

Charles Stanley
GROUP PLC

Annual Report and Accounts
2004

Financial Highlights

- Turnover up by 34% to £68.2 million
(2002-03: £51.0 million)
- Profit before tax, goodwill amortisation and
profit on sale of investments £8.10 million
(2002-03: £1.99 million)
- Profit before tax £6.58 million (2002-03: £978,000)
- Earnings per share (excluding goodwill
amortisation) 12.82p (2002-03: 3.35p)
- Dividend 4.75p (2002-03: 4.50p)
- Discretionary funds under management
in excess of £1 billion
- Acquisition of EBS (Management) Plc,
“Nothing Ventured” online dealing service
and part of Durlacher’s private client
stockbroking business

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Chairman's Statement

Charles Stanley is pleased to announce that its income for the year ended 31 March 2004 has risen by a third, from £51.0 million in 2002-03 to £68.2 million. Whilst many of our costs, such as Stock Exchange and other third party fees, are outside our control, those costs that we do control are tightly managed. Consequently the Group's profit before tax, amortisation and investment gains has risen from £1.99 million to £8.10 million. Profit before tax, but after amortisation and investment gains, was £6.58 million (2002-03: £978,000).

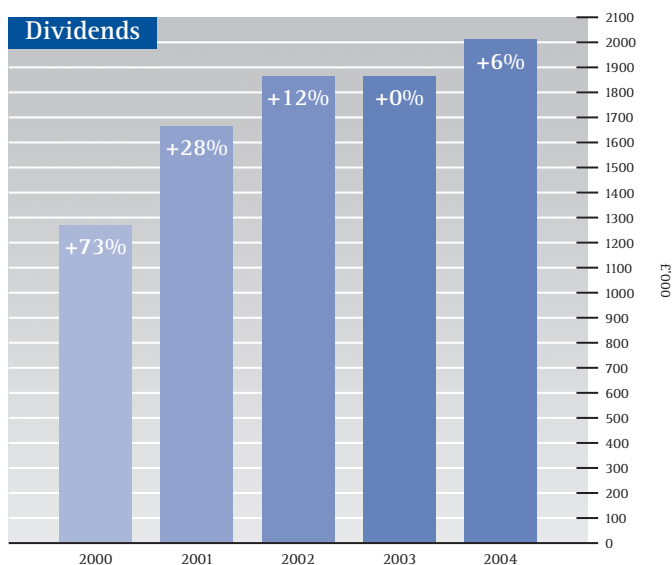
Net assets at the year-end increased to £40.6 million (2003: £38.2 million) and we have further strengthened our cash balances to £34.0 million (2003: £26.9 million).

This has been a very satisfactory year, and the results amply justify our strategy of building a broadly based stockbroking and wealth management business both organically and by acquisition.

In 2002-03, against a weaker market background, we maintained the total dividend at 4.5p. It had risen by 240% in the previous four years. In view of the results for the latest year we now propose increasing the final dividend from 3.5p to 3.75p, making a total for the year of 4.75p.



"Best Discretionary Broker"



Our strategy

Charles Stanley is one of the largest independent UK-owned stockbrokers. We trace our origins in a direct line back to a banking business established in 1792 and as a pure stockbroking business we are more than 150 years old. The company has been built on a tradition of the highest standards of personal service and the directors have sought to expand the business on a broad front, offering a full range of services in stockbroking and now wealth management.

All UK stockbroking firms in London twenty years ago were partnerships and they were generally small. In these twenty years the number of individual firms has declined rapidly, coalescing into a handful of much larger companies. With continuity of management Charles Stanley has been one of the leading participants in this development. We believe that this process of consolidation has been inevitable and that it will continue, creating further opportunities for the development of the company. At the same time the boundaries between stockbroking and other personal and corporate financial services have become increasingly blurred, and we see opportunities for development into neighbouring areas of wealth management and pensions.



As a company we have always placed particular emphasis on maintaining a strong balance sheet and a strong cash position. This underpins the security which we offer our clients, allows us to consider suitable acquisitions and enables us to exceed the increasing levels of regulatory capital requirements.

Our strategy therefore is to continue building the business on the strength of the care and skill that we offer our clients, the depth of our resources, and our exercise of careful judgement in attracting and acquiring additional high-quality business.

Review of the year

Turnover for the year increased by 34% to £68.2 million (2002-03: £51.0 million) substantially reflecting a general recovery in stock market conditions and trading activity.

Our market share of total private client transactions on the London Stock Exchange continues to run at a little over 5%. Our commission income increased overall by 36% to £46.1 million (2002-03: £33.9 million).

Equally pleasing has been the increased level of our income derived from other sources, for example from a growing volume of institutional trading, corporate finance activity, and corporate and personal financial planning. Total fee income rose to a new record of £22.0 million (2002-03: £17.2 million). This represented 32% of total income (2002-03: 34%).

In my statement for the half-year to 30 September 2003 I referred in detail to our acquisition of EBS (Management) Plc for £1.2 million. In the second half of the year we acquired part of the private client stockbroking business of Durlacher PLC, and of its internet trading service called "Nothing Ventured". We estimate that the total consideration to be paid to Durlacher will be approximately £2 million.

Investment management

Our principal business remains traditional stockbroking - research, advising on stocks and shares, reviewing portfolios and making recommendations to clients about their investments, and, where the clients wish, undertaking the day-to-day management of their portfolios. For the first time the value of clients' funds under our discretionary management now exceeds £1 billion.

We take great care to ensure that in every case we offer the most appropriate service to match the clients' requirements and preferences. Following a major review programme during the year we restructured our fee scales so as to more closely match the varying levels of service, and I should particularly like to thank those directors and staff who led this complex and comprehensive exercise to its successful conclusion.

This meets one of our strategic aims, which is to reduce the volatility of our income by moving the balance increasingly away from trading commissions in favour of more predictable fee income. The success of this strategy has led to a near doubling of our fee income in the past five years.

We performed strongly with our Charles Stanley PEPs and ISAs. These continue to offer tax advantages and simplified record keeping. We hold more than £930 million for clients in this form. We have been steadily building our involvement in SIPPS - Self-Invested Personal Pension Schemes - which was added to significantly by the acquisition of EBS (Management) Plc.

Funds under management

The total figure of clients' investment funds which we manage (that is, for which we make a charge for management or administration) was £6.7 billion at 31 March 2004. This compares with £5.7 billion at 31 March 2003.



On-line trading

The dot.com boom of 1999 - 2000 saw an upsurge in on-line stockbroking services, many of which (large and small) never made a profit and were never likely to, even in the most buoyant conditions. Charles Stanley adopted a different approach, building on our existing operation and spending on the quality of service to clients rather than on marketing. This has proved to be both a popular and successful service, and it offers rich functionality to clients.

Over subsequent years we have steadily acquired rival on-line services, most notably "FasTrade" in early 2002 and "Nothing Ventured" in late 2003. Transactions flow through automatically from input by the client, to execution and settlement, in a wholly electronic environment. We continue to upgrade the functionality and anticipate further growth in this business.

Our know-how in developing on-line stockbroking has translated into a sophisticated web-site service that we offer to our advisory and discretionary clients. Increasingly large numbers of our clients like to view their portfolios, dealing records and other details of their account on-screen, while relying on their individual broker at Charles Stanley to advise on or manage their investments. We continue to develop and add more and more facilities to this service, too, and we see this as a significant building block of our business.



Corporate finance and corporate broking

Since the significant expansion of this division in October 2002, the team has continued to win quality, new, retained business and transaction mandates. Retainer fee income from the current figure of 43 corporate clients now exceeds £1 million per annum and during the year under review, the team advised on ten deals valued at a total of £95 million; and raised a further £112 million across 29 other transactions, including flotations and secondary fund raisings. The new financial year has started in a similar vein, with two flotations and promising levels of work in progress. The institutional broking side has also had a good year with revenues of £7.0 million against £6.2 million in 2002-03.

Personal and corporate financial planning and pension administration

The acquisition of EBS (Management) Plc represents a significant expansion in our corporate and personal financial planning capability. We offer increasing breadth and depth of coverage in areas including pension planning and advice and employee benefit arrangements, as well as our traditional provision of personal financial advice. The enlarged Financial Planning Division enjoyed a successful year. It generated revenue of £1.8 million (2002-03: £0.9 million).

Split Capital Investment Trusts

In my statement last year I said that we did not feel it appropriate to make any provision in relation to our advice on Split Capital Investment Trusts, nor for any additional resources required in relation to complaints. This remains our view.

A team effort

This has been a very satisfactory year for the company, and on your behalf I should like to thank everyone in Charles Stanley who has contributed to this success. The continual increase in regulatory requirements, coming increasingly from Brussels, has meant long hours of planning and re-organising the way that we do things, but all of this has been taken on board by a team of staff well attuned to implementing change. This has been one of our strengths, and I am sure I speak for all shareholders in congratulating everyone in the company for the way in which they have coped with this.

Outlook

The first half-year showed a marked improvement on the first half of the year before. The second half-year was better still.

However the global background is too volatile to support any very meaningful predictions for the next ten months. In our first two months we are ahead of the same period past year. But there are signs of this slowing down again, though it is too early to say if this will be a longer-term trend.

As in previous years your company is well placed either to benefit from continuing strength in the markets, or to weather a downturn if this strength should evaporate. My optimism in last year's statement proved well founded. Although we are trading at higher levels now, I look ahead to the coming months with some uncertainty but, if the background conditions remain fair, then I anticipate another good year.

David HS Howard

Sir David Howard, Bt.

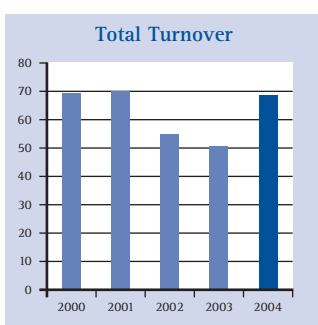
Chairman

9 June 2004



Operating and Financial Review

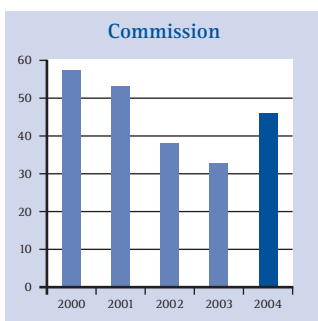
Charles Stanley Group plc has two trading companies, Charles Stanley & Co. Limited and EBS (Management) Plc. Charles Stanley & Co. Limited provides stockbroking, corporate finance and investment services while EBS (Management) Plc, which traded within the Group for ten months, provides specialist pensions advice and administration services. Both operating companies are regulated by the Financial Services Authority.



Development and performance during the year

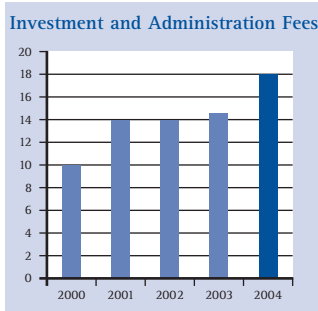
Turnover is shown in note 2 to the accounts on page 37. During 2004 total turnover for the Group increased by 33.5 % from £51 million to £68 million. Excluding turnover on acquisitions the like for like increase for the year was 29.4% (£51 million to £66 million).

Stockbroking commissions accounted for 67.7% of turnover (2002-03: 66.3%) and increased by 33.5% on a like for like basis over the year.



Total fee income increased by 28.0% from £17.2 million to £22.0 million. Fees consist of investment management and administration fees of £18.3 million (2002-3: £14.8 million) and corporate finance fees of £3.7 million (2002-3: £2.4 million).

On a like for like basis investment management fees and administration charges have increased by 16.9%. Included in these figures are PEP and ISA fees which increased by 11% over the year. Funds held in PEPs and ISAs totalled £930 million at 31 March 2004.



The Group has continued to grow its financial planning capability and diversify its revenue streams with the acquisition in July 2003 of the SIPP and SASS provider EBS (Management) Plc.

The Group will continue to extend the range of services offered to clients and aligned with this is the move towards more of a fee based stream of income from discretionary and advisory portfolio clients. We anticipate this will generate additional income streams for the coming year.

Corporate Finance fees have increased by 55% from £2.4 million to £3.7 million. This increase is a result of the significant expansion of the Corporate Finance division in October 2002.

Total costs have increased by 23.0% from £51 million to £63 million. Excluding acquisitions the increase was 19.6%. A little under half of this increase was attributable to sharing of the higher commission and fees. Staff costs are analysed in note 3 to the accounts on page 37. These have increased by 17.0% from £19 million to £22 million and represent 34.8% of our total costs (2002-03: 36.5%). Approximately half this increase is due to discretionary staff bonuses. Staff numbers have remained steady at 459 (2002-03: 458). Additional staff joining as a result of acquisitions has been offset by staff reductions in other areas across the Group.

Costs include amortisation of goodwill which has increased from £969,000 to £1,594,000 mainly as a result of acquisitions during the year. The Group amortises goodwill over a period of ten years. Changes in the year are shown in note 10 to the accounts on page 40. Costs also include depreciation which has remained level during the year at £2,225,000 (2002-03: £2,212,000). Further details are shown in note 11 to the accounts also on page 40.

Interest receivable of £1.10 million (2002-03: £ 1.14 million) is bank deposit interest earned on the Group's cash balances. There were no significant changes in interest rates during the financial year.

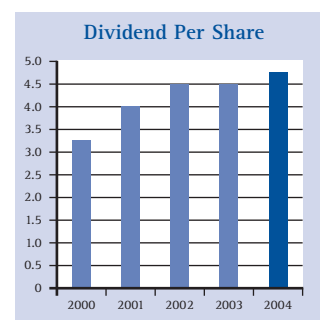
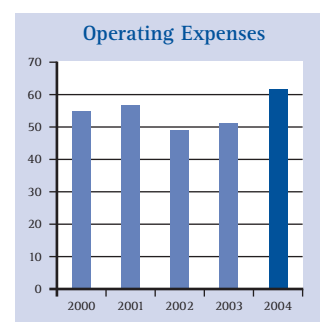
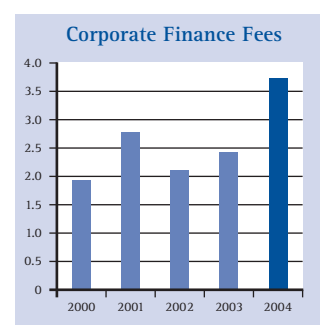
Interest payable is analysed in note 5 on page 38 of the accounts. There has been no change in overdraft interest paid. Interest on other loans relates to acquisitions.

The tax charge of £2.8 million (2002-03: £0.5 million) is analysed in note 6 on page 38 of the accounts. The current year charge of £2.6 million represents 40% of the Group's profit before tax of £6.6 million (2002-03: 60% of £978,000). The reason why this rate is higher than the corporation tax rate of 30% is explained in the note.

As indicated in the Chairman's statement the final dividend for the year is recommended to be increased by 0.25p per share to 3.75p giving a final dividend for the year of 4.75p (2002-03: 4.50p) at a total cost of £2.00 million (2002-03: £1.89 million).

Position at end of year

At 31 March 2004 the Group had consolidated net assets of £40 million (2003: £38 million) equivalent to 96.26p per share (2003: 90.60p). Cash in hand totalled £34 million (2003: £27 million) equivalent to 80.65p per share (2003: 63.93p). This reflects the Group's strategy of maintaining a strong balance sheet and cash position as explained in the Chairman's Statement.



Intangible assets have increased to £12 million (2003: £8 million) due to the acquisitions during the year of EBS (Management) Plc, "Nothing Ventured" and part of the private stockbroking business of Durlacher PLC and changes to the deferred consideration relating to previous acquisitions.

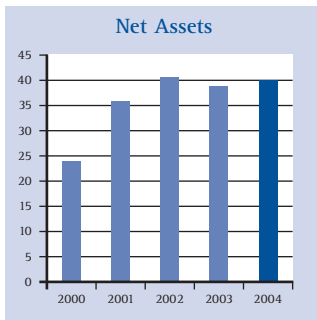
Tangible fixed assets have increased slightly over the year - £5.5 million compared to £5.2 million. Additions to fixed assets consist mainly of office and computer equipment relating to new acquisitions and upgrading our mainframe computer.

Fixed asset investments include shares in The London Stock Exchange, Euroclear, LIFFE and other listed investments.

During the year operating activities and interest earned generated a cash inflow to the Group of £14 million. This was spent on tax £1 million, dividends £2 million, additions to fixed assets £2 million and acquisitions £2 million leaving a net cash inflow for the year of £7 million.

Minority interests increased by £200,000 on the acquisition of EBS (Management) Plc in which redeemable preference shares are owned by a third party. These are redeemable at our option.

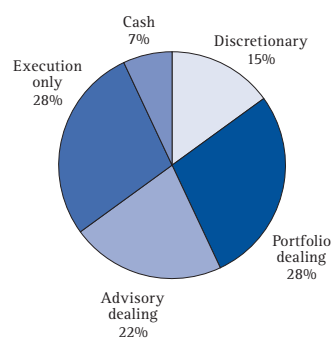
There has been no change in our capital structure during the year.



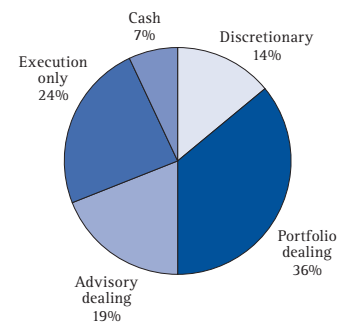
Funds under management

At the year end Funds under Management for clients totalled £6.7 billion compared to £5.7 billion at 31 March 2003. We define Funds under Management as funds in respect of which we provide an advisory or discretionary fee-charging management service and/or for which we provide a fee-charging administration service.

Funds under Management 2004



Funds under Management 2003



Resources

As explained above we maintain a strong balance sheet and cash position. Besides our financial strength the Group sees its employees as its most vital resource. Our staff retention rate has been and remains high. This enables us to improve operating efficiency.

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through a formal appraisal system, informal meetings with management and the intranet. Employees are consulted regularly on a wide range of matters affecting their current and future interests. The Group's Save As You Earn share option schemes have been running successfully since 1989. In addition employees may receive discretionary bonuses.

The Group aims to be an equal opportunities employer and fills vacancies solely in terms of ability, without regard to race, religion, colour, sex or disability. Applications for employment by disabled persons are always fully considered bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment within the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Principal risks and uncertainties

The Group's principal operational risk arises from the fact that our income is closely linked to Stock Exchange transaction volumes.

Operating risk is constantly monitored by the Board and senior management who have a wealth of experience in the financial services industry.

The Group undertakes limited principal account trading. All trading limits are monitored in accordance with Financial Services Authority regulations and policies determined by the Board.

Financing and interest rate risk

The Group finances its operations primarily out of retained profits.

Foreign currency

The Group has small transactional currency exposures. We run positions in a variety of currencies, principally the US dollar, to support clients' dealing activities. Policy requires any significant net exposures to be hedged using forward currency contracts as soon as a commitment is made.

Derivative transactions

We do not conduct derivative business on our own account. Client deals have to be transacted by the Company as principal, under the rules of LIFFE, but these are always matching, back to back transactions. In all cases where such transactions place the client or the Company at risk we hold suitable collateral. This normally takes the form of a lien over the customer's assets giving the Company a claim on these assets for both existing and future liabilities.

Treasury policy and capital requirement

The Group's financial instruments comprise borrowings, cash and liquid resources, and various items including trade debtors and trade creditors that arise directly from its operations.

Our treasury function seeks to reduce or eliminate financial risk, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably.

It operates within policies and procedures approved by the Board, which include strict controls on the use of financial instruments in managing the Group's risk. We review the credit quality of counterparties and we limit aggregate credit exposures accordingly.

The Group maintains substantially all its cash with the Bank of Scotland, part of HBOS plc, where the vast majority of client cash is also deposited.

While the current level of capital remains well in excess of our regulatory requirements, we are aware of the possible requirement for additional capital as part of the implementation of Basel II and the European Capital Adequacy Directive. We play an active role in industry groups which are closely involved in preparing for the Basel II requirements.

Pension arrangements

The Group operates a defined contribution scheme. The assets of the scheme are held separately from those of the Group in independently administered funds.

The Group also operates a defined benefit scheme that is now closed to new entrants. The actuarial valuation carried out at 13 May 2002 in relation to the Group's defined benefit scheme has led us to increase contributions to 25.6% as disclosed in Note 30 of the Financial Statements. Under FRS 17 the surplus in relation to the final salary scheme as at 31 March 2004 totalled £104,000 as opposed to a projected deficit of £357,000 as at 31 March 2003.

Environmental matters

The Group is concerned to mitigate its environmental impact at all times. Use of paper is minimised by utilising electronic communication both internally and externally. The majority of our waste is paper and we have been actively exploring methods of recycling this waste in an environmentally friendly manner. Our principal input is electricity and we use little water and negligible amounts of fuel oil. We keep our electricity usage under close review and actively seek ways of reducing this. We encourage our staff to use public transport by granting interest-free season ticket loans, and we provide parking space for bicycles. We have made improvements for access by our disabled staff and visitors. We actively support groups who seek to improve the environment and have won an award for the floral displays outside our London premises.

Ethical matters

It is our policy to construct portfolios to maximise returns, taking into account the individual preferences of our clients with regard to ethical and environmental matters.

International Accounting Standards

We are planning for the changes being introduced in 2005 as a result of the requirement to report in accordance with International Accounting Standards. These will apply to the Company in respect of the accounts for the year ended 31 March 2006.

Peter Hurst
Finance Director

9 June 2004

Directors and Company Information

Charles Stanley Group PLC was incorporated on 16 July 1896. The business had been established on 2 January 1792 and Charles Stanley was first recorded as a member firm of the London Stock Exchange in 1853.

Directors

Sir David Howard, Bt., M.A., D.Sc., F.S.I.(Hon.)

(Chairman and Managing Director)

Sir David is 58. He joined Charles Stanley in 1967. He became Managing Partner in 1971, Managing Director (on incorporation of the partnership) in 1988, and Chairman in 1999. He was Lord Mayor of London in 2000-2001. He has served on Stock Exchange, CREST and LIFFE committees. He is a director of APCIMS (the private client stockbrokers' trade association), the Securities Institute, and the Financial Services Skills Council and chairs the APCIMS Europe Committee, the Securities Institute Examinations Board and the Council of City University.

Peter A. Hurst, F.C.A., A.C.I.B., M.S.I.

(Finance Director)

Peter Hurst is 55 and joined Charles Stanley in 1987. He is the main board Director responsible for branches and for finance, information technology and premises. He is a member of the compliance and risk monitoring, e-commerce, marketing, operations and corporate finance approvals committees.

Prior to joining Charles Stanley he had worked in banking for 10 years having been previously in audit practice.

E. Michael Clark, M.S.I.

Michael Clark is 57 and became a member of the Stock Exchange in 1970. He joined Charles Stanley & Co. in 1976, became a partner in 1982 and a Director (on incorporation of the partnership) in 1988. He is responsible for asset management, dealing and research. He is a member of the London Stock Exchange Private Client Brokers Group.

Michael R. I. Lilwall, B.Sc., F.S.I. (Dip.)

Michael Lilwall is 46 and joined Charles Stanley as a Director in 1997. He is responsible for the corporate finance division and the financial services division of the Company and takes an active role in business development for the Group.

Previously he was Chief Executive of Shaw & Co. Ltd, whose business was acquired by Charles Stanley in 1997. Prior to that he was a Director of Seymour Pierce Butterfield and Brewin Dolphin & Co. Ltd.

He is a member of the Securities Institute Editorial Review Panel.

Secretary

Gary Teper, L.L.B.(Hons.), M.Sc., M.S.I.

Company Registration Number

48796 (England and Wales)

Registered Office

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London EC2A 4AR

Websites

www.FasTrade.co.uk – Internet Trading
www.charles-stanley.co.uk – Corporate
www.charlesstanleyplc.co.uk – Investor Relations

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Huddersfield HD8 0LA

Brokers

Bridgewell Securities Limited
Old Change House, 128 Queen Victoria Street,
London EC4V 4BJ

Bankers

Bank of Scotland
New Uberior House, 11 Earl Grey Street,
Edinburgh EH3 9BN

Auditors

Saffery Champness
Chartered Accountants
Lion House, Red Lion Street,
London WC1R 4GB

Report of the Directors

The Directors submit their report and financial statements for the year ended 31 March 2004.

Principal activities

The Company and its Group undertakings operate as investment companies and provide stockbroking, corporate finance, investment services and pensions administration.

Results

The Group profit for the year after taxation amounted to £3.8 million.

Dividends

The Directors have declared and now recommend the following dividends in respect of the year ended 31 March 2004:

	2004	2003
Interim dividend paid 21 December 2003 of 1.00p per share (2003: 1.00p)	421,494	421,494
Final dividend proposed of 3.75p (2003: 3.50p)	1,580,602	1,475,228
	£2,002,096	£1,896,722

The final dividend will be posted on 30 July 2004 to shareholders on the Company's register at close of business on 9 July 2004.

Review of the year and future developments

A review of the year and of future developments is set out on pages 3 to 7.

Directors

The Directors named on page 14 served throughout the year. Their biographies are set out on page 14. Mr. Peter A. Hurst retires by rotation at the Annual General Meeting and, being eligible, offers himself for re-election by the members.

Other share interests

The Directors are aware of substantial interests in the shares of Charles Stanley Group PLC as follows:

	No. of shares	
	9.6.04	31.3.04
John L.S. Howard	4,953,192	4,953,192
Schroders PLC and its associated companies Queen Street Securities Limited (a company of which Sir David Howard is a director)	4,768,547	4,768,547
Caroline P.S. Howard	1,675,000	1,675,000
Robert P.S. Howard	1,329,966	1,329,966
	1,272,369	1,272,369

Taxation status

As far as the Directors are aware, the Company is not a close company for taxation purposes.

Payments to creditors

It is the Company's policy to pay stockbroking creditors on Settlement Day or when stock has been delivered, whichever is later, and to pay suppliers in accordance with their payment terms. Amounts due to suppliers at the balance sheet date represent approximately 30 days' credit based on the total amounts of goods and services invoiced by them during the year.

Charitable and political donations

Charitable donations during the year amounted to £8,888.

No political donations were made during the year.

Auditors

The Company's auditors, Saffery Champness, are willing to continue in office, and a resolution proposing their re-appointment and authorising the Directors to determine their remuneration will be put to the Annual General Meeting.

By Order of the Board

Gary Teper

Secretary

9 June 2004

Directors' Remuneration Report

The Company is required by the Companies Act 1985 to prepare a Directors' remuneration report for the year ended 31 March 2004 and to put that report to a shareholder vote.

A resolution to approve this report will be proposed at the Annual General Meeting of the Company to be held on 23 July 2004.

The auditors are required to report on the auditable part of the Directors' remuneration report and to state whether, in their opinion, that part of the report has been properly prepared in accordance with the Companies Act 1985. The report has, therefore, been divided into separate sections for unaudited and audited information.

Unaudited information

Directors' remuneration

The pay and benefits for executive Directors are determined by Sir David Howard, Mr E. Michael Clark, Mr Peter A. Hurst and Mr Michael R. I. Lilwall, taking into account individual performance and market conditions.

The basic salaries of the Directors are reviewed annually and when a change of responsibility occurs.

Directors (excluding Sir David Howard) have in the past been entitled to participate in the profit related pay and save as you earn schemes which were open to all employees after a certain period of employment with the Company.

In addition, Directors are entitled to certain other benefits such as vehicles, telephones and private health insurance consistent with the industry norm.

Details of entitlements to share options and pension arrangements are disclosed on page 22 of this report.

Policy on Directors' remuneration

It is the policy of the Board that the Directors are remunerated in broadly similar fashion to Group employees generally; that is to say that remuneration consists predominantly of fixed salaries which are reviewed annually by the Board, with the addition of occasional non-formula-linked discretionary bonuses.

In fixing the remuneration packages for current and future financial years the Directors have the following in mind:

- The need to attract, retain and motivate directors of the quality required;
- What comparable companies are paying, taking into account relative performance; and
- Pay and employment conditions elsewhere in the Group.

The Board has given full consideration to Schedule A of the Combined Code on Directors' remuneration in framing its remuneration policy.

In addition to basic salary, the Directors receive other benefits, some of which are performance related. Those that are related to performance are the occasional non-formula-linked discretionary bonuses paid to Directors. Those elements of the Directors' remuneration and benefits that are not related to performance are entitlements to exercise any options granted under the Charles Stanley Save As You Earn Scheme, health insurance, vehicle running costs, telephone expenses and pension entitlements. It is the Board's view that those elements of remuneration and benefits that are profit related are in the case of each of the Directors sufficiently important to incentivise the Director concerned to improve the performance of the Group.

Pensions

Three of the Directors are members of the Group's defined benefits pension scheme which has a normal retirement age of 65. Each Director is entitled to a pension equal to 1/60th of final scheme salary for each year of pensionable service up to a maximum of 40/60ths.

In the event of death in service, a lump sum benefit equal to four times the Director's basic annual salary at the date of death is payable.

The pension arrangements for the Directors ensure that benefits provided are consistent with those provided by other companies in the market place. The expected cost of providing retirement benefits to the Directors is assessed in accordance with the advice of independent qualified actuaries.

One Director has a money purchase scheme. Contributions to this scheme may be taken as salary at the option of the Director.

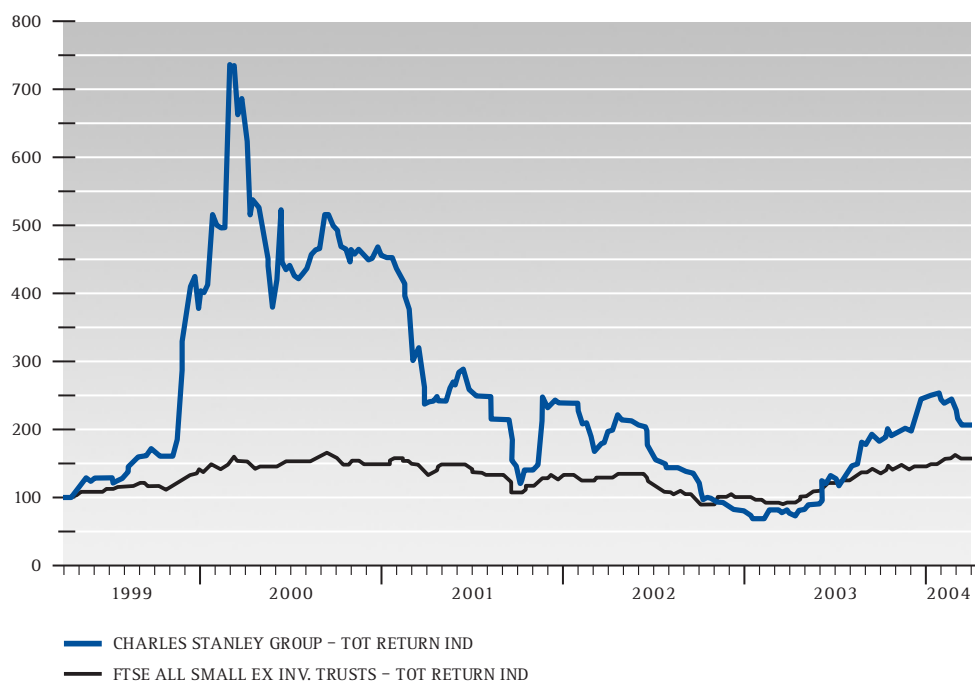
Share options

The Company currently does not operate any Executive Option Schemes or Long-term Incentive Plans. All option schemes currently in operation are open to all employees and Directors, except Sir David Howard, once they have met the necessary service requirements.

Charles Stanley currently operates two Sharesave Schemes (2001 and 2003). Options are offered at a discount of 20% (2001 scheme) and 10% (2003 Scheme) to the mid-market closing price on the day prior to the offer and are exercisable for a period of 6 months commencing 5 years after the savings contract commencement date. In common with similar schemes, the exercise of options under this scheme is not subject to any performance conditions. The Company has taken advantage of the exemption in UITF 17: Employee Share Schemes, in accounting for the Sharesave Schemes.

Performance graph

The following graph shows the Company's performance measured by total shareholder return, compared with the performance of the FTSE Small Cap Index, also measured by total shareholder return. This index has been selected as being appropriate in giving a broad equity view and the Company is a constituent of the index.



Directors' contracts

Each of the Directors has a service contract except for Sir David Howard who has no service contract. No Director has a service contract of more than one year's duration except Mr Peter A. Hurst who has a service contract which provides for one year's notice to be given in October of any year.

Audited information

	Fees	Salary	Bonus	Benefits in kind	Total 2004	Total 2003
Emoluments						
Sir David Howard (Chairman, Managing and highest paid Director)	5,250	240,209	57,750	26,522	329,731	268,497
Peter A. Hurst (Finance Director)	–	189,458	57,750	11,902	259,110	197,706
Michael Clark	–	230,083	57,750	12,218	300,051	238,112
Michael R. I. Lilwall	–	211,613	57,750	12,747	282,110	222,008
	£5,250	£871,363	£231,000	£63,389	£1,171,002	£926,323
2003	£5,250	£858,468	–	£62,605	£926,323	

Employee savings related share option schemes

At 1 April 2003 and 31 March 2004

	Period of option	Exercise price	Granted
Peter A. Hurst (Finance Director)	January 2003 to January 2008	96p	12,500
Michael Clark	January 2003 to January 2008	96p	12,500
Michael R.I. Lilwall	January 2003 to January 2008	96p	12,500
			37,500

The market price of the ordinary shares at 31 March 2004 was 232.6p and the range during the year was 96p to 285p.

Pension schemes

Retirement benefits were accruing to three Directors under a defined benefit scheme and one Director under a money purchase scheme. During the year no contributions were made to the money purchase scheme.

	2004			2003		
	Accrued pension £	Accrued lump sum £	Transfer value of increase in accrued pension £	Accrued pension £	Accrued lump sum £	Transfer value of increase in accrued pension £
Sir David Howard	63,111	142,000	47,427	58,838	132,386	34,855
Peter A. Hurst	51,333	115,500	27,725	48,222	108,500	21,500
Michael Clark	79,648	179,209	41,541	75,556	170,000	29,598

Related party transactions

The Directors undertake transactions in stocks and shares in the ordinary course of the Group's business for their own accounts. No amounts were owed by the Directors to the Group at 31 March 2004. There were no other material contracts between the Group and Directors.

Directors' interests in ordinary shares

The interests of the Directors in the share capital of Group Companies were:

	Beneficially held			Otherwise held		
	9.6.04	31.3.04	1.4.03	9.6.04	31.3.04	1.4.03
Charles Stanley Group PLC						
Sir David Howard	9,450,000	9,450,000	9,450,000	1,295,055	1,295,055	1,419,355
Peter A. Hurst	152,436	152,436	162,436	623,055	623,055	747,355
E. Michael Clark	668,867	668,867	668,867	—	—	—
Michael R.I. Lilwall	53,000	53,000	51,000	—	—	—
Gryphon Investments PLC						
Sir David Howard	15,000	15,000	15,000	—	—	—

Approval

This report was approved by the board of Directors on 9 June 2004 and signed on its behalf by

Gary Teper

Secretary

Corporate Governance

The Directors represent the shareholders' interests in maintaining and growing a successful business, including optimising long-term returns, and are accountable for determining that the Company and its subsidiaries are managed in such a way as to achieve this objective.

The Combined Code on Corporate Governance issued by the London Stock Exchange contains Principles of Good Governance applicable to listed companies and the paragraphs below, together with the Directors' Remuneration Report on pages 19 to 23, describe how these Principles are applied within Charles Stanley Group PLC.

Statement of Directors' Responsibilities

The following statement is made for the purposes of clarifying for members the respective responsibilities of the Directors and the Auditors in the preparation of the financial statements.

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group at the end of the financial year and of the Group's profit or loss for the financial year. In preparing these financial statements, the Directors are required to use appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and confirm that all applicable accounting standards have been followed. The Directors are required to prepare financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

The Board and its committees

The Company has been evolving from a stockbroking partnership, and it continues to have the flat management structure typical of a professional firm. Many senior personnel are involved in the governance of the Company through its two-tier board system and its committees, which have delegated authority to act within carefully defined terms of reference. The Company has no non-executive Directors on the Board (Code provisions A.3.1, A.3.2, A.3.3, A.6.1). The Board recognises the potential value of non-executive Directors, and has in mind to appoint one or more at an appropriate stage in its development, so as to broaden the range of skills and experience available to the Board. At the present time, given the nature of the business, it believes that the current arrangement of a professional, full-time, executive Board, comprising the senior management team in this structure, best promotes the interests of shareholders as a whole.

This senior management team, within this structure of a two-tier Board and committees, is headed by a combined Chairman and "Chief Executive Officer". This does not comply with the Combined Code (A.2.1). In practice each of the four Directors of the Group Board exercises a similar degree of executive authority, there is no "chief executive" as such, and they work closely together as if a team of four "managing partners". While the Chairman presides over this team, and is thus the senior of the executives, the title of "chief executive" is not used, nor would it accurately reflect the way in which the governance of the Company is structured.

The Company has no nomination committee and thus cannot comply with the recommendation that this should comprise non-executive Directors (A.4.1). All appointments to the Board, to subsidiary boards and to committees are made by the Board.

The four Group Directors meet separately to discuss direction and strategy, as well as to consider the half-year and full-year results.

All Group and subsidiary Directors have a good record of attendance at all relevant meetings. The Articles of Association of Charles Stanley Group PLC require one-third of its Directors to retire by rotation each year. It is the policy of the Group that no Director should serve for more than three years without seeking re-election.

The Board has established a number of committees including in particular the following:

Compliance Committee

This Group meets monthly and comprises the four Board Directors, compliance officer, the Group financial controller and the head of legal services. Its principal terms of reference are to review compliance with the relevant financial services legislation, adherence to the Group's internal regulations, and the review of individual transactions.

Corporate Finance Approvals Committee

This committee meets monthly and comprises all four of the Board Directors and the corporate finance managers. It is responsible for ensuring that the Group complies with ongoing obligations in its role as broker and/or nominated adviser.

Dealing Committee

This committee meets monthly and comprises one Board Director, the heads of dealing, IT, compliance, client services and settlement. It is responsible for monitoring dealing and settlement performance and for managing relationships with market makers.

E-Commerce Committee

This committee meets monthly and comprises all four of the Board Directors together with the heads of IT and internet trading. It is responsible for developing and monitoring E-Commerce initiatives and for making recommendations to the Board on E-Commerce strategy.

Finance Committee

This committee meets quarterly and comprises all four of the Board Directors together with the Group's financial controller and company secretary. Its brief is to consider the accounts, review the treasury function and review forecasts and departmental budgets.

Financial Planning Committee

This committee meets monthly and comprises a Board Director together with the heads of the three areas that make up financial planning; namely, private client financial planning, benefit consulting and EBS (Management) Plc. It is responsible for developing the Groups financial planning capabilities and ensuring that this area of the Group is being properly managed.

Human Resources Committee

This committee meets quarterly and comprises all four of the Board Directors, the head of HR, head of legal services and office manager. It is responsible for considering Group HR and training policy.

Marketing Committee

This committee meets bi-monthly and comprises all four of the Board Directors together with the heads of E-Commerce, client services and the marketing and business development departments. It is responsible for initiating and approving marketing and PR activity as well as reviewing new business opportunities for the whole Group.

Operations Committee

This committee meets monthly. The membership of the committee comprises one Board Director and six non-PLC directors of Charles Stanley & Co Limited, the Group's main trading subsidiary, together with the settlement manager, office manager and systems development manager, finance department manager and heads of legal and HR. This committee provides a formal forum for senior operational managers to raise and resolve general operational issues.

Risk Review Committee

This committee meets bi-monthly and comprises the Chairman and heads of compliance, finance and legal services. Its role is to consider the issue of risk and to include identified risks into the Group's risk matrix that it maintains for review by the Board.

Relations with shareholders

The Directors communicate regularly with the Group's institutional shareholders. Shareholders attending the AGM are invited to ask questions and to meet with Directors after the formal proceedings have ended. In its annual and interim reports, result presentations and City announcements generally, the Group endeavours to present an accurate, objective and balanced picture in a style and format which is appropriate for the intended audience. The Group's website (www.charlesstanleyplc.co.uk) provides financial and business information about the Group.

Internal control

The Board has overall responsibility for the Group's system of internal controls, the objectives of which are the safeguarding of the Group's assets, the maintenance of proper accounting records, and the availability of reliable financial information for use within the business and for publication. This system of internal controls is also designed to provide reasonable, albeit not absolute, assurance against material misstatement and to prevent and detect fraud and other irregularities.

The Directors regularly review the effectiveness of the Group's internal control system. There is an ongoing process for identifying, evaluating and managing significant risks which was in place throughout the year. The Group's system of internal control includes appropriate levels of authorisation and segregation of duties. Financial reports are presented to the Board monthly detailing the results, variances against forecast and other performance data.

The results of the ongoing monitoring of compliance, financial and operational controls were reported to the Board which was able to conclude, with reasonable assurance, that appropriate internal control systems had been maintained throughout the year.

Going concern

The Directors have satisfied themselves that the Group has adequate resources to continue in business for the foreseeable future and that it is therefore appropriate for the financial statements for the year ended 31 March 2004 to have been prepared on a going concern basis.

Compliance with the Combined Code

In addition to the Principles of Good Governance the Combined Code also contains a supporting Code of Best Practice. In relation to compliance with the Combined Code it is confirmed that:

The Company does not have any non-executive Directors on the board (A.3.1-3, A.4.1, A.6.1) as it believes that current arrangements best promote the interests of shareholders as a whole.

The Company does not have a nomination committee (A.4.1-6).

The Company does not have a formal remuneration committee (B.2.1-3) but the emoluments of the Directors are the subject of appraisal by the Chairman and the Directors taking into account individual performance and market conditions.

The Company does not have an audit committee (C.3.1-7) but the Board, as a whole, regularly monitors internal controls and also ensures that an objective and professional relationship is maintained with the auditors.

Report of the Independent Auditors to the Members

We have audited the financial statements on pages 30 to 51 which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 35 to 36. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report, including the Directors' Remuneration Report, and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities on page 24.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, and United Kingdom Auditing Standards.

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

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

We review whether the Corporate Governance Statement on pages 24 to 27 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Operating and Financial Review and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the Company's affairs as at 31 March 2004 and of the Group's profit for the year then ended, and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

Saffery Champness

Chartered Accountants Registered Auditors

London

9 June 2004

Consolidated Profit and Loss Account

Year ended 31 March 2004

	Note	2004		2003	
		£'000	£'000	£'000	£'000
Turnover					
Continuing operations		66,218		47,553	
Acquisitions		1,946		3,511	
<hr/>					
	2		68,164		51,064
Operating expenses		(58,882)		(47,877)	
Depreciation and amortisation		(3,819)		(3,181)	
<hr/>					
			(62,701)		(51,058)
Operating profit					
Continuing operations		5,145		350	
Acquisitions		318		(344)	
<hr/>					
	4		5,463		6
Profit/(loss) on sale of investments – continuing operations			74		(50)
<hr/>					
			5,537		(44)
Interest receivable			1,100		1,142
Interest payable	5		(55)		(120)
Profit on ordinary activities before goodwill amortisation and profit/(loss) on sale of investments		8,102		1,997	
Goodwill amortisation		(1,594)		(969)	
<hr/>					
Operating profit and interest before taxation		6,508		1,028	
Profit/(loss) on sale of investments		74		(50)	
<hr/>					
Profit on ordinary activities before taxation			6,582		978
Tax on profit on ordinary activities	6		(2,773)		(534)
<hr/>					
Profit for the year	7		3,809		444
Dividends	8		(2,002)		(1,897)
<hr/>					
Transfer to/(from) reserves	19		1,807		(1,453)
<hr/>					

The notes on pages 35 to 51 form part of these financial statements.

Earnings per Share

Year ended 31 March 2004

	Note	2004		2003	
		Basic	Diluted	Basic	Diluted
Based on profit for the year	9	9.04p	8.64p	1.05p	1.02p
Excluding goodwill amortisation	9	12.82p	12.26p	3.35p	3.25p
Based on historical cost profit for the year	9	9.02p	8.62p	0.99p	0.96p

Statement of Total Recognised Gains and Losses

	2004 £'000	2003 £'000
Profit for the year	3,809	444
Unrealised gains/(losses) on investments	579	(1,241)
Total recognised gains and losses	4,388	(797)

Note of Historical Cost Profits and Losses

	2004 £'000	2003 £'000
Reported profit on ordinary activities before taxation	6,582	978
Realisation of investment revaluation losses of previous years	(9)	(27)
Historical cost profit on ordinary activities before taxation	6,573	951
Historical cost profit/(loss) for the year retained after taxation and dividends	1,798	(1,480)

The notes on pages 35 to 51 form part of these financial statements.

Consolidated Balance Sheet

31 March 2004

	Note	2004		2003	
		£'000	£'000	£'000	£'000
Fixed assets					
Intangible	10		11,846		8,191
Tangible	11		5,493		5,227
Investments	12		3,670		2,732
			21,009		16,150
Current assets					
Debtors	13	171,489		178,896	
Listed investments		908		322	
Cash at bank and in hand		33,993		26,948	
		206,390		206,166	
Creditors: amounts falling due within one year	14	(185,165)		(182,931)	
Net current assets			21,225		23,235
Total assets less current liabilities			42,234		39,385
Creditors: amounts falling due after more than one year	15		(1,418)		(1,155)
Minority interests	16		(244)		(44)
Net assets			40,572		38,186
Capital and reserves					
Called up share capital	18		10,537		10,537
Revaluation reserve	19		2,675		2,096
Profit and loss account	19		27,360		25,553
Equity shareholders' funds	20		40,572		38,186

Approved by the Board on 9 June 2004

Sir David Howard
Peter Hurst
Directors

The notes on pages 35 to 51 form part of these financial statements.

Consolidated Cash Flow Statement

Year ended 31 March 2004

	Note	2004 £'000	2003 £'000
Net cash inflow from operating activities	21	13,814	7,142
Returns on investments and servicing of finance	22	1,045	1,027
Taxation		(930)	(1,486)
Capital expenditure and financial investment	23	(1,997)	(1,278)
Acquisitions	24	(1,961)	106
Equity dividends paid		(1,897)	(1,897)
		8,074	3,614
Management of liquid resources		(586)	(170)
Financing			
Decrease in debt	25	(443)	(2,644)
Increase in cash in the year		7,045	800
Reconciliation of net cash flow to movement in net funds			
Increase in cash in the year		7,045	800
Cash used to increase liquid resources		586	170
Cash outflow from change in debt and lease financing		443	2,644
New finance leases		8,074 (620)	3,614 (43)
Movement in net funds in the year		7,454	3,571
Net funds at 1 April 2003		26,945	23,374
Net funds at 31 March 2004	26	34,399	26,945

The notes on pages 35 to 51 form part of these financial statements.

Company Balance Sheet

31 March 2004

	Note	2004		2003	
		£'000	£'000	£'000	£'000
Fixed assets					
Intangible	10		8,084		6,647
Tangible	11		5,493		5,227
Investments	12		36,452		32,187
			50,029		44,061
Current assets					
Debtors	13	7		7	
Cash at bank and in hand		273		245	
		280		252	
Creditors: amounts falling due within one year	14	(8,319)		(4,972)	
Net current liabilities			(8,039)		(4,720)
Total assets less current liabilities			41,990		39,341
Creditors: amounts falling due after more than one year	15		(1,418)		(1,155)
Net assets			40,572		38,186
Capital and reserves					
Called up share capital	18		10,537		10,537
Revaluation reserve	19		(1,885)		(3,938)
Profit and loss account	19		31,920		31,587
Equity shareholders' funds	20		40,572		38,186

Approved by the Board on 9 June 2004

Sir David Howard
Peter Hurst
Directors

The notes on pages 35 to 51 form part of these financial statements.

Notes to the Financial Statements

1 Accounting Policies

The Group has adopted the following accounting policies which should be read in conjunction with the financial statements set out on pages 30 to 51, which have been prepared under the historical cost convention as modified by the revaluation of investments. The accounts have been prepared in accordance with applicable accounting standards.

Basis of consolidation

The consolidated financial statements combine the financial statements of Charles Stanley Group PLC and all its subsidiaries, drawn up to 31 March. For the purposes of these accounts uniform accounting policies have been followed throughout the Group. No profit and loss account is presented for Charles Stanley Group PLC, as permitted by s.230 of the Companies Act 1985.

Turnover

Turnover comprises stockbroking commission, investment management, corporate finance and pension administration fees and dividends on investments.

Dividends are credited to profit and loss account in the year in which they are receivable and are shown exclusive of tax credits.

Stockbroking commission and fees are stated gross but exclude value added tax.

Foreign currencies

Foreign currencies have been translated into sterling at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the profit and loss account.

Intangible fixed assets

Goodwill is capitalised at cost and amortised to the profit and loss account on a straight line basis over its estimated useful economic life of 10 years. Positive goodwill purchased before 1 April 1997 will remain written off against realised reserves.

Tangible fixed assets

Tangible fixed assets are included in the balance sheet at cost less accumulated depreciation and any provisions for impairment.

Freehold land is not depreciated. Other tangible fixed assets are depreciated on a straight-line basis at rates sufficient to write off the cost less estimated residual values of individual assets over their estimated useful lives. The depreciation periods of the principal categories of assets are as follows:

Freehold buildings and leasehold properties	up to 50 years
Office equipment and motor vehicles	3 to 10 years

Leased assets and obligations

Where assets are financed by leasing agreements that give rights approximating to ownership (“finance leases”), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as obligations to the lessor. Lease payments are treated as consisting of capital and interest elements, and the interest is charged to the profit and loss account using the annuity method. Depreciation on the relevant assets is charged to the profit and loss account. All other leases are “operating leases”, and the annual rentals are charged to the profit and loss account on a straight line basis over the lease term.

Fixed asset investments

Listed investments, including own shares, are shown in the financial statements at market value. Unlisted investments and shares in Group undertakings are shown at Directors’ valuation, usually based on net asset values. Surpluses and deficits on revaluation are reflected in the revaluation reserve. Permanent impairments in value are written off to profit and loss account. Realised profits and losses, being the difference between net sale proceeds and net carrying amounts, are accounted for in the profit and loss account of the period in which the disposal occurs. Surpluses and deficits recognised on revaluation of those assets in earlier years are dealt with by transfer between reserves.

Current asset investments

Current asset investments are stated at the lower of cost and net realisable value.

Pensions

The cost of providing pension benefits is charged to the profit and loss account over the period of service of employees. Further details are included in note 30.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

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

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

Deferred tax is not recognised when fixed assets are revalued, unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Nor is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

2 Turnover

Turnover is derived from stockbroking operations in the United Kingdom analysed as follows:

	2004			2003		
	Continuing operations	Acquisitions	Total	Continuing operations	Acquisitions	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Commission	45,195	946	46,141	30,560	3,302	33,862
Investment management fees and administration charges	17,316	1,000	18,316	14,608	209	14,817
Corporate finance fees	3,707	–	3,707	2,385	–	2,385
	66,218	1,946	68,164	47,553	3,511	51,064

3 Particulars of staff

The average number of persons employed (including Directors) during the year was 459 (2003: 458).

	2004	2003
	£'000	£'000
Staff costs:		
Wages and salaries	17,978	15,628
Social security costs	1,965	1,563
Other pension costs	1,872	1,465
	21,815	18,656

4 Operating profit

	2004	2003
	£'000	£'000
Operating profit is stated after charging:		
Depreciation on owned assets	1,887	1,769
Depreciation on assets held under finance leases	338	443
Goodwill amortisation	1,594	969
Auditors' remuneration		
Audit services	87	81
Further assurance services (including "due diligence" work)	43	21
Tax services	70	74
Operating lease rentals	1,028	928

5 Interest payable

	2004 £'000	2003 £'000
On bank loans and overdrafts	34	35
Finance lease interest	15	38
On other loans	6	47
	<hr/> 55	<hr/> 120

6 Tax on profit on ordinary activities

	2004 £'000	2003 £'000
Current taxation:		
UK corporation tax at 30% (2003: 30%)	2,630	585
Adjustment in respect of prior periods	143	(51)
Total current taxation	<hr/> 2,773	<hr/> 534
The tax charge for the year is greater than the standard rate of corporation tax in the UK of 30%. The differences are explained below.		
	2004 £'000	2003 £'000
Profit on ordinary activities before tax	6,582	978
Tax at standard rate	<hr/> 1,975	<hr/> 293
Effects of:		
Depreciation for the year in excess of capital allowances	183	65
Goodwill amortisation disallowed	318	238
Other items not allowable for tax purposes	120	77
Adjustments in respect of previous periods	143	(51)
Other adjustments	34	(88)
	<hr/> 798	<hr/> 241
Current tax charge for the year	<hr/> 2,773	<hr/> 534

No provision has been made for the tax liability of approximately £1,101,000 which would arise if the Group's fixed asset investments were disposed of at their revalued amount.

As at 31 March 2004 there is an unrecognised deferred tax asset, measured at the standard corporation tax rate of 30%, of £240,000 (2003: £290,000). This potential asset relates to the excess of depreciation over capital allowances and capital losses carried forward. It is considered uncertain that there will be a tax liability in the future against which the deferred tax asset can be offset. Therefore the asset has not been recognised.

7 Profit for the year

The consolidated profit for the year of £3,809,000 (2003: £444,000) includes a profit of £2,334,000 (2003: £34,395,000) which is dealt with in the accounts of the parent undertaking.

8 Dividends

	2004 £'000	2003 £'000
Interim paid of 1.00p per share (2003: 1.00p)	421	421
Proposed final of 3.75p per share (2003: 3.50p)	1,581	1,476
	2,002	1,897

9 Earnings per share

	2004 No.	2003 No.
Basic		
Weighted average number of shares in issue in the year	42,149,378	42,149,378
Diluted		
Weighted average number of options outstanding for the year	1,921,125	1,371,565
	44,070,503	43,520,943
	£'000	£'000
Profit for the year before goodwill	5,403	1,413
Goodwill amortisation	(1,594)	(969)
	3,809	444
Realisation of investment revaluation losses of previous years	(9)	(27)
	3,800	417

10 Intangible fixed assets

	2004		2003	
	Group £'000	Company £'000	Group £'000	Company £'000
Goodwill				
Cost				
1 April	10,686	8,979	9,042	9,042
Increase during year				
Initial cash consideration/(adjustments)	2,204	1,437	(320)	(413)
Deferred consideration	2,938	1,204	1,750	320
Fees	107	—	214	30
31 March	15,935	11,620	10,686	8,979
Amortisation				
1 April	2,495	2,332	1,526	1,526
Profit and loss account	1,594	1,204	969	806
31 March	4,089	3,536	2,495	2,332
Net book value	11,846	8,084	8,191	6,647

11 Tangible fixed assets

	Freehold premises £'000	Long leasehold premises £'000	Short leasehold premises £'000	Office	Total £'000
				equipment and motor vehicles £'000	
Group and Company					
Cost					
1 April 2003	372	1,890	2,104	7,127	11,493
Additions	—	3	536	1,988	2,527
Disposals	—	—	—	(77)	(77)
	372	1,893	2,640	9,038	13,943
Depreciation					
1 April 2003	28	978	847	4,413	6,266
Charge for year	7	187	296	1,735	2,225
Disposals	—	—	—	(41)	(41)
	35	1,165	1,143	6,107	8,450
Net book value					
31 March 2004	337	728	1,497	2,931	5,493
31 March 2003	344	912	1,257	2,714	5,227

11 Tangible fixed assets (continued)

The net book value of tangible fixed assets includes £547,000 (2003: £286,000) in respect of assets held under finance leases and hire purchase contracts.

Fixed assets include fully depreciated assets costing £3,192,000.

12 Fixed asset investments

	Shares in Group undertakings £'000	Listed investments £'000	Unlisted investments £'000	Total £'000
(a) Group				
1 April 2003				
Cost		486	217	703
Revaluation surplus		2,029	–	2,029
Book value		2,515	217	2,732
Additions		509	88	597
Disposals		(299)	–	(299)
Revaluation in year and amounts written off		640	–	640
31 March 2004		3,365	305	3,670
Cost		696	305	1,001
Revaluation		2,669	–	2,669
(b) Company				
1 April 2003				
Cost	39,903	386	–	40,289
Revaluation deficit	(8,034)	(68)	–	(8,102)
Book value	31,869	318	–	32,187
Additions	2,451	144	–	2,595
Disposals	–	(139)	–	(139)
Revaluation in year and amounts written off	1,735	74	–	1,809
31 March 2004	36,055	397	–	36,452
Cost	42,354	384	–	42,738
Revaluation	(6,299)	13	–	(6,286)

12 Fixed asset investments (continued)

(c) The percentage of issued capital of Group undertakings held is:

Name of company	Activity	Note	Ordinary shares
Gryphon Investments PLC	Investment company		95%
Charles Stanley Services Limited	Holding company		100%
Charles Stanley & Co Limited	Stockbrokers	(1)	100%
Rock (Nominees) Limited	Nominee company	(2)	100%
Exempt Nominees Limited	Nominee company	(2)	100%
Forester MacLean Benefit Consultants Limited	Dormant		100%
Robson Cotterell Limited	Dormant		100%
Roco Nominees Limited	Dormant	(3)	100%
EBS (Management) Plc	Pension Fund Administrator		100%
EBS Pensioneer Trustees Limited	Pensioneer Trustee Services		100%
EBS Self-Administered Personal Pension Plan Trustees Limited	Pensioneer Trustee Services		100%

Note

- 1 Member of The London Stock Exchange and the London International Financial Futures and Options Exchange. Regulated by The Financial Services Authority.
- 2 Shares held by Charles Stanley & Co Limited.
- 3 Shares held by Robson Cotterell Limited.

13 Debtors

	2004		2003	
	Group £'000	Company £'000	Group £'000	Company £'000
Trade debtors	170,037	—	177,380	—
Other debtors	332	7	387	7
Prepayments and accrued income	1,120	—	1,129	—
	171,489	7	178,896	7

14 Creditors: amounts falling due within one year

	2004		2003	
	Group £'000	Company £'000	Group £'000	Company £'000
Trade creditors	623,957	—	585,740	—
Less funds held on behalf of clients in protected bank accounts	(450,078)	—	(408,114)	—
	173,879	—	177,626	—
Redeemable loan	300	300	—	—
Amounts owed to Group undertakings	—	3,849	—	2,229
Obligations under finance leases	209	209	120	120
Corporation tax	2,016	—	173	—
Other taxes and social security	1,680	—	1,298	—
Other creditors	2,727	2,326	1,404	1,103
Accruals and deferred income	2,773	54	834	44
Proposed dividends	1,581	1,581	1,476	1,476
	185,165	8,319	182,931	4,972

The 3% fixed redeemable loan note 2004 is redeemable on the later of 18 July 2004 and the date on which the EBS (Management) Plc completion accounts are agreed.

15 Creditors: amounts falling due after more than one year

	2004		2003	
	Group £'000	Company £'000	Group £'000	Company £'000
Obligations under finance leases	293	293	205	205
Other creditors	1,125	1,125	950	950
	1,418	1,418	1,155	1,155

16 Minority interests

	Equity £'000	Non-equity £'000	Total £'000
At 1 April 2003	44	—	44
Acquisition of subsidiary undertaking	—	200	200
At 31 March 2004	44	200	244

Non-equity minority interests comprise 200,000 cumulative redeemable preference shares of £1 each in EBS (Management) Plc. The shares do not entitle the holders to any rights against other Group companies. The Company is entitled to redeem the whole or any part of the preference shares at any time on such terms, for such amount and in such manner as it thinks fit.

17 Financial instruments and risk management

Funding and liquidity

The financial assets and liabilities of the Group may be summarised as follows:

	2004 £'000	2003 £'000
Borrowings – UK sterling		
Floating rate borrowings	–	–
Fixed rate borrowings	502	325
Fixed rate loan notes	300	–
	<hr/> 802	<hr/> 325
Cash at bank and in hand:		
UK Sterling	31,639	25,795
United States Dollars	1,535	588
Euros	447	289
Others	372	276
	<hr/> 33,993	<hr/> 26,948

At 31 March 2004, the maturity profile of the Group's financial liabilities, other than short-term creditors such as trade creditors and accruals, was as follows:

	Finance leases £'000
Between one and two years	293
Less than one year	209
	<hr/> 502

Fair values

Credit exposures on financial instruments arise through short-term deposits and interest rate and foreign exchange hedging. Such transactions are executed only with highly-credit-rated, authorised counterparties based on ratings issued by the major rating agencies. Counterparty exposure positions are monitored regularly.

There is no significant difference between the book and fair values of the Company's financial instruments.

Undrawn committed borrowing facilities

	2004 £'000	2003 £'000
Revolving borrowing facilities:		
Expiring within one year	7,000	9,000

Further disclosures in respect of financial instruments are included in the Operating and Financial Review on pages 11 and 12.

18 Called up share capital

	2004 £'000	2003 £'000
Authorised: 80,000,000 ordinary shares of 25p each	20,000	20,000
Allotted and fully paid: 42,149,378 ordinary shares of 25p each	10,537	10,537
On 31 March 2004 the following options have been granted and remain outstanding in respect of ordinary shares of 25p in the Company under the Company's Save As You Earn Scheme.		
	No. of Shares	Option price
Grant dated 11 July 2001 Exercisable during the six months commencing 1 September 2006	47,476	£2.87
Grant dated 2 January 2003 Exercisable during the six months commencing 1 February 2008	1,921,125	£0.96

19 Reserves

	Group		Company	
	Revaluation reserve £'000	Profit and loss account £'000	Revaluation reserve £'000	Profit and loss account £'000
1 April 2003	2,096	25,553	(3,938)	31,587
Profit retained	—	1,807	—	333
Surplus on revaluation	579	—	2,053	—
	2,675	27,360	(1,885)	31,920

Cumulative goodwill written off in previous years directly to reserves amounts to £530,000 (2003: £530,000).

20 Reconciliation of movements in shareholders' funds

	2004 £'000	2003 £'000
Profit for the year	3,809	444
Other recognised gains/(losses)	579	(1,241)
Dividends	(2,002)	(1,897)
Net increase/(decrease) in shareholders' funds	2,386	(2,694)
Opening shareholders' funds	38,186	40,880
Closing shareholders' funds	40,572	38,186

21 Reconciliation of operating profit to net cash inflow from operating activities

	2004 £'000	2003 £'000
Operating profit	5,463	6
Depreciation charges	2,225	2,212
Goodwill amortised	1,594	969
Amount written off investments	(61)	59
Decrease/(increase) in debtors	7,407	(34,776)
(Decrease)/increase in creditors	(2,699)	38,672
Investment acquired in lieu of fees	(115)	–
Net cash inflow from operating activities	13,814	7,142

22 Returns on investments and servicing of finance

	2004 £'000	2003 £'000
Interest received	1,100	1,142
Interest paid	(36)	(77)
Interest element of finance lease payments	(19)	(38)
Net cash inflow for returns on investments and servicing of finance	1,045	1,027

23 Capital expenditure and financial investment

	2004 £'000	2003 £'000
Purchase of tangible fixed assets	(1,907)	(1,183)
Purchase of investments	(482)	(170)
Sale of tangible fixed assets	19	–
Sale of investments	373	75
Net cash outflow for capital expenditure and financial investment	(1,997)	(1,278)

During the year the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of leases of £620,000 which did not generate immediate cash flows.

24 Acquisitions

Purchase of subsidiary undertakings and other businesses

	2004 £'000	2003 £'000
Fixed assets	37	32
Current assets	420	6,342
Current liabilities	(414)	(2,516)
Net assets	43	3,858
Minority interests	(200)	–
Goodwill	(157) 5,206	3,858 1,750
Consideration	5,049	5,608
Satisfied by		
Cash	1,961	3,858
Deferred consideration	2,788	1,750
Loan note	300	–
	5,049	5,608

The additional contingent purchase consideration might exceed the amounts provided by £3 million depending on the future performance of the acquired businesses.

Additions related to:

Acquisitions in year	(1,319)	(316)
Further payments re businesses acquired in previous years	(942)	422
Additions in period	(2,261)	106
Paid for by the issue of loan notes	300	–
Net cash movement shown in cash flow statement	(1,961)	106

25 Financing

	2004 £'000	2003 £'000
Capital element of finance lease payments	(443)	(394)
Capital element of loan repayments	–	(2,250)
Cash outflow from change in debt and lease financing	(443)	(2,644)

26 Analysis of net funds

	At 31.3.04 £'000	Cash flow £'000	Other changes £'000	At 1.4.03 £'000
Current asset investments	908	586	–	322
Cash at bank and in hand	33,993	7,045	–	26,948
Finance leases	(502)	443	(620)	(325)
Total	34,399	8,074	(620)	26,945

27 Contingent liabilities

The Group has contingent liabilities in respect of indemnities (principally in respect of certified stock transfers and share certificates) given in the ordinary course of business. No material loss is considered likely to arise in respect of these contingent liabilities. The Group has seventy-eight ongoing complaints from clients relating to advice given in connection with Split Capital Trusts. The Directors do not believe that any significant cost will ultimately crystallise as a result, and accordingly no provision has been made in these accounts.

28 Lease commitments

	2004 £'000	2003 £'000
Group and Company		
Annual commitments under operating leases at 31 March were:		
Land and buildings		
Expiring within one year	48	41
Expiring within two to five years	198	142
Expiring after five years	914	781

29 Capital commitments

	2004 £'000	2003 £'000
Authorised but not contracted for	720	570

30 Pension costs

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in independently administered funds.

The Group also operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Group, being invested with insurance companies. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the Group. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent valuation was at 13 May 2002. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investment returns would be 6% per annum, and that salary increases would average 4% per annum.

The 2002 actuarial valuation showed that the market value of the scheme's assets was £10,652,000 and that the actuarial value of the resources of the scheme are likely in the normal course of events to meet in full its prospective liabilities.

The contributions made by the Group over the financial year have been £842,000, equivalent to 16.4% of pensionable pay until 13 May 2003 and 25.6% of pensionable pay after 13 May 2003, less members' contributions.

This contribution rate is to continue until reviewed following the triennial valuation of the scheme due as at 13 May 2005. As the scheme is closed to new entrants the current service cost as a percentage of pensionable payroll is likely to increase as the membership ages, although it will be applied to a decreasing payroll.

30 Pension costs (continued)

The following tables illustrate the impact that the full implementation of Financial Reporting Standard 17 – Retirement Benefits would have had on key aspects of the Group's financial statements.

Assumptions

The assets of the scheme have been taken at market value and the liabilities have been calculated using the following principal actuarial assumptions:

	2004	2003	2002
Inflation	3.00%	2.75%	3.00%
Salary increases	3.50%	3.75%	4.00%
Rate of discount	6.00%	5.75%	6.00%
Pension in payment increases (LPI)	3.00%	2.75%	3.00%
Revaluation rate for deferred pensioners	3.00%	2.75%	3.00%
Balance sheet			
Expected long term rate of return			
Equities	6.75%	6.50%	7.00%
With profit deposits and cash	4.00%	5.00%	5.00%
	£'000	£'000	£'000
Equities	500	258	310
With profit deposits and cash	12,195	10,951	10,214
Assets	12,695	11,209	10,524
Liabilities	(12,591)	(11,566)	(10,456)
Net pension asset/(liability)	104	(357)	68
Net assets excluding pension asset/(liability)	40,572	38,186	40,880
Net assets including pension asset/(liability)	40,676	37,829	40,948

30 Pension costs (continued)

	2004 £'000	2003 £'000
Amount which would have been charged to operating profit		
Current service cost	577	582
Past service cost	—	—
Settlements and curtailments	—	—
Total operating charge	577	582
Amount which would have been included as other finance income/(charge)		
Expected return on pension scheme assets	582	542
Interest on scheme pension scheme liabilities	(677)	(640)
Net charge	(95)	(98)
Other gains/(losses) which would have been recognised		
Actual less expected return on assets	121	(243)
Experience gains/(losses) on liabilities	470	(142)
Effect of change in assumptions on liabilities	(300)	78
Other profit/(losses) recognised	291	(307)
Movement in deficit during the year		
Deficit in scheme at 1 April	(357)	68
Current service cost	(577)	(582)
Cash contributions	842	562
Other finance charges	(95)	(98)
Actuarial gain/(loss)	291	(307)
Surplus/(deficit) in scheme at 31 March	104	(357)

History of experience gains and losses

	2004		2003		2002	
	% of assets	Amount	% of assets	Amount	% of assets	Amount
Difference between expected and actual returns on scheme assets	1%	121	(2%)	(243)	1%	26
Experience gains/(losses) on scheme liabilities	4%	470	(1%)	(142)	(7%)	(693)
Effects of changes in the demographics and financial assumptions underlying the present value of the scheme liabilities	(2%)	(300)	1%	78	—	—
Total actuarial gain/(loss)	2%	291	(3%)	(307)	(6%)	(667)

Directors of Charles Stanley & Co Limited

Name	Responsibility
Stephen C. King	General Manager
Martina M. Murphy	Financial Control
Philip C. Nathan, M.B.E.	Dealing
J. Andrew Butcher	Client Services
Macgregor Anderson	E-Commerce
Michael J. Pitts	IT
Venetia J. Malpas	Compliance

together with the Directors of Charles Stanley Group PLC as listed on page 14.

Financial Calendar

9 June 2004	Results announced
7 July 2004	Ex-dividend date for final dividend
9 July 2004	Record date for final dividend
23 July 2004	Annual General Meeting
30 July 2004	Final dividend paid
November 2004	Interim results announced

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 104th Annual General Meeting of Charles Stanley Group PLC will be held at 25 Luke Street EC2 on 23 July 2004 at 11.00 am, for the following purposes:

Ordinary Business

1. To receive and adopt the Accounts for the year ended 31 March 2004 with the reports of the Directors and Auditors.
2. To declare a final dividend.
3. To approve the Directors' Remuneration Report as set out on pages 19 to 23 of the Annual Report and Accounts.
4. To re-elect Mr Peter A. Hurst as a Director.
5. To re-appoint the Auditors and to authorise the Directors to determine their remuneration.

Special Business

As special business to consider and, if thought fit, to pass the following resolutions, resolution 6 being proposed as an Ordinary resolution and resolutions 7, 8 and 9 as Special resolutions.

Ordinary Resolution

Resolution 6

THAT pursuant to section 80(1) of the Companies Act 1985 ("the 1985 Act")

- (a) the Directors shall have general and unconditional authority to exercise for the purposes of section 80 all of the powers of the Company to allot, grant options over, grant rights to subscribe for, or convert securities into shares, or otherwise deal with or dispose of any relevant securities (as defined in section 80(2) of the 1985 Act) of the Company to such persons, at such times and generally on such terms and conditions as the Directors may determine

PROVIDED THAT:

- (i) the authority hereby conferred shall, subject to section 80(7) of the 1985 Act, be for a period expiring on the earlier of 15 months from the date of this resolution and the end of the 2005 Annual General Meeting of the Company unless renewed, varied or revoked by the Company in general meeting; and
 - (ii) the maximum nominal amount of relevant securities as aforesaid which may be allotted pursuant to such authority shall be £3,500,000;
- (b) the Directors shall be entitled under the authority conferred hereby, or under any renewal thereof, to make at any time prior to the expiry of such authority, any offer or agreement which would or might require relevant securities as aforesaid to be allotted after the expiry of such authority and to allot relevant securities accordingly; and
 - (c) the authority given by this resolution shall supersede and revoke any earlier authority given in respect of relevant securities as aforesaid.

Special Resolutions

Resolution 7

THAT the Directors be and they are hereby empowered pursuant to section 95 of the Companies Act 1985 ("1985 Act") to allot equity securities (within the meaning of section 94 of the 1985 Act) pursuant to the authority conferred by Resolution number 6 in the Notice of Meeting as if section 89(1) of the 1985 Act did not apply to any such allotment provided that this power shall be limited:

- (a) to the allotment (otherwise than pursuant to sub-paragraph (b) below) of equity securities, which are, or are to be, wholly paid up in cash up to an aggregate nominal amount of £525,000; and
- (b) to the allotment of equity securities for cash in connection with a rights or other issue, which:
 - (i) is open for a period fixed by the Directors;
 - (ii) is made to the holders of the ordinary shares and (if in accordance with their rights or the Directors so determine) other equity securities of any class on the register on a fixed record date;
 - (iii) is in proportion to their then holdings of ordinary shares or (as the case may be) other equity securities of the class concerned (but so that any offer to holders of other equity securities of any class shall be on the basis of their rights to receive such offer failing which as if their holdings had been converted into or they had subscribed for shares on the basis then applicable); and
 - (iv) save that the Directors may aggregate and sell for the benefit of the Company fractions arising on the apportionment of securities offered, is otherwise made subject to such exclusions or other arrangements as the Directors may deem expedient in relation to legal or practical problems under the laws of or the requirements of any recognised body or stock exchange in any territory,

and shall expire at the earlier of 15 months from the date of this resolution and the end of the 2005 Annual General Meeting of the Company, provided that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power hereby conferred had not expired.

Resolution 8

THAT the Directors be and are hereby generally and unconditionally authorised for the purpose of Section 166 of the Companies Act 1985 to make market purchases (within the meaning of Section 163 (3) of the Companies Act 1985) of Ordinary Shares of 25p each in the capital of the Company provided that:

- (a) the maximum number of Ordinary Shares hereby authorised to be purchased is 4,214,937;
- (b) the minimum price which may be paid for such shares is 25p;
- (c) the maximum price (exclusive of expenses) which may be paid for any such share will not be more than 5% above the average of the middle market quotation for such shares as derived from the Daily Official List of the London Stock Exchange LSE for the ten business days in respect of which the Daily Official List is published immediately preceding the day on which the share is to be purchased;
- (d) the authority hereby conferred shall expire at the earlier of 15 months from the date of this resolution and the end of the 2005 Annual General Meeting of the Company;
- (e) the Company may make a contract to purchase its own shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry date of such authority and may make purchases of its own shares in pursuance of any such contract as if the authority conferred hereby had not expired.

Resolution 9

THAT the Articles of Association be and are hereby amended by deleting clause 123 and substituting that clause with the wording set out in Appendix 1 hereof.

By Order of the Board

Gary Teper

Secretary

9 June 2004

Appendix 1

“Any dividend, instalment of dividend or interest in respect of any share may be paid by an electronic cash transfer system, cheque or warrant payable to the order of the member entitled thereto, or (in the case of joint holders) of the member whose name stands first on the register in respect of the joint holding. Every such cheque or warrant shall (unless otherwise directed) be sent by post to the last registered address of the member entitled thereto, or in the case of electronic cash transfer system paid to the most recently notified bank account of the member. Every such electronic cash transfer, cheque or warrant shall be sent at the risk of the person entitled to the money represented thereby.”

NOTES

1. A member entitled to attend and vote at the Annual General Meeting may appoint one or more proxies to attend and on a poll to vote on his behalf. A proxy need not be a member of the Company. A form of proxy accompanies this Notice of Annual General Meeting. To be effective, forms of proxy must be lodged with the Company Secretary by 11.00 am on Wednesday 21 July 2004. The completion and return of a Form of Proxy will not preclude a member from attending and voting in person.
2. Pursuant to Regulation 41 of the Uncertified Securities Regulations 2001, the Company gives notice that only those shareholders entered in the Register of Members of the Company as at 11.00 am on Wednesday, 21 July 2004 shall be entitled to attend or vote at the aforesaid Annual General Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant Register of Members after 11.00 am on Wednesday, 21 July 2004 shall be disregarded in determining the rights of any person to attend or vote at the meeting.
3. Copies of the Directors' service agreements and a statement of Directors' transactions in the shares of the Company are available for inspection at the Company's Registered Office during usual business hours on any weekday (Saturdays and Public Holidays excluded) from today until the conclusion of the Annual General Meeting. Copies will also be available for inspection at the place of the Annual General Meeting for at least 15 minutes prior to and during the meeting.
4. At this year's Annual General Meeting, there are 9 resolutions which the Members are asked to approve. An explanation of these resolutions is given below

Resolution 1

The Directors will present the Report of the Directors, the Auditors' Report and the Accounts of the Company for the year ended 31 March 2004.

Resolution 2

The Directors will propose a final dividend of 3.75p.

Resolution 3

The Directors' Remuneration Report is included in the Annual Report and Accounts on pages 19 to 23. It complies with the requirements introduced by the Directors' Remuneration Report Regulations 2002 for a report on the remuneration of all Directors, and the Company's remuneration policy. The vote is advisory only and will not require the Company to alter any arrangements detailed in the report, should the resolution not be passed.

Resolution 4

In accordance with the Company's Articles of Association, Mr Peter A. Hurst, who is aged 55, retires and is eligible for, and is seeking, re-appointment as a Director. Short biographical details of Mr Hurst are set out on page 14 of the Annual Report and Accounts.

Resolution 5

Saffery Champness have expressed their willingness to continue to act as auditors of the Company and Resolution 5 proposes the re-appointment of that firm as the Company's auditors and to authorise the Directors to determine the auditors' remuneration.

Resolution 6 & 7

At the Annual General Meeting last year, as in previous years, shareholders passed Resolutions giving the Directors authorisation, subject to a cap, to allot shares for cash or otherwise and further for limited disapplication of Section 89 of the Companies Act 1985, empowering them to allot shares for cash or otherwise in accordance with statutory pre-emption rights in certain limited circumstances.

The Directors have no immediate plans to make use of the power proposed in Resolution 6.

Resolution 8

Resolution 8 seeks authority for the Company to make market purchases of its own ordinary shares, which would otherwise be prohibited by the Companies Act 1985. The Directors believe there may be times when it would be desirable to manage the Company's capital by buying back shares. However, the Directors only intend to use the authority if they believe such purchases would be in the best interests of shareholders generally and would result in an increase in earnings per share. The resolution specifies the maximum number of shares that can be acquired (approximately 10% of the issued ordinary share capital of the Company as at 9 June 2004) and the minimum and maximum prices at which they may be bought. Any shares purchased under the authority granted by the resolution will either be cancelled or may be held as treasury shares (see the following paragraph).

The Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 came into force on 1 December 2003 and made certain amendments to the Companies Act 1985 in relation to treasury shares. The amendments allow companies to retain any of their own shares they have purchased as treasury shares with a view to possible re-issue at a future date, rather than cancelling them as had previously been required by legislation. If the Company were to purchase any of its own shares pursuant to the authority of Resolution 8, it would consider holding them as treasury shares, provided that the number did not at any time exceed 10% of the Company's issued share capital. This would give the Company the ability to re-issue treasury shares quickly and cost effectively, and would provide the Company with additional flexibility in the management of its capital base.

Resolution 9

The Directors are aware that there is a desire on the part of some Shareholders to have their dividends paid to them by way of BACS payments. The Company's Registrars, Capita Registrars, wrote to all Shareholders around the interim accounts date notifying them that this facility would be in place once approval for the same was received. In order to allow this facility to be put into operation it is necessary to amend the Company's Articles of Association so as to allow payment of dividends by electronic transfer systems.

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(institutional sales only)

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Wimborne
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Head Office

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Email: info@charles-stanley.co.uk

Form of Proxy

ANNUAL GENERAL MEETING 23 JULY 2004

I/We (full name(s)).....

of (address).....

being (a) member(s) of the above-named Company hereby appoint the Chairman of the Meeting..... as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 23 July 2004 and at any adjournment thereof.

I/We request such proxy to vote on the Resolutions as indicated below:

	For	Against		For	Against
Resolution No. 1 Adoption of report and accounts			Resolution No. 6 Authority under Section 80		
Resolution No. 2 Declaration of dividend			Resolution No. 7 Allotment of equity securities		
Resolution No. 3 Confirmation of Directors' remuneration			Resolution No. 8 Company to purchase its own shares		
Resolution No. 4 Re-election of Mr Peter A. Hurst			Resolution No. 9 Variation of current Articles of Association		
Resolution No. 5 Re-appointment and remuneration of Auditors					

Date.....Signed.....

Notes

- 1 If you wish to appoint as your proxy a person other than the Chairman of the Meeting, delete "the Chairman of the Meeting" and insert in block capitals the name of the person whom you wish to appoint. A proxy for an individual may only vote on a poll.
- 2 Please indicate by an "X" in the space provided how you wish your vote to be cast. Without specific instructions the proxy will abstain or vote at his or her discretion.
- 3 In the case of joint holdings the vote of the senior who tenders a vote whether in person or by proxy shall be accepted to the exclusion of other joint holders. Seniority will be determined by the order in which the names stand in the register of members in respect of the joint holding.
- 4 To be valid, this form, signed by the member, or by his or her attorney duly authorised in writing together with a copy of any power of attorney or other authority under which it is signed or a notarially certified office copy of such power or authority, MUST BE DEPOSITED at the address overleaf no later than 11.00 am. on Wednesday, 21 July 2004.



First Fold

Third Fold (Tuck-in)

BUSINESS REPLY SERVICE
Licence No. KE 6697



The Secretary
Charles Stanley Group PLC
25 Luke Street
London
EC2B 2LJ

Second Fold

First Fold

