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collins stewart tullett plc
registered in england no: 3904126

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 the leading independent UK stockbroking business.

The inter-dealer broker business trades under the Tullett Liberty and Prebon brands 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 3,300 staff and 43 offices worldwide covering all the significant financial markets.

chairman's statement

The Group achieved satisfactory results, in market conditions which were more challenging than in the previous year. At the same time the strategic development of the business continued with the acquisition of Tullett Liberty in early 2003 being followed by the acquisition of Prebon in October 2004 for £132m. This has created the world's second largest inter-dealer broker and the integration of these two businesses will generate significant value.

Operating profits before goodwill and operating exceptional items, at £90.1m, were marginally ahead of the prior year on a comparable basis. This was a good achievement, given the weak trading conditions in the corporate bond markets, the scale of corporate broking fees in the prior year and a deterioration in the US dollar. Earnings per share before goodwill and exceptional items were up 17% to 32.5p per share.

The Board is recommending an increased final dividend of 5.75p (2003: 5.25p) payable to shareholders on the register on 20 May 2005, subject to the approval of shareholders at the AGM to be held on 2 June 2005. This brings the total dividend to 8.5p per share for the year, an increase of 10%. The increase reflects the Company's performance in 2004 and the encouraging trading outlook.

Following the expansion of the Company a new organisational structure has been developed. Louis Scotto has been promoted to be Chief Executive of the IDB business, from his previous position as Chief Operating Officer of Tullett Liberty. Shane Le Prevost has also been appointed Chief Executive of the Collins Stewart stockbroking businesses, from his previous position as Managing Director of Collins Stewart, Channel Islands. Both Louis and Shane have considerable experience in these sectors. Each of the Divisions now has an Executive Committee which helps oversee and develop their global activities and includes the senior executives working in these businesses. In addition, Stephen Jack has been appointed as Group Finance Director from his previous role as Finance Director of Tullett Liberty.

The year saw several changes to the Company's Board. Helen Smith retired after a long and successful career as our Finance Director. Bruce Collins and Rob Lucas also retired from the Board. Terry Hitchcock retired on 31 March 2005, bringing to a close his long association with the Company. Louis Scotto joined the Board in his role as Chief Executive of the IDB businesses. I am also pleased to report that Michael Fallon joined the Board as a Non-executive director in September 2004. We are continuing to work to strengthen the Non-executive team through recruitment.

We reported last year on litigation with a former employee which affected the Company. That employee has since withdrawn his allegations against the Company and the Financial Services Authority decided to take no action as a result of its investigation into these allegations.

The coming year will be challenging as the integration of Prebon is completed. Early indications, however, are that the process is going well and that the enlarged business will be capable of generating substantially better margins and good returns.

Keith Hamill
Chairman

25 April 2005

operating and financial review

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 based in London with a primary focus on mid market corporate finance and independent research.

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 and prior year performance and contains both trend analysis and key performance indicators to facilitate interpretation of results. Turnover 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.

OVERVIEW OF 2004

The main development during the year 2004 was the strengthening and deepening of the IDB business through the acquisition of Prebon in October. Unlike the acquisition of Tullett Liberty, which represented a diversification of the Group's revenues, the acquisition of Prebon was intended to gain critical mass in the IDB sector and to improve returns. Prebon was an ideal acquisition target for the Group because of its complementary product range and geographical coverage. The IDB business represented 80% of turnover (2003: 73%) and 58% of operating profit before goodwill and operating exceptional items (2003: 45%). It is expected that the IDB business will account for a larger percentage of Group results in 2005.

The integration exercise, which commenced immediately following the acquisition of Prebon, is a major project for the Group. Although it is early in the process, the benefits were already showing in the Company's performance before the year end and the target is for the enlarged IDB business to generate significantly better returns than either Tullett Liberty or Prebon could have done on their own.

In reorganising the business we have sought to capitalise on the relative strengths of Tullett Liberty and Prebon. By the end of 2004 a clear management structure had been established at Group, regional and product levels, broker redundancies and desk rationalisation had been substantially completed in Europe and North America, and the rationalisation of premises and infrastructure had commenced. In the period between acquisition and the end of the year the Group incurred some £38.5m of reorganisation costs which were included in the profit and loss account as an operating exceptional item and met contractual completion payments of £10.1m which have been included in goodwill. We believe this £48.6m expenditure to date should deliver some £42m per annum of savings compared to the 2004 cost run rates of the two IDB groups. Some 340 people have left the Group over the same period as a result of this exercise. The main focus for 2005 will be on moving to a final structure for our business in Asia and on completing the transition to single technology and support structures.

Prior to the reorganisation programme, Tullett Liberty had already embarked on its own project to improve margins. A new share incentive plan was established at the beginning of 2004 to drive this process. Whilst Tullett Liberty revenues were slightly lower compared to 2003 on an underlying basis, operating returns after share option charges improved from 10.1% to 11.9% due to a strong management focus on costs and performance.

Whilst the majority of revenues and underlying profits in 2004 were produced by the IDB business, the contribution from the stockbroking business was maintained year on year with operating margins remaining above 30%. This gives the Group a strong and diversified earnings base.

IDB Business

The following tables analyse turnover on a product and regional basis. We have historically produced pro forma financial information to enable easier analysis of the impact of an acquisition and the 2003 comparatives below were produced on that basis. However, Prebon had a March year end, and as a result the production of pro forma results for 2004 was not practicable. The 2004 turnover analysed below therefore includes Prebon's trading from the date of its acquisition on 13 October 2004, as well as that of the North American Energy businesses acquired in June, in accordance with UK accounting standards. The 2003 pro forma turnover represents twelve months trading although Tullett Liberty was only acquired by the Group on 10 March 2003.

Turnover	2004				2003	
	Acquisitions	Continuing	Total		Pro forma	
	£m	£m	£m	%	£m	%
Fixed Income Securities	6.3	173.2	179.5	39	202.3	47
Interest Rate Derivatives	11.9	101.4	113.3	24	100.6	24
Treasury Products	29.0	69.5	98.5	21	72.6	17
Equities	2.5	39.7	42.2	9	42.4	10
Energy	10.6	10.9	21.5	5	1.6	-
Information Sales	0.8	9.1	9.9	2	7.9	2
	61.1	403.8	464.9	100	427.4	100

Turnover	2004				2003	
	Acquisitions	Continuing	Total		Pro forma	
	£m	£m	£m	%	£m	%
Europe	23.8	198.1	221.9	48	194.3	45
North America	25.9	170.1	196.0	42	196.5	46
Asia Pacific	11.4	35.6	47.0	10	36.6	9
	61.1	403.8	464.9	100	427.4	100

Using constant exchange rates and excluding the impact of the Energy businesses acquired in 2003 and 2004, Tullett Liberty pro forma revenues fell by around 3% year on year. Whilst market conditions were volatile and favourable in areas like Foreign Exchange, Credit Derivatives and Oil, the slowdown in new issuance and refinance activity had an impact on the Fixed Income activities in Europe and North America which represent more than 40% of the Tullett Liberty revenues. By contrast, the bulk of Prebon's revenues come from Treasury Products, particularly Cash and Forward FX, and Interest Rate Derivatives which performed strongly over the last two months of the year. As a result of the Prebon acquisition the IDB business has a more broadly based and better balanced profile going forward.

In Europe the underlying performance of the Tullett Liberty business was very similar to 2003 with improved results from Interest Rate and Currency Derivatives offsetting reduced revenues in the Corporate Debt areas. A strong focus on managing costs and eliminating loss making or marginal businesses meant that all product groups, with the exception of Fixed Income Securities, reported better operating profits than in 2003. The Prebon acquisition has enabled management to make further improvements to the overall profile and performance of the European businesses in the Treasury Products, Credit Derivatives and Energy areas and brought in offices in Luxembourg, Zurich and Warsaw.

The North American continuing operations reported revenues 5% down on 2003 using constant exchange rates and excluding the impact of the Energy businesses acquired in 2003 and 2004. Although underlying revenues from Treasury Products were up on last year, this was offset by lower figures for Fixed Income Securities and Interest Rate Derivatives as a result of less favourable markets during the second and third quarters and only a limited increase in activity following the presidential elections. Despite the drop in revenues, operating returns from the region improved through effective management of costs and of under performing desks. As in Europe, the Prebon acquisition has enhanced the region's capability in Treasury Products, as well as in all types of derivatives. The New York and Calgary based power and gas broking businesses acquired from our associate, Natsource LLC in June, and now integrated with Prebon's Energy business, also extended our capability in this product area.

In Asia, the Tullett Liberty business produced underlying revenues and operating returns down on 2003. The Prebon acquisition added operations in Singapore, Hong Kong and Sydney and a Derivatives joint venture in Tokyo. In November, as a consequence of the Prebon acquisition, we sold our investment in Totan Capital Markets to our co-shareholders. Following the acquisition, significant competitor activity in the region has seen us lose brokers and revenues and has led to an acceleration of integration plans for our Hong Kong and Singapore offices.

Revenues from Information Sales, which are mostly in US dollars, were up on 2003 in sterling terms. The inclusion of the Prebon operation develops the scope of this business. Cost control and enhancements to our range of products contributed to a marked improvement in operating profit from this activity.

We have continued our focused investment in technology. The enlarged business will migrate for the most part to Tullett Liberty systems and infrastructure by the end of 2005 which should produce significant reductions in operating costs thereafter.

Stockbroking

Turnover	2004		2003	
	£m	%	£m	%
Smaller Companies	45.1	38.4	64.9	50.8
Larger Companies and QUEST™	25.8	22.0	25.2	19.7
Private Clients	32.0	27.2	27.6	21.6
Investment Trusts	8.9	7.6	6.7	5.2
Fixed Income	5.7	4.8	3.5	2.7
	117.5	100.0	127.9	100.0

Turnover	2004		2003	
	£m	%	£m	%
Market making	13.5	11.5	13.0	10.2
Commissions	47.8	40.7	44.6	34.9
Corporate finance income	42.3	36.0	59.2	46.3
Management fees	13.4	11.4	10.8	8.4
Other	0.5	0.4	0.3	0.2
	117.5	100.0	127.9	100.0

The Collins Stewart stockbroking business achieved a creditable result for the year. Although revenues were down on the previous year, the reduction was all in the Smaller Companies area.

Smaller Companies advised on 40 transactions including nine IPOs during 2004 (2003: 52). The total funds raised during the year was £0.7bn (2003: £1.3bn). The firm won an award for IPO of the Year – Hamworthy Plc (Growth Company Investor). The lower turnover was partly because 2003 had benefited from 2 large AIPOs, but the overall number of transactions was also down. Management attribute this to adverse publicity created for the firm by the press, particularly the FT, following the dismissal of a Smaller Companies salesman in 2003.

The Larger Companies and QUEST™ turnover was up 2% on the previous year. This performance represented a commendable effort in challenging market conditions. Although UK and European equity markets were up between 5% and 10% in 2004, activity levels across those markets remained subdued.

The Private Client business increased funds under management by 9% to £2.5bn. Within this, discretionary funds increased 16% to £1.9bn as part of the continuing drive to develop the discretionary element of the business.

The FTSE Investment Trust index outperformed the FTSE All Share Index by 3.5% and the firm benefited both from an upsurge in market activity and from a greater level of corporate business. The team carried out one of the sector's largest fundraisings in 2004 for the Invesco UK Property Income Trust.

The Fixed Income team revenues benefited from the first contribution by the new Convertibles team, who joined in April. Revenues were also generated by a new automated trading service to which the team now acts as retail service provider of preference share prices.

Other

The Company is continuing to pursue its libel claim against the owner of the Financial Times. During the year the claim for special damages was rejected by the court, but the main case is expected to be heard in 2005. We would expect that the FSA's conclusion of its investigation into allegations made by a former employee (who dropped his case for constructive dismissal) without any action being taken will assist the Company in this litigation.

In December Collins Stewart entered into a settlement with the FSA and other firms involved in the FSA's long-running split capital investment trust investigation, with no admissions. The settlement means that valuable management time, which had been devoted to this exercise can now be redirected to more productive matters.

FINANCIAL RESULTS

The table below compares the results for the year with those for 2003. The 2004 figures only include the results of the Prebon business from 13 October 2004. The 2003 figures are shown both on a pro forma basis with the Tullett Liberty figures included for the full year and on a statutory basis, with the Tullett Liberty results consolidated only from 10 March 2003.

	2004 £m	2003 Pro forma (Restated) £m	2003 Statutory (Restated) £m
Turnover			
Continuing operations	521.3	555.3	473.9
Acquisitions	61.1	–	–
	582.4	555.3	473.9
Operating profit before goodwill and operating exceptional items			
Continuing operations	86.2	84.7	75.3
Acquisitions	3.9	–	–
	90.1	84.7	75.3
Operating profit	22.0	69.3	61.5
Profit before tax	21.7	74.7	66.9
Earnings per share:			
Basic	3.6p	22.8p	22.2p
Diluted	3.6p	22.4p	21.8p
Basic before goodwill and exceptional items	32.5p	28.8p	27.8p

Notes:

(1) The 2003 comparatives have been restated to take account of UITF 38: Accounting for ESOP Trusts. This gave rise to a reduction (in both the statutory and pro forma numbers) in operating profit in 2003 of £2.5m and a reduction in post tax earnings of £1.7m.

(2) Operating exceptional items are the £10m contribution to the settlement fund established in connection with the FSA investigation into split capital investment trusts and £38.5m costs associated with the reorganisation of the IDB business. There were no operating exceptional items in 2003.

Turnover increased by £27.1m in 2004 compared to the 2003 pro forma numbers; acquisitions contributed £61.1m and therefore underlying Group turnover fell by £34.0m with Tullett Liberty revenues some £23.6m down on the previous year. Using constant exchange rates, and excluding the impact of the Energy businesses acquired in 2003 and 2004, the underlying reduction in Tullett Liberty turnover was £12.4m. UK stockbroking revenues were down some £10.4m year on year.

The Group reported an operating profit of £90.1m before goodwill amortisation and operating exceptional items, an overall improvement of 6% over the prior year pro forma result. Despite the lower turnover from continuing operations compared to the 2003 pro forma, the Group increased its operating profits before goodwill and operating exceptionals from these businesses by £1.5m. Indeed, excluding the additional accounting charges in respect of share options under UITF 38, operating returns increased by £5.9m year on year, an improvement of 7%.

The overall operating margin before goodwill amortisation and exceptional charges at 15.5% was just ahead of the 15.3% pro forma margin for 2003. However, the operating margins from continuing activities at 16.5% indicate a stronger improvement in underlying performance. Tullett Liberty's operating margins improved year on year from 10.1% to 12.6% before option charges and from 10.1% to 11.9%, after option charges. The 6.4% return from acquisitions reflects the higher overhead base of the Prebon business at acquisition and also the fact that the period immediately after the acquisition was one of reorganisation and some inevitable uncertainty for this part of the Group. With the IDB reorganisation process so well advanced by year end we are confident that 2005 margins from the enlarged IDB business before goodwill amortisation and share option costs will exceed those achieved by Tullett Liberty in 2004.

In the Tullett Liberty business average revenues per broker in 2004 were approximately £350,000 (2003: £355,000) and average broker employment costs (excluding share option plan charges) represented 56% of broking revenues (2003: 59%). The average revenue per broker figures for the Prebon group were rather lower than this, and our target is to achieve the Tullett Liberty levels of performance across the enlarged IDB business in 2005. During 2004 the average ratio of brokers to support and management staff within the Tullett Liberty business was just under 2.1:1 (2003: 2.1:1). Our objective is to achieve an improvement in this ratio for the enlarged organisation by the end of 2005.

Following the acquisition of Prebon, the majority of the share options granted earlier in the year lapsed and further options have been granted. The margin targets attaching to the new options have been set for the enlarged IDB business and require margins (before option charges) to increase to 18% before full vesting occurs. These targets will continue to be measured using existing accounting standards despite the introduction of International Financial Reporting Standards during the performance period.

Collins Stewart's operating margin before goodwill amortisation and the operating exceptional item improved from 32.4% to 32.5%, reflecting tight cost control in light of the lower turnover.

Reported basic and diluted earnings per share reflected the £49.4m exceptional items charged to the profit and loss account in respect of the settlement of the FSA's investigation into split capital investment trusts, the costs of reorganising the IDB business and a loss on disposal of associate interests. However, earnings per share before goodwill amortisation and exceptional items rose 17% to 32.5p reflecting the improved performance of the underlying business.

The average return on capital employed during the year measured by dividing reported operating profit before goodwill and operating exceptional items by average shareholders' funds (after adding back cumulative amortised goodwill and the post tax impact of exceptional items) and average long term debt less average cash balances was 20.8% (2003: 23.6%). Total shareholder return was -10% (2003: 44.4%) with the reduction being caused by an 11% fall in the Company's share price.

Exceptional Items

The operating exceptional items comprise Collins Stewart's contribution of £10m to the settlement fund established in connection with the FSA's split capital investment trust investigation and £38.5m costs associated with the reorganisation of the IDB business following the acquisition of Prebon.

In order to present clearly the underlying performance of the IDB business, the one-off costs associated with reorganising the Tullett Liberty and Prebon groups have been separately aggregated and reported as an exceptional item. At the time of the acquisition we estimated that these costs would total approximately £80m by the end of 2005 and that the annualised savings in fixed broker and support costs would be approximately £60m by 2006. By the end of 2004 some £49m of costs had been incurred, the majority of which related to staff redundancies and premises, and future annual savings of £42m are expected to accrue from the exercise completed to date. Some £10m of the reorganisation costs incurred in the period relate to contractual completion payments which were anticipated in the £80m but because of their form and timing have been reported as a component of goodwill in the financial statements. The exceptional restructuring costs shown in the profit and loss statement are therefore £38.5m. We are on course to complete the reorganisation and realise the consequential savings by the end of 2005.

Taxation

The effective rate of tax on profit before exceptional items reduced from 44.7% in 2003 to 40.4% in 2004. The effective rate of tax on profit before exceptional items and goodwill amortisation was 31.6% (2003: 36.6%). In 2004 we have benefited from a number of prior year adjustments and a larger part of the Group's profits have arisen in Europe and lower tax jurisdictions than in the previous year.

Dividends

The Board is proposing a final dividend per share for 2004 of 5.75p. The final dividend, if approved, is payable on 9 June 2005 to shareholders on the register on 20 May 2005. This brings the total ordinary dividend per share to 8.5p, an increase of 10%. The ordinary shares allotted in October to finance the acquisition of Prebon did not receive an interim dividend.

The dividend cover on basic earnings before goodwill and exceptional items was 3.6 (2003: 3.4). The increase in dividend reflects both the Company's strong underlying performance in 2004, good progress with the reorganisation plan and the positive trading outlook for 2005.

The total dividend expense in 2004 of £17.2m is lower than that in 2003 (£18.0m) because the vendors of Tullett Liberty were entitled to the 2002 final dividend (amounting to £3.7m) which was treated as an interim dividend in respect of 2003 because the relevant shares were allotted after the 2002 year end. Shares allotted in October 2004 to finance the acquisition of Prebon did not attract an interim dividend.

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

Acquisitions and Disposals

Prebon was acquired on 13 October 2004 for a consideration of £77.8m including costs, plus assumption of £54.6m gross indebtedness - giving an enterprise value of £132.4m. The Prebon group had net liabilities after fair value adjustments of £60.9m at completion and consequently the goodwill arising on the acquisition amounted to £138.7m, which is being amortised under current accounting standards over 20 years. The main fair value adjustments related to the alignment of accounting policies, the recognition of the FRS17 deficit on the Prebon pension scheme, recognition of deferred tax assets and £10.1m of contracted payments which crystallised on completion.

In June 2004 the Company completed the acquisition of Natsource LLC's energy broking businesses in New York and Calgary. The consideration for the deal was US$ 6.1m in cash. The goodwill arising on the acquisition, amounted to £2.8m, of which £2.3m was written off in 2004, with the balance in respect of the Canadian businesses being amortised over 10 years. At the same time the Group sold its 32% direct investment in NTEL Holdings to Natsource LLC. In November the Company sold its 20% interest in Totan Capital Markets to its associate partners for a consideration of £7m. The book losses arising on the disposal of the interests in Totan Capital Markets and NTEL Holdings amounted to £0.9m.

Receipts from and Returns to Members

During the year the Company issued 21.2m shares pursuant to the acquisition of Prebon with 5.5m shares being issued to the vendors of the business and 15.7m placed in the market. A further 1.5m shares were allotted to satisfy the exercise of share options and deferred consideration owed to the holders of Tullett Liberty preference shares. The total cash raised through share issues net of costs amounted to £58.1m.

There were no returns to members, other than dividends in either 2003 or 2004.

Financing and Treasury

In the first half of 2004, the Company secured credit ratings from both Fitch and Moody's credit agencies. Fitch assigned the Company a long term credit rating of BBB with a stable outlook and Moody's assigned a long term issuer rating of Baa2 with a stable outlook. These ratings have been maintained subsequent to the acquisition of Prebon. On 12 August, the Company completed a £150m Eurobond issue of 8.25% step-up coupon subordinated notes due 2014. The Eurobond was issued to strengthen the Company's regulatory capital base and repay existing borrowings of £47.6m. It is callable by the Company at any time after 12 August 2009, after which point the coupon is also set to be re-priced relative to a comparable gilt.

The acquisition of Prebon was financed by the issue of £76.1m shares and from cash resources. The subsequent reorganisation project is also being financed from cash resources. The Group continues to maintain substantial net liquid resources throughout the trading entities to meet its settlement requirements. At the year end the Group had net funds of £54.8m (2003: £183.5m) and net cash of £125.9m (2003: £176.8m).

There is a strong focus on maintaining liquidity and the tenor of deposits is limited to six months. Regular cash forecasts are carried out to ensure that funds are available to meet business development needs as well as corporate requirements.

Profits of the Group's overseas subsidiaries are translated at average exchange rates. During 2004, based on management's view that the US dollar was likely to remain weak against sterling throughout the year, the Group entered into a number of FX option contracts to reduce the impact of this development on our results. This strategy realised a gain of £1.0m during the year. In addition some 60% of 2004 US dollar revenues and 30% of euro revenues which arose in Tullett Liberty entities reporting in sterling were protected by forward transactions. The benefit of these transactions to the profit and loss account was approximately £0.5m. Similar structures have been used to protect US dollar profits and revenues against sustained US dollar weakness in 2005. In addition some £64m of the Eurobond has been swapped into US dollars to provide a hedge for the Company's net investments in its North American and Hong Kong subsidiaries.

The Company has hedged some 90% of the cost of acquiring shares to satisfy option exercises under the equity incentive scheme established in January 2004 for Tullett Liberty senior management.

Regulatory Capital

The amount of goodwill arising on the acquisition of Prebon required the Company to issue equity in order to maintain a level of Tier 1 capital sufficient to recognise fully its subordinated notes as regulatory capital. Notwithstanding the reorganisation costs and the exceptional items which arose subsequent to the acquisition, all the Group's regulated entities were appropriately capitalised and the Group had an excess of financial resources over its Financial Resource Requirement of more than £50m at the year end.

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.

International Financial Reporting Standards ('IFRS')

From 1 January 2005 the Group will be adopting IFRS in full for its consolidated financial reports including relevant comparative information.

The Company has conducted a detailed review of the implications of the introduction of IFRS for the Group's consolidated accounts. The International Accounting Standards that will have the most significant effect on the Group's reported results are those in relation to goodwill, share-based payments, financial instruments and pensions.

The unaudited known and quantified impact on the 2004 accounts in relation to these items is set out below:

	Income Statement After Tax £m	Statement of Recognised Income and Expense £m	Reserves £m	Net Assets £m
Share-based payments	1.6	–	(1.6)	–
Goodwill	17.9	–	–	17.9
Financial instruments	(2.1)	2.2	–	0.1
Defined benefit pension plan	(1.0)	(6.8)	4.6	(3.2)
Other identified IFRS items	1.0	–	0.4	1.4
Estimated tax effect of above adjustments	(0.7)	1.9	(1.4)	(0.2)
Final dividend	–	–	11.9	11.9
Total increase/(decrease)	16.7	(2.7)	13.9	27.9

During the year the Group recognised a charge for share based payments (option awards) under UITF 38: Accounting for ESOP Trusts. In future the calculation of this charge will be made in accordance with IFRS 2: Share based Payments.

Amortisation of goodwill ceases under IFRS. We have identified the Group's cash generating units and carried out impairment tests as required by IAS 36: Impairment of Assets, and determined that the carrying value of goodwill in the Group's balance sheet is appropriate.

The Group has entered into a small number of off-balance sheet transactions for financial management purposes and these will be recognised in full in the financial statements for accounting periods commencing after 1 January 2005 on a mark-to-market basis in accordance with IAS 39: Financial Instruments - Recognition and Measurement. Also, some financial instruments held at cost under UK GAAP have been re-measured on a mark-to-market basis.

Whilst the deficit arising from the defined benefit section of the Tullett Liberty Pension Scheme was recognised in full in the Group's balance sheet in accordance with FRS 7: Fair Values in Acquisition Accounting on acquisition of that business, in future, in accordance with IAS 19: Employee Benefits, changes in the actuarial estimates of the net liability of the Scheme will be recognised in the Statement of Recognised Income and Expense (the IFRS equivalent of the Statement of Total Recognised Gains and Losses) with the return on assets, the interest expense on the liability and employee service costs being reported in the Income Statement.

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 IAS10: Events after the Balance Sheet Date and thus the final dividend declared for the year to 31 December 2004 will not be accrued in an IFRS balance sheet as at that date.

In addition to the above, under IFRS, it will no longer be possible for the Group to follow the convention whereby matched principal transactions are included in the balance sheet on settlement date. In future these will need to be recorded on a trade date basis, which will cause the Group's gross current assets and current liabilities to increase at 31 December 2004 by £68bn and thereafter fluctuate depending on the level of activity just before the period end. This required reporting treatment under IFRS does not change the Group's risk profile as these transactions are subject to a "delivery versus payment" settlement regime and typically involve high quality assets and counterparties.

In overall terms the transition to IFRS is not expected to affect the Group's risk profile, its cashflow or its regulatory capital.

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 and operational 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 22.

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: 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 thanks to 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 Company;
- 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.

FUTURE DEVELOPMENTS AND OUTLOOK

In January 2005 the Company acquired the Cash Equities broking business of Burlington Capital Markets Inc. in the US which should complement and enhance our existing IDB business in the region. At the end of February we also acquired the minority shareholdings in the Tullett Liberty entities in Singapore from our long-standing local associates.

Since the year end the IDB business has been subject to aggressive recruitment tactics of competitors in the Far East, with the poaching by BGC Partners of over 50 staff from the Prebon Singapore office. We are again forced to resort to the courts to protect our business and are pursuing claims against both the individuals involved and BGC. We have also taken this opportunity to accelerate the reorganisation of our businesses in both Hong Kong and Singapore by commencing the integration of the Prebon and Tullett Liberty offices in those locations.

The main operational focus for 2005 will be on completing the reorganisation of our IDB business. We will maintain management attention on controlling and reducing costs and continue to use equity to incentivise key staff to work towards achieving our aggressive margin targets.

Trading conditions and sentiment continue to improve in the equity markets and interest rate and currency derivative activity levels look promising. Collins Stewart's corporate finance business has a strong order book at this stage in the year.

Although the IDB business now forms the core of the Group's business, we will also look to develop our stockbroking business if suitable situations arise. There are a number of opportunities to develop both of the Group's businesses organically and by acquisition and we intend to explore all such propositions providing they meet our objective of enhancing returns to shareholders. Importantly we have the balance sheet and the capital position to support the Company's future development strategy.

Terry Smith
Chief Executive

25 April 2005

Keith Hamill (aged 52) – 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 Nominations Committee and is currently chairman of the Audit Committee (see explanation in the Corporate Governance Report).

Terry Smith (aged 51) – 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 47) – 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 54) – 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-Back 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 57) – Independent Non-executive Director

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

Michael Fallon MP (aged 52) – Independent Non-executive Director

Michael Fallon joined the Board in September 2004 and is a member of the Audit Committee, the Remuneration 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 scrutinizes 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.

Bernard Leaver (aged 58) – 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 61) – Senior Independent Non-executive Director

John Spencer was appointed a director in September 2000 and is the senior independent Non-executive director, chairman of the Remuneration Committee and a member of the Audit 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 also previously non-executive chairman of Softtechnet.com plc, a director of Numerica Group PLC and Chief Executive of Snell & Wilcox Limited.

The directors present their report, together with the audited financial statements of the Company and its subsidiaries for the year ended 31 December 2004.

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 Liberty and Prebon, and the 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 33.

Results and Dividends

The results of the year are set out in the profit and loss account on page 45.

The directors recommend a final dividend for the year of 5.75p (2003: 5.25p) per ordinary share, bringing the total dividend per ordinary share to 8.5p (2003: 7.75p). The final dividend, if approved, will be paid on 9 June 2005 to ordinary shareholders whose names are on the register on 20 May 2005.

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 – appointed 3 June 2004
David Clark (Independent Non-executive director)
Michael Fallon (Independent Non-executive director)
– appointed 1 September 2004
Bernard Leaver (Independent Non-executive director)
John Spencer (Senior independent Non-executive director)
Bruce Collins – resigned 27 April 2004
Rob Lucas (Non-executive director) – resigned 24 August 2004
Helen Smith – resigned 31 December 2004
Terry Hitchcock – resigned 31 March 2005

Louis Scotto and Michael Fallon were appointed since the last AGM and accordingly offer themselves for election at the forthcoming AGM. In accordance with the Company's Articles of Association, David Clark and John Spencer 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 19 to 20.

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:

	2004 No	2003 No
Keith Hamill	46,299	33,799
Terry Smith	8,800,000	8,800,000
Stephen Jack	146,739	146,739
Terry Hitchcock	660,000	660,000
Louis Scotto	55,612	55,612
Helen Smith	1,550,000	2,125,000
David Clark	–	–
Michael Fallon	–	–
Bernard Leaver	–	–
John Spencer	39,542	39,542

Note: The Collins Stewart Tullett plc Employee Share Ownership Trust held 435,258 shares at 31 December 2004 (2003: 1,285,258) which had not been allocated to staff or were subject to share options. The beneficiaries of the trust are the employees of the Group, including the executive directors. Under schedule 13 of the Companies Act 1985 the executive directors are deemed to be interested in these shares.

Keith Hamill purchased 12,000 shares on 22 April 2005. At the date of this document, there have been no other changes in the above directors' interests in the ordinary share capital of the Company since the year end.

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

Directors' Loans

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

	2004 £000	2003 £000
Terry Hitchcock	145	145
Stephen Jack	150	150

Terry Hitchcock held secured loan notes issued by Collins Stewart Limited. Stephen Jack held guaranteed loan notes issued by the Company which were redeemed on 4 January 2005. The terms of these loan notes are set out in note 23.

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	18,584,182	8.76
Barclays plc	12,784,921	6.03
Legal & General Group plc	8,344,604	3.93
Lazard Freres & Co LLC	6,748,065	3.18
The Collins Stewart Tullett plc Employee Share Ownership Trust*	6,565,258	3.10

* shares held by the ESOT which have not been allocated unconditionally to staff will not be voted at the forthcoming AGM.

Social, Environmental and Ethical Matters

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

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

The Group's risk management process 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 Company's policy that all transactions are settled in accordance with relevant terms and conditions of business agreed with the supplier, provided all such terms and conditions have been complied with. The Company has no trade creditors.

Special Business at the Annual General Meeting

At the Annual General Meeting to be held on 2 June 2005 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 £17,676,511 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 £2,651,476 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 21,211,813 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 32 to the accounts.

Political and Charitable Donations

During 2004 no political donations were made by the Group (2003: nil). Charitable donations amounting to £0.1m (2003: £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
25 April 2005

corporate governance report

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

Throughout the year ended 31 December 2004 the Board believes it has complied with the principles and provisions recommended by the Revised Combined Code with one exception. During the year the Board comprised five Executive directors, four independent Non-executive directors and the Chairman. This did not comply with a provision of the Code. Following changes the Board now comprises three Executive directors, four independent Non-executive directors and the Chairman which fully complies with the structure 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 2004 is outlined below.

Directors

The Board now comprises three Executive directors, four Non-executive directors and the Chairman, whose biographies are set out in pages 19 and 20. 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 the responsibility of dealing with any shareholders who have concerns which contact through the normal channels of chairman, chief executive or group finance director has failed to resolve or for which such contact is inappropriate. The Board believes that these arrangements facilitate the effective management of the business and provide a strong control environment.

The directors' biographies demonstrate a range of experience and sufficient calibre to bring independent judgement on issues of strategy, performance, resources and standards of conduct which is vital to the success of the Group. The Board is responsible to shareholders for the proper management of the Group. A statement of the directors' responsibilities in respect of the accounts is set out on page 42 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			0/2
Stephen Jack	10/10			
Terry Hitchcock	9/10			
Louis Scotto	8/8			
Helen Smith	10/10			
Non-executive directors				
Keith Hamill	10/10	6/6	8/8	2/2
David Clark	10/10	6/6		
Michael Fallon	4/5	1/2	3/4	
Bernard Leaver	10/10		8/8	
John Spencer	8/10	4/6	6/8	2/2

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

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 acquisition of Prebon and the issuing of the Eurobond.

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, Michael Fallon and Louis Scotto will be subject to election as this will be the first AGM after their appointment. The Board considers that Michael Fallon's extensive knowledge of public affairs and the regulatory framework in which the UK business operates will be of value to the Board and accordingly proposes that he should be elected. Louis Scotto, who is Chief Executive of the IDB Division and Chairman of the IDB Division Executive Committee, has 20 years experience in the inter-dealer broking market and accordingly the Board proposes that he should be elected. David Clark and John Spencer 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 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 two Non-executive directors seeking re-election has been reviewed and that each of the directors continues to make a valuable contribution to the Board and demonstrate commitment to his respective role. Resolutions proposing their 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.

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

Audit Committee

The Board has requested Keith Hamill to continue to chair the Audit Committee, as he is the only Non-executive director who can be classified as a "financial expert" for governance and regulatory purposes. The Smith Committee, which was established by the Financial Reporting Council, recommended that the Chairman of the Company should not be a member of the audit committee of UK listed companies. The recommendations of this committee were partially incorporated in the Revised Combined Code by the Financial Reporting Council. However, in view of the need for relevant experience and training, the complexity of the Company's current financial control and regulatory requirements, and the changes taking place in the Group and its financial reporting, the Board has asked Keith Hamill to continue to undertake this responsibility in the best interests of the Company. This decision took account of his general independence and will be kept under review, particularly if the Company is in a position to recruit a Non-executive director with appropriate experience.

The other members of the Audit Committee are John Spencer, David Clark and Michael Fallon, all of who are independent Non-executive directors.

The Company's external auditors, 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 six times during the course of 2004.

Throughout 2004 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 audit during 2004. They confirmed to the Audit Committee that they did not believe that the level of non-audit fees had affected their independence. The Audit Committee additionally considered the professional and regulatory guidance on auditor independence and were satisfied with the auditors' representations. The Audit Committee's policy is to use the most appropriate advisers for non-audit work, taking account of the need to maintain independence. To this end, the Committee concluded that the auditors would be best placed to provide the financial due diligence work required in connection with the acquisition of Prebon. 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 Group carried out a reorganisation of its North American interests during the year and retained the services of another firm of accountants to assist in this project and provide other advice during the year. In this instance, the Audit Committee took into account the fact that the other firm had more relevant experience and expertise to offer.

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 Company'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 John Spencer as Chairman, Michael Fallon and Bernard Leaver, all deemed 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 Chairman was a member in 2004, but has since relinquished this role and is now invited to attend meetings of the Remuneration Committee, except for any discussions concerning his own remuneration.

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

The Chief Executive attends certain parts of meetings of the Remuneration Committee by invitation. Further details of the Company's policies on remuneration, service contracts and share options are given in the Report on Directors' Remuneration.

Nominations Committee

The Nominations Committee is chaired by Keith Hamill (the Chairman) and all of the Non-executive directors are members. Terry Smith (the Chief Executive) was a member of the Committee during 2004 but has since relinquished this role. Rob Lucas was also a member prior to his resignation from the Board.

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 Michael Fallon, having first interviewed a number of candidates, and Louis Scotto. The Committee believes the Company will benefit from Michael Fallon's extensive experience of public affairs and the regulatory environment in which the UK business operates as well as his business experience and independent judgement.

The Nominations Committee did not retain the services of an external search consultancy nor did it advertise for the position offered to Michael Fallon. This was because the Committee was able to identify Michael Fallon as a candidate with appropriate skills without needing further assistance. However, the Nominations Committee is currently retaining the services of external search consultants with a view to strengthening the non executive element of the Board.

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 Company. 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. This has been extended to Prebon since its acquisition in October.

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.

A single Risk Committee was established during the year which has taken on responsibilities previously delegated to the separate risk committees of the stockbroking and IDB businesses. The members of the Risk Committee are the Chief Executive, who acts as chairman, Group Finance Director, the chief executives of the IDB and the stockbroking businesses and the Head of Group Risk Control. 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 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 Groups 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 2004, 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. The FSA is in the process of developing the Integrated Prudential Source Book and the Company is following developments to ensure that the Group is prepared for any new regulatory requirements. The FSA is also expected to alter the calculation of regulatory capital. 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 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 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 John Spencer, who is the Committee's Chairman, Michael Fallon and Bernard Leaver. 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 the current year only the return in excess of cost of capital generated a contribution to the total amounts available for bonuses. 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 amount 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.

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

Non-executive Directors

In 2004 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 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 increased during the year to £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 were significantly lower than the previous year as a result of the Company's poor share price performance.

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

Pensions

Tullett Liberty makes a contribution of 6% of basic pay up to the statutory cap to the Tullett Liberty defined contribution pension scheme in respect of Stephen Jack. During 2004 this contribution amounted to £6,000 (2003: £6,000). In the event of Stephen Jack's death in service, his spouse is entitled to a pension of approximately £25,000 pa.

Details of the development of the Group's liability in respect of Bruce Collins' pension entitlements during 2004 are included in note 26 to the accounts.

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.

Severance Payment

Bruce Collins resigned as a director on 27 April 2004. Under contractual arrangements entered into by Tullett Liberty prior to its acquisition he received £1.75m compensation for loss of office over his notice period.

Helen Smith resigned from the Board with effect from 31 December 2004 and Terry Hitchcock resigned with effect from 31 March 2005. Neither director received any payment in connection with their resignation.

Non-executive Directors

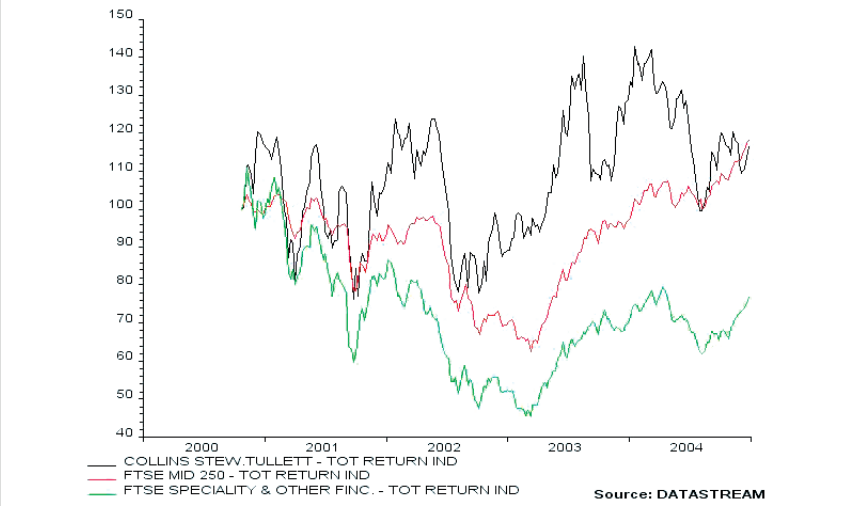
The Chairman receives remuneration of £100,000 pa, the Senior Independent Non-executive director's and Committee Chairmen's remuneration is £36,000 pa and the other Non-executive directors receive £32,000 pa. None of the Non-executive directors receive any benefits from the Company.

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 Speciality and Other Financials Index, measured by total shareholder return from the date of the Company's flotation in October 2000 to the end of December 2004:



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 2004 with comparative information for the year ended 31 December 2003:

	Salaries and Fees		Benefits		Bonuses		Total	
	2004 £000	2003 £000	2004 £000	2003 £000	2004 £000	2003 £000	2004 £000	2003 £000
Executive directors								
Terry Smith	237	100	2	2	2,868	3,400	3,107	3,502
Stephen Jack (v)	263	208	2	2	387	701	652	911
Terry Hitchcock	83	100	2	2	–	600	85	702
Louis Scotto (i)	252	–	2	–	951	–	1,205	–
Bruce Collins (ii)	208	520	1	2	–	1,830	209	2,352
Helen Smith	100	100	1	1	–	800	101	901
Non-executive directors								
Keith Hamill	100	78	–	–	–	–	100	78
David Clark	29	20	–	–	–	–	29	20
Michael Fallon (iii)	11	–		–	–	–	11	–
Bernard Leaver	29	11	–	–	–	–	29	11
John Spencer	34	29	–	–	–	–	34	29
Rob Lucas (iv)	18	24	–	–	–	–	18	24

Notes:

(i) Louis Scotto was appointed to the Board on 3 June 2004.
(ii) Bruce Collins resigned on 27 April 2004. He was paid £1.75m compensation for loss of office.
(iii) Michael Fallon was appointed to the Board on 1 September 2004.
(iv) Rob Lucas resigned from the Board on 24 August 2004.
(v) The above table does not include pension contributions in respect of Stephen Jack.

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 2004	Granted	Lapsed	Options at 31 December 2004	Earliest exercise date	Expiry date	Exercise price
Sharesave scheme 2000							
Terry Smith	5,779	–	–	5,779	1.1.2006	30.6.2006	292p
Helen Smith	5,779	–	–	5,779	1.1.2006	30.6.2006	292p
2003 Share Option Scheme							
Stephen Jack	120,000	–	–	120,000	29.4.2006	28.4.2013	349p
Louis Scotto	120,000	–	–	120,000	29.4.2006	28.4.2013	349p
Tullett Liberty Equity Incentive Plan							
Stephen Jack	–	106,045	102,210	3,835	3.6.2007	2.6.2014	Nil
	–	102,210	–	102,210	13.10.2007	12.10.2014	£1 in total
Louis Scotto	–	212,089	164,369	47,720	13.1.2007	12.1.2014	Nil
	–	212,000	201,894	10,106	22.4.2007	21.4.2014	Nil
	–	366,263	–	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 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 existing 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.

The market price of the Company's ordinary shares ranged from a low of 333p to a high of 492p during the year. At 31 December 2004 it was 395p.

By order of the Board

Diana Dyer Bartlett
Company Secretary

25 April 2005

statement of directors' responsibilities

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

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

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

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

We have audited the financial statements of Collins Stewart Tullett plc for the year ended 31 December 2004 which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the balance sheets, the consolidated statement of cash flows and the related notes 1 to 33. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the directors' remuneration report that is described as having been audited.

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

Respective responsibilities of directors and auditors

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

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 2004 and of the profit of the group for the year then ended; and
- the financial statements and the part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
London, United Kingdom

25 April 2005

consolidated profit and loss account

for the year ended 31 December 2004

	Notes	2004 £m	2003 (Restated)* £m
Turnover			
Continuing operations		521.3	473.9
Acquisitions		61.1	–
	2	582.4	473.9
Administrative expenses			
Amortisation of goodwill:			
Continuing operations		(15.8)	(13.8)
Acquisitions		(3.8)	–
		(19.6)	(13.8)
Other expenses:			
Continuing operations		(440.1)	(402.5)
Exceptional items:			
IDB reorganisation costs	4	(38.5)	–
Split capital trust contribution	4	(10.0)	–
Acquisitions		(57.2)	–
		(545.8)	(402.5)
Total administrative expenses		(565.4)	(416.3)
Other operating income – *Continuing operations*		5.0	3.9
Operating profit			
Continuing operations		21.9	61.5
Acquisitions		0.1	–
	3	22.0	61.5
Net share of operating profits in associates		–	0.5
Exceptional items:			
Loss on disposal of associates	4	(0.9)	–
Profit on reorganisation of associates		–	4.5
Net interest receivable	7	0.6	0.4
Profit on ordinary activities before taxation	2	21.7	66.9
Taxation on profit on ordinary activities	8	(14.0)	(27.9)
Profit on ordinary activities after taxation		7.7	39.0
Equity minority interests		(0.7)	(0.6)
Non-equity minority interests		(0.1)	–
Profit for the year attributable to shareholders of Collins Stewart Tullett plc		6.9	38.4
Dividends paid and proposed			
Ordinary dividend on equity shares	10	(17.2)	(18.0)
Preference dividend on non-equity shares	10	–	(0.7)
Retained (loss)/profit for the year		(10.3)	19.7

consolidated profit and loss account

for the year ended 31 december 2004
(continued)

	Notes	2004	2003 (Restated)*
Earnings per share			
Basic	11	3.6p	22.2p
Diluted	11	3.6p	21.8p
Basic before amortisation of goodwill and exceptional items	11	32.5p	27.8p
Dividend per share	10	8.5p	7.75p

* Restated to take account of UITF 38: Accounting for ESOP Trusts

consolidated statement of total recognised gains and losses

for the year ended 31 December 2004

	2004 £m	2003 (Restated)* £m
Profit for the year attributable to shareholders of Collins Stewart Tullett plc	6.9	38.4
Foreign currency translation differences:		
Subsidiaries	(0.4)	(2.8)
Associates	–	(0.1)
Total recognised gains and losses for the year	6.5	35.5
Prior year adjustment*	1.3	
Total recognised gains and losses since the last annual report and financial statements	7.8	

* The statement of total recognised gains and losses for the year ended 31 December 2003 has been restated for the adoption of UITF 38: Accounting for ESOP Trusts.

consolidated balance sheet

as at 31 december 2004

	Notes	2004 £m	2003 (Restated)* £m
Fixed assets			
Intangible assets	12	403.9	282.2
Tangible assets	13	31.3	25.6
Associates	14	1.9	8.0
Other fixed asset investments	14	3.5	1.7
		440.6	317.5
Current assets			
Debtors	15	431.5	445.8
Investments	16	136.6	54.6
Cash at bank and in hand		139.9	209.9
		708.0	710.3
Creditors: amounts falling due within one year	17	(489.6)	(555.6)
Net current assets		218.4	154.7
Total assets less current liabilities		659.0	472.2
Creditors: amounts falling due after more than one year	18	(176.7)	(71.8)
Provisions for liabilities and charges	19	(11.8)	(4.6)
Net assets		470.5	395.8
Capital and reserves			
Called up share capital	20, 21	53.0	47.3
Share premium account	21	249.7	195.9
Merger reserve	21	121.5	100.4
Profit and loss account	21	40.8	44.6
Shareholders' funds – equity		465.0	388.2
Minority interests – equity		5.5	7.6
		470.5	395.8

* Restated to take account of UITF 38: Accounting for ESOP Trusts

Approved by the Board of Directors on 25 April 2005 and signed on its behalf by:

Terry Smith
Chief Executive

	Notes	2004 £m	2003 (Restated)* £m
Fixed assets			
Investments in subsidiary undertakings	14	571.8	402.1
Current assets			
Debtors	15	39.4	24.7
Investments	16	1.5	–
Cash at bank and in hand		11.2	3.2
		52.1	27.9
Creditors: amounts falling due within one year	17	(24.2)	(30.4)
Net current assets/(liabilities)		27.9	(2.5)
Total assets less current liabilities		599.7	399.6
Creditors: amounts falling due after more than one year	18	(148.3)	(43.2)
Provisions for liabilities and charges	19	(0.5)	(0.7)
Net assets		450.9	355.7
Capital and reserves			
Called up share capital	20, 21	53.0	47.3
Share premium account	21	249.7	195.9
Merger reserve	21	121.5	100.4
Profit and loss account	21	26.7	12.1
Shareholders' funds – equity		450.9	355.7

* Restated to take account of UITF 38: Accounting for ESOP Trusts

Approved by the Board of Directors on 25 April 2005 and signed on its behalf by:

Terry Smith
Chief Executive

consolidated statement of cash flows

for the year ended 31 December 2004

	Notes	2004 £m	2003 £m
Net cash (outflow)/ inflow from operating activities	27	(36.7)	130.2
Dividends from associates		0.3	0.1
Returns on investments and servicing of finance:			
Interest received		13.0	4.0
Interest paid		(6.2)	(3.3)
Interest paid on loans acquired with subsidiary undertakings		(6.5)	–
Interest element of finance lease rental payments		(0.2)	(0.2)
Preference dividends paid		–	(3.3)
		0.1	(2.8)
Taxation:			
Corporation tax paid		(21.9)	(11.7)
Overseas tax paid		(18.5)	(15.8)
		(40.4)	(27.5)
Capital expenditure and financial investments:			
Purchase of tangible fixed assets		(5.9)	(7.4)
Proceeds from sale of tangible fixed assets		0.4	0.1
Proceeds from sale of fixed asset investments		–	0.1
		(5.5)	(7.2)
Acquisitions and disposals:			
Purchase of subsidiary undertakings and operations		(64.8)	(134.4)
Net cash acquired with subsidiary undertakings		5.9	33.0
Investment in associate		–	(7.7)
Disposal of associates		7.0	16.7
		(51.9)	(92.4)
Equity dividends paid		(14.9)	(13.1)
Net cash outflow before management of liquid resources and financing		(149.0)	(12.7)
Management of liquid resources		(6.7)	2.4
Financing:			
Issue of ordinary share capital		59.5	148.6
Share issue costs		(1.4)	(2.6)
Redemption of preference shares		–	(44.6)
Issue of debt		149.5	51.1
Repayment of debt		(99.5)	(21.1)
Debt issue costs		(0.9)	(0.8)
Capital element of finance lease rental payments		(0.9)	(0.9)
		106.3	129.7
(Decrease)/ increase in cash	28, 29	(49.4)	119.4

1. Accounting Policies

Basis of Accounting

The financial statements have been prepared in accordance with applicable accounting standards and UK company law. The accounting policies which are set out below, are the same accounting policies as those applied in the accounts for the year ended 31 December 2003 other than as follows.

Accounting for share options: The Company has adopted the accounting treatment set out in UITF 38: Accounting for ESOP Trusts. Previously the policy was to include equity shares held by the Group's employee share ownership trusts ("ESOTs") at cost in current assets until the shares left the trust. When options were granted over such shares, the difference between the market value at the date the option was granted and the exercise price was charged as a remuneration cost to the profit and loss account over the performance period attaching to the option. The increase in market value of such shares over the cost to the trust was at the same time credited to the profit and loss account as other operating income. In accordance with UITF 38, equity shares held by ESOTs are now deducted in arriving at shareholders' funds. The only entries now made to the profit and loss account relate to remuneration expense associated with granting the options (which is recredited to shareholders' funds) and the deferred tax asset arising thereon.

The profit and loss account for 2003 has been restated to exclude £2.5m previously recognised as other operating income. The tax effect of the change in accounting policy required a reduction in the tax charge for 2003 of £0.8m and a cumulative increase in the deferred tax asset of £1.3m.

Swap accounting: The accrued payables and receivables associated with equity swap contracts are recognised in the profit and loss account over the life of the contract.

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

Basis of Consolidation

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

In accordance with section 230(4) of the Companies Act 1985 Collins Stewart Tullett plc has taken advantage of the legal dispensation not to present its own profit and loss account. The amount of the profit after taxation for the financial period dealt with in the financial statements of the Company is disclosed in note 9.

Turnover

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

Goodwill

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

Positive goodwill arising on acquisition is capitalised, classified as an asset on the balance sheet and amortised through the profit and loss account on a straight-line basis over its useful economic life. This has been estimated at 20 years in respect of the acquisition of Collins Stewart Limited, its UK private client division, Tullett Liberty Limited and FPG Holdings Limited (the Prebon group) and 10 years in respect of less material acquisitions.

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

Finance Costs

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

Depreciation

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

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

Associates

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

Fixed Asset Investments

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

Current Asset Investments

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

Foreign Currencies

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

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

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

Taxation

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

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

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

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

Deferred tax assets and liabilities are not discounted.

Leases and Hire Purchase Commitments

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

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

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

Pension Costs

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

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

Inter-dealer Broker Settlement Balances

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

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

Capital Instruments

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

Derivative Financial Instruments

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

Client Money

The Group holds money on behalf of clients in accordance with the client money rules of the Financial Services Authority. Such money and the corresponding liabilities to clients are not shown on the face of the balance sheet as the Group is not beneficially entitled thereto. The amounts held on behalf of clients at the balance sheet date are stated at note 30. The net return received on managing client money is included within other operating income.

Securities Borrowing

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

Dividends on Shares held by Employee Share Ownership Trusts

Dividends have been waived by the Collins Stewart Tullett plc ESOT but not by the Collins Stewart (CI) Limited ESOT. The dividend income arising on shares which have not yet vested unconditionally pursuant to employee awards is excluded from dividends declared in the profit and loss account. Such shares are excluded from the denominator in the earnings per share calculation.

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

Geographical Area and Class of Business

	Europe		North America		Pacific Basin and Australasia		Group	
	2004 £m	2003* £m	2004 £m	2003* £m	2004 £m	2003* £m	2004 £m	2003* £m
Turnover								
Continuing:								
Stockbroking	110.0	120.1	7.5	7.8	–	–	117.5	127.9
IDB	198.1	156.8	170.1	158.6	35.6	30.6	403.8	346.0
Acquisitions – IDB	23.8	–	25.9	–	11.4	–	61.1	–
	331.9	276.9	203.5	166.4	47.0	30.6	582.4	473.9
Operating profit before goodwill and operating exceptionals								
Continuing:								
Stockbroking	35.9	38.9	2.3	2.6	–	–	38.2	41.5
IDB	18.6	5.7	25.3	22.9	4.1	5.2	48.0	33.8
Acquisitions – IDB	1.5	–	1.9	–	0.5	–	3.9	–
	56.0	44.6	29.5	25.5	4.6	5.2	90.1	75.3
Operating exceptional items								
Continuing:								
Stockbroking	(10.0)	–	–	–	–	–	(10.0)	–
IDB	(30.7)	–	(7.2)	–	(0.6)	–	(38.5)	–
	(40.7)	–	(7.2)	–	(0.6)	–	(48.5)	–
Operating profit/(loss) before goodwill								
Continuing:								
Stockbroking	25.9	38.9	2.3	2.6	–	–	28.2	41.5
IDB	(12.1)	5.7	18.1	22.9	3.5	5.2	9.5	33.8
Acquisitions – IDB	1.5	–	1.9	–	0.5	–	3.9	–
	15.3	44.6	22.3	25.5	4.0	5.2	41.6	75.3
Amortisation of goodwill								
Continuing:								
Stockbroking							(6.5)	(6.6)
IDB							(9.3)	(7.2)
Acquisitions – IDB							(3.8)	–
							(19.6)	(13.8)
Operating profit							22.0	61.5
Net share of associates' operating profit							–	0.5
Exceptional items:								
Disposals							(0.9)	–
Profit on reorganisation of an associate							–	4.5
Finance charges (net)							0.6	0.4
Profit on ordinary activities before taxation							21.7	66.9

* Restated to take account of UITF 38: Accounting for ESOP Trusts

	Europe		North America		Pacific Basin and Australasia		Group	
	2004	2003*	2004	2003*	2004	2003*	2004	2003*
	£m	£m	£m	£m	£m	£m	£m	£m
Net Assets								
Stockbroking	81.1	132.0	1.6	1.3	–	–	82.7	133.3
IDB	132.8	111.1	128.1	79.7	125.0	63.7	385.9	254.5
Share of associates' net assets	–	(0.4)	–	(0.3)	1.9	8.7	1.9	8.0
	213.9	242.7	129.7	80.7	126.9	72.4	470.5	395.8

* Restated to take account of UITF 38: Accounting for ESOP Trusts

3. Operating Profit

Operating profit is stated after charging:

	2004 £m	2003 £m
Depreciation of owned assets	9.9	7.8
Depreciation of assets held under finance leases and hire purchase contracts	0.6	0.5
Amortisation of goodwill arising on subsidiary undertakings	19.6	13.8
Amortisation of goodwill arising in respect of associates	0.5	0.2
Operating lease rentals	7.2	9.6
Auditors' remuneration:		
Audit services in the UK (i)	1.0	0.4
Audit services overseas	1.0	0.7
Other non-audit services	0.2	0.2

(i) Included in audit services in the UK, were charges to the Company of £0.2m (2003: £0.1m).

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

4. Exceptional Items

Operating exceptional items

The operating exceptional items comprise Collins Stewart's contribution of £10m to the settlement fund established in connection with the FSA's split capital investment trust investigation and £38.5m costs associated with the reorganisation of the IDB business following the acquisition of Prebon.

Because desks have been moved between the Tullett Liberty and Prebon businesses, the analysis of IDB reorganisation costs between continuing businesses and acquisitions is not meaningful.

Exceptional items

The exceptional item of £0.9m comprises losses on disposal of associate interests in Totan Capital Markets Co Ltd and NTEL Holdings Ltd (see notes 14 and 12 respectively).

5. Staff Costs

The aggregate employment costs of staff and directors were:

	2004 £m	2003 £m
Wages, salaries, bonuses and incentive payments	333.0	269.6
Social security costs	26.8	22.0
Other pension costs	2.9	4.0
	362.7	295.6

The average number of directors and employees of the Group during the year, all of whom were employed in financial services, was 2,423 (2003: 2,092). Staff were employed in the following geographical regions:

	2004 No	2003 No
Europe	1,384	1,240
North America	675	595
Pacific Basin and Australasia	364	257
	2,423	2,092

6. Directors

Details of directors' emoluments and interests are included in the Report on Directors' Remuneration and in the Report of the Directors. These details include, as specified for audit by the Financial Services Authority, an analysis, by director, of salary and other payments and benefits on page 39, an analysis of directors' share interests on page 22 and share options on page 40, all of which form part of these audited financial statements.

7. Net Interest Receivable

	2004 £m	2003 £m
Interest receivable and similar income	9.8	5.0
Interest payable and similar charges:		
Bank loans and overdrafts	(7.8)	(2.8)
Finance charges payable under finance leases and hire purchase	(0.4)	(0.1)
Amortisation of debt costs	(0.3)	(1.0)
Amortisation of discount	(0.2)	(0.2)
Other interest payable	(0.5)	(0.5)
	(9.2)	(4.6)
Net interest receivable	0.6	0.4

8. Taxation on Profit on Ordinary Activities

	2004	2003 (Restated)
	£m	£m
Current tax:		
UK corporation tax	20.5	20.4
Double tax relief	(10.2)	(3.7)
	10.3	16.7
Overseas tax	16.6	12.2
Share of associates' tax	0.5	0.7
Prior year UK Corporation tax under/ (over) provided	0.9	(0.1)
Prior year overseas tax (over)/ under provided	(6.5)	0.1
	21.8	29.6
Deferred tax:		
Reversal of timing differences	(7.8)	(0.9)
Prior year adjustment in respect of UITF 38	–	(0.8)
	14.0	27.9

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

	2004	2003 (Restated)
	£m	£m
Profit on ordinary activities before tax	21.7	66.9
Tax on profit on ordinary activities at standard rate of 30%	6.5	20.1
Factors affecting charge for the year:		
Disallowable expenditure	6.8	3.0
Goodwill amortisation (non-deductible)	6.1	4.2
Unrelieved losses	2.5	0.4
Other timing differences	3.7	(0.2)
Different tax rates on overseas earnings	1.7	2.2
Adjustment in respect of prior years	(5.5)	(0.1)
Total current tax	21.8	29.6

9. Profit/ (Loss) of the Parent Company

The parent company's profit after tax for the financial year amounted to £7.0m (2003: loss of £3.8m).

10. Dividends

	2004 £m	2003 £m
Equity dividends on ordinary shares		
Interim paid (2.75p) (2003: 2.5p)	5.2	8.3
Final proposed (5.75p) (2003: 5.25p)	12.0	9.7
	17.2	18.0
Non-equity dividends on preference shares		
Dividend paid	–	0.7
	17.2	18.7

The trustee of the Company ESOT has waived its right to dividends due on 3.5m ordinary shares (2003: 3.9m). The dividends on 0.8m (2003: 1.1m) unallocated ordinary shares held by the Collins Stewart (CI) ESOT are also excluded in the above numbers. The amount waived/excluded in respect of the interim ordinary dividend was £0.1m (2003: £0.1m) and in respect of the final 2004 ordinary dividend, £0.2m (2003: £0.3m).

The 21.2m shares allotted pursuant to the acquisition of Prebon did not carry a right to the interim dividend.

11. Earnings per Share

	2004 £m	2003 (Restated) £m
Earnings		
Profit for the period	6.9	38.4
Preference share dividends	–	(0.7)
Earnings for the purposes of basic and diluted earnings per share	6.9	37.7
Amortisation of goodwill (including associates)	20.1	14.0
Split capital investment trust contribution (net of tax)	7.0	–
IDB reorganisation costs (net of tax)	26.8	–
Loss/ (profit) on disposal/ reorganisation of associates	0.9	(4.5)
Earnings for the purposes of basic earnings per share before goodwill amortisation and exceptional items	61.7	47.2

	2004 No. (m)	2003 No. (m)
Weighted average shares		
Number of ordinary shares at start of year	184.2	101.8
Shares acquired by the ESOTs	–	(0.3)
ESOT allocations	0.2	0.1
Share option exercises	0.9	0.3
Share issues	4.7	68.1
Basic earnings per share denominator	190.0	170.0
Issuable on exercise of options	2.9	2.1
Contingently issuable shares	–	0.9
Diluted earnings per share denominator	192.9	173.0

12. Intangible Fixed Assets

	£m
Cost	
At 1 January 2004	312.0
Revision to existing goodwill	(0.2)
Additions	141.5
At 31 December 2004	453.3
Amortisation	
At 1 January 2004	29.8
Charge for the year	19.6
At 31 December 2004	49.4
Net book value	
At 31 December 2004	403.9
At 31 December 2003	282.2

The Company has no intangible fixed assets.

Acquisitions during the Year

FPG Holdings Limited ("Prebon")

On 13 October 2004, the Company acquired FPG Holdings Limited, the holding company of the Prebon inter-dealer broker business. The consideration was £77.8m including expenses of £5.7m as set out below. The goodwill arising of £138.7m is being amortised over 20 years.

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

	Book value on acquisition £m	Fair value adjustments £m	Fair value £m
Tangible fixed assets and associates	10.0	2.7	12.7
Debtors	70.3	3.3	73.6
Cash and short term deposits	21.0	–	21.0
Creditors falling due in less than one year	(104.7)	(49.8)	(154.5)
Creditors falling due in more than one year	(38.4)	32.1	(6.3)
Provisions for liabilities and charges	(6.4)	(0.1)	(6.5)
Minority interests	(0.9)	–	(0.9)
	(49.1)	(11.8)	(60.9)
Goodwill arising			138.7
Purchase consideration			77.8
Purchase consideration comprised:			
Cash			49.6
Issue of shares			22.5
Costs of acquisition			5.7
			77.8

The book values of assets and liabilities have been taken from the consolidated management accounts of FPG Holdings at the date of acquisition. Following completion the Group has repaid £48.1m of loans assumed on acquisition of the Prebon business together with accrued interest thereon of £6.5m.

The main fair value adjustments related to the alignment of accounting policies, the recognition of the FRS17 deficit on the Prebon pension scheme, recognition of deferred tax assets and £10.1m of contracted payments which crystallised on completion.

Prebon made a loss after taxation and minority interests of £25.6m in the nine months ended 31 December 2004, of which a loss of £2.9m arose in the period from 1 April 2004 to 13 October 2004. Prebon earned a profit of £5.4m in the 12 months to 31 March 2004. The summarised profit and loss account and statement of total recognised gains and losses for the period from 1 April 2004 to 13 October 2004, the date of acquisition, were as follows:

	£m
Profit and loss account	
Turnover	155.5
Amortisation of goodwill	(2.8)
Administrative expenses	(150.6)
Operating profit	2.1
Net interest payable	(0.8)
Profit on ordinary activities before taxation	1.3
Taxation	(3.9)
Loss on ordinary activities after taxation	(2.6)
Equity minority interests	(0.3)
Loss for the period	(2.9)

Statement of total recognised gains and losses	£m
Loss for the financial period	(2.9)
Foreign currency translation differences:	
Subsidiaries	0.1
Total recognised gains and losses for the period	(2.8)

Natsource

In June the Company completed the acquisition of Natsource LLC's energy broking businesses in New York and Calgary, which were previously associate interests. The consideration for the deal was US$ 6.1m in cash. The goodwill arising on the acquisition amounted to £2.8m, of which £2.3m was written off in 2004, with the balance in respect of the Canadian businesses being amortised over 10 years. At the same time the Group sold its 32% associate investment in NTEL Holdings Ltd to Natsource LLC, a transaction which created a loss on disposal of £0.3m.

13. Tangible Fixed Assets

Group	Land and Buildings			Equipment, Fixtures, Fittings and Motor Vehicles	Total
	Freehold	Long Leasehold	Short Leasehold		
	£m	£m	£m	£m	£m
Cost					
At 1 January 2004	0.1	2.9	4.8	30.2	38.0
Reclassification	–	0.7	(0.7)	–	–
Additions	–	–	0.4	7.3	7.7
Acquisition of subsidiary undertakings	–	–	1.0	9.4	10.4
Disposals	–	–	(0.4)	(17.6)	(18.0)
Foreign exchange difference	–	(0.1)	–	(0.5)	(0.6)
At 31 December 2004	0.1	3.5	5.1	28.8	37.5
Depreciation					
At 1 January 2004	–	0.2	1.1	11.1	12.4
Reclassification	–	0.3	(0.3)	–	–
Charge for the period	–	0.1	0.8	9.6	10.5
Disposals	–	–	(0.2)	(16.5)	(16.7)
At 31 December 2004	–	0.6	1.4	4.2	6.2
Net book value					
At 31 December 2004	0.1	2.9	3.7	24.6	31.3
At 31 December 2003	0.1	2.7	3.7	19.1	25.6
Leased Assets					
Net book value					
At 31 December 2004	–	–	1.9	2.0	3.9
At 31 December 2003	–	–	2.0	1.5	3.5

Company

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

14. Fixed Asset Investments

Group	Associates £m	Other fixed asset investments £m
Share of net assets/Cost		
At 1 January 2004	2.6	1.7
Acquired with subsidiary	0.5	1.8
Share of profits retained by associated undertakings	0.5	–
Disposals	(3.9)	–
Transfer of share of net liabilities to provisions	2.2	–
At 31 December 2004	1.9	3.5
Goodwill		
At 1 January 2004	5.4	–
Amortisation for the year	(0.5)	–
Disposals	(4.9)	–
At 31 December 2004	–	–
Net book value		
At 31 December 2004	1.9	3.5
At 31 December 2003	8.0	1.7

The principal investments in associates are listed in note 33.

In November the Company disposed of its associated interest in Totan Capital Markets Co Ltd to the associate partners for a consideration of £7m. The disposal gave rise to a loss on disposal of £0.6m.

Other fixed asset investments comprise principally unlisted equity shares which were held at their cost. In the opinion of the directors, the value of these equity shares is not less than the amount at which they are shown in the balance sheet.

Company	Shares in subsidiary undertakings £m	Loans to subsidiary undertakings £m	Total £m
Cost			
At 1 January 2004	389.3	12.8	402.1
Additions	79.1	90.6	169.7
At 31 December 2004	468.4	103.4	571.8

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

The principal subsidiary undertakings are listed in note 33.

15. Debtors

	Group		Company	
	2004	2003 (Restated)	2004	2003 (Restated)
	£m	£m	£m	£m
Trade debtors	363.9	413.1	–	–
Amounts due from subsidiary undertakings	–	–	18.4	21.1
Amounts due from associated undertakings	–	0.1	–	–
Corporation tax	5.2	3.8	1.5	1.2
Deferred tax (see note 19)	29.4	8.5	2.8	1.5
Other debtors	18.7	10.3	13.9	0.1
Prepayments and accrued income	14.3	10.0	2.8	0.8
	431.5	445.8	39.4	24.7

Deferred tax derives from short term timing differences. As at 31 December 2004 the deferred tax asset was classified as due within one year, as the timing differences are expected to reverse within the subsequent 12 months.

Included in trade debtors are subsidiary companies' net positions with brokers, dealers and clearing houses of £8.6m (2003: £0.8m). These net positions comprise amounts payable of £69.2bn (2003: £73.8bn) and amounts receivable of £69.2bn (2003: £73.8bn), in respect of transactions not yet due for settlement. Also included in trade debtors are past due settlement balances of £167.2m (2003: £270.1m).

16. Current Asset Investments

	Group		Company	
	2004	2003	2004	2003
	£m	£m	£m	£m
Long positions in securities				
Listed in the UK	47.2	8.9	0.4	–
Listed overseas	4.8	0.4	–	–
Unlisted in the UK	2.7	0.8	–	–
Unlisted overseas	0.3	0.2	–	–
	55.0	10.3	0.4	–
Other investments	81.6	44.3	1.1	–
	136.6	54.6	1.5	–

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

17. Creditors: Amounts Falling Due Within One Year

	Group		Company	
	2004	2003	2004	2003
	£m	£m	£m	£m
Bank overdrafts	14.0	14.7	–	–
Obligations under finance leases and hire purchase contracts	0.8	0.9	–	–
Trade creditors	234.4	357.0	–	–
Securities - short positions	27.4	2.8	–	–
Loan notes	1.3	1.3	1.1	1.1
Subordinated loan	–	8.5	–	8.5
Cost of raising subordinated and secured loans	–	(0.2)	–	(0.2)
Corporation tax	23.3	27.5	–	–
Tax and social security	23.2	13.2	–	–
Other creditors	7.6	4.4	–	–
Accruals and deferred income	145.7	115.8	11.2	11.3
Proposed dividends	11.9	9.7	11.9	9.7
	489.6	555.6	24.2	30.4

Included in trade creditors are subsidiary companies' net positions of nil (2003: nil) comprising amounts payable and receivable of nil (2003: £190.9m) in respect of transactions not yet due for settlement. Also included in trade creditors are past due date settlement balances of £169.2m (2003: £258.0m).

Loan notes issued by Collins Stewart Limited in 1996 of which £0.2m were outstanding at the year end (2003: £0.2m) are secured by cash deposits of the same amount and are redeemable in 2006. However, each year on 30 June and 31 December the loan note holders are also entitled to require redemption of part or all of the outstanding loan notes.

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

	Group		Company	
	2004	2003	2004	2003
Group	£m	£m	£m	£m
Secured loan	–	2.0	–	2.0
Subordinated loans	149.6	41.6	149.6	41.6
Cost of raising debt	(1.3)	(0.4)	(1.3)	(0.4)
Obligations under finance leases and hire purchase contracts	2.3	2.3	–	–
Other creditors	26.1	26.3	–	–
	176.7	71.8	148.3	43.2

During the year the Group's borrowings were restructured. In August a Eurobond issue of £150m 8.25% Step-Up Coupon Subordinated Notes due 2014 was carried out. The notes, which are unsecured, are callable at any time by the Company 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 secured loan, which was secured by fixed and floating charge over the Company's assets, and a previous subordinated loan were repaid out of the proceeds of the Eurobond issue.

Costs of raising debt incurred in connection with the subordinated notes were capitalised and netted against the notes. They will be amortised through the profit and loss account on the basis of a constant rate of return on the carrying amount over the life of the notes. Costs of raising the previous subordinated loan and secured loan were released to the profit and loss account on repayment of the loans.

Loans (Net of cost of raising debt)	Group		Company	
	2004	2003	2004	2003
	£m	£m	£m	£m
Between one and two years	–	9.1	–	9.1
Between two and five years	148.3	34.1	148.3	34.1
	148.3	43.2	148.3	43.2

Finance Leases	Group		Company	
	2004	2003	2004	2003
	£m	£m	£m	£m
Between one and two years	0.2	0.5	–	–
Between two and five years	2.1	1.8	–	–
	2.3	2.3	–	–

19. Provisions for Liabilities and Charges

	Group			Company
	Deferred tax	Provisions	Total	Provisions
	£m	£m	£m	£m
At 1 January 2004	2.0	2.6	4.6	0.7
(Credit)/charge to profit and loss account	(2.0)	0.5	(1.5)	(0.2)
Acquired with subsidiary undertakings	–	6.5	6.5	–
Transfer share of net liabilities from associates	–	2.2	2.2	–
At 31 December 2004	–	11.8	11.8	0.5

The Company had no provision for deferred tax.

Provisions acquired with subsidiary undertakings primarily related to property dilapidations and leases in respect of vacant offices.

At the year end the Group and Company held provisions respectively of £1.6m (2003: £2.6m) and £0.5m (2003: £0.7m) relating to costs associated with litigation.

Deferred Taxation

Group

Provision for deferred taxation has been made as follows:	2004 £m	2003 (Restated) £m
Deferred tax provision	–	(2.0)
Deferred tax asset (included in debtors note 15)	29.4	8.5
Net deferred tax asset	29.4	6.5

Deferred tax comprises:	2004 £m	2003 (Restated) £m
Accelerated capital allowances	7.6	1.0
Other timing differences (net)	17.3	3.0
Tax losses	4.5	2.5
Net deferred tax asset	29.4	6.5

Movements during the year:	2004 £m	2003 (Restated) £m
At 1 January	6.5	0.2
Acquired with subsidiary undertakings	14.8	4.9
Charge to profit and loss account	8.5	1.7
Currency translation and other adjustments	(0.4)	(0.3)
At 31 December	29.4	6.5

At 31 December 2004 the Group had not recognised a deferred tax asset of £3.5m (2003: nil) relating to tax losses carried forward which may or may not be recoverable in the foreseeable future.

Company

	2004 £m	2003 (Restated) £m
Deferred tax asset (included in debtors note 15)	2.8	1.5

Deferred tax comprises:	2004 £m	2003 (Restated) £m
Other timing differences (net)	2.8	1.5

	2004 £m	2003 (Restated) £m
Movements during the year:		
At 1 January	1.5	0.5
Charge to profit and loss account	1.3	1.0
At 31 December	2.8	1.5

20. Share Capital

	2004 No. (m)	2003 No. (m)
Authorised		
Ordinary shares of 25p	284.7	284.7
Allotted, issued and fully paid		
Ordinary shares of 25p	211.8	189.1

	2004 £m	2003 £m
Authorised		
Ordinary shares of 25p	71.2	71.2
Allotted, issued and fully paid		
Ordinary shares of 25p	53.0	47.3

Movements during the Year

During the year 1.3m shares were allotted at 288.5p per share and 0.2m shares were allotted at 316p per share upon exercise of options granted under the Company's share option schemes.

On 12 October 21.2m shares were allotted pursuant to completion of the acquisition of Prebon; 5.5m shares were allotted to Prebon shareholders at 406.5p per share, and 15.7m shares were allotted for cash at 350p per share.

Share Options

At 31 December 2004 the following options over ordinary shares which could give rise to the allotment of new ordinary shares had been granted under the Company's share option schemes and were outstanding:

	At 1 January 2004	Granted	Lapsed	Exercised	At 31 December 2004	Exercise Price	Exercise Period
Sharesave scheme	634,852	–	(116,037)	–	518,815	292p	1.1.2006-30.6.2006
	145,629	–	(28,147)	–	117,482	415p	1.7.2007-31.12.2007
Approved share option scheme	9,493	–	–	(9,493)	–	316p	16.10.2003-15.10.2010
	41,592	–	–	(41,592)	–	288.5p	5.4.2004-4.4.2011
	–	86,463	(6,651)	–	79,812	451p	22.4.2007-21.4.2014
	–	52,234	–	–	52,234	402p	18.10.2007-17.10.2014
Unapproved share option scheme	790,507	–	–	(190,507)	600,000	316p	16.10.2003-15.10.2010
	1,315,908	–	–	(1,291,306)	24,602	288.5p	5.4.2004-4.4.2011
	–	818,537	(93,349)	–	725,188	449p	22.4.2007-21.4.2014
	–	797,766	—	–	797,766	402p	18.10.2007-17.10.2014
2003 share option scheme	2,125,000	–	(165,000)	–	1,960,000	349p	29.4.2006-28.4.2013
	–	2,100,000	(2,100,000)	–	–	449p	22.4.2007-21.4.2014
	–	160,000	–	–	160,000	402p	18.10.2007-17.10.2014
	5,062,981	4,015,000	(2,509,184)	(1,532,898)	5,035,899		

21. Reconciliation of Shareholders' Funds

Group	Share capital account £m	Share premium account £m	Merger reserve £m	Profit and loss account £m	Total shareholders' funds £m
Reported balance brought forward	47.3	195.9	100.4	43.3	386.9
Adjustment in respect of UITF 38	–	–	–	1.3	1.3
Restated balance brought forward	47.3	195.9	100.4	44.6	388.2
Retained loss for the year	–	–	–	(10.3)	(10.3)
Credit arising from share option plans	–	–	–	6.9	6.9
Issue of ordinary shares	5.7	55.2	21.1	–	82.0
Costs of share issue	–	(1.4)	–	–	(1.4)
Foreign currency translation	–	–	–	(0.4)	(0.4)
Balance at 31 December 2004	53.0	249.7	121.5	40.8	465.0

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

Company	Share capital account £m	Share premium account £m	Merger reserve £m	Profit and loss account £m	Total shareholders' funds £m
Reported balance brought forward	47.3	195.9	100.4	10.8	354.4
Adjustment in respect of UITF 38	–	–	–	1.3	1.3
Restated balance brought forward	47.3	195.9	100.4	12.1	355.7
Retained profit for the year	–	–	–	7.0	7.0
Credit arising from share option plans	–	–	–	6.9	6.9
Issue of ordinary shares	5.7	55.2	21.1	–	82.0
Costs of share issue	–	(1.4)	–	–	(1.4)
Foreign currency translation	–	–	–	0.7	0.7
Balance at 31 December 2004	53.0	249.7	121.5	26.7	450.9

22. Financial Assets and Liabilities

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

(a) Interest rate profile of financial assets

As at 31 December 2004	At fixed interest rates £m	At floating interest rates £m	Non-interest bearing £m	Total £m
Sterling	27.3	108.9	16.6	152.8
US dollars	–	78.7	6.4	85.1
Euro	–	24.7	2.2	26.9
Other currencies	3.3	13.0	4.2	20.5
	30.6	225.3	29.4	285.3

As at 31 December 2003	At fixed interest rates £m	At floating interest rates £m	Non-interest bearing £m	Total £m
Sterling	2.3	165.9	8.3	176.5
US dollars	–	59.6	4.6	64.2
Euro	–	15.0	1.3	16.3
Other currencies	–	8.6	2.6	11.2
	2.3	249.1	16.8	268.2

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

(b) Interest rate profile of financial liabilities

As at 31 December 2004	At fixed interest rates £m	At floating interest rates £m	Non-interest bearing £m	Total £m
Sterling	87.2	3.4	24.1	114.7
US dollar	–	73.2	–	73.2
Euro	2.6	3.0	1.1	6.7
Other currencies	0.2	1.1	–	1.3
	90.0	80.7	25.2	195.9

In August 2004, £64.2m of the £150m medium term euro notes issued were swapped to floating US dollar interest rates, based on US dollar LIBOR.

As at 31 December 2003	At fixed interest rates £m	At floating interest rates £m	Non-interest bearing £m	Total £m
Sterling	1.9	22.0	2.0	25.9
US dollar	–	40.9	–	40.9
Euro	2.1	6.0	–	8.1
Other currencies	–	5.3	–	5.3
	4.0	74.2	2.0	80.2

As at 31 December 2004	Fixed rate financial liabilities		Financial liabilities on which no interest is paid
	Weighted average interest rate %	Weighted average period for which rate is fixed Years	Weighted average period until maturity Years
Sterling	8.8	4.7	–
Euro	7.4	3.4	–
Other currencies	4.2	3.2	–
Total	8.8	4.6	–

As at 31 December 2003	Fixed rate financial liabilities		Financial liabilities on which no interest is paid
	Weighted average interest rate %	Weighted average period for which rate is fixed Years	Weighted average period until maturity Years
Sterling	9.4	2.0	–
Euro	7.9	4.8	–
Total	8.4	3.8	–

The subordinated loan (floating rate borrowings) bears interest rate terms set out in note 18. All remaining floating rate borrowings bear interest based on relevant national LIBOR equivalents.

(c) Maturity profile of financial liabilities	31 December 2004 £m	31 December 2003 £m
Payable:		
Within one year or on demand	45.2	34.8
Between one and two years	0.6	9.5
Between two and five years	150.1	35.9
	195.9	80.2

(d) Borrowing facilities	31 December 2004 £m	31 December 2003 £m
The Group had undrawn committed facilities expiring:		
Between two and five years	15.0	10.0

(e) Foreign currency exposures

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

Most of the activities of the Group are transacted in local currencies and consequently do not expose the Group to significant foreign currency risk as recognised in the profit and loss account. Such risk does, however, arise from the funding of the Group's business. In addition to the exposures shown in the table, the Group has a significant investment in companies with US$ or US$ linked functional currencies, retranslation gains and losses which are taken through the consolidated statement of total recognised gains and losses. The book value of this investment at 31 December 2004 was US$166.8m (2003: US$84.7m). Over the year the Group reduced this currency exposure by swapping £64.2m (US$117m) of the £150m Eurobond to floating US dollar interest rates.

As at 31 December 2004	Sterling £m	US dollars £m	Euro £m	Other currencies £m	Total £m
Sterling	–	0.3	16.3	4.1	20.7
Euro	0.2	–	–	–	0.2
Other currencies	0.1	11.6	0.1	0.4	12.2
	0.3	11.9	16.4	4.5	33.1
As at 31 December 2003	**Sterling £m**	**US dollars £m**	**Euro £m**	**Other currencies £m**	**Total £m**
Sterling	–	3.0	4.2	(1.0)	6.2
Euro	0.3	–	–	–	0.3
Other currencies	–	10.0	–	0.2	10.2
	0.3	13.0	4.2	(0.8)	16.7

(f) Fair value

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

(g) Gains and losses on hedges

The Group entered into a number of hedge contracts to manage its exposure to foreign currency and market risk.

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

	Gains £m	Losses £m	Total net gains/losses £m
Unrecognised gains and losses on hedges at 1 January 2004	1.4	–	1.4
Gains and losses arising in previous years that were recognised in 2004	1.4	–	1.4
Gains and losses arising before 1 January 2004 that were not recognised in 2004	–	–	–
Gains and losses arising in 2004 that were not recognised in 2004	2.8	(4.0)	(1.2)
Unrecognised gains on hedges at 31 December 2004	2.8	(4.0)	(1.2)
Of which:			
Gains expected to be recognised in 2005	–	(0.1)	(0.1)
Gains expected to be recognised in 2006 and after	2.8	(3.9)	(1.1)

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

Market Risk

The Group is exposed to market risk in respect of both its trading in equities and debt instruments and 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 the senior management. The revenue generated in the year from trading in financial assets and liabilities was £13.5m (2003: £13.0m).

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

Foreign Currency Risk

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

During 2004 the Group entered into a £64.2m cross currency swap to hedge its net investment in subsidiaries whose accounts are drawn up in US dollars or currencies which are linked to the US dollar.

Interest Rate Risk

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

Some of the Group's cash resources are provided by borrowings comprising bank loans and subordinated debt. The bank debt bears interest based on short term interest rates (3 month LIBOR) and the terms of the subordinated debt are set out at note 18.

23. Related Party Transactions and Directors' Material Interest in Contracts

Pursuant to the acquisition of Collins Hitchcock Stewart Whitaker in 1996, secured loan notes issued to Terry Hitchcock by Collins Stewart Limited and remaining outstanding at the year-end, were £0.1m (2003: £0.1m).

Pursuant to the acquisition of Tullett Liberty in March 2003, £0.2m guaranteed unsecured loan notes were issued by the Company to Stephen Jack and remained outstanding at the year end. On 4 January 2005 these loan notes were repaid by the Company.

The above loan notes were included in creditors falling due in less than one year.

24. Financial Commitments

Capital commitments are as follows:

Group	2004 £m	2003 £m
Contracted but not provided for	0.8	0.2

The Company had no capital commitments contracted but not provided for at 31 December 2004.

At 31 December 2004, the Group had annual commitments under non-cancellable operating leases as set out below:

Group	2004 Buildings £m	2003 Buildings £m	2004 Other £m	2003 Other £m
Annual commitments on leases expiring:				
– within one year	1.4	1.5	0.3	0.2
– within two to five years	4.0	1.6	0.2	–
– over five years	7.4	6.8	–	–
	12.8	9.9	0.5	0.2

25. Contingent Liabilities

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

The Company has guaranteed the obligations of the Collins Stewart Tullett plc Employee Share Ownership Trust under an equity swap entered into to hedge the Company's obligations in relation to the Tullett Liberty Equity Incentive Scheme. At the balance sheet date the contingent liability associated with this guarantee amounted to £7m (2003: nil).

26. Pension Commitments

The pension cost figures used in these financial statements comply with SSAP24: Pension Costs. The Group operates a number of pension schemes throughout the world which, with the three exceptions identified below, are defined contribution schemes. The assets of all schemes are held separate from those of the Group, either in separate trustee administered funds or in contract-based policies of insurance, except for those held by Prebon in the US to match the liabilities of a supplemental executive retirement plan (SERP 'C').

The Group operates the following 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, except for one member (who has since left service) who continued to accrue his defined benefit promise. Employees in service in 1991 receive benefits on the better of a defined contribution and defined benefit basis.

(ii) The Prebon UK scheme provides benefits based on final pensionable pay with a money purchase underpin. However, the scheme was closed to new members in 1989 and there are now only three employees in service continuing to accrue additional pension entitlement.

(iii) The Prebon 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 was £2.9m (2003: £4.0m); £1.1m (2003: £0.8m) relates to overseas schemes. The pension costs relating to the two UK defined benefit schemes are assessed in accordance with advice of qualified actuaries using the projected unit method.

The latest actuarial valuation of the Tullett Liberty UK scheme was at 30 April 2004. The assumptions which have the most significant effect on the results of the valuation are the rate of return on investments, the rates of increase in salaries, the level of the internal scheme cap above which salaries are not pensionable and the rate of Limited Price Indexation (LPI) on pensions in payment where appropriate. It was assumed that the investment returns will average 7% per annum before retirement and 5.5% after retirement; inflationary and promotional salary increases will average 5% per annum; that the internal salary cap will be unchanged at £175,000 per annum; and that LPI pension increases will average 3% per annum.

At the date of the latest actuarial valuation of the Tullett Liberty UK scheme as at 30 April 2004, the market value of the assets of the scheme was £79.9m and the market value of the assets was sufficient to cover 83% of the benefits that had accrued to members. With effect from 1 January 2002, the Company paid pension contributions into the scheme at the rate of 15.6% of pensionable salaries for pre 1991 employees with defined benefits, 7% for post 1991 employees with defined contributions and 1% for life assurance only members. With effect from 1 May 2005, it has been agreed that the Company will pay contributions of £2.4m per annum to the defined benefit section of the scheme and that future service contributions in respect of all members will be paid to the defined contribution section of the scheme at the rate of 6% of pensionable salaries, plus the contributions required to meet death-in-service insurance premiums and administrative expenses. At the time of the latest actuarial valuation the level of contribution was expected to remove the deficit over 10 years, if the assumptions were borne out in practice.

The latest actuarial valuation of the Prebon UK scheme was at 1 January 2004. The assumptions which have the most significant effect on the results of the valuation are the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investment returns would average 7% per annum before retirement and 5% per annum after retirement, that salary increases would average 5% per annum and pensions would increase at the minimum rates required by legislation. In particular, Guaranteed Minimum Pension accrued after 5 April 1988 as well as pension accrued after 5 April 1997 are both assumed to increase at 3% per annum.

At the date of the latest actuarial valuation of the Prebon UK scheme as at 1 January 2004, the market value of the assets of the scheme was £4.4m and the market value of the assets was sufficient to cover 68% of the benefits that had accrued to members. Up until 31 August 2004, a subsidiary undertaking paid pension contributions into the scheme at the rate of 14.3% of pensionable salaries. With effect from 1 September 2004, the level of contributions paid into the scheme was increased to 24.1% of pensionable salaries plus annual payments of £235,000, payable in equal monthly instalments. At the time of the latest actuarial valuation the level of contribution, including the annual payments, was expected to remove the deficit over 12 years, if the assumptions were borne out in practice.

The present value of the vested liabilities under the Prebon 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.

Included in creditors is £1.4m (2003: £0.9m) in respect of contributions payable to Group pension schemes, of which £1.0m (2003: nil) related to the overseas schemes.

FRS 17: Retirement Benefits

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

The Tullett Liberty UK scheme operated by the Group provides a hybrid of defined benefits and defined contributions for members who joined the scheme prior to 1 November 1991. With the exception of one member (who has since left service), the defined benefit element ceased accruing for this group of members from 1 May 2003; from this date they accrued benefits on a defined contribution basis only. The scheme provides defined contribution benefits for members who joined the scheme on or after 1 November 1991. A full actuarial valuation has been carried out at 30 April 2004. The results have been updated to 31 December 2004 by a qualified independent actuary for the purposes of these financial statements.

The results of the actuarial valuation, updated to 31 December 2004, of the Tullett Liberty UK scheme which are set out below exclude the defined contribution assets and liabilities. Normal employer contributions amounting to £2.2m (15.6% per annum of pensionable salaries plus an extra £100,000 per month) (2003: £1.9m) have been paid in the year for defined benefit members.

The major assumptions used by the actuary of the Tullett Liberty UK scheme were (in normal terms):

Tullett Liberty UK scheme	2004 %	2003 %
Rate of increase in salaries	4.00	4.10
Rate of increase of LPI pensions in payment	2.75	2.50
Discount rate	5.30	5.40
Inflation assumption	2.75	2.60

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

Tullett Liberty UK scheme	2004 Expected Return %	2004 Amount £m	2003 Expected Return %	2003 Amount £m
Equities	7.00	64.5	6.80	53.6
Cash	4.75	0.4	3.75	2.7
Net current (liabilities)/assets	4.75	(1.7)	3.75	3.9
Total market value of assets		63.2		60.2
Actuarial value of liability		(99.1)		(90.7)
Recoverable deficit in the scheme		(35.9)		(30.5)
Related deferred tax asset		10.8		9.1
Net pension liability		(25.1)		(21.4)

The Prebon UK scheme operated by the Group provides defined benefits for members who joined the scheme prior to May 1989, with money purchase underpin. A full actuarial valuation was carried out at 1 January 2004 and updated to 31 December 2004 by a qualified independent actuary.

The results of the actuarial valuation of the Prebon UK scheme are set out below. Employer contributions amounting to £64,847 (24.1% per annum of pensionable salaries plus monthly payments of £19,583) (2003: nil) have been paid in the year for defined benefit members.

The major assumptions used by the actuary of the Prebon UK scheme were (in normal terms):

Prebon UK scheme

	2004 %
Rate of increase in salaries	4.00
Rate of increase of LPI pensions in payment	2.75
Discount rate	5.30
Inflation assumption	2.75

The assets in the scheme and the expected rates of return were:

Prebon UK scheme	Expected return %	2004 Ammount £m
Equities	7.00	3.6
Corporate and Overseas Bonds	5.30	0.2
Government Bonds	4.50	0.3
Cash	4.75	0.3
Total market value of assets		4.4
Actuarial value of liability		(6.9)
Recoverable deficit in the scheme		(2.5)
Related deferred tax asset		0.8
Net pension liability		1.7

The measurement bases required by FRS17 are likely to give rise to significant fluctuations in the reported amounts of both the Tullett Liberty UK and Prebon UK defined benefit schemes' assets and liabilities from year to year, and do not necessarily give rise to the need for changes in the required contribution rates, which are recommended by the independent actuaries based on the expected long term rate of return on the defined benefit schemes' assets.

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

	2004	2003 (Restated)
Group balance sheet	£m	£m
Net assets	470.5	395.8
Fair value adjustment on acquisition of Tullett Liberty	24.4	24.4
Fair value adjustment on acquisition of Prebon	2.4	–
Net pension deficit at 31 December 2004	(26.8)	(21.4)
Net assets including pensions deficit	470.5	398.8

	2004	2003 (Restated)
Group profit and loss account	£m	£m
Profit and loss account	40.8	44.6
Fair value adjustment on acquisition of Tullett Liberty	24.4	24.4
Fair value adjustment on acquisition of Prebon	2.4	–
Net pension deficit	(26.8)	(21.4)
Net profit and loss account including net pension deficit	40.8	47.6

	2004	2003 (Restated)
Analysis of amount that would be charged to operating profit	£m	£m
Current service cost	0.1	0.4
Past service cost	–	–
Total operating cost	0.1	0.4

	2004	2003 (Restated)
Analysis of net return on pension scheme	£m	£m
Expected return on pension scheme assets	4.0	2.8
Interest on pension scheme liabilities	(4.9)	(4.4)
Net return	(0.9)	(1.6)

	2004	2003 (Restated)
Analysis of amount that would be recognised in the statement of total recognised gains and losses:	£m	£m
Annual return less expected return on pension scheme assets	5.0	5.2
Experience losses arising on scheme liabilities	(1.6)	(0.9)
Loss arising from changes in assumptions underlying the present value of scheme liabilities	(10.2)	(4.6)
Actuarial loss that would be recognised in the statement of total recognised gains and losses	(6.8)	(0.3)

	2004	2003 (Restated)
Analysis of movements in deficit during the period:	£m	£m
At 1 January	(30.5)	–
Deficit in the scheme acquired with Tullett Liberty	–	(30.1)
Deficit in the scheme acquired with Prebon	(2.4)	–
Total operating charge	(0.1)	(0.4)
Net return on assets	(0.9)	(1.6)
Actuarial loss	(6.8)	(0.3)
Contributions	2.3	1.9
Deficit at 31 December	(38.4)	(30.5)

History of experience gains and losses:	2004 £m	2003 (Restated) £m
Difference between expected return and actual return on pension scheme assets		
– amount	£5.0m	£5.2m
– % of scheme assets	8%	9%
Experience losses on scheme liabilities		
– amount	£(1.6)m	£(0.9)m
– % of present value of scheme liabilities	-2%	-1%
Total actuarial loss recognised in the statement of total recognised gains and losses		
– amount	£(6.8)m	£(0.3)m
– % of the present value of scheme liabilities	-6%	0%

Directors' Pensions

Bruce Collins was entitled to a defined benefit pension. There is a defined contribution underpin to this benefit but it is not anticipated that this will be relevant. In the year to 31 December 2004 Bruce Collins' pension entitlements and corresponding transfer values under the defined benefit section of the Tullett Liberty Pension Scheme developed as follows:

	£
Gross increase in accrued pension	2,608
Increase in accrued pension net of inflation	381
Total accrued pension at 31 December 2004	75,146
Value of net increase in accrual over the period	6,978
Total change in transfer value during the period	171,340
Value of accrued pension at 31 December 2004	1,097,205
Value of accrued pension at 31 December 2003	925,865

Notes:

(i) Bruce Collins resigned as a director on 27 April 2004 and was on garden leave for 12 months thereafter. The total accrued pension and pension accruals shown are the amounts which would be paid annually on retirement based on service to the end of the year.

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

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

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

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

(vi) Bruce Collins was not required to contribute to the scheme.

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

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

	2004 £m	2003 £m
Group operating profit	22.0	61.5
Expense arising from share option plans	6.9	2.5
Depreciation of tangible fixed assets	10.5	8.2
Amortisation of goodwill	19.6	13.8
Tangible fixed assets written off	0.7	1.0
Doubtful debts and other provisions	0.5	(0.2)
Increase in net investment positions	(20.2)	–
Decrease/ (increase) in debtors	95.7	(143.4)
(Decrease)/ increase in creditors	(169.3)	184.3
(Decrease)/ increase in provisions for liabilities and charges	(1.0)	2.7
Decrease in long term creditors	(2.1)	(0.2)
Net cash (outflow)/ inflow from operating activities	(36.7)	130.2

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

	2004 £m	2003 £m
(Decrease)/increase in cash during the year	(49.4)	119.4
Cash inflow from increase in long term loans	(149.5)	(51.1)
Cash outflow from repayment of loans and loan notes	99.5	21.1
Debt issue costs	0.9	0.8
Cash outflow from lease financing	0.9	0.9
Decrease/ (increase) in current asset investments and term deposits	6.7	(2.4)
Acquired with subsidiary:		
Finance leases	(0.2)	(4.0)
Loans due within one year	(48.1)	(9.5)
Current asset investments and term deposits	15.1	70.3
(Decrease)/increase in net funds resulting from cash flows	(124.1)	145.5
Amortisation of debt issue costs and discount	(0.3)	(1.0)
Increase in finance leases	(0.6)	–
Currency translation differences	(3.7)	(2.5)
(Decrease)/ increase in net funds	(128.7)	142.0
Net funds at the start of the year	183.5	41.5
Net funds at the end of the year	54.8	183.5

29. Analysis of Net Funds

	At 1 January 2004 £m	Cash flow £m	Acquired with subsidiary* £m	Non-cash items £m	Exchange differences £m	At 31 December 2004 £m
Cash in hand and at bank	180.1	(45.7)	-	-	(1.5)	132.9
Client settlement money	11.4	(4.4)	-	-	-	7.0
Overdraft	(14.7)	0.7	-	-	-	(14.0)
	176.8	(49.4)	-	-	(1.5)	125.9
Loan notes repayable within one year	(1.3)	-	-	-	-	(1.3)
Loans due within one year	(8.3)	55.9	(48.1)	(0.2)	0.7	-
Loans due after one year	(43.2)	(105.0)	-	(0.1)	-	(148.3)
Finance leases	(3.2)	0.9	(0.2)	(0.6)	-	(3.1)
	(56.0)	(48.2)	(48.3)	(0.9)	0.7	(152.7)
Current asset investments:						
Term deposits	31.5	(3.1)	15.1	-	(0.7)	42.8
Securities	31.2	9.8	-	-	(2.2)	38.8
	62.7	6.7	15.1	-	(2.9)	81.6
Total net funds	183.5	(90.9)	(33.2)	(0.9)	(3.7)	54.8

*Excludes cash at bank and overdrafts

Included within current asset investments on the balance sheet are bull positions in securities of £55.0m (2003: £10.3m), which are not included in the analysis of net funds.

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

30. Client Money

At 31 December 2004 client money held was £271.8m (2003: £218.4m). This comprised £7.0m (2003: £11.4m) of balances held by the Group on behalf of clients to settle outstanding bargains and £264.8m (2003: £207.0m) of segregated deposits, held on behalf of clients, which are not reflected on the balance sheet. Movements in settlement balances are reflected in operating cash flows.

31. Employee Share Ownership Trusts

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

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

At the year-end, of the 8.1m (2003: 20.1m) ordinary shares held by the Group's ESOTs, some 1.2m ordinary shares (2003: 2.4m) had not been allocated to specific employees and a further 3.6m ordinary shares (2003: 2.6m) had been allocated conditionally or were under option to employees. Of the above shares held by Group ESOTs, the Company's ESOT held some 0.4m ordinary shares (2003: 1.3m) which had not been allocated to specific employees and a further 3.1m ordinary shares (2003: 2.6m) which had been allocated conditionally or were under option to employees. The market value of the Company's ordinary shares at the year-end was 395p (2003: 442.5p) per share.

Dividends on shares held by the Company ESOT which have not vested unconditionally have been waived. Dividends on shares held by the Collins Stewart (CI) ESOT have not been waived, and accordingly the income on such shares has been deducted from dividends declared by the Company in accordance with FRS 14: Earnings per share. The expenses associated with the running of the ESOTs are charged to the Group's profit and loss account.

32. Post Balance Sheet Events

Since the year end the Group has acquired the Cash Equities broking business and assets of Burlington Capital Markets Inc. in the US and the minority shareholdings in the Tullett Liberty entities in Singapore from the Company's long-standing local associates.

As part of the Group's rebranding of its IDB business, the names of some of the principal subsidiary undertakings have been changed. In particular, Tullett Liberty Limited's name has been changed to Tullett Prebon Limited. The name changes have been reflected in note 33 to these financial statements.

33. Principal Subsidiary Undertakings and Associates

At 31 December 2004, the following companies were the Group's principal trading subsidiary undertakings 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%
Prebon Yamane Money Markets (Australia) Pty Limited	Australia	Derivatives and money broking	100%
Tullett Liberty Pty. Limited	Australia	Derivatives and money broking	100%
Prebon Data Services (Bermuda) Limited	Bermuda	Information sales	100%
Prebon Technology Data Services (Bermuda) Limited	Bermuda	Information sales	100%
Tullett Liberty (Canada) Limited	Canada	Derivatives and money broking	100%
Collins Stewart Tullett France S.A.S.	France	Securities broking	100%
Tullett Liberty Capital Markets (France) S.A.S.	France	Derivatives and money broking	100%
Collins Stewart Limited	Great Britain	Stockbroking	100%
Collins Stewart Property Fund Management Limited	Great Britain	Property management	75%
Prebon Marshall Yamane (UK) Limited	Great Britain	Derivatives and money broking	100%
FPG Holdings Limited	Great Britain	Holding company	100%
Fulton Prebon Group Limited	Great Britain	Holding company	100%
Prebon Group Limited	Great Britain	Holding company	100%
Prebon Yamane International Limited	Great Britain	Holding company	100%
Tullett Liberty (European Holdings) Limited	Great Britain	Holding company	100%
Tullett Liberty Limited (subsequently named Tullett Prebon Limited)	Great Britain	Holding company	100%
Tullett Liberty (Overseas Holdings) Limited	Great Britain	Holding company	100%
Prebon Technology Group Limited	Great Britain	IT support services	100%
Prebon Technology Holdings Limited	Great Britain	IT support services	100%
Prebon Technology Services (UK) Limited	Great Britain	IT support services	100%
Tullett Liberty (Equities) Limited	Great Britain	Securities broking	100%
Tullett Liberty (Oil & Energy) Holdings Limited (formerly Starsupply Tullett Limited)	Great Britain	Energy broking	100%
Tullett Liberty (Oil & Energy) Limited (formerly Starsupply Tullett Energy Limited)	Great Britain	Energy broking	90.2%
Tullett Liberty (Securities) Limited	Great Britain	Securities broking	100%
Tullett Liberty (Treasury and Derivatives) Limited	Great Britain	Derivatives and money broking	100%
Collins Stewart Asset Management Limited	Guernsey	Investment fundManagement	100%
Collins Stewart (CI) Limited	Guernsey	Stockbroking	100%
Collins Stewart Fund Management Limited	Guernsey	Investment fundManagement	100%
Tullett Financial Information (C.I.) Limited	Guernsey	Information sales	100%
Prebon Yamane (Hong Kong) Limited	Hong Kong	Derivatives and money broking	100%
PT Inti Prebon Moneybrokers	Indonesia	Derivatives and money broking	57%
Tullett Liberty Japan Limited	Japan	Derivatives and money broking	100%
Prebon Yamane (Luxembourg) S.A.	Luxembourg	Derivatives and money broking	100%
Prebon Holdings B.V.	Netherlands	Holding company	100%
Tullett Liberty B.V.	Netherlands	Holding company	100%

Subsidiary undertakings	Country of incorporation	Principal activities	Issued ordinary shares, all voting
Tullett Liberty Nederland B.V.	Nertherlands	Securities broking	100%
Prebon Philippines Inc.	Philippines	Derivatives and money broking	51%
Prebon Yamane (Polska) Sp. zo.o	Poland	Derivatives and money broking	100%
Prebon Yamane (Singapore) Limited	Singapore	Energy broking	100%
Prebon Energy (Singapore) Pte. Limited	Singapore	Derivatives and money broking	100%
Prebon Yamane Financial Services (Singapore) Pte Limited	Singapore	Derivatives and money broking	100%
Tullett Liberty (Energy) Holdings Pte. Ltd.	Singapore	Holding company	51%
Tullett Liberty (Oil & Energy) Pte. Ltd. (formerly Starsupply Tullett Energy Pte. Ltd.)	Singapore	Energy broking	76.8%
Tullett Liberty Pte. Ltd.	Singapore	Derivatives and money broking	51%
Cosmorex A.G.	Switzerland	Money broking	100%
Collins Stewart Inc.	USA	Stockbroking	100%
Tullett Liberty Inc.	USA	Derivatives and money broking	100%
Prebon Futures Inc.	USA	Derivatives	100%
Prebon Yamane (USA) Inc.	USA	Derivatives and money broking	100%
Prebon Energy Inc.	USA	Energy broking	100%
Collins Stewart Tullett Holdings Inc. (formerly Tullett Liberty Investment Corp.)	USA	Holding company	100%
CS Tullett Holdings Corp.	USA	Holding company	100%
Prebon Financial Products Inc.	USA	Securities broking	100%
Prebon Securities Inc.	USA	Securities broking	100%
Tullett Liberty Brokers Inc.	USA	Securities broking	100%
Tullett Liberty Securities Inc.	USA	Securities broking	100%

All the above subsidiary undertakings are owned indirectly, with the exception of Collins Stewart Limited, FPG Holdings Limited and Tullett Liberty Limited, which are owned directly. As set out in note 32, some of the above subsidiary undertakings have changed their names since the year end.

Associates	Country of incorporation	Principal Activities	Issued ordinary shares, all voting
Tullett Liberty (Bahrain) Company W.L.L.*	Bahrain	Derivatives and money broking	49%
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%
Natsource LLC	USA	Energy broking	20%

* The Group's interest in the trading results is 85%. The company is not consolidated as the Group does not have sufficient voting control.

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.

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 2 June 2005 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 and adopt the audited accounts for the year ended 31 December 2004 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 Louis Scotto who has been appointed to the Board since the last Annual General Meeting.
4. To elect as a director Michael Fallon (member of the Audit, Nominations and Remuneration Committees) who has been appointed to the Board since the last Annual General Meeting.
5. To re-elect as a director David Clark who retires by rotation (member of the Audit and Nominations Committees).
6. To re-elect as a director John Spencer who retires by rotation (member of the Audit, 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 2004 be declared payable at the rate of 5.75p per share on 9 June 2005 to shareholders registered at the close of business on 20 May 2005.

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 £17,676,511.

Special Resolutions

10. That, subject to the passing of resolution no 9 set out in the notice of annual general meeting of the Company convened for 2 June 2005, 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 £2,651,476,

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 21,211,813;

(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

25 April 2005

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 31 May 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 31 May 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 19 and 20 of the annual report. The Corporate Governance Report set out in the annual report provides additional information recommended by the Revised Combined Code.