170.0	148.3

Included in amounts owed to Group undertakings in 2005 was a £0.9m liability (2004: nil) in relation to the fair value of derivative contracts entered into with a subsidiary company.

Maturity profile of borrowings

Within one year	0.1	1.1
Between two and five years	148.6	148.3
	148.7	149.4

Loan notes

Guaranteed unsecured loan notes were issued by the Company in March 2003, of which £0.1m were outstanding at the year end (2004:£1.1m). The loan notes, which are secured by cash deposits of the same amount, 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.

Eurobond

In August 2004 £150m 8.25% Step-Up Coupon Subordinated Notes due 12 August 2014 were issued. The notes, which are unsecured, are callable by the Company at any time after 12 August 2009 ("the Call Date"). After the Call Date the notes will bear interest calculated at 3.5% over the gross redemption yield of a gilt with a comparable maturity date.

8. Provisions for liabilities and charges

	£m
Cost	
Carrying amount at 1 January 2005	0.5
Unused amounts reversed during the period	(0.5)
Carrying amount at 31 December 2005	–

9. Called-up share capital

	2005 No. (m)	2004 No. (m)
Authorised		
Ordinary shares of 25p	284.7	284.7
Allotted, issued and fully paid		
Ordinary shares of 25p	212.3	211.8

	2005 £m	2004 £m
Authorised		
Ordinary shares of 25p	71.2	71.2
Allotted, issued and fully paid		
Ordinary shares of 25p	53.1	53.0

Movements during the Year

During the year 200,000 shares were allotted at 316p per share and 220,000 shares were allotted at 349p per share upon exercise of options granted under the Company's share option schemes. The Company has one class of ordinary shares, which carry no right to fixed income.

10. Reconciliation of shareholders' funds

	Called up share capital £m	Share premium account £m	Merger reserve £m	Profit and loss account £m	Total shareholders' funds £m
Shareholders' funds as at 31 December 2004 as previously stated	53.0	249.7	121.5	26.7	450.9
Prior year adjustments	–	–	–	5.6	5.6
Shareholders' funds as at 1 January 2005 as restated	53.0	249.7	121.5	32.3	456.5
Profit for the year	–	–	–	46.3	46.3
Dividend paid	–	–	–	(18.3)	(18.3)
Credit arising on share options	–	–	–	0.1	0.1
Share issues Issue of ordinary shares	0.1	1.2	–	–	1.3
Balance at 31 December 2005	53.1	250.9	121.5	60.4	485.9

11. Prior year adjustments

The Company policies for accounting for share-based payments, dividends and for derivative financial instruments were changed in 2005 following the introduction of new financial reporting standards FRS 20, FRS 21 and FRS 26. The comparative figures in the primary statements and disclosure notes have been restated to reflect the new policies.

The effects of the changes in policies are summarised below:

Profit and loss account	2004 £m
Fair value accounting on derivative financial instruments	(3.6)
Taxation	(2.7)
Dividends	11.9
Decrease in profit in the financial year	5.6
Balance sheet	
Debtors due within one year	(9.3)
Debtors due after one year	6.5
Creditors: amounts falling due within one year	8.4
	5.6

The adoption of FRS 20 resulted in a reduction in share option expense of £6.8m. Previously the Company accounted for share options granted to employees under UITF38: Accounting for ESOP trusts. The adoption of FRS 20 has not affected net assets because there is a corresponding debit to reserves. The increase in taxation of £2.7m above was caused by the reduction of this expense.

The adoption of FRS 21 has resulted in an increase in net assets of £11.9m at 31 December 2004 due to the write back of the dividend proposed on 18 March 2005.

The adoption of FRS 26 has resulted in a decrease in net assets of £3.6m at 31 December 2004 due to derivative contracts being recognised on the balance sheet at fair value. These contracts were previously held off balance sheet.

12. Share-based payments

The Company recognised total expenses of £0.1m (2004: £0.1m) related to equity settled share-based payments during the year. Full details of all share option plans are included in the Group financial statements.

13. Contingent liabilities

The Company has guaranteed Collins Stewart Limited's obligations under leases in respect of the 8th and 9th floors of 88 Wood Street office. The 9th floor lease expires in 2020 and the annual rental and service charge is £1.3m and the 8th floor lease expires in 2011 and the annual rental and service charge is £0.4m.

The Company has also guaranteed Collins Stewart (CI) Limited's obligations under a lease for Hirzel House in Guernsey. The lease expires in 2012 and the annual rental and service charge is £0.1m.

The Company has guaranteed the obligations of the trustee of the Company's ESOT in respect of the equity swap entered into to hedge the Company's obligations under the Tullett Liberty Equity Incentive Plan. The contingent liability amounts to £7.9m (2004: £7.7m).

notice of annual general meeting

collins stewart tullett plc
registered in england no 3904126

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 8 June 2006 at 2.30pm. The business of the meeting will be:

ORDINARY BUSINESS (all proposed as Ordinary Resolutions)

To consider and, if thought fit, pass the following resolutions:

1. To receive the audited accounts for the year ended 31 December 2005 together with the reports of the directors and the auditors thereon.

2. To approve the report on directors' remuneration.

3. To elect as a director Richard Kilsby (chairman of the Audit Committee and member of the Remuneration and Nominations Committees) who has been appointed to the Board since the last Annual General Meeting.

4. To re-elect as a director Keith Hamill who retires by rotation (member of the Nominations Committee).

5. To re-elect as a director Terry Smith who retires by rotation.

6. To re-elect as a director Bernard Leaver who retires by rotation (member of the Nominations and Remuneration Committees).

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 2005 be declared payable at the rate of 11p per share on 15 June 2006 to shareholders registered at the close of business on 26 May 2006.

SPECIAL BUSINESS

To consider and, if thought fit, pass the following resolutions:

Ordinary Resolution

9. That the authority to allot relevant securities (as defined in section 80 of the Companies Act 1985) 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 from the date of the passing of this resolution, whichever is the earlier, and for that period, the "section 80 amount" (as defined under the Company's articles of association) shall be £17,694,844.

Special Resolutions

10. That, subject to the passing of resolution 9 set out in the notice of annual general meeting of the Company convened for 8 June 2006, the directors of the Company be and they are hereby empowered pursuant to section 95 of the Companies Act 1985 ("the Act") to allot equity securities (as defined in section 94 of the Act) pursuant to the authority conferred upon them by that resolution as if section 89 (1) of the Act did not apply to any such allotment provided that the power conferred by this resolution, unless previously revoked or varied by special resolution of the Company in general meeting, shall be limited:

(a) to the allotment of equity securities in connection with an issue by way of rights (including, without limitation, under a rights issue, open offer or similar arrangement) in favour of ordinary shareholders on the register on a date fixed by the directors where the equity securities respectively attributable to the interest of all such shareholders are proportionate (as nearly as practicable) to the respective numbers of the ordinary shares held by them on that date subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient to deal with fractional entitlements, record dates or other legal or practical difficulties under the laws of, or the requirements of, any relevant regulatory body or any stock exchange in, any territory or as regards shares held by an approved depository or shares in issue in uncertificated form; and

(b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal amount of £2,654,226

and this power shall expire at the conclusion of the next annual general meeting of the Company or (if earlier) fifteen months from the date of the passing of this resolution save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired. All previous authorities under section 95 of the Act shall cease to have effect (save to the extent that the same are exercisable pursuant to section 95(4) of the Act by reason of any offer or agreement made prior to the date of this resolution which would or might require equity securities to be allotted on or after that date). The power conferred on the directors by this resolution 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.

11. 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 21,233,813;

(b) the minimum price which may be paid for an ordinary share shall be 25p (exclusive of expenses payable by the Company in connection with the purchase);

(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 (exclusive of expenses payable by the Company in connection with the purchase);

(d) the authority hereby conferred shall expire at the conclusion of the next annual general meeting of the Company or (if earlier) fifteen months from the date of the passing of this resolution;

(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

27 April 2006

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

Notes:

1. *Every member who is entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and, on a poll, vote in his/her stead. A proxy need not be a member of the Company. Appointment of proxies does not preclude members from attending and voting at the meeting should they wish to do so. 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 (together with a power of attorney or other authority (if any) under which it is signed or a certified copy thereof) 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, 6 June 2006 or on the date two days before any adjourned meeting (as the case may be) shall be disregarded in determining the rights of any member to attend or vote at the meeting or 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, 6 June 2006 or on the date two days before the meeting or any adjourned meeting (as the case may be) shall be entitled to attend and vote at the meeting or any adjourned meeting (as the case may be) in respect of the number of shares registered in his name at that time.*
4. *CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using 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 the terms and conditions of appointment of the Non-executive directors 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 and also at the place of the annual general meeting for a period of fifteen minutes immediately before the meeting until its conclusion.*
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 18 and 19 of the annual report. The Corporate Governance Report set out in the annual report provides additional information recommended by the Revised Combined Code.*

notes