

18 March 2010

# COLLINS STEWART PLC

## PRELIMINARY ANNOUNCEMENT OF AUDITED RESULTS

### for the year ended 31 December 2009

Collins Stewart plc today announces its preliminary results for the year ended 31 December 2009.

### Highlights

- **Revenue: £186.4m** - 2008: £175.7m, adjusted £187.8m
- **Operating profit/(loss) before share-based payment charges: £21.9m** - 2008: £(11.7)m, adjusted £19.3m
- **Operating profit/(loss): £18.5m** - 2008: £(19.1)m, adjusted £11.9m
- **Profit/(loss) before tax: £18.4m** - 2008: £(15.2)m, adjusted £15.8m
- **All four divisions are profitable**
- **Basic EPS: 5.5p** - 2008: (9.6)p, adjusted 4.7p
- **Net cash and cash equivalents: £113.2m** - 2008: £106.6m
- **Usable cash and cash equivalents: £104.0m** - 2008: £92.9m
- **Final dividend of 1.3p per share** - 2008:1.3p

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

*"A more focused business produced a return to profit in 2009 despite tough markets. We expect markets to remain difficult for the foreseeable future but the business is in better shape than for some time."*

### Mark Brown, Chief Executive, added:

*"While we continue to manage the business cautiously we are using our robust financial position to take advantage of opportunities to strengthen further our core businesses and reinforce our position as a leading, independent financial advisory group."*

### Enquiries:

Mark Brown, Chief Executive  
+44 (0) 207 523 8008

Charlotte Kirkham, M:Communications  
+44 (0) 207 920 2331  
+44 (0) 7989 528421

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

After the dramatic events that impacted the financial world in the second half of 2008, it was to be expected that many of the challenges presented by such conditions would continue in 2009. The trading environment for each of Collins Stewart's businesses remained difficult throughout the period but, following the actions taken at the end of 2008 and early in 2009 to refocus on our core strengths, all divisions were profitable in 2009 and the Group finished the year in a stronger position than it started it.

Revenue for the year ended 31 December 2009 was £186.4m, 6% higher than reported revenue in 2008, although broadly in line with 2008 revenue, adjusted for one-off factors, of £187.8m. Revenue for the year benefited from a more favourable US dollar exchange rate and some new business activities; excluding these factors, revenue would have been 12.9% lower year-on-year. Profit before tax in 2009 was £18.4m, compared to a statutory loss before tax in 2008 of £15.2m and an adjusted profit before tax of £15.8m. Basic earnings per share were 5.5 pence (2008: 9.6 pence loss per share) and the Board has recommended a final dividend of 1.3 pence per share that, if approved, would be paid on 27 May 2010 to shareholders on the register on 7 May 2010.

The business returned to profitability and performance improved further in the second half of 2009. The Wealth Management division has been resilient throughout the year and is winning funds and growing organically. This is due to the high-quality platform that has been built through investment in people, systems and product together with a focus on serving its clients. The numerous industry awards that we have won recently also testify to the strength of the division's franchise. The focus in 2010 will be to continue growing the business both organically and through acquisition. In respect of the latter, we are pleased to have been able to announce alongside our results that we have completed an acquisition in the Channel Islands.

In Securities the environment could hardly have been tougher, with market volumes down by almost half on those seen prior to the banking collapse in 2008. It is also notable that trading volumes did not recover with the equity market in the second half of 2009. Against this background, that our UK business has managed to stay profitable with an operating margin of 21% is testament to the ingenuity and quality of the people who work in it. The specialist desks deserve particular mention: the Investment Companies team, in its first full year in the Group, performed especially well, while the Preference Share market-making team had a record year.

The restructuring of the US business came later in the year and the issues were more complex, so the full effects were always going to show through later. With the closure of its corporate finance arm at the beginning of the year, the business is now focused on secondary sales, trading and research of US and international equities with US clients. We have been able to attract a number of highly-regarded individuals and teams in sales and research to support this strategy, although it inevitably takes some time for the benefit of this investment to flow through and, as in the UK, market trading volumes declined further in the second half. Consequently, the second half remained difficult for this business, but the re-positioning and investment means it is now much better placed to return to growth and profit.

The old Capital Markets division, that was heavily dependent on small-cap IPO activity on AIM, has been transformed into a more balanced and higher-quality Corporate Broking platform. Winning the mid-market clients we are targeting will take longer but a good start has been made with a number of main-market client wins during the year. Importantly, the Corporate Broking division and Hawkpoint, our corporate advisory business, are now working closely and effectively together and have a number of joint clients and mandates.

The need for Hawkpoint's un-conflicted, independent advice, has never been greater. The Debt and Restructuring Group has been especially busy and we were proud to be selected to advise the Icelandic Government on the restructuring of the country's banking system. Opportunities exist for both sides of our corporate business, in their own right and together, and they should benefit in 2010 from a pick up in M&A activity and a return of IPOs for good-quality companies.

There have again been a number of changes amongst my colleagues on the Board. As I indicated in my statement last year, Richard Kilsby and Iain Napier both retired as non-executive directors in June, while Patrick O'Sullivan also stepped down in December following his appointment as Chairman of Old Mutual plc. I would like to thank each of them for the contribution they have made to the Board and wish them well. John Cotter joined the Board as Group Finance Director in June.

I will be handing over the Chairmanship to Tim Ingram on 1 April. Tim has been a member of the Board since January and is retiring as Chief Executive of Caledonia Investments plc in July. At the Board's request, I shall be remaining on the Board as Deputy Chairman to support the transition. Paul Hewitt also joined the Board in January and has taken over as Chairman of the Audit Committee. Keith Hamill will be retiring from the Board at the AGM in May and we would like to thank him for his work for the Company. The Board is currently recruiting two additional non-executive directors.

The year has started satisfactorily with overall revenues modestly ahead of the same period a year ago. Equity volumes remain depressed on both sides of the Atlantic but the benefit of previous improvements to the Securities business should come through in 2010, especially in the US, and the specialist areas continue to perform well. In contrast to 2009, Hawkpoint has started the year on target and the improvements in the corporate broking platform at Collins Stewart also bode well. The Wealth Management Division has started the year in line with expectations and will benefit from the acquisition announced today.

We continue to view the external environment with caution. Many structural economic issues were simply pushed back rather than addressed by governments in 2009 and the challenges faced across the Group since the credit bubble burst look set to continue for some time. Nevertheless, we have a strong balance sheet and the investment we have made in our businesses has positioned them to respond to these challenges and exploit the opportunities that they present. We shall continue our strategy of focusing on the core strengths of the Group to the benefit of our clients and shareholders, and we look ahead to 2010 in the knowledge that the businesses are in better shape than for some time.

**Terry Smith**

CHAIRMAN

18 March 2010

# BUSINESS REVIEW

## Objectives and Strategy

Collins Stewart's objectives are to be a leading independent financial advisory group and to create wealth for our clients, both corporate and individual, and shareholders. 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 equity sales, trading and research (Securities) in Europe and the US, corporate advisory in Europe (Hawkpoint), and Wealth Management in the UK and Channel Islands. Our UK Corporate Broking business has been repositioned and, working alongside Hawkpoint and Securities, has made good progress in its aim of building a high-quality platform serving the mid-cap sector. The Board is also committed to the continued growth of the 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 over the medium to long term.

## Overview of 2009

### FINANCIAL PERFORMANCE

The difficult trading environment that prevailed in the second half of 2008 remained throughout 2009. Revenues for the twelve months ended 31 December 2009 were similar to adjusted revenues for 2008, although in part this reflects more favourable US dollar exchange rates and the impact of new business activities. The mix of revenue across the Group's divisions has therefore changed. On a like-for-like basis, revenues fell by 12.9%, reflecting continued pressure on the large-cap Securities businesses in both the UK and the US as well as tougher market conditions for Hawkpoint, particularly in the first half. Each business segment was profitable, however, and the pre-tax profit for the year of £18.4m stands in contrast to a reported pre-tax loss of £15.2m in 2008. Basic earnings per share were 5.5 pence (2008: loss per share of 9.6 pence).

## Summary of Results

|   | 2009         | 2008          |             |              |
|---|--------------|---------------|-------------|--------------|
|   | £m           | As reported*  | Adjustments | Adjusted     |
|   | £m           | £m            | £m          | £m           |
| <b>Revenue</b>  |              |               |             |              |
| Wealth Management   | 43.7         | 47.0          | -           | 47.0         |
| Securities  | 101.5        | 85.9          | 3.5         | 89.4         |
| Corporate Broking   | 12.9         | 1.8           | 8.6         | 10.4         |
| Hawkpoint   | 28.3         | 41.0          | -           | 41.0         |
|   | <b>186.4</b> | <b>175.7</b>  | <b>12.1</b> | <b>187.8</b> |
| <b>Operating profit/(loss) before share-based payment charges</b> |              |               |             |              |
| Wealth Management   | 10.1         | 13.5          | -           | 13.5         |
| Securities  | 4.5          | (20.1)        | 21.7        | 1.6          |
| Corporate Broking   | 2.6          | (12.1)        | 9.1         | (3.0)        |
| Hawkpoint   | 4.7          | 7.0           | 0.2         | 7.2          |
|   | <b>21.9</b>  | <b>(11.7)</b> | <b>31.0</b> | <b>19.3</b>  |
| Share-based payment charges                                       | (3.4)        | (7.4)         | -           | (7.4)        |
| Operating profit/(loss)   | <b>18.5</b>  | <b>(19.1)</b> | <b>31.0</b> | <b>11.9</b>  |
| Net interest  | (0.1)        | 3.9           | -           | 3.9          |
| <b>Profit/(loss) before tax</b>                                   | <b>18.4</b>  | <b>(15.2)</b> | <b>31.0</b> | <b>15.8</b>  |
| Taxation  | (5.0)        | (7.7)         | 3.3         | (4.4)        |
| <b>Profit/(loss) after tax</b>                                    | <b>13.4</b>  | <b>(22.9)</b> | <b>34.3</b> | <b>11.4</b>  |
| <b>Earnings/(loss) per share</b>                                  |              |               |             |              |
| Basic   | 5.5p         | (9.6)p        | 14.3p       | 4.7p         |
| Diluted   | 5.4p         | (9.4)p        | 14.1p       | 4.7p         |

\* On 1 January 2009 the equity distribution and research functions within Corporate Broking were transferred to Securities and the 2008 comparatives have been restated accordingly

Profit and earnings per share in 2008 were adversely affected by a number of significant items of a non-recurring and largely non-cash nature that arose during the year as highlighted in last year's report. 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 had on reported profits and basic earnings per share, are set out in Note 9.

The table below compares the performance of the Company on a half-yearly basis in 2009 with that in the second half of 2008. This provides a more meaningful analysis of the progress made by each division since the appointment of Mark Brown as Chief Executive in October 2008 and the turmoil in financial markets in the latter part of 2008. Revenue in the second half of each year was flat, at approximately £91m, but operating profit before share-based payment charges in the second half of 2009 of £12.8m compares with an adjusted profit of just £0.4m in the same period in 2008. This has been achieved by a return to profit in both the Securities and Corporate Broking divisions and improved contribution from Hawkpoint.

| £m  | 2009 H2     | 2009 H1     | Adjusted<br>2008 H2 |
|---|-------------|-------------|---------------------|
| <b>Revenue</b>  |             |             |                     |
| Wealth Management   | 21.7        | 22.0        | 23.8                |
| UK Securities   | 32.6        | 27.8        | 19.4                |
| US Securities   | 16.1        | 25.0        | 27.2                |
| Corporate Broking   | 4.9         | 8.0         | 3.4                 |
| Hawkpoint   | 15.8        | 12.5        | 17.5                |
|   | <b>91.1</b> | <b>95.3</b> | <b>91.3</b>         |
| <b>Operating profit/(loss) before share-based payment charges</b> |             |             |                     |
| Wealth Management   | 4.8         | 5.3         | 5.9                 |
| UK Securities   | 8.0         | 4.5         | (3.7)               |
| US Securities   | (5.2)       | (2.8)       | 3.0                 |
| Corporate Broking   | 1.2         | 1.4         | (5.0)               |
| Hawkpoint   | 4.0         | 0.7         | 0.2                 |
|   | <b>12.8</b> | <b>9.1</b>  | <b>0.4</b>          |
| Share-based payment charges                                       | (0.4)       | (3.0)       | (2.9)               |
| Operating profit/(loss)   | <b>12.4</b> | <b>6.1</b>  | <b>(2.5)</b>        |

### *Effect of Share-based Payment Charges ("SBP")*

As in previous years, total operating profit includes significant non-cash costs in respect of share-based incentives granted to the Group's employees, some of which still relate to shares issued as part of the acquisition of Hawkpoint in 2006. In 2009, charges totalling £2.8m in respect of accumulated share-based payment charges were released relating to options granted in earlier years that are not expected to vest. The effect of share-based payment charges on the results of each business segment is analysed in the table below.

|                                | 2009        |            |             | 2008        |            |             |
|--------------------------------|-------------|------------|-------------|-------------|------------|-------------|
|                                | As reported | SBP        | After SBP   | As adjusted | SBP        | After SBP   |
|                                | £m          | £m         | £m          | £m          | £m         | £m          |
| <b>Operating profit/(loss)</b> |             |            |             |             |            |             |
| Wealth Management              | 10.1        | 2.4        | 7.7         | 13.5        | 3.0        | 10.5        |
| Securities                     | 4.5         | (1.2)      | 5.7         | 1.6         | 1.7        | (0.1)       |
| Corporate Broking              | 2.6         | -          | 2.6         | (3.0)       | 0.3        | (3.3)       |
| Hawkpoint                      | 4.7         | 2.2        | 2.5         | 7.2         | 2.4        | 4.8         |
|                                | <b>21.9</b> | <b>3.4</b> | <b>18.5</b> | <b>19.3</b> | <b>7.4</b> | <b>11.9</b> |

The divisional review that follows analyses operating profits before share-based payment charges in comparison to the adjusted results of 2008.

Revenue, operating profit before share-based payment charges and operating margin 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 2009 based on these KPIs, together with a review of the trends and factors likely to affect its future development, is set out below.

## WEALTH MANAGEMENT

|                  | 2009  | 2008  |
|------------------|-------|-------|
|                  | £m    | £m    |
| Revenue          | 43.7  | 47.0  |
| Operating profit | 10.1  | 13.5  |
| Operating margin | 23.1% | 28.7% |

The Wealth Management division performed steadily in 2009 in the context of difficult market conditions. Revenues were 7% lower as a consequence of lower transaction volumes and tighter margins, although prior-year comparatives, particularly in the second half of 2008, were especially strong due to the exceptional market environment giving rise to unusually heavy trading of government bonds by clients in the final quarter of 2008.

Recurring revenues, including management fees, increased from 46% to 48% of total revenues with the interest margin holding up better than expected. Operating profit fell 25% although reported profit reflects changes in central cost allocations and comparatives which are affected by some one-off adjustments in 2008. Despite a 2% increase in staff costs, overall direct costs fell by 6% in 2009. Investment in people, services, technology and the brand also continued, leaving the business well-placed to take advantage of growth opportunities, such as the Retail Distribution Review, as they arise.

### Assets under Management and Administration

|                             | 2009 | 2008 | Net inflows | 2009 ROA <sup>1</sup> | 2008 ROA <sup>1</sup> |
|-----------------------------|------|------|-------------|-----------------------|-----------------------|
|                             | £bn  | £bn  | £m          | %                     | %                     |
| Discretionary (incl. Funds) | 1.7  | 1.5  | 67          | 1.15%                 | 1.20%                 |
| Advisory                    | 2.3  | 1.8  | 181         | 0.59%                 | 0.64%                 |
| Non-advisory                | 1.9  | 1.6  | 84          | 0.41%                 | 0.44%                 |
| Total                       | 5.9  | 4.9  | 332         |                       |                       |

1. Annual Return on Assets (ROA) is derived from the four-quarter average of quarterly revenues and quarter-end AUM. Returns exclude revenues of £4.9m (2008: £4.6m) arising from trading in assets that are not under administration.

Total assets under management and administration as at 31 December 2009 were £5.9bn, an increase of 20.4% over the year. Net inflows of £332m represented an annualised organic growth rate in assets under management of 6.8% in 2009 and reflected the results of some specific marketing initiatives as well as some general benefit from clients returning to markets on the advisory and non-advisory side. Flows into funds were marginally net positive.

The above table shows a Return on Asset ("ROA") analysis – the ratio of revenue to assets. The overall ROA fell slightly in 2009, mainly as a result of a reduction in the interest margin. The ROA from the Advisory and Non-Advisory AUM is generally higher than for similar services of traditional UK private client stockbroking firms as it reflects the division's offshore heritage, where the business is more multi-asset and multi-currency leading to broader revenue streams. Both these services are built around the customer service excellence delivered by an in-house offshore operations centre.

Continued inflows are expected from both local business development efforts in each of the division's jurisdictions, together with recent initiatives such as the intermediary sales team, cash management service and CEET (corporate executive and employee trading) desk. This is expected, however, to lead to a softening of the overall ROA as these new services generally have lower returns.

Wealth Management received external recognition of its services during the year, courtesy of a number of industry awards that represent the views of both clients and industry peers. Awards were received for

discretionary portfolio management services, advisory stockbroking services and customer service standards.

The division has a strategic target entitled “10x12” – the achievement of £10bn of assets under management by the end of 2012, assuming flat markets and representing an annual growth rate of 20%. In support of this, efforts continue to supplement organic growth initiatives by exploiting acquisition and recruitment opportunities and, alongside the results, the Company has announced the acquisition of Corazon Capital Group Limited, which manages £382m of assets, almost all of which are discretionary, from offices in Guernsey and Geneva. More generally, the division’s independent, client-focused approach leaves Wealth Management ideally positioned to achieve its aim.

## SECURITIES

|                         | 2009<br>£m   | 2008<br>£m |
|-------------------------|--------------|------------|
| Revenue                 |              |            |
| UK                      | 60.4         | 40.1       |
| US                      | 41.1         | 49.3       |
|                         | <b>101.5</b> | 89.4       |
| Operating profit/(loss) |              |            |
| UK                      | 12.5         | (3.0)      |
| US                      | (8.0)        | 4.6        |
|                         | <b>4.5</b>   | 1.6        |
| Operating margin        |              |            |
| UK                      | 20.7%        | (7.5%)     |
| US                      | (19.5%)      | 9.3%       |
|                         | <b>4.4%</b>  | 1.8%       |

Securities revenue increased to £101.5m (2008: £89.4m), reflecting strong performances from the specialised desks (Investment Companies, Preference Shares and Australian Equities) offset by weaker large-cap commission levels in both the UK and US. Operating profit increased to £4.5m (2008: £1.6m), with an improved performance in the UK offset in part by losses in the US business.

### *UK Managed Business*

The UK Securities business continued to experience difficult markets in 2009 but performed well as the benefit of its strategy of diversifying revenue streams became clear. Revenues increased by 50% compared to 2008 as weaker returns from agency sales were outweighed by a strong trading performance, resulting in a strong return to profit for the year.

According to London Stock Exchange (“LSE”) statistics, average daily equity volumes in 2009 were 42% down on the first half of 2008 (prior to the banking collapse). More surprisingly, there was no recovery in the second half as the level of equity markets generally recovered. Indeed, the value of average daily volumes on the LSE was lower in the second half of 2009 than in the first half. This had an inevitable impact on the core large-cap agency broking business which, while maintaining market share, experienced sharp reductions in year-on-year commission levels. Targeted recruitment during the year has strengthened capability in sales and trading as well as broadening research coverage, leaving the business better placed to develop its franchise.

The market-making activities were able to exploit opportunities created by market dislocation to increase revenues and profits significantly. The Preference Share desk performed exceptionally well throughout the year, while the Investment Companies Team, trading for its first full year as part of the division, continued the momentum it had established at the interim stage with a strong performance in the second half. A particular highlight was the £80m Placing and Open Offer for HSBC Infrastructure Company Ltd in December. During the year, the division expanded its reach with recruitment in the Corporate Bond

and Convertible sectors, broadening the range of services on offer to clients and further diversifying its revenue streams.

### ***US Managed Business***

The US business was extensively re-organised at the beginning of the year with the closure of the corporate finance arm and the appointment of a new Chief Executive. The division is now primarily focused on sales, trading and research of domestic and international equities and has been successful in upgrading its research and sales capability through the recruitment of a number of highly-regarded individuals and teams. This is moving the business away from a low-margin “relationship-driven” trading model to a better-quality, traditional stockbroking model.

However, as in the UK, commissions have been under pressure during 2009 and revenues fell by 17% compared to 2008 (29% at constant exchange rates). As a result, the actions implemented at the beginning of 2009 to refocus the business and reduce the cost base are taking longer than anticipated to have a positive P&L impact as revenues of the trading business have fallen away as fast as costs have been reduced. This deterioration was exacerbated in the third quarter by the loss of a “Foreign Market Making” team (that has now been replaced, although the new team is not yet fully operational), while fixed property costs are also placing a greater burden on what remains. New recruits, on the other hand, particularly analysts, inevitably take time to gain traction and generate revenue. Consequently, although there were signs that revenues were beginning to recover towards the end of the year, the division made a loss for the year of £8.0m. Further cost reduction and efficiency measures combined with the benefit of previous investment should help to reduce losses substantially in 2010.

### **CORPORATE BROKING**

|                         | <b>2009</b>  | <b>2008</b> |
|-------------------------|--------------|-------------|
|                         | <b>£m</b>    | <b>£m</b>   |
| Revenue                 | <b>12.9</b>  | 10.4        |
| Operating profit/(loss) | <b>2.6</b>   | (3.0)       |
| Operating margin        | <b>20.2%</b> | (28.8%)     |

The strategic development of Corporate Broking in the UK into a high-quality unit focused on mid and small-cap companies continued during 2009 and has already made substantial progress. The closure of the US corporate finance business at the beginning of the year, and the extensive staff overhaul necessary in the UK both to provide the skills required for the new business model and reduce costs, has had a positive impact with a welcome return to profit for the full year.

The UK business has demonstrated its ability to execute secondary equity fundraisings effectively and is no longer predominantly reliant on small-cap AIM IPOs. Despite the challenging economic and stock market conditions in 2009, which resulted in a significant reduction in mid and small-cap equity issues, the UK business raised around £140m for clients (2008: £112m) including a fundraising for Development Securities plc in the first half that doubled that company’s market capitalisation. It also acted on public company M&A transactions with a value of approximately £280m, and remains well-positioned to capitalise on any re-emergence of the IPO market and clients looking to raise equity for development capital or M&A activity.

As anticipated, the refocusing of the UK business has led to a reduction in the number of AIM clients, partly due to companies delisting as well as corporate activity. However, new main-market client appointments, including Chesnara plc, Yule Catto plc and Mears Group plc during the year and Hogg Robinson early in 2010, demonstrate the success of targeting high-quality retained brokerage clients with which the division is able to develop its relationship over the longer term. We have made a number of

key appointments during the year, the most notable being that of Roger Lambert, formerly a partner of Cazenove & Co and a Managing Director at JPMorgan Cazenove, as Chairman of Corporate Broking, which reinforce this strategy of service-oriented relationships with larger corporate clients.

In Singapore, Collins Stewart was very active in 2009 and, by raising an aggregate of S\$220m, ranked second in this market in terms of funds raised for its clients. A particular highlight was the IPO on the Singapore Main Board of China Gaoxian Fibre Fabric Holdings Ltd, one of the largest IPOs conducted in Singapore during the year.

Together with the £259m raised by the Investment Companies Team, the firm as a whole raised a total of £496m for clients in 2009.

Corporate Broking is also working more closely with Hawkpoint, the Group's corporate advisory business. This has resulted in a number of joint clients, of which Chesnara plc is a good example, and the execution of a number of joint mandates in 2009. The businesses continue to work together on joint initiatives and opportunities for cross-referral in 2010.

## HAWKPOINT

|                  | 2009  | 2008  |
|------------------|-------|-------|
|                  | £m    | £m    |
| Revenue          | 28.3  | 41.0  |
| Operating profit | 4.7   | 7.2   |
| Operating margin | 16.6% | 17.6% |

Against a background of difficult market conditions, Hawkpoint benefited from its ability to provide unconflicted, independent advice from a stable platform. After a slow start to the year caused by the turmoil in the financial markets and the contraction in bank and debt finance, the division then performed steadily, with average monthly revenues for the last seven months of the year running at double the level of the first five months, an improvement that has continued into 2010. Operating profit for 2009 includes a gain arising from the release of a provision of £2.4m made on the acquisition of Hawkpoint in 2006.

Hawkpoint advised on a total of 34 completed transactions during the year, with an aggregate value of £21bn. There was a substantial shift in the nature of business, with debt advisory and restructuring revenues accounting for some 40% of revenues in 2009 compared to around 5% in the previous year. Hawkpoint's highest-profile role during the year was in advising the Icelandic Government on restructuring the country's banking system. This involved structuring the capitalisation of the three New Icelandic Banks, negotiating settlement with Old Bank creditors and working closely with the IMF – completing the project well ahead of the IMF's expected timetable.

More generally in the area of refinancing and restructuring, Hawkpoint advised Findel on refinancing £350m of facilities and raising £80m of new equity, Park Resorts on its £325m debt restructuring, Cegelec on its €700m refinancing, Profine on its €650m debt restructuring, Jane Norman on its £135m refinancing, as well as Davenham, Carpathian and Reliance Security on their refinancings. In France Hawkpoint advised on an innovative scheme to combine three of the country's largest mutual insurance companies - Macif, Maif and Matmut – around a dedicated legal structure.

In the public arena, Hawkpoint advised on two hostile bid defences, namely Novera in securing a £112m revised offer from Infinis at a 23% premium to its originally announced offer; and Rugby REIT on successfully defending a hostile bid by Laxey Partners. Hawkpoint also advised on a £304m recommended offer for BPP by Apollo Global, an £85m recommended offer for Research Now by e-Rewards and a recommended offer by Consort Medical for The Medical House.

Private M&A activity included advising Mosaic Fashions on the distressed asset sales of Principles to Debenhams and Shoe Studio to Dune, and on the disposals of Global Radio's Midlands stations and of 1<sup>st</sup> The Exchange to LDC. On the acquisition front, Hawkpoint advised DOCU Group on the acquisition of Reed Business Information's Nordic assets, Chesnara on its Swedish acquisition of Moderna Försäkringar Liv, Primesight on the purchase of Titan UK's roadside estate and Rathbones on a private client assets acquisition from Lloyds Bank. Hawkpoint also undertook a number of private capital raisings for clients including Towry Law and Oval.

Hawkpoint continues to grow its European advisory presence. It has recently announced the appointment of three new managing directors to its existing German operations and is planning to open a new office in Frankfurt in the summer.

During the year Hawkpoint received a number of prestigious industry awards. Acquisitions Monthly named it the Mid Market Adviser of the Year in 2009, as well as naming the disposal of Racal Acoustics on which it advised as 2010 Mid Market Private Equity Deal of the Year. Hawkpoint also won the 2009 Private Equity News Exit of the Year award, the 2009 Corporate Finance Boutique of the Year award and the Corporate Financier of the Year award at the British Private Equity Awards 2009.

## REMUNERATION

The Group's policy with respect to remuneration is set out in the Report on Directors' 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 reasonable fixed monthly remuneration 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.

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. In February 2010, shareholders approved the adoption of the Collins Stewart plc 2010 Long Term Incentive Plan ("2010 LTIP"). In conjunction with the implementation of the 2010 LTIP, the Committee updated the remuneration policy for key employees based on a remuneration philosophy that encourages, rewards and retains individuals who are able to build and shape the business based on the following principles:

- reasonable levels of fixed remuneration but with the opportunity for significant variable remuneration where performance is justified and exceptional;
- provide a competitive total reward framework with a clear link to performance; and
- engender a strong culture of equity ownership and long-term performance both through the introduction of the 2010 LTIP and its linkage to part-deferral of the annual bonus in equity thereby aligning the interests of key employees and shareholders.

The Committee believes that partial deferral of annual bonuses assists in the motivation and retention of employees, the management of risk and the reflection of satisfactory financial performance going forward. In 2008 the Group chose to defer the payment of approximately 20% of the discretionary cash bonus until the final quarter of 2009, dependent upon the financial performance of the Group. In addition, approximately 10% of the bonus was deferred into restricted equity awards with a vesting period of three years. The Committee intends to continue this policy of deferral and similar proportions of the 2009 discretionary bonus awards are subject to deferral or clawback arrangements. In addition, participants in the 2010 LTIP will in future be subject to progressively more extensive bonus deferral arrangements according to the amount of bonus awarded to them.

The Company reviews the basis of its remuneration from time to time to ensure it provides a reward 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. Such reviews are part of a continual programme to ensure that the remuneration policy continues to meet the long-term needs of the business and considers changes in market practice including, for example, the recent code of practice on remuneration issued by the FSA.

#### **NET FINANCE COSTS**

The Group had interest income of £1.3m (2008: £4.9m) and interest payable of £1.4m (2008: £1.0m). The fall in interest income compared to the prior year reflects lower prevailing interest rates and reduced cash balances at times during the year primarily due to investment in inventory. Interest payable was incurred in respect of borrowing fees on covering short positions, currency overdrafts and bank borrowings that are used to fund short-term settlement activity and trading positions. In 2009, the Company also incurred costs relating to its committed facility as £15.0m was drawn under this facility in 2008 and repaid in full in March 2009.

#### **TAXATION**

The 2009 tax charge of £5.0m arises on a profit before tax of £18.4m compared to a tax charge of £7.7m for 2008 that arose on a loss before tax of £15.2m. The current year tax charge, which is broadly in line with the standard rate of tax in the UK, reflects the effect of disallowable expenditure and losses in the US being offset by lower rates of tax applicable to the Channels Islands business. The tax charge in 2008 that arose on the loss before tax was primarily due to the impairment of goodwill, deferred tax assets and non-recognition of losses relating to the US business, again offset in part by lower rates of tax elsewhere in the Group.

#### **EARNINGS PER SHARE**

The basic earnings per share were 5.5p (2008: 9.6p loss per share). 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 (2008: 1.3p) per ordinary share was paid on 26 November 2009. The directors recommend that, subject to approval at the Annual General Meeting ("AGM"), a final dividend of 1.3p (2008: 1.3p) per ordinary share be paid on 27 May 2010 to members on the register on 7 May 2010. The total dividend for the year would therefore be 2.6p (2008: 2.6p) per ordinary share. The directors believe that the proposed dividend is appropriate in the light of the results for the year and the desirability of maintaining adequate financial resources to support the development of the business.

## **BUSINESS DEVELOPMENT**

The Board's strategy during the year has been to focus the activity of the Group on its core businesses. Within each division, there has been investment in systems and in personnel, aimed at increasing the calibre and experience of those employed and, where appropriate, broadening the range of services on offer to clients.

## **BALANCE SHEET**

The consolidated balance sheet is shown below. As at 31 December 2009, net assets amounted to £253.4m (2008: £244.4m). Of these, goodwill represents £143.8m or 56.7%. The remainder of the Group's net worth substantially comprises liquid net assets, comprising net cash and cash equivalents, trading positions and trade receivables, net of trade payables.

Net funds amount to £113.2m (2008: £106.6m), as described further in the Financing and Treasury section below, and also detailed in Note 8. Net trading positions amount to £9.9m (2008: £10.4m), comprising long and short positions of £32.8m (2008: £28.6m) and £22.9m (2008: £18.2m) respectively.

## **CASH FLOW**

The Group's operating activities generated £14.0m cash in 2009 (2008: £54.5m cash absorbed) from a statutory operating profit of £18.5m (2008: £19.1m operating loss). The Group generated cash and repaid its £15.0m short-term loan facility to finish the year with net cash and cash equivalent balances of £113.2m (2008: £106.6m) as shown in Note 8.

## **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 2009.

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. 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 complied with the FSA's regulatory requirements throughout the year.

The Group's capital and Pillar 1 capital requirements are set out below in accordance with Pillar 3 disclosure requirements.

|   | 2009<br>£m     |
|---|----------------|
| <b>Total capital per Balance Sheet</b>            | <b>253.4</b>   |
| Goodwill  | (143.8)        |
| Other intangible assets                           | (0.7)          |
| Material holdings & free deliveries               | (0.4)          |
| <b>Deductions</b>                                 | <b>(144.9)</b> |
| <b>Total capital after deductions</b>             | <b>108.5</b>   |
| <b>Pillar One capital requirements</b>            |                |
| Equity  | 4.6            |
| Interest rate                                     | 1.9            |
| Foreign currency                                  | 2.0            |
| Market risk (standardised approach)               | 8.5            |
| Credit risk (simplified approach)                 | 10.4           |
| Operational risk (basic indicator approach)       | 29.2           |
| <b>Total capital requirements</b>                 | <b>48.1</b>    |
| <b>Capital in excess of Pillar 1 requirements</b> | <b>60.4</b>    |
| <b>Solvency ratio</b>                             | <b>225.6%</b>  |

## FINANCING AND TREASURY

As stated above, at 31 December 2009, the Group had net cash and cash equivalents of £113.2m (2008: £106.6m). This included client settlement balances of £2.2m (2008: £3.2m). Of the overall cash balances, some £4.5m (2008: £3.5m) comprise margin deposits with various clearing agencies and a further £2.5m (2008: £7.0m) 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 inventory and settlement obligations. In addition, it has a £25m revolving unsecured credit facility that was undrawn at the year-end and at the date of this Business Review that is due to expire in May 2010. Terms for the renewal of this facility for a further two years have been agreed in principle.

## 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 or international bank or an institution supported by a government guarantee. Client money is ring-fenced under FSA client money rules.

At 31 December 2009, 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 primarily 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 £60.4m of

regulatory capital in excess of its Pillar 1 requirements and a resulting solvency ratio of 225.6%. 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 very stressed economic conditions.

The Group also has substantial liquid net assets, with net cash and cash equivalents amounting to £113.2m, as set out in the Financing and Treasury section and Note 8. In addition, the Group has an undrawn bank facility of £25m.

The directors therefore believe that the Group is well placed to manage successfully its business risks, as described in more detail below, 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**

### **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 and overall counterparty limits are approved by the Risk Committee.

Following the failure of Lehman Brothers in 2008, the Company reviewed its main counterparties. The number of significant market counterparties used in the UK and US has been expanded, thus reducing the level of exposure of the Group to the failure of any one of them, and overall group counterparty exposures are monitored on a daily basis.

### **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 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 to 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.

In certain circumstances, the Group may take equity positions as part of Corporate Broking transactions being conducted on behalf of clients. Such positions are carefully monitored and may only be taken with the consent of the Chief Executive. The Group will only take such positions if there is a reasonable prospect of unwinding the position without loss within the short term. Any bonuses due on these transactions are only paid once the relevant positions have been liquidated and profits realised.

Pure proprietary trading is not a significant part of the Group's activities. Certain divisions do take long and short equity positions as part of their day-to-day activities, but these are generally related to the wider activities of market-making or facilitation of agency broking within the relevant unit's area of specialisation. Some low-risk arbitrage trading strategies are also employed by the Investment Companies team. Limits apply to the overall long or short positions permissible, as well as a limit on positions in a single stock. These limits apply to all books as well as to the Group as a whole and are approved by the Board. The Group's actual exposure against these limits is identified, monitored and reported on a daily basis.

At 31 December 2009, the Group had long positions amounting, in aggregate, to £32.8m. Short positions totalled £22.9m, representing a net long position overall of £9.9m. This compares to positions of £28.6m long and £18.2m short - a net position of £10.4m - at 31 December 2008. During the year, inventory levels fluctuate within overall limits as markets move and trading activity changes, with a consequent impact on required funding levels.

## **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 ongoing cash forecasting, including under stress-tested scenarios. Funding and capital is centrally managed, and deployed where necessary according to the needs of the individual entities and businesses. The Group also has a number of bank facilities at its disposal, including a number of overdraft facilities to facilitate settlement transactions, and an undrawn bank facility of £25m.

The Group maintains most of its cash resources on demand as it can be subject to short-term fluctuations in its cash requirements. This is due to failed trades, the processing of certificated trades and the funding of trading positions. Executive management receives daily reports on the Group's cash position.

The Company is well-positioned to comply with the FSA's new liquidity regime and the requirement for an Individual Liquidity Adequacy Assessment ("ILAA") by 1 November 2010.

In addition to its own cash, the Company is responsible for significant client cash, primarily in 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 enables 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 same disciplines of counterparty selection and limits are applied to the management of the firm's own cash. 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.

## **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 to identify and assess risks and risk situations in order to manage them in an efficient manner.

The Group keeps its operations and systems under continual review and development to meet the needs of the business. The Internal Audit function is deployed to subject operations and systems to detailed scrutiny, on a risk-weighted basis, based on the Group's Risk Assessment Framework.

## **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. 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, 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 addressed at appropriate levels throughout the organisation.

**Mark Brown**

**CHIEF EXECUTIVE**

18 March 2010

# Consolidated Income Statement

## For the year ended 31 December 2009

|  | Notes | 2009<br>£m   | 2008<br>£m |
|--|-------|--------------|------------|
| Revenue before share of loss of associates |       | 186.6        | 176.1      |
| Share of loss of associates                |       | (0.2)        | (0.4)      |
| <b>Revenue</b>                             | 2     | <b>186.4</b> | 175.7      |
| Administrative expenses                    |       | (167.9)      | (194.8)    |
| <b>Operating profit/(loss)</b>             | 2     | <b>18.5</b>  | (19.1)     |
| Finance income                             |       | 1.3          | 4.9        |
| Finance costs                              |       | (1.4)        | (1.0)      |
|  |       | (0.1)        | 3.9        |
| <b>Profit/(loss) before tax</b>            |       | <b>18.4</b>  | (15.2)     |
| Taxation                                   | 4     | (5.0)        | (7.7)      |
| <b>Profit/(loss) for the year</b>          |       | <b>13.4</b>  | (22.9)     |
| <b>Earnings/(loss) per share</b>           |       |              |            |
| Basic                                      | 6     | 5.5p         | (9.6)p     |
| Diluted                                    | 6     | 5.4p         | (9.4)p     |

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

# Consolidated Statement of Comprehensive Income

## For the year ended 31 December 2009

|   | 2009        | 2008          |
|---|-------------|---------------|
|   | £m          | £m            |
| Profit/(loss) for the year  | 13.4        | (22.9)        |
| Fair value (loss)/gain on non-current available for sale financial assets, net of tax | (0.1)       | 0.8           |
| Foreign exchange translation  | (1.7)       | 11.6          |
| Taxation on other items taken directly to equity                                      | -           | (0.8)         |
| <b>Total comprehensive income/(loss) for the year</b>                                 | <b>11.6</b> | <b>(11.3)</b> |

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

|  | Share<br>Capital<br>£m | Share<br>Premium<br>£m | Merger<br>Reserve<br>£m | Reverse<br>acquisition<br>Reserve<br>£m | Retained<br>Earnings<br>£m | Total<br>Equity<br>£m |
|--|------------------------|------------------------|-------------------------|---|----------------------------|-----------------------|
| <b>Balance at 1 January 2008</b>               | <b>61.9</b>            | <b>-</b>               | <b>70.9</b>             | <b>(275.0)</b>                          | <b>407.5</b>               | <b>265.3</b>          |
| Loss for the year                              | -                      | -                      | -                       | -                                       | (22.9)                     | (22.9)                |
| Gain on available-for-sale assets              | -                      | -                      | -                       | -                                       | 0.8                        | 0.8                   |
| Taxation on items taken directly to equity     | -                      | -                      | -                       | -                                       | (0.8)                      | (0.8)                 |
| Foreign exchange translation                   | -                      | -                      | -                       | -                                       | 11.6                       | 11.6                  |
| <b>Total comprehensive loss for the year</b>   | <b>-</b>               | <b>-</b>               | <b>-</b>                | <b>-</b>                                | <b>(11.3)</b>              | <b>(11.3)</b>         |
| 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                   |
| Other items taken directly to equity           | -                      | -                      | -                       | -                                       | 0.6                        | 0.6                   |
| <b>Balance at 31 December 2008</b>             | <b>61.9</b>            | <b>-</b>               | <b>70.9</b>             | <b>(275.0)</b>                          | <b>386.6</b>               | <b>244.4</b>          |
| <b>Balance at 1 January 2009</b>               | <b>61.9</b>            | <b>-</b>               | <b>70.9</b>             | <b>(275.0)</b>                          | <b>386.6</b>               | <b>244.4</b>          |
| Profit for the year                            | -                      | -                      | -                       | -                                       | 13.4                       | 13.4                  |
| Loss on available-for-sale assets              | -                      | -                      | -                       | -                                       | (0.1)                      | (0.1)                 |
| Foreign exchange translation                   | -                      | -                      | -                       | -                                       | (1.7)                      | (1.7)                 |
| <b>Total comprehensive income for the year</b> | <b>-</b>               | <b>-</b>               | <b>-</b>                | <b>-</b>                                | <b>11.6</b>                | <b>11.6</b>           |
| Dividends paid in the year                     | -                      | -                      | -                       | -                                       | (6.1)                      | (6.1)                 |
| Share issue                                    | 0.1                    | 0.1                    | -                       | -                                       | (0.1)                      | 0.1                   |
| Credit arising on share options                | -                      | -                      | -                       | -                                       | 3.4                        | 3.4                   |
| <b>Balance at 31 December 2009</b>             | <b>62.0</b>            | <b>0.1</b>             | <b>70.9</b>             | <b>(275.0)</b>                          | <b>395.4</b>               | <b>253.4</b>          |

# Consolidated Balance Sheet

As at 31 December 2009

|  | 2009           | 2008           |
|--|----------------|----------------|
|  | £m             | £m             |
| <b>Non-current assets</b>                    |                |                |
| Goodwill                                     | 143.8          | 143.8          |
| Other intangible assets                      | 0.7            | 0.6            |
| Property, plant and equipment                | 4.9            | 5.4            |
| Other financial assets                       | 2.8            | 2.9            |
| Investment in associates                     | 0.4            | 1.6            |
| Deferred tax assets                          | 0.2            | 1.1            |
|  | <b>152.8</b>   | <b>155.4</b>   |
| <b>Current assets</b>                        |                |                |
| Trade and other receivables                  | 315.7          | 156.7          |
| Current tax assets                           | 1.0            | 4.9            |
| Trading investments                          | 32.8           | 28.6           |
| Cash and cash equivalents                    | 123.4          | 133.9          |
|  | <b>472.9</b>   | <b>324.1</b>   |
| <b>Total assets</b>                          | <b>625.7</b>   | <b>479.5</b>   |
| <b>Current liabilities</b>                   |                |                |
| Trade and other payables                     | (335.9)        | (182.7)        |
| Current tax liabilities                      | (3.3)          | (3.8)          |
| Other financial liabilities                  | (22.9)         | (18.2)         |
| Interest-bearing loans and borrowings        | (10.2)         | (27.3)         |
| Provisions                                   | -              | (0.7)          |
|  | <b>(372.3)</b> | <b>(232.7)</b> |
| <b>Net current assets</b>                    | <b>100.6</b>   | <b>91.4</b>    |
| <b>Total assets less current liabilities</b> | <b>253.4</b>   | <b>246.8</b>   |
| <b>Non-current liabilities</b>               |                |                |
| Provisions                                   | -              | (2.4)          |
|  | -              | (2.4)          |
| <b>Total liabilities</b>                     | <b>(372.3)</b> | <b>(235.1)</b> |
| <b>Net assets</b>                            | <b>253.4</b>   | <b>244.4</b>   |
| <b>Equity</b>                                |                |                |
| Share capital                                | 62.0           | 61.9           |
| Share premium                                | 0.1            | -              |
| Merger reserve                               | 70.9           | 70.9           |
| Reverse acquisition reserve                  | (275.0)        | (275.0)        |
| Retained earnings                            | 395.4          | 386.6          |
| <b>Total equity</b>                          | <b>253.4</b>   | <b>244.4</b>   |

# Consolidated Cash Flow Statement

## For the year ended 31 December 2009

|  | Notes | 2009<br>£m | 2008<br>£m |
|--|-------|------------|------------|
| <b>Net cash from/(used in) operating activities</b>                      | 7     | 14.0       | (54.5)     |
| <b>Investing activities</b>  |       |            |            |
| Interest received  |       | 1.4        | 5.4        |
| Purchase of intangible fixed assets                                      |       | (0.3)      | (0.3)      |
| Purchase of property, plant and equipment                                |       | (0.7)      | (1.6)      |
| Acquisition of subsidiaries and minority interest (net of cash acquired) |       | -          | 27.6       |
| <b>Net cash from investing activities</b>                                |       | 0.4        | 31.1       |
| <b>Financing activities</b>  |       |            |            |
| Dividends paid   |       | (6.1)      | (15.3)     |
| (Repayment)/draw down of loan facility                                   |       | (15.0)     | 15.0       |
| Repayment of subordinated loan   |       | -          | (1.5)      |
| Repayment of loan notes  |       | -          | (0.8)      |
| Purchase of own shares   |       | -          | (1.5)      |
| Sale of own shares   |       | -          | 0.2        |
| Purchase of treasury shares  |       | -          | (1.0)      |
| <b>Net cash used in financing activities</b>                             |       | (21.1)     | (4.9)      |
| <b>Net decrease in cash and cash equivalents</b>                         |       | (6.7)      | (28.3)     |
| <b>Net cash and cash equivalents at beginning of the year</b>            |       | 121.6      | 141.6      |
| Effect of foreign exchange rate movements                                | 8     | (1.7)      | 8.3        |
| <b>Net cash and cash equivalents at the end of the year</b>              | 8     | 113.2      | 121.6      |
| <b>Cash and cash equivalents</b>   |       |            |            |
| Cash and cash equivalents  |       | 123.4      | 133.9      |
| Overdrafts   |       | (10.2)     | (12.3)     |
| <b>Net cash and cash equivalents</b>                                     | 8     | 113.2      | 121.6      |

# 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 2008 Report and Accounts, which are available on the Group’s website [www.collinsstewart.com](http://www.collinsstewart.com), except as stated below.

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 company's statutory accounts for the years ended 31 December 2009 or 2008, but is derived from those accounts. Statutory accounts for 2008 have been delivered to the Registrar of Companies and those for 2009 will be delivered following the company's annual general meeting. The auditors have reported on those accounts; their reports were unqualified, did not draw attention to any matters by way of emphasis without qualifying their report and did not contain statements under s498(2) or (3) Companies Act 2006.

As discussed further in the Business Review these financial statements have been prepared on the going concern basis

The Board of Directors approved this preliminary announcement on 18 March 2010.

### CHANGES IN ACCOUNTING POLICY

In the current financial year, the Group has adopted IFRS 8 Operating Segments, IAS 1 Presentation of Financial Statements (September 2007) and the amendments to IFRS 7 Financial Instruments: Disclosures.

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Executive to allocate resources to the segments and to assess their performance. In contrast, the predecessor standard (IAS 14 “Segment Reporting”) required the Group to identify two sets of segments (business and geographical) using a risks and rewards approach, with the Group’s system of internal financial reporting to key management personnel serving only as the starting point for identification of such segments. As a result, the segmental information included in note 2 below is presented in accordance with IFRS 8. This has not led to any changes to the number, or composition, of reportable segments.

IAS 1 (September 2007) requires the presentation of a statement in changes in equity as a primary statement, separate from the income statement and statement of comprehensive income. As a result, a consolidated statement of changes in equity has been included in the primary statements, showing changes in each component of equity for each period presented.

The amendments to IFRS 7 expand the disclosure requirements in respect of financial instruments and liquidity risk.

## 2. Segmental Information

The Group is currently managed through four operating divisions; Wealth Management, Securities, Corporate Broking, and Hawkpoint, which are separately identified in the segmental information below. On 1 January 2009 the equity distribution and research functions within Corporate Broking were transferred to Securities and the 2008 comparatives have been restated accordingly.

All revenue and operating profit is derived from external customers.

| Twelve months end 31 December 2009                  | Wealth<br>Management<br>£m | Securities<br>£m | Corporate<br>Broking<br>£m | Hawkpoint<br>£m | Total<br>£m  |
|---|----------------------------|------------------|----------------------------|-----------------|--------------|
| Revenue   | 43.7                       | 101.5            | 12.9                       | 28.3            | <b>186.4</b> |
| Operating profit before share based payment charges | 10.1                       | 4.5              | 2.6                        | 4.7             | <b>21.9</b>  |
| Share-based payment charges                         | (2.4)                      | 1.2              | -                          | (2.2)           | <b>(3.4)</b> |
| <b>Operating Profit</b>                             | <b>7.7</b>                 | <b>5.7</b>       | <b>2.6</b>                 | <b>2.5</b>      | <b>18.5</b>  |
| Finance income                                      |                            |                  |                            |                 | 1.3          |
| Finance costs                                       |                            |                  |                            |                 | (1.4)        |
| <b>Profit before tax</b>                            |                            |                  |                            |                 | <b>18.4</b>  |
| Taxation  |                            |                  |                            |                 | (5.0)        |
| <b>Profit after tax</b>                             |                            |                  |                            |                 | <b>13.4</b>  |

| Twelve months end 31 December 2008                  | Wealth<br>Management<br>£m | Securities<br>£m | Corporate<br>Broking<br>£m | Hawkpoint<br>£m | Total<br>£m   |
|---|----------------------------|------------------|----------------------------|-----------------|---------------|
| Revenue   | 47.0                       | 85.9             | 1.8                        | 41.0            | <b>175.7</b>  |
| Operating profit before share based payment charges | 13.5                       | (20.1)           | (12.1)                     | 7.0             | <b>(11.7)</b> |
| Share-based payment charges                         | (3.0)                      | (1.7)            | (0.3)                      | (2.4)           | <b>(7.4)</b>  |
| <b>Operating Profit</b>                             | <b>10.5</b>                | <b>(21.8)</b>    | <b>(12.4)</b>              | <b>4.6</b>      | <b>(19.1)</b> |
| Finance income                                      |                            |                  |                            |                 | 4.9           |
| Finance costs                                       |                            |                  |                            |                 | (1.0)         |
| <b>Loss before tax</b>                              |                            |                  |                            |                 | <b>(15.2)</b> |
| Taxation  |                            |                  |                            |                 | (7.7)         |
| <b>Loss after tax</b>                               |                            |                  |                            |                 | <b>(22.9)</b> |

### 3. Staff Costs

|   | 2009         | 2008         |
|---|--------------|--------------|
|   | £m           | £m           |
| Wages, salaries, and other fixed compensation costs | 49.0         | 52.2         |
| Variable compensation and incentive payments        | 49.0         | 49.7         |
| Social security costs                               | 9.5          | 9.4          |
| Pension costs                                       | 1.7          | 1.6          |
| Share-based payment expense                         | 3.4          | 7.4          |
|   | <b>112.6</b> | <b>120.3</b> |

### 4. Taxation

|   | 2009       | 2008       |
|---|------------|------------|
|   | £m         | £m         |
| <b>Current tax</b>                                  |            |            |
| UK corporation tax                                  | 2.7        | (0.4)      |
| Double tax relief                                   | (0.2)      | (1.5)      |
|   | 2.5        | (1.9)      |
| Overseas tax  | 0.7        | 2.4        |
| Prior year UK corporation tax under/(over)-provided | 0.7        | (0.9)      |
| Prior year overseas tax under/(over)-provided       | 0.2        | (0.1)      |
|   | 4.1        | (0.5)      |
| <b>Deferred tax</b>                                 |            |            |
| Current year  | 0.9        | 8.2        |
|   | <b>5.0</b> | <b>7.7</b> |

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

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

|  | 2009       | 2008       |
|--|------------|------------|
|  | £m         | £m         |
| Profit/(loss) before tax                                   | 18.4       | (15.2)     |
| Tax on profit/(loss) at standard rate of 28% (2008: 28.5%) | 5.2        | (4.3)      |
| Factors affecting the charge for the year:                 |            |            |
| Disallowable expenditure                                   | 1.0        | 4.6        |
| Tax effect of stock options                                | 0.2        | 1.9        |
| Unrecognised losses  | 2.8        | 2.7        |
| Write-off of US deferred tax asset                         | -          | 7.4        |
| Effect of different tax rates of subsidiaries              | (3.5)      | (3.6)      |
| Adjustments in respect of prior years                      | (0.7)      | (1.0)      |
|  | <b>5.0</b> | <b>7.7</b> |

## 5. Dividends

The Board has recommended a final dividend for the year of 1.3p per share, which if approved, will be paid on 27 May 2010 to shareholders on the register on 7 May 2010.

## 6. Earnings per Share

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

|  | 2009 | 2008   |
|--|------|--------|
|  | £m   | £m     |
| Earnings/(loss) for the purposes of basic and diluted earnings per share | 13.4 | (22.9) |

  

| <b>Weighted average number of shares</b>      | 2009    | 2008    |
|---|---------|---------|
|   | No. (m) | No. (m) |
| Weighted average number of shares             | 242.0   | 240.0   |
| Issuable on exercise of options               | 7.2     | 3.1     |
| Diluted earnings/(loss) per share denominator | 249.2   | 243.1   |

  

|                                   |      |        |
|-----------------------------------|------|--------|
| Basic earnings/(loss) per share   | 5.5p | (9.6)p |
| Diluted earnings/(loss) per share | 5.4p | (9.4)p |

## 7. Reconciliation of Operating Profit to Net Cash from/(used in) Operating Activities

|  | 2009    | 2008    |
|--|---------|---------|
|  | £m      | £m      |
| <b>Operating profit/(loss)</b>                                 | 18.5    | (19.1)  |
| Adjust for:  |         |         |
| Expense arising from share option plans                        | 3.4     | 7.4     |
| Decrease in the carrying value of associates                   | 1.2     | 0.9     |
| Depreciation of property, plant and equipment                  | 1.2     | 1.2     |
| Amortisation of intangible assets                              | 0.2     | 0.5     |
| Impairment of goodwill   | -       | 13.3    |
| Impairment of other intangible assets                          | -       | 1.5     |
| (Decrease)/increase in provisions for liabilities and charges  | (3.1)   | 0.1     |
| <b>Operating cash flows before movement in working capital</b> | 21.4    | 5.8     |
| (Increase)/decrease in trade and other receivables             | (159.1) | 333.7   |
| Decrease in net long and short positions                       | 0.5     | 17.7    |
| Increase/(decrease) in trade and other payables                | 153.1   | (399.1) |
| <b>Cash generated from operations</b>                          | 15.9    | (41.9)  |
| Corporation tax paid   | (0.5)   | (11.6)  |
| Interest paid  | (1.4)   | (1.0)   |
| <b>Net cash flows from/(used in) operating activities</b>      | 14.0    | (54.5)  |

## 8. Analysis of Net Funds

|                           | As at 1<br>January 2009 | Cash flow  | Exchange<br>differences | As at 31<br>December<br>2009 |
|---------------------------|-------------------------|------------|-------------------------|------------------------------|
|                           | £m                      | £m         | £m                      | £m                           |
| Cash in hand and at bank  | 120.6                   | (4.7)      | (1.7)                   | 114.2                        |
| Cash equivalents          | 10.1                    | (3.1)      | -                       | 7.0                          |
| Client settlement monies  | 3.2                     | (1.0)      | -                       | 2.2                          |
| Bank overdrafts           | (12.3)                  | 2.1        | -                       | (10.2)                       |
|                           | 121.6                   | (6.7)      | (1.7)                   | 113.2                        |
| Loans due within one year | (15.0)                  | 15.0       | -                       | -                            |
| <b>Total net funds</b>    | <b>106.6</b>            | <b>8.3</b> | <b>(1.7)</b>            | <b>113.2</b>                 |

## 9. Reconciliation of 2008 Statutory Loss to Headline Profit

|   | Operating<br>(Loss) / profit | (Loss) / profit<br>after tax | Basic (loss) /<br>earnings per<br>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>                              |

## 10. Events Since the Balance Sheet Date

On 18 March 2010, the Company announced the acquisition of Corazon Capital Group Limited ("Corazon"), an investment management business based in Guernsey and Geneva, for an initial consideration of £1.0m in cash and deferred consideration of up to £6.0m to be satisfied by the issue of up to 8,050,089 ordinary shares in the Company. The deferred consideration will be based on the performance of Corazon during the twelve months following acquisition and the shares will be issued in three instalments over the subsequent two years.