

17 March 2009

**COLLINS STEWART PLC**  
**PRELIMINARY ANNOUNCEMENT OF AUDITED RESULTS**  
**– For the year ended 31 December 2008**

**Highlights**

Collins Stewart plc today announces its preliminary results for the year ended 31 December 2008. The highlights are:

- Revenue: £175.7m - 2007: £233.9m
- Adjusted revenue: £187.8m - 2007: £237.2m
- Operating (loss) / profit: £(19.1)m - 2007: £64.7m
- Adjusted operating profit: £11.9m - 2007: £68.0m
- (Loss) / profit before tax: £(15.2)m - 2007: £79.0m
- Adjusted profit before tax: £15.8m - 2007: £82.3m
- Basic EPS: (9.6)p - 2007: 23.4p
- Adjusted basic EPS: 4.7p - 2007: 24.4p
- Net cash and cash equivalents: £106.6m - 2007: £139.3m
- Usable cash and cash equivalents: £92.9m - 2007: £76.2m
- Final dividend of 1.3p per share - 2007: 5.0p

**Terry Smith, Chairman of Collins Stewart plc, today said:**

“During the course of 2008 it became increasingly clear that the expansionary strategy that Collins Stewart had pursued since the demerger in 2006 was not suited to the deteriorating market conditions and was unlikely to deliver acceptable results. We have now streamlined the business and focused it on our core areas of competence in our core geographies.”

**Mark Brown, Chief Executive, added:**

“In unprecedented market conditions, we need to continue to manage our business carefully to ensure profitability. However, we are in a sound financial position, which we can capitalise upon. We aim to strengthen our position in each of our key areas of competency – corporate advisory, large-cap secondary equities and wealth management – and reposition our corporate broking capability in the mid market. This is a great opportunity to grow our core business.”

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Further information on the Company and its activities is available on the Company's website:  
[www.collinsstewart.com](http://www.collinsstewart.com)

## CHAIRMAN'S STATEMENT

2008 was a remarkable year in the business world. Turbulence and dislocation in financial markets, particularly during the second half of the year, reached levels which have not previously been seen in living memory.

Against this background, it is not surprising that Collins Stewart experienced a difficult year. Revenue of £175.7m was 24.9% lower than in 2007, and the statutory loss before tax of £15.2m compares with last year's profit before tax of £79.0m. The basic loss per share was 9.6 pence (2007: 23.4 pence earnings per share).

However, the results were impacted by a number of significant items of a non-recurring nature, some of which were reported at the interim stage and which had little cash impact in 2008. These items mask a profitable trading performance for the Group as a whole, in which poor performances from our Corporate Broking (formerly known as Capital Markets) and US divisions were more than countered by encouragingly robust performances from Hawkpoint, Wealth Management and the UK Securities divisions. After adjusting for these non-recurring items, adjusted profit before tax was £15.8m and adjusted basic earnings per share 4.7 pence.

The Board has recommended a final dividend for the year of 1.3p per share that, if approved, will be paid on 28 May 2009 to shareholders on the register on 8 May 2009.

During the course of 2008 it became increasingly clear that the expansionary strategy that Collins Stewart had pursued since the demerger in 2006 was not suited to the deteriorating market conditions and was unlikely to deliver acceptable results. As a result the strategy was changed from building an international investment bank to one of focusing upon Collins Stewart's core strengths in its core geographies.

There have been a number of changes amongst my colleagues on the Board. Joel Plasco was replaced, as Chief Executive, in October by Mark Brown. Mark joined us with a wealth of securities industry experience, having previously been Chief Executive of Arbuthnot Securities after spending most of his City career at Hoare Govett/ABN AMRO. Mark has made an immediate impact by radically restructuring the Corporate Broking and US Securities divisions and generally ensuring that the Group is better placed to respond to difficult market conditions. I am delighted to welcome him to the Board. David Lindsay, the Finance Director, also left the board in November, and we are conducting a search for a new Finance Director.

It has also been necessary to reconsider the remuneration structure of the business. Historically Collins Stewart relied upon its flexible cost base as a key protection against a downturn in revenues, and also prided itself in paying staff directly in proportion to their own results. Several factors acted to limit that flexibility in 2008, including divergence in performance of the different divisions, and arrangements entered into in pursuit of the previous strategy. Action will be necessary to ensure that the rewards to labour and capital from the business are fair and reasonable in all market conditions.

Our Corporate Broking division has been restructured to reflect the collapse of small-cap IPO activity on AIM that historically formed the core of the business. This division is now working closely with Hawkpoint and our large-cap Securities business to develop opportunities where their combined strengths can be brought to bear further up the market-cap scale. Our ambition is to take advantage of the current opportunity in the market to build a high-quality, mid-cap corporate broking business. We have also rationalised our US business and refocused it on its key strengths of secondary trading and research-led equity sales. The consequent reduction in the cost bases of these divisions, allied with a clearer focus, will allow them to operate much more effectively in these markets. In the current difficult conditions so far this year, our UK Securities and Wealth Management divisions continue to perform with resilience, whilst Hawkpoint has a good quality pipeline of business but its conversion into completed transactions is slow. We have a strong balance sheet and net cash resources at the year-end were £106.6m.

Richard Kilsby, who has been a director of the Company since demerger, always planned to retire from the Board after a suitable period of transition, and has indicated his wish to step down shortly. Iain Napier has also indicated that he would like to retire from the Board. I would like to thank Richard and Iain, each of whom will step down in three months' time, for their wise counsel and the contribution they have made to the Board during their tenure. We have commenced a process to recruit two new non-executive directors to the Board.

2008 was undoubtedly a difficult year and we expect that many of the challenges it presented will remain throughout 2009 and beyond. Recession and continued uncertainty in the banking sector are likely to have an adverse influence on markets and investors for some time to come. In such conditions, Collins Stewart's ability to control costs, focus on its strengths, think independently and respond quickly to the needs of our clients have historically placed it in a position to seize the opportunities which arise alongside the challenges. We enter 2009 with a clear strategy, strong cash resources and businesses well positioned to perform in their respective markets. This gives the Group a robust platform from which to face continued market turmoil while responding to opportunities as they arise. We are well placed to take advantage of our position as a well-capitalised, leading independent financial advisory house and we look forward to the future with enthusiasm.

Terry Smith  
Chairman  
17 March 2009

# **BUSINESS REVIEW**

## **Objectives and Strategy**

Collins Stewart's objectives are to be a leading independent financial advisory house and to create wealth for our clients, both corporate and individual. The Board aims to maximise returns to shareholders over the medium-to-long term with an acceptable level of risk. This includes both operating returns generated by the business and returns delivered through share-price appreciation and dividends.

The Board's strategy for achieving its objectives is to focus on the key strengths of its businesses in the territories in which the Group operates. These are large-cap secondary equities (Securities) in Europe and the US, corporate advisory in Europe (Hawkpoint), and Wealth Management in the UK. Our UK Corporate Broking business has been repositioned and, by working alongside Hawkpoint and Securities, provides the opportunity to build a high-quality business for the mid-cap sector. We are also committed to the continued growth of our Wealth Management business both organically and through 'bolt-on' acquisitions.

The strategy ultimately aims to exploit opportunities where our ability to act independently can be applied to the benefit of clients. The Board considers that focusing on maximising the strengths of each of the core businesses of the Group and combining these to best effect should enable it to achieve this goal in the medium term.

## Overview of 2008

### FINANCIAL PERFORMANCE

	2008			2007		
	As reported	Adjustments	Adjusted	As reported	Adjustments	Adjusted
	£m	£m	£m	£m	£m	£m
<b>Revenue</b>						
Securities	84.2	3.5	87.7	80.1	0.2	80.3
Corporate Broking	3.5	8.6	12.1	46.2	3.1	49.3
Wealth Management	47.0	-	47.0	48.8	-	48.8
Hawkpoint	41.0	-	41.0	58.8	-	58.8
	175.7	12.1	187.8	233.9	3.3	237.2
<b>Operating (loss) / profit</b>						
Securities	(12.6)	21.7	9.1	14.8	0.2	15.0
Corporate Broking	(21.6)	9.1	(12.5)	21.7	3.1	24.8
Wealth Management	10.5	-	10.5	11.8	-	11.8
Hawkpoint	4.6	0.2	4.8	16.4	-	16.4
	(19.1)	31.0	11.9	64.7	3.3	68.0
Exceptional items	-	-	-	7.4	-	7.4
Net interest	3.9	-	3.9	6.9	-	6.9
<b>(Loss) / profit before tax</b>	<b>(15.2)</b>	<b>31.0</b>	<b>15.8</b>	<b>79.0</b>	<b>3.3</b>	<b>82.3</b>
Taxation	(7.7)	3.3	(4.4)	(22.6)	(1.0)	(23.6)
<b>(Loss) / profit for the year</b>	<b>(22.9)</b>	<b>34.3</b>	<b>11.4</b>	<b>56.4</b>	<b>2.3</b>	<b>58.7</b>
<b>(Loss) / earnings per share</b>						
Basic	(9.6)p	14.3p	4.7p	23.4p	1.0p	24.4p
Diluted	(9.4)p	14.1p	4.7p	22.5p	0.9p	23.4p
Basic before exceptional items	(9.6)p	14.3p	4.7p	20.2p	1.0p	21.3p

Against the background of one of the worst “bear” markets in history, Collins Stewart experienced a difficult year in 2008. Revenue of £175.7m was 24.9% lower than in 2007, and the statutory pre-tax loss for the year of £15.2m compares with a pre-tax profit of £79.0m in 2007. This resulted in a basic loss per share of 9.6 pence (2007: 23.4 pence earnings per share).

However, profit and earnings per share were adversely affected by a number of significant items of a non-recurring and largely non-cash nature that arose during the year. In order to show the underlying trading performance of the Group, the table above also discloses the results after adjusting for the effect of these items. These adjustments, and the impact they have had on reported profits and basic earnings per share, are set out in the following table and explained in more detail below.

	Operating (Loss) / profit	(Loss) / profit after tax	Basic (loss) / earnings per share
	£m	£m	p
<b>As reported</b>	<b>(19.1)</b>	<b>(22.9)</b>	<b>(9.6)</b>
<b>Adjustments :</b>			
Impairment of intangible assets relating to the US business, including goodwill	14.8	14.8	6.3
Non-cash write-downs of investments made in previous periods	10.9	7.7	3.1
Costs relating to the acquisition of new business team	2.5	1.8	0.8
Restructuring costs	1.5	1.3	0.5
Losses relating to the collapse of Lehman Brothers	1.3	1.3	0.5
Write-off of deferred tax assets in the US business	-	7.4	3.1
<b>Total Adjustments</b>	<b>31.0</b>	<b>34.3</b>	<b>14.3</b>
<b>Adjusted</b>	<b>11.9</b>	<b>11.4</b>	<b>4.7</b>

The Group's US business performed poorly in 2008, as it has done since the acquisition of CE Unterberg Towbin in July 2007. An impairment charge has been taken against the carrying value of intangible assets relating to this business, primarily goodwill. The carrying value of deferred tax assets available to the US business has also been written-off.

At the beginning of the year, the Group held a number of illiquid investments made in previous periods and the value of these investments had fallen or were written-down by £7.3m at the interim stage. Subsequent events in financial markets impaired the value of these investments further in the second half and an additional charge of £3.6m has been taken against them. The remaining book value of this portfolio at 31 December 2008 was £1.2m.

In September 2008, the UK Securities business was enhanced through the recruitment of a leading team specialising in investment companies. No capital consideration was payable for the acquisition of this team but an earn-out arrangement was put in place that allowed members of the team to retain revenues they generated up to an initial threshold. The costs of employing the team during this initial period (which came to an end shortly after the year-end) together with headhunters' fees represent the cost to the Group of bringing the team on board.

A restructuring programme was undertaken during the second half of the year focused primarily on the Corporate Broking and US Securities divisions. This reduced by over fifty the number of people employed across the Group, and will result in significant annual cost savings. Headcount in the US Securities division and in some of the other international businesses has been further reduced in 2009.

During the year, the Group used Lehman Brothers as one of a number of providers of Direct Market Access to certain overseas equity markets. The collapse of Lehman Brothers in September 2008 gave rise to various failed trades that were closed at a cost to the Group of £1.3m.

As in previous years, included within adjusted operating profit are significant non-cash costs in respect of share-based incentives granted to the Group's employees. The effect of these share-based payment ("SBP") charges on adjusted operating profit is analysed in the following table:

	2008			2007		
	As reported £m	SBP £m	Excluding SBP £m	As reported £m	SBP £m	Excluding SBP £m
<b>Adjusted operating profit</b>						
Securities	9.1	1.7	10.8	15.0	0.9	15.9
Corporate Broking	(12.5)	0.3	(12.2)	24.8	0.1	24.9
Wealth Management	10.5	3.0	13.5	11.8	2.6	14.4
Hawkpoint	4.8	2.4	7.2	16.4	1.5	17.9
	<b>11.9</b>	<b>7.4</b>	<b>19.3</b>	<b>68.0</b>	<b>5.1</b>	<b>73.1</b>

Overall, the results for the year show that three of the Group's businesses, Hawkpoint, Wealth Management and the Securities division, performed creditably in 2008, but that the performance of the Corporate Broking division, in the UK and particularly the US, was poor. This wide range in the profitability of its divisions has meant that the amount that the Group has paid in bonuses, typically a high but variable element of its costs, has remained significant even though the returns to shareholders from the results of the Group as a whole have been disappointing. Bonuses are intended to reflect an individual's contribution and, although discretion ultimately rests with the Board as to the level of bonuses paid, there is a limit to which this discretion can be applied in the face of precedents and market practice if the Board is to avoid placing key parts of its business at risk. Further discussion on remuneration policies and issues is set out below in this Business Review.

Adjusted operating profit and adjusted earnings per share represent key performance indicators ("KPIs") that the Board uses to monitor the underlying performance of the businesses within the Group. In the case of the Wealth Management division, the level of assets under management is another KPI. An analysis of the performance of each division during 2008 based on these KPIs, together with a review of the trends and factors likely to affect its future development, is set out below.

## SECURITIES

	2008 £m	2007 £m
Adjusted revenue		
UK	38.4	42.4
US	49.3	37.9
	<b>87.7</b>	<b>80.3</b>
Adjusted operating profit		
UK	5.5	12.4
US	3.6	2.6
	<b>9.1</b>	<b>15.0</b>
Adjusted operating margin		
UK	14.3%	29.2%
US	7.3%	6.9%
	<b>10.4%</b>	<b>18.7%</b>

## *UK Managed Business*

Against a difficult background, the UK Securities business continued to make relative progress in 2008. Although overall commission levels were marginally down, this compared favourably with markets down 30% and average trading volumes down 27%, implying a strong gain in market share. The London and Paris offices both managed to grow overall commission levels in 2008 and the London large-cap desk achieved record revenues, but secondary commission levels in small-cap stocks suffered as clients preferred to trade in more liquid securities.

Success was achieved based on continuing to offer a differentiated research product based around our proprietary Quest™ analytical tools and a team of experienced sector analysts. The research analyst team was significantly strengthened during the year with nine new hires from both bulge-bracket houses and commerce and has been restructured into eight broad sector teams and a dedicated small-cap team.

The trading and sales trading team was also strengthened with the recruitment of two experienced traders. The trading desk was subsequently reorganised around sector specialties. On the large-cap team there were three new hires, with experienced people bringing some strong new institutional relationships. The small-cap team added two new senior and one junior salesmen, and towards the latter part of the year underwent a restructuring, leaving them well-placed to deal with a pick up in market activity as and when it comes. The specialist market-making activities experienced differing fortunes during the year. The preference share desk benefited from volatile markets, particularly in financial stocks, but the Australian desk suffered as a result of falls in commodity prices and the value of the local currency.

2008 was also a year when achievements by individuals and offices were recognised by the wider fund management community. In Ireland, Collins Stewart's Dublin office was voted No. 1 in the international section for Equity Research UK, and was also voted No. 3 in the international section for Equity Research Europe (ex UK). In the UK, Collins Stewart's Sales desk had two mentions in the annual Extel Equity Sales survey with one top ten position for the first time.

In September 2008, the Securities division was expanded through the recruitment of the leading Investment Companies Team that provides a full service to clients covering research, sales, market-making, corporate broking and advisory work. The team has quickly established a significant market presence, trading with over 250 clients and making markets in over 300 investment companies' securities. Its advisory arm won 21 new client brokerships by the end of 2008, including six companies in the FTSE 250 Index.

Agency broking activities rely on trading volumes to generate revenue through secondary commissions but revenues are also a function of absolute market levels. Trading activity is stimulated through research offerings and efficient execution of orders. The division's investment in its research capability, together with its increased focus on the more liquid mid-cap and large-cap stocks will be key in ensuring that volumes and commission levels remain robust in 2009 and beyond. Market-making activities also rely on trading volumes and can be adversely impacted by a lack of liquidity or by particular weakness in the sectors in which they operate. The division seeks to moderate the risk associated with this by confining its market-making activities to more liquid stocks and by operating in sectors where it has specialist knowledge and can command a reasonable market share.

## *US Managed Business*

Although commission revenues performed strongly in the US, the beneficial effect on margins was limited by structural issues in the local remuneration system. John Abularrage, who was Head of the UK Securities division, has been appointed Chief Executive of the US business and the division has now been restructured to focus on high-quality independent research and secondary trading, and the structural issues are being addressed.

## **CORPORATE BROKING**

	2008	2007
	£m	£m
Adjusted revenue		
UK	10.7	49.3
US	1.4	-
	12.1	49.3
Adjusted operating (loss) / profit		
UK	(6.3)	24.8
US	(6.2)	-
	(12.5)	24.8
Adjusted operating margin		
UK	(58.9%)	50.3%
US	(442.9%)	-
Adjusted operating margin	(103.3%)	50.3%

## *UK Managed Business*

The UK Corporate Broking division experienced a difficult 2008. Its core business historically of small-cap IPOs on AIM had already slowed in the second half of 2007 and ground to a halt through the course of 2008. As a result, revenues were sharply reduced with an inevitable impact on margins. Nevertheless, the division continues to be one of the principal fundraisers on AIM and completed one of the largest secondary issues of the year, raising £112m for Playtech. It also, only days before Christmas, raised €10m for Powerflute Oyj, demonstrating considerable “placing power” in the circumstances. We anticipate that small-cap and mid-cap companies will increasingly turn to the equity markets in 2009 for balance sheet reconstruction and, potentially, to finance mergers and acquisitions as opportunities emerge.

The division, which was formerly known as Capital Markets, is now positioned as Corporate Broking to reflect the more service-orientated approach it is taking in its relationships with corporate clients. There was an extensive overhaul of staff at the end of 2008, both to reflect the needs of the new business model and to produce a significant reduction in the cost base. The division is now working closely with Hawkpoint and the research and distribution capabilities in our large-cap Securities business to develop opportunities where their combined strengths can be brought to bear. Our ambition is to take advantage of the current opportunity in the market to build a high-quality mid-cap corporate broking business.

With many of its peer group retrenching from the small-cap and mid-cap space, the market turbulence has provided the division with new opportunities. The ability of certain competitors to apply balance sheets to transactions has diminished, so levelling the playing field for relationship brokers and independent equity businesses. The division's success depends on its ability to increase its roster of retained good-quality brokership clients, thereby increasing regular income and opportunities for advisory work, while controlling its cost base, which principally comprises its employees. Collins Stewart is now a clear net winner of new clients and in the recent Corporate Adviser Rankings Guide moved from seventh to third place in the UK for the number of stock market clients (while the number of AIM clients is reducing).

### *US Managed Business*

The US Corporate Broking division also experienced a very difficult year in 2008. The absence of revenues led to significant losses and this division was closed early in 2009.

## **WEALTH MANAGEMENT**

	2008 £m	2007 £m
Adjusted revenue	47.0	48.8
Adjusted operating profit	10.5	11.8
Adjusted operating margin	22.3%	24.2%

The Wealth Management division delivered a resilient performance in the face of challenging market conditions. The modest decrease in revenue year on year represented a commendable effort in the face of falling markets and the consequential reduction in management fees. Revenues were positively impacted through a second half boost to transactional income as clients unnerved by the fragility of the banking system and the safety of their cash deposits looked to invest in government bonds. Although we would not expect a repeat of this in 2009, Collins Stewart's independence, balance sheet strength and operational excellence were a source of comfort for clients during this uncertain period.

Operating profit was affected by significant ongoing investment in 2008 as necessary steps were taken to build the business for the medium-term. New financial planning and treasury/cash management services were launched and a small office in Geneva was opened. The division upgraded its investment teams and recruited some funds specialists. It continued to invest in marketing and distribution to raise the profile of both its wealth and funds businesses within their respective industries. Significant one-off costs on several projects were incurred which will start paying back in 2009.

## Assets Under Management and Administration

	2008	2007	Change
	£bn	£bn	%
Discretionary (incl. Funds)	1.5	2.0	(25%)
Advisory	1.8	2.2	(18%)
Non-advisory	1.6	1.9	(16%)
Total	4.9	6.1	(20%)
Revenue margin	0.96%	0.75%	28%

Total assets under management and administration fell from £6.1bn to £4.9bn, mainly as a result of the fall in global financial markets. The net outflow excluding market movements was only £0.1bn. This reduction in total assets is likely to affect fee income going forward. Non-advisory assets, which are multi-asset and multi-currency and not simply UK equities, benefited from the surge in transactional activity in the second half of the year.

The continued focus on delivering excellence to clients saw the Wealth Management division win a number of industry awards during the year, including several voted on by clients. Its marketing campaign, following a re-branding at the end of 2007, has significantly raised the profile of both Collins Stewart Wealth Management and Collins Stewart Fund Management in the territories and markets in which they operate.

## HAWKPOINT

	2008	2007
	£m	£m
Adjusted revenue	41.0	58.8
Adjusted operating profit	4.8	16.4
Adjusted operating margin	11.7%	27.9%

Hawkpoint performed well given the difficult market conditions that it faced throughout the year, especially in the latter half. Against a backdrop of dislocation amongst the major investment banks, Hawkpoint's ability to provide independent, conflict-free advice positioned it well to achieve a highly creditable stream of business. In particular, Hawkpoint benefited from its well-recognised advisory skills in handling disposal mandates, as well as enjoying an enhanced contribution from its debt and restructuring advisory practices. A notable highlight was the performance of its French office. The reported margins of the division were depressed due to the effect this year of remuneration arrangements committed to for two years following the acquisition of the company in 2006. These arrangements have now come to an end and the division will revert to a more normalised remuneration structure in 2009 and beyond. This should result in a beneficial effect on margins, as will the absence after 2009 of share-based payments relating to shares forming part of the acquisition consideration that are required to be charged against operating profit.

During the year, Hawkpoint advised on a total of 36 transactions valued at c. £7 billion. It executed 21 completed sale mandates, of which 10 were contracted to be sold in the second half of the year. These included two of the largest private equity transactions in Europe, including the disposals of Converteam valued at €2 billion and of Cegelec to Qatari Diar for €1.7 billion. Hawkpoint also advised on the CHF470 million sale of Carrefour's Swiss hypermarket chain, the £190 million disposal of Nord Anglia to Baring Private Equity Asia, the £115 million sale of Racal Acoustics to Esterline, the £95 million disposal of Kurt Geiger to Graphite, the disposal of IMS to BNP Paribas and the sale by Fortis of IAM to its management.

Hawkpoint advised on six completed acquisitions. These included the €200 million purchase by Doc@post of Experian's French transaction processing business, the acquisition by Phoenix of L K Bennett and the acquisition by Sanlam of a majority interest in Principal Investments.

In the debt advisory and restructuring arena, Hawkpoint advised on several transactions in 2008. These included the refinancing of Southern Cross Healthcare and advising St George Participations on providing its equity rescue package for DTZ.

Hawkpoint also experienced an increase in demand for advice of a specialist nature. One role involved it acting as expert arbiter in determining the price for the transfer of Vin & Spirit's interest in Beam Global Spirits & Wine to Fortune Brands.

During 2008, Hawkpoint received certain prestigious industry awards. These included selection as European Financial Adviser of the Year by the EVCA and winning the Sell Side Adviser of the Year award from Private Equity News.

In 2009, Hawkpoint is changing the emphasis of its business to reflect the changed economic conditions with greater emphasis on refinancing and restructuring advisory services, such as the recent Icelandic Government advisory role, and on distressed M&A situations.

## **REMUNERATION**

The Group's objective is to maximise returns to shareholders over the medium to long term, with an acceptable level of risk. Its remuneration policies are a material part of its approach to achieving this objective and reflect normal practices in that part of the financial services sector in which the Group operates. These practices, which reflect the extent to which performance of the Group is dependent upon the performance of individual employees, are designed to attract, retain and motivate staff who have the alternative of working for the Group's competitors.

The remuneration policy is based on a principle of high variable remuneration depending on performance. Salaries are intended to provide a fixed monthly remuneration at a level that is reasonable without taking bonuses into account. They are determined by taking account of comparable salary levels within the UK financial services sector. Staff then have the opportunity to earn potentially substantial bonuses based on individual performance; the policy is designed to reward them for attracting net income to the business in excess of the costs of their employment and operation in a manner that is risk-weighted and consistent with the long term aims of the business. The Group does not generally provide benefits other than salary, bonus and health and life insurance.

In 2008, the remuneration policy has resulted in significant bonuses being paid in those parts of the Group's businesses that have performed robustly. In addition, there were certain contractual arrangements in other parts of the business that cannot be rescinded. The Remuneration Committee is of the view that share-based incentives should form part of the remuneration policy as this aligns the interests of employees more closely with that of shareholders and defers a part of the benefit. The policy of making share-based incentives does allow the Group to mitigate the immediate cash impact of its incentive arrangements. In addition, the Group has chosen to defer the payment of approximately 20% of the 2008 discretionary cash bonus, which will be paid in the final quarter of 2009 dependent upon the financial performance of the Group.

The Company is reviewing the basis of its remuneration to provide a bonus structure that reflects individual attainment within the framework of an acceptable outcome for the Group as a whole. This is particularly focused on ensuring that rewards are based on profit rather than revenue generation, represent an appropriate share of the pre-bonus profit achieved by the Group's businesses, and recognise overall returns to shareholders. It will also ensure appropriate levels of deferral of bonuses, through equity or otherwise and that payment of these deferred bonuses are subject to satisfactory financial performance going forward. This review is part of a continual programme to ensure that the remuneration policy continues to meet the long-term needs of the business and reflects changes in market practice including, for example, the recent code of practice on remuneration issued by the FSA.

The risks to the Group associated with its remuneration arrangements are discussed in more detail in the review of Key Risks affecting the Business below.

## **NET FINANCE INCOME**

The Group had interest income of £4.9m (2007: £7.9m) and interest payable of £1.0m (2007: £1.0m). The fall in interest income compared to the prior year reflects reduced cash balances and lower prevailing interest rates. Interest payable comprised £0.9m in respect of currency overdrafts and bank borrowings that are used to fund short-term settlement activity and trading positions, and £0.1m in respect of the subordinated loan acquired with the US acquisition in 2007 that has now been repaid.

## **TAXATION**

The 2008 tax charge of £7.7m arises on a loss before tax of £15.2m compared to a £22.6m tax charge for 2007 on a profit before tax of £79.0m. The tax charge on the loss before tax has primarily arisen due to the impairment of goodwill, deferred tax assets and non-recognition of current year losses relating to the US business. These factors were in part offset by the low rate of tax on the Channel Islands business.

## **EARNINGS PER SHARE**

The basic loss per share was 9.6p (2007: 23.4p earnings per share). The earnings per share after adjusting for non-recurring items was 4.7p (2007: 24.4p). An analysis of the adjustments to basic earnings per share is set out in the table above.

The share capital used to calculate earnings per share is adjusted to exclude shares held by the Group's employee share ownership trusts ("ESOTs") which relate to share-based payment awards that have not vested unconditionally.

## **DIVIDENDS**

An interim dividend of 1.3p (2007: 2.5p) per ordinary share was paid on 27 November 2008. The Directors recommend that, subject to approval at the Annual General Meeting ("AGM"), a final dividend of 1.3p (2007: 5.0p) per ordinary share be paid on 28 May 2009 to members on the register on 8 May 2009. The total dividend for the year would therefore be 2.6p (2007: 7.5p) per ordinary share. The Directors believe that the reduction in the dividend is appropriate in the light of the results for the year and the desirability of maintaining adequate cash resources in difficult trading conditions.

## **BUSINESS DEVELOPMENT**

During the year, the Group continued to develop the business by broadening the range of products on offer and by extending our presence in major financial centres. In February 2008, we opened an office in Singapore and shortly afterwards became one of the founder sponsors on the Catalist market operated by the Singapore Stock Exchange. In March 2008, we expanded our operations in Ireland through the acquisition of International Securities Trading Corporation plc, the Dublin-based provider of bank capital, now re-named Collins Stewart ISTC plc. In September 2008, a highly experienced team of investment professionals specialising in investment companies and funds joined us. This is a good example of how we have been able to recruit high-calibre personnel that are attracted by the Group's strategy. Going forward, the Group will focus its business development on its core areas of expertise.

## **BALANCE SHEET**

The consolidated balance sheet is shown below. As at 31 December 2008, net assets amounted to £244.4m. Of these, goodwill represents £143.8m or 58.8%, after the impairment charge of £13.3m in respect of goodwill attributable to the Group's US business. The remainder of the Group's net worth substantially comprises liquid net assets, which are categorised as net cash and cash equivalents, trading positions, trade debtors and trade creditors.

Net cash and cash equivalents amount to £106.6m, as described further in the Financing and Treasury section below, and also detailed in Note 10. Net trading positions amount to £10.4m, comprising long and short positions of £28.6m and £18.2m respectively, which are generally held to facilitate liquidity in client stocks. Trade receivables and payables include unsettled delivery versus payment market trades.

## CASH FLOW

The Group's operating activities absorbed £54.5m cash (2007: £62.9m cash generated) from a statutory operating loss of £19.1m (2007: £72.1m operating profit). The cash balance at the beginning of the year of £141.6m included £48.4m of client settlement balances in respect of a transaction that spanned the 2007 year-end. This amount was settled at the beginning of 2008 and the Group has since generated cash to finish the year with cash and cash equivalent balances of £121.6m. After deducting the £15.0m short-term loan facility, net cash and cash equivalents totalled £106.6m as shown in Note 10.

## FINANCING AND TREASURY

As stated above, at 31 December 2008, the Group had net cash and cash equivalents of £106.6m (2007: £139.3m). This included client settlement balances of £3.2m (2007: £50.5m). Of the overall cash balances, some £3.5m (2007: £5.1m) comprise margin deposits with various clearing agencies and a further £7.0m (2007: £7.5m) is held by the Group's ESOTs, which can only be used for the benefit of staff.

The Group has a number of overdraft facilities with major banks that are used for short-term financing of settlement obligations. In addition, it obtained a three year committed £25m revolving unsecured credit facility in May 2007 that was increased to £35m in July 2008. £15m was drawn down under this facility in September 2008 and remained drawn at the year-end.

## REGULATORY CAPITAL

The Group is subject to the consolidated capital adequacy supervision regime of the Financial Services Authority ("FSA") and has maintained adequate levels of capital within the overall Group and in its regulated subsidiaries throughout 2008. The capital structure of the Group is summarised below and set out in detail in Note 7.

The Group has an Internal Capital Adequacy Assessment Process ("ICAAP") as required by the FSA for establishing the amount of regulatory capital to be held by the Group. The ICAAP gives consideration to both current and projected financial and capital positions, and includes stress testing for adverse economic conditions. The ICAAP is updated as required to reflect changes to the Group's structure and the business environment, and at a minimum annually. Capital adequacy is monitored on an ongoing basis by management. The Group uses the standardised approach to market risk, the simplified approach to credit risk and the basic indicator approach to operational risk. The Group observed the FSA's regulatory requirements throughout the year.

The Group's capital and capital requirements are set out below, in accordance with Pillar 3 disclosure requirements.

	2008 £m
<b>Total capital per Note 7 (all Tier 1)</b>	<b>244.4</b>
Goodwill	(143.8)
Other intangible assets	(0.6)
Material holdings & free deliveries	(1.8)
<b>Deductions</b>	<b>(146.2)</b>
<b>Total capital after deductions</b>	<b>98.2</b>
<b>Capital Requirements</b>	
Equity	7.4
Interest rate	2.1
Foreign currency	0.5
Market risk (standardised approach)	10.0
Credit risk (simplified approach)	11.6
Operational risk (basic indicator approach)	26.7
<b>Total capital requirements</b>	<b>48.3</b>
<b>Surplus capital</b>	<b>49.9</b>
<b>Solvency ratio</b>	<b>203.3%</b>

## TREASURY POLICY AND LIQUIDITY

The Group's policy is to hold both its own and its clients' cash reserves with a diversified range of financial institutions, each of which is a major UK clearing bank or an institution supported by a government guarantee. Client money is ring-fenced under FSA client money rules.

At 31 December 2008, client money was held with a diversified range of banks. The Group's own cash was placed with the same institutions and others where the needs of the business so required. The Group's own money is held almost entirely on demand, as it needs to be readily available to meet short-term funding requirements. Client cash is held primarily on demand but deposits of longer duration are also placed where this can maximise returns within an agreed maturity risk profile.

## GOING CONCERN

The Group's business activities, its financial position (including cash flows, liquidity position and borrowing facilities) together with any factors that are likely to affect its future performance are set out in this Business Review. As shown in the Regulatory Capital section above, the Group has £49.9m of surplus regulatory capital and a solvency ratio of 203.3%. Stress test scenarios are undertaken both as part of the ICAAP review and as a routine management discipline, the outcomes of which show that the Group has adequate capital resources for the foreseeable future even in adverse economic conditions.

The Group also has substantial liquid net assets, with net cash and cash equivalents amounting to £106.6m, as set out in the Financing and Treasury section and in Note 10. In addition the Group has a committed banking facility of £35m, which is available until 31 May 2010.

The Directors therefore believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook and has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

## **Key Risks affecting the Business**

The key risks that the Group faces in its day-to-day operations can broadly be categorised as credit, liquidity, market, operational, strategic, and reputational risk.

### **CREDIT RISK**

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 the majority of the Group's business is contracted on a matched-principal 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. All counterparties are subject to regular review and assessment by the Head of Risk.

The reported loss stemming from the failure of Lehman Brothers was a demonstration of credit risk becoming akin to market risk. The failure of Lehman Brothers as a counterparty left the Group needing to close out positions, which it did at a loss. Following the failure of Lehman Brothers, the Group reviewed its principal counterparties providing market access. The number of market access counterparties has been expanded to four, thus reducing the exposure of the Group to the failure risk of any one of them.

### **LIQUIDITY RISK**

Liquidity risk is the risk that the Group is unable to fund its commitments as and when they arise. The Group maintains substantial cash balances and liquid trading assets and undertakes on-going cash forecasting, including under stress-tested scenarios. The Group also has a number of bank facilities at its disposal, including a number of overdraft facilities to facilitate settlement transactions and a committed bank credit facility, which was increased from £25m to £35m in July 2008, and is available until 31 May 2010. £15m is currently drawn down under this facility.

The Group maintains almost all of its cash resources on demand as it can be subject to significant short-term fluctuations in its cash requirements. This is due to failed trades (although these are normally funded by overdraft), the processing of certificated trades and the funding of trading positions.

In addition to its own cash, the Group is responsible for significant amounts of client cash through its Wealth Management division. Although client cash is generally held on deposits of short duration, the profile is longer-dated than the firm's own cash. This is because the short-term fluctuations are less extreme and it allows the division greater flexibility to maximise returns. This does create a maturity risk if the duration of deposits is not matched exactly to that provided to clients. The maturity profile of client money is therefore determined by a divisional treasury committee to ensure that the maturity risk is maintained within acceptable limits. This committee also approves the institutions with which cash is placed, and the limits on the amount that can be placed with any one institution.

The Group treasury policy applies the same disciplines of counterparty selection and limits to the management of the firm's own cash. It also seeks to ensure that the counterparties selected for client cash are the same as those for the firm's cash to the extent possible. The different maturity profiles of clients and the firm, however, together with the particular business requirements of Group companies, mean that it is not feasible to align the counterparty portfolios exactly.

## **MARKET RISK**

Market risk is the vulnerability of the Group to movements in the value of financial instruments. Market risk can arise in those instances where one or both counterparties in a matched principal transaction fail to fulfill 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 balances immediately, or to carry them with an appropriate hedge in place.

In certain circumstances, the Group may take long equity positions as part of Corporate Broking transactions being conducted on behalf of clients. Such positions are carefully controlled and may only be taken at the direction of the Chief Executive. The Group will only take such positions if they are incidental to the transaction and there is a reasonable prospect of unwinding the position within the short term. For bonus purposes, any profit on these transactions is only paid once all positions have been liquidated.

All market risks arising across the Group are identified and monitored on a daily basis. The Group has significantly reduced its market risk positions on a like-for-like basis during 2008. In December 2007, the Group's positions totalled £34.1m long, £6.0m short; a net position of £28.1m. By December 2008 the positions had decreased to £28.6m long, £18.2m short, a net position of £10.4m. Furthermore, these positions include £17.6m long and £13.0m short taken by the new ICT business that commenced in September 2008. Excluding these, the Group's positions at December 2008 were £11.0m long, £5.2m short, a net position of £5.8m.

## **OPERATIONAL RISK**

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.

The Group keeps its operations and systems under continual review. For example, its compliance system is being radically reorganised and upgraded under a new Group Head of Compliance appointed during the year. An Internal Audit function is used to subject operations and systems to detailed review, using a risk-weighted approach.

### **STRATEGIC RISK**

Strategic risk is the risk that the Board pursues a strategy that is inappropriate in terms of the markets in which the Group operates, economic conditions or the resources available to it. As explained in the Chairman's Statement, the Board keeps its strategy under review.

### **REPUTATIONAL RISK**

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

Issues such as legal actions and regulatory reviews are monitored by Company Secretarial and Compliance functions and where necessary, addressed at appropriate levels throughout the organisation.

Mark Brown  
Chief Executive  
17 March 2009

# Consolidated Income Statement

## For the year ended 31 December 2008

	Notes	2008 £m	2007 £m
Revenue before share of (loss) / profit of associates		176.1	232.8
Share of (loss) / profit of associates		(0.4)	1.1
<b>Revenue</b>	2	175.7	233.9
Other operating items - exceptional	3	-	7.4
Administrative expenses		(194.8)	(169.2)
<b>Operating (loss) / profit</b>	2	(19.1)	72.1
Finance income		4.9	7.9
Finance costs		(1.0)	(1.0)
		3.9	6.9
<b>(Loss) / profit before tax</b>		(15.2)	79.0
Taxation	4	(7.7)	(22.6)
<b>(Loss) / profit for the year</b>		(22.9)	56.4
<b>Attributable to :</b>			
Equity holders of the parent		(22.9)	56.3
Minority interests		-	0.1
		(22.9)	56.4
<b>(Loss) / earnings per share</b>			
Basic	6	(9.6)p	23.4p
Diluted	6	(9.4)p	22.5p

All of the Group's revenue and operating (loss) / profit was derived from continuing operations.

## Consolidated Statement of Recognised Income and Expense For the year ended 31 December 2008

	Notes	2008 £m	2007 £m
Fair value gain on non-current available-for-sale financial assets, net of tax	7	0.8	0.4
Impact of foreign exchange	7	11.6	0.3
Taxation on other items taken directly to equity	7	(0.8)	(0.8)
<b>Net income recognised directly in equity</b>		<b>11.6</b>	<b>(0.1)</b>
(Loss) / profit for the year		<b>(22.9)</b>	56.4
<b>Total recognised expenses and income for the year</b>		<b>(11.3)</b>	56.3
<b>Attributable to :</b>			
Equity holders of the parent		(11.3)	56.2
Minority interests		-	0.1
		<b>(11.3)</b>	56.3

# Consolidated Balance Sheet

## As at 31 December 2008

	Notes	2008 £m	2007 £m
<b>Non-current assets</b>			
Goodwill		143.8	153.6
Other intangible assets		0.6	1.8
Property, plant and equipment		5.4	5.5
Other financial assets		2.9	2.0
Investment in associates		1.6	2.3
Deferred tax assets		1.1	8.5
		<b>155.4</b>	<b>173.7</b>
<b>Current assets</b>			
Trade and other receivables		156.7	491.0
Current tax assets		4.9	-
Trading investments		28.6	34.1
Cash and cash equivalents		133.9	158.8
		<b>324.1</b>	<b>683.9</b>
<b>Total assets</b>		<b>479.5</b>	<b>857.6</b>
<b>Current liabilities</b>			
Trade and other payables		(182.7)	(551.5)
Current tax liabilities		(3.8)	(12.3)
Other financial liabilities		(18.2)	(6.0)
Interest-bearing loans and borrowings		(27.3)	(18.0)
Provisions		(0.7)	(0.1)
		<b>(232.7)</b>	<b>(587.9)</b>
<b>Net current assets</b>		<b>91.4</b>	<b>96.0</b>
<b>Total assets less current liabilities</b>		<b>246.8</b>	<b>269.7</b>
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings		-	(1.5)
Provisions		(2.4)	(2.9)
		<b>(2.4)</b>	<b>(4.4)</b>
<b>Total liabilities</b>		<b>(235.1)</b>	<b>(592.3)</b>
<b>Net assets</b>		<b>244.4</b>	<b>265.3</b>
<b>Equity</b>			
Share capital	7	61.9	61.9
Merger reserve	7	70.9	70.9
Reverse acquisition reserve	7	(275.0)	(275.0)
Retained earnings	7	386.6	407.5
<b>Equity attributable to equity holders of the parent</b>		<b>244.4</b>	<b>265.3</b>
<b>Total equity</b>		<b>244.4</b>	<b>265.3</b>

# Consolidated Cash Flow Statement

## For the year ended 31 December 2008

	Notes	2008 £m	2007 £m
<b>Net cash (used) / from operating activities</b>	9	(54.5)	62.9
<b>Investing activities</b>			
Interest received		5.4	6.0
Purchase of intangible fixed assets		(0.3)	(0.3)
Purchase of property, plant and equipment		(1.6)	(1.0)
Disposal of subsidiary		-	0.2
Disposal of available-for-sale financial assets		-	2.9
Acquisition of subsidiaries and minority interest (net of cash acquired)	8	27.6	(31.6)
<b>Net cash from / (used) in investing activities</b>		<b>31.1</b>	<b>(23.8)</b>
<b>Financing activities</b>			
Dividends paid		(15.3)	(16.6)
Draw down of loan facility		15.0	10.5
Repayment of loan facility		-	(10.5)
Repayment of subordinated loan		(1.5)	-
Issue of loan notes		-	2.6
Repayment of loan notes		(0.8)	(9.1)
Settlement of share options	7	-	(0.4)
Purchase of own shares	7	(1.5)	(4.4)
Sale of own shares	7	0.2	2.7
Purchase of treasury shares	7	(1.0)	(3.4)
<b>Net cash used in financing activities</b>		<b>(4.9)</b>	<b>(28.6)</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>(28.3)</b>	<b>10.5</b>
<b>Net cash and cash equivalents at beginning of the year</b>		<b>141.6</b>	<b>130.9</b>
Effect of foreign exchange rate movements	10	8.3	0.2
<b>Net cash and cash equivalents at the end of the year</b>		<b>121.6</b>	<b>141.6</b>
Cash and cash equivalents		133.9	158.8
Overdrafts		(12.3)	(17.2)
<b>Net cash and cash equivalents</b>		<b>121.6</b>	<b>141.6</b>

# Notes to the Consolidated Financial Statements

## 1 Basis of Preparation

The information included within the preliminary announcement has been based on the consolidated financial statements, which are prepared in accordance with the accounting policies adopted under International Financial Reporting Standards (“IFRSs”), as issued by the International Accounting Standards Board, and as adopted by the European Union. The accounting policies followed are the same as those detailed within the 2007 Report and Accounts which are available on the Group’s website [www.collinsstewart.com](http://www.collinsstewart.com).

While the financial information included in this preliminary announcement has been prepared in accordance with IFRSs, this announcement does not itself contain sufficient information to comply with IFRSs.

The financial information included in this document does not constitute the Group's statutory accounts for the years ended 31 December 2008 or 2007, but is derived from those accounts. Statutory accounts for 2007 have been delivered to the Registrar of Companies and those for 2008 will be delivered following the Company's annual general meeting. The auditors have reported on those accounts; their reports were unqualified and did not contain statements under sections 237(2) or 237(3) of the Companies Act 1985.

The Board of Directors approved this preliminary announcement on 17 March 2009.

## 2 Business and Geographic Segments

For management purposes, the Group is currently organised into four operating divisions: Securities, Corporate Broking, Wealth Management and Hawkpoint. These divisions are the basis on which the Group reports its primary segment information.

Segmental information is presented about these businesses below.

Business segments	Securities		Corporate Broking		Wealth Management		Hawkpoint		Total	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
<b>Revenue</b>										
EU	36.1	42.2	2.1	46.2	10.1	10.6	41.0	58.8	89.3	157.8
North America	48.1	37.9	1.4	-	-	-	-	-	49.5	37.9
Channel Isles	-	-	-	-	36.9	38.2	-	-	36.9	38.2
<b>Total revenue</b>	<b>84.2</b>	<b>80.1</b>	<b>3.5</b>	<b>46.2</b>	<b>47.0</b>	<b>48.8</b>	<b>41.0</b>	<b>58.8</b>	<b>175.7</b>	<b>233.9</b>
<b>Operating (loss) / profit before exceptional items</b>										
EU	0.6	12.2	(15.4)	21.7	1.0	2.0	4.6	16.4	(9.2)	52.3
North America	(13.2)	2.6	(6.2)	-	-	-	-	-	(19.4)	2.6
Channel Isles	-	-	-	-	9.5	9.8	-	-	9.5	9.8
	(12.6)	14.8	(21.6)	21.7	10.5	11.8	4.6	16.4	(19.1)	64.7
Exceptional items									-	7.4
<b>Operating (loss) / profit</b>									(19.1)	72.1
Finance income									4.9	7.9
Finance costs									(1.0)	(1.0)
<b>(Loss) / profit before tax</b>									(15.2)	79.0
Taxation									(7.7)	(22.6)
<b>(Loss) / profit after tax</b>									(22.9)	56.4

All segment revenue is derived from sales to external customers.

## 3 Other Operating Items - Exceptional

The 2007 amount of £7.4m in other operating items comprises a £7.9m profit on disposal of Tullett Prebon plc shares that were held in the Company's employee share ownership trusts at the time of the demerger of the Collins Stewart Tullett Group in December 2006, a £0.1m gain on the disposal of the Collins Stewart Property Fund Management business and £0.6m of costs arising in respect of an onerous lease provision for operating leases on US properties.

## 4 Taxation

	2008	2007
	£m	£m
<b>Current tax</b>		
UK corporation tax	(0.4)	18.1
Double tax relief	(1.5)	(2.0)
	(1.9)	16.1
Overseas tax	2.4	6.2
Prior year UK corporation tax over-provided	(0.9)	(0.4)
Prior year overseas tax over-provided	(0.1)	-
	(0.5)	21.9
<b>Deferred tax</b>		
Current year	8.2	0.7
	7.7	22.6

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

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

	2008	2007
	£m	£m
(Loss) / Profit before tax	(15.2)	79.0
Tax on (loss) / profit at standard rate of 28.5% (2007: 30%)	(4.3)	23.7
Factors affecting the charge for the year:		
Disallowable expenditure	4.6	1.7
Non-taxable gains	-	(2.3)
Tax effect of stock options	1.9	0.6
Unrecognised losses	2.7	-
Write-off of US deferred tax asset	7.4	-
Effect of different tax rates of subsidiaries	(3.6)	(0.7)
Adjustments in respect of prior years	(1.0)	(0.4)
	7.7	22.6

## 5 Dividends

The Board has recommended a final dividend for the year of 1.3p per share, which if approved, will be paid on 28 May 2009 to shareholders on the register on 8 May 2009.

## 6 Earnings per Share

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

	2008	2007
(Loss) / earnings	£m	£m
(Loss) / earnings for the purposes of basic earnings per share before exceptional items	(22.9)	48.7
Exceptional items (net of tax)	-	7.6
(Loss) / earnings for the purposes of basic and diluted earnings per share	(22.9)	56.3

  

	2008	2007
Weighted average number of shares	No. (m)	No. (m)
Number of ordinary shares at start of year	240.5	240.5
(Transfer to ESOTs) / share issues	(0.5)	-
Basic (loss) / earnings per share denominator	240.0	240.5
Issuable on exercise of options	3.1	9.4
Diluted (loss) / earnings per share denominator	243.1	249.9
Basic (loss) / earnings per share	(9.6)p	23.4p
Diluted (loss) / earnings per share	(9.4)p	22.5p

## 7 Reconciliation of Shareholders' Equity

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

	Share capital	Merger reserve	Reverse acquisition reserve	Retained earnings	Total shareholders' equity
	£m	£m	£m	£m	£m
Shareholders' equity as at 1 January 2007	61.9	70.9	(275.0)	380.1	237.9
Profit for the year	-	-	-	56.3	56.3
Dividends paid in the year	-	-	-	(16.6)	(16.6)
Purchase of treasury shares	-	-	-	(3.4)	(3.4)
Credit arising on share options	-	-	-	5.1	5.1
Gain or loss on available-for-sale financial assets	-	-	-	0.4	0.4
Gain or loss on available-for-sale financial assets previously recognised in equity and transferred to profit	-	-	-	(8.0)	(8.0)
Other items taken directly to equity	-	-	-	(5.5)	(5.5)
Settlement of share options	-	-	-	(0.4)	(0.4)
Taxation on other amounts taken to equity	-	-	-	(0.8)	(0.8)
Foreign exchange translation	-	-	-	0.3	0.3
Shareholders' equity as at 31 December 2007	61.9	70.9	(275.0)	407.5	265.3
(Loss) for the year	-	-	-	(22.9)	(22.9)
Dividends paid in the year	-	-	-	(15.3)	(15.3)
Purchase of treasury shares	-	-	-	(1.0)	(1.0)
Purchase of own shares	-	-	-	(1.5)	(1.5)
Sale of own shares	-	-	-	0.2	0.2
Credit arising on share options	-	-	-	7.4	7.4
Gain or loss on available-for-sale financial assets	-	-	-	0.8	0.8
Other items taken directly to equity	-	-	-	0.6	0.6
Taxation on other amounts taken to equity	-	-	-	(0.8)	(0.8)
Foreign exchange translation	-	-	-	11.6	11.6
<b>Shareholders' equity as at 31 December 2008</b>	<b>61.9</b>	<b>70.9</b>	<b>(275.0)</b>	<b>386.6</b>	<b>244.4</b>

## 8 Acquisition of ISTC plc

	Book value £m	Fair value adjustments £m	Fair value £m
<b>Net assets acquired</b>			
Accruals and deferred income	(1.6)	-	(1.6)
Cash and cash equivalents	27.6	-	27.6
Prepayments and accrued income	0.1	-	0.1
Trade and other receivables	2.6	-	2.6
Trade and other payables	(28.7)	-	(28.7)
	-	-	-
Goodwill			-
Total consideration			-
<b>Satisfied by:</b>			
Cash			-
Acquisition costs			-
			-
<b>Net cash used for acquisition</b>			
Cash consideration			-
Cash and cash equivalents acquired			(27.6)
Net cash spent / (received) on acquisition			(27.6)

On 22 February 2008, the Company entered into a conditional investment with International Securities Trading Corporation plc ("ISTC"), in examinership, a Dublin-based investor in bank capital. The High Court of Ireland subsequently approved the Examiner's scheme of arrangement on 11 March 2008 and the transaction was completed on 13 March 2008. Under the agreement, the Company acquired the entire issued share capital of ISTC for a nominal sum and subsequently subscribed for €5m of additional ordinary and redeemable preference shares.

ISTC contributed £2.3m and £0.9m to the Group's revenue and operating profit respectively in the period from acquisition to 31 December 2008.

## 9 Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities

	2008 £m	2007 £m
<b>Operating (loss) / profit</b>	<b>(19.1)</b>	72.1
Adjustments for:		
Expense arising from share option plans	7.4	5.1
Decrease / (increase) in the carrying value of associates	0.9	(1.0)
Profit arising on the disposal of available for sale assets	-	(7.9)
Profit arising on the disposal of subsidiary	-	(0.1)
Depreciation of property, plant and equipment	1.2	1.3
Amortisation of intangible assets	0.5	0.3
Impairment of goodwill	13.3	0.4
Impairment of other intangible assets	1.5	-
Increase in provisions for liabilities and charges	0.1	0.1
<b>Operating cash flows before movement in working capital</b>	<b>5.8</b>	70.3
Decrease / (increase) in trade and other receivables	333.7	(129.0)
Decrease / (increase) in net long and short positions	17.7	(14.3)
(Decrease) / increase in trade and other payables	<b>(399.1)</b>	157.3
<b>Cash generated from operations</b>	<b>(41.9)</b>	84.3
Income tax paid	<b>(11.6)</b>	(20.4)
Interest paid	<b>(1.0)</b>	(1.0)
<b>Net cash flows from operating activities</b>	<b>(54.5)</b>	62.9

## 10 Analysis of Net Funds

	As at 1 January 2008 £m	Cash flow £m	Non-cash items £m	Exchange differences £m	As at 31 December 2008 £m
Cash in hand and at bank	103.2	9.1	-	8.3	120.6
Cash equivalents	5.1	5.0	-	-	10.1
Client settlement monies	50.5	(47.3)	-	-	3.2
Bank overdrafts	(17.2)	4.9	-	-	(12.3)
	141.6	(28.3)	-	8.3	121.6
Loans due within one year	(0.8)	(14.2)	-	-	(15.0)
Loans due after one year	(1.5)	1.5	-	-	-
	(2.3)	(12.7)	-	-	(15.0)
<b>Total net funds</b>	<b>139.3</b>	<b>(41.0)</b>	-	8.3	<b>106.6</b>