



Charles Stanley

GROUP PLC

2002

A N N U A L R E P O R T
& A C C O U N T S

Our aim is to create **value** through **excellence**

for our shareholders

for our clients

for our staff

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Financial highlights

- Resilient performance in subdued markets
- Several strategic acquisitions
- Shareholders' funds up from £36.4 million to £40.9 million
- Turnover £54.61 million (2000-01: £70.44 million)
- Profit before tax £7.71 million (2000-01: £15.47 million)
- Total dividends for the year up 12.5% from 4.0p to 4.5p net

Chairman's Statement

Against a background of weaker market conditions Charles Stanley Group has recorded a resilient performance. Turnover and profit are below the record levels of the last two years. But because of these conditions we have been able to utilise the strength of our balance sheet to accelerate the acquisition strategy which I outlined in my statement last year. Meanwhile the results for the year ended 31 March 2002 come as no surprise in view of the state of the stock market and the economy.

Turnover for the year ended 31 March 2002 was some 22.5% lower than for the previous year, at £54.61 million compared with £70.44 million. Profit before tax was £7.71 million, compared with £15.47 million in 2000-01. These results come after two exceptionally buoyant years in the stock market, and are still the third best figures for turnover and profit that the Company has achieved.

Earnings per share fell from 26.55p to 12.50p. Shareholders' funds have risen from £36.4 million to £40.9 million, and net assets per share rose 12% from 86.4p to 97.0p. The final dividend is increased by 7.7% to 3.5p net per share (2001: 3.25p) making a total of 4.5p net for the year, an increase of 12.5%. At this level the dividend is covered 2.78 times by earnings.

The pre-tax profit includes a realised gain totalling £581,000 on the disposal of 250,000 shares in the London Stock Exchange and 20,000 shares in LIFFE. If account were taken of the full historical gain on the disposal of these holdings, which is £1.39 million (none of which has been previously credited to the profit and loss account of the Company), we would now be declaring a profit before tax of £8.52 million.

The profit figures also make allowance for a charge of £455,000 for amortisation of goodwill on our programme of acquisitions.

We retain 750,000 London Stock Exchange shares.

Acquisitions

In previous stock market downturns the Company has drawn on the strength of its balance sheet, its processing systems and its management structure to build the business by acquisition. Thirty years ago Charles Stanley was simply one of many hundred small UK stockbroking partnerships. We have grown steadily by acquisition, particularly in more adverse market conditions. That pattern has been repeated in recent months.

In November 2001 we were delighted to announce that Torrie & Co, a most prestigious stockbroking partnership based in Edinburgh, had agreed to join us. The acquisition was completed successfully in February 2002. We are particularly pleased to be represented now in the Scottish capital, the sixth largest financial services centre in Europe.



In accordance with the recommendation of The Accounting Standards Board I am pleased to report on a number of technical issues, as follows.

Treasury policies

The Company'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 Company's risk.

We continuously review the credit quality of counterparties and we limit individual aggregate credit exposures accordingly.

Financing and interest rate risk

The Company finances its operations primarily out of retained profits. However, on the acquisition of the business of Shaw & Co Limited in December 1997, a subordinated loan of £3 million was negotiated from our bankers to secure a continuing substantial excess of capital in relation to our regulatory requirements (which we exceed by a comfortable margin). This is repayable in quarterly

instalments between 2000 and 2002.

Interest is charged at 1.75% over the Bank of Scotland base rate.

At 31 March 2002 our total borrowings, including this loan amounted to £2.93m (2001 £2.95m). All our borrowings are denominated in sterling.

Foreign currency

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

Derivative transactions

We conduct no 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 any case 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 and gives the Company a claim on these assets for both existing and future liabilities.

In December we were joined by a highly-regarded team who opened a new branch office for Charles Stanley in Tunbridge Wells. We have also welcomed a number of brokers to our London office.

In April, after the year end, we announced the acquisition of the stockbroking firm of Robson Cotterell Ltd, old friends and competitors of ours on the south coast, with offices in Bournemouth, Dorchester, Eastbourne and Wimborne.

More recently still, we have been joined by a team of stockbrokers in Brighton and Hove, and we plan to open a new office there shortly. This will bring the total number of offices, including our London Head Office, to 26.

The Charles Stanley Service

All of this is underpinned by the quality of service which we offer.

I mentioned in previous years that we had been awarded the Investors Chronicle prize for "Best Medium Stockbroker" in 1999, and "Best Dealing-Only Stockbroker" in 2000. Our latest prize is the "Shares Magazine UK Equity Awards 2002 - Best Stockbroker's Research/Information Service". This reflects the high quality of output of our research team.

Our acquisition of the business of Torrie & Co brought us a leading internet share-dealing service, conducting similar trading levels to those of our well-established Xest service. The two services have been amalgamated under Torrie's "FasTrade" name, operating primarily out of Edinburgh. The website has been comprehensively redesigned and re-written, to draw on the best features of both services. FasTrade is now one of the larger internet share-trading businesses in the UK.

The revenue from our telephone and internet dealing-only services in 2001-02 was £2.2 million.

Results for the year

Latest official statistics suggest that the UK is in recession, with nil or negative growth in the final quarter of 2001 and

the first quarter of 2002. This has been reflected in flat stock market conditions. Consequently our commission income has fallen in the latest year from £53.90 million to £38.41 million, a decline of 28.7%.

We have enjoyed a steady stream of corporate finance work throughout the year. The resulting fee income, at £2.25 million, while 21% lower than the figure of £2.85 million for 2000-2001, has held up well against a subdued background.

The brightest spot has been investment management fees, which, despite market conditions, are marginally higher than last year's figure. This reflects a steady increase in the degree of fee-charging activity that we undertake for clients, a trend that we see continuing. The total fee income for investment management rose from £13.70 million to £13.96 million.

Fee income in the latest year represents 29.7% of total income, compared with 23.5% in 2000-01 and 17.4% in 1999-2000.

Funds under management stand at £6.1 billion, including more than £850 million in PEPs and ISAs.

N2 and market developments

At midnight on 30 November 2001 ("N2") the Financial Services Authority, previously the Securities and Investments Board, acquired its new powers under the Financial Services and Markets Act 2000. This is the biggest change in regulation of financial businesses since Big Bang itself, in 1986.

There have been very extensive changes in the style of regulatory supervision, and to a lesser extent in the rule books themselves. To meet this, we have had to devote substantial management resources to a major exercise in ensuring N2-compliance, and this has taken up much of our time in recent months. But we adopt a pro-active approach to all of this, seeking to offer our clients the best of whatever the rules and systems require of us, and to build on this to enhance our service.

At the same time we keep a close watch on developments in the European Union. Regulation is becoming increasingly EU-based. Your Directors have played an active role in contributing to the debate, both by visiting Brussels and meeting Commissioners, and more particularly through the medium of APCIMS (the Association of Private Client Investment Managers and Stockbrokers), our trade association, in which we are actively involved. APCIMS continues to work very effectively on behalf of the retail investing community in the United Kingdom.

Acquisition details

In the case of Torrie & Co we paid £5 million on 18 February 2002 for the business and certain assets. Of this, £3.5 million was in cash, and the balance of £1.5 million in 3% redeemable convertible loan notes. These can be redeemed from September 2002 onwards, or converted into the company's ordinary shares at a price of 249.5p per share from August 2002. Further cash payments for the business are due in February 2004 and February 2005, on the achievement of certain targets, but the maximum of all payments is not to exceed £7.75 million.

Robson Cotterell Ltd is a different proposition because it has net assets in its balance sheet of perhaps £3.5 million to £4 million. In the case of Torrie & Co we purchased only the goodwill of the business, together with assets valued at £300,000. In the case of Robson Cotterell we are buying the entire business.

For this we are, in summary, paying the balance sheet value at completion (anticipated for 28 June 2002), and then paying for the goodwill in two instalments in one and two years' time. These payments

will be based on the level of income achieved by the business in these two years, and will not exceed £9.5 million, to include the initial payment for assets.

The owners of Robson Cotterell can choose to have their initial payment in cash, or in a non-convertible loan note, or in the company's shares up to a value of £1 million - in practice this means a maximum of 369,822 shares at the formula-based price of 270.4p. The payments in 2003 and 2004 will be in cash.

All these payments are well within the capacity of the company's balance sheet, without resort to external finance.

The total number of shares, which fall to be issued if the vendors of the business of Torrie & Co, and of Robson Cotterell Ltd exercise their election for shares in full, will be 971,024 ordinary shares. This represents an increase of about 2.3% in the present issued capital.

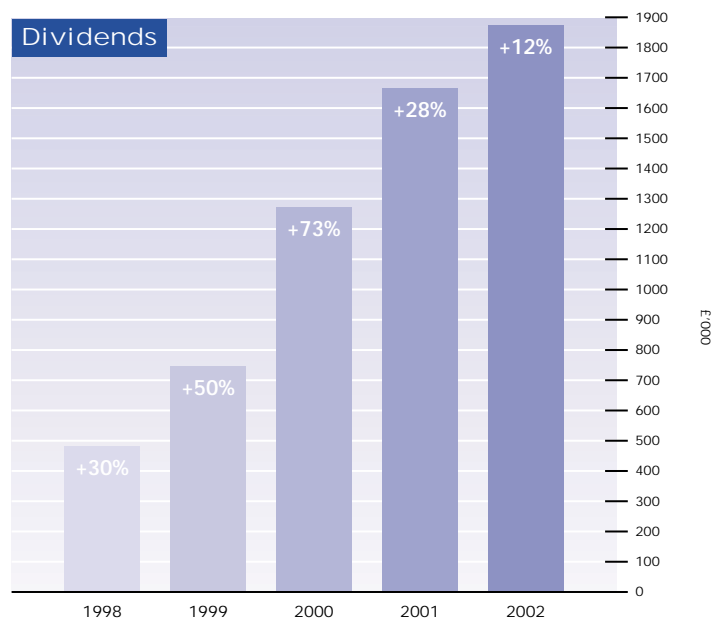
I wrote to all shareholders on 22 May 2002 to explain that the Directors need your approval to issue these shares, and calling an Extraordinary General Meeting for 25 June 2002.

Financing our acquisitions

In previous years I have referred to the need to build our balance sheet. This is for three reasons: the regulatory requirement for a minimum level of capital, which we comfortably exceed; the volatility of our business; and the scope which a strong balance sheet gives us for building by acquisition.

By maintaining a strong balance sheet we have weathered the storms of recent years, investing in the business so as to rebound with strength when market conditions improve again. Each economic downturn has generated a further wave of consolidation in the industry, and our balance sheet strength has enabled us to acquire businesses that complement our emphasis on high quality.

We are very pleased with our latest acquisitions, which we believe will add value to the Company, and to the quality of service that we can offer to our clients.



Dividends

The directors recommend an increase in the final dividend from 3.25p to 3.5p net per share. Taken together with the increase in the interim dividend from 0.75p to 1.0p net per share this gives a total for the year of 4.50p (2000-2001: 4.00p), an overall increase of 12.5%.

I explained at the half-year that we seek to narrow the difference between the interim and final dividends, and that this was reflected in the rather higher percentage increase at the interim stage.

Our Staff

Once again I offer the thanks of the Directors and our shareholders to our staff for their support and commitment during a difficult year. A significant proportion of our staff have been with us (or with companies that have joined us) for much or indeed all of their working lives. Although we continue to grow, Charles Stanley has managed to retain a sense of working together closely as a team. Our Directors, department heads and managers, our company secretary and all our staff, have enjoyed a productive year, with many changes to cope with, and I am very grateful to them all.

Outlook

In my statement last year I said that we were looking for an improvement in economic conditions in the third or fourth quarters of 2001, but that we were well placed to weather any continuing downturn. We know now that economic conditions deteriorated in the second half of 2001, and there is very little sign of an improvement in the near term. The run of good luck which attended the first four years of this government's economic policies seems to have stalled - coinciding indeed with its re-election in June last year.

Market conditions remain dull but our income so far this year is running roughly in line with the same period last year. Accordingly we think this is likely to be another year of solid achievement rather than of sparkling upturn. There is a continuing upward trend in private wealth creation and in the desire of individuals to manage their own financial assets. And the market is huge. So we are as positive as we have always been about the medium to longer-term outlook. While short-term conditions remain subdued we will continue, as last year, to seek further opportunities for expansion, and we are in a strong position to do so.

It is too early, though, to form a clear view of the outcome for 2002-03. I will be better placed to report to you on this at the half-way stage, later in the year.



Sir David Howard, Bt.
Chairman

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 56. 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, and is a director of APCIMS (the private client stockbrokers' trade association).

Peter A. Hurst, F.C.A., A.C.I.B., M.S.I.
(Finance Director)

Peter Hurst is 53 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, corporate finance approvals and investment committees. Prior to joining Charles Stanley he worked in banking for 10 years having been previously in audit practice.

E. Michael Clark, M.S.I.

Michael Clark is 55 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 fund management, dealing and research.

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

Michael Lilwall is 44 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 together with taking 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.

Secretary

Gary Teper, L.L.B.(Hons.)

Company Registration Number

48796 (England and Wales)

Registered Office

25 Luke Street, London EC2A 4AR

Websites

www.fastrade.com	— Internet Trading
www.xest.com	— Execution only
	— Electronic Share Trading
www.charles-stanley.co.uk	— Corporate
www.charlesstanleyplc.co.uk	— Investor relations

Registrars

Connaught St. Michaels Limited
P.O. Box 30, Cresta House, Alma Street, Luton,
Bedfordshire LU1 2PU

Brokers

HSBC Investment Bank plc
Vintners Place,
68 Upper Thames Street,
London EC4V 3BJ

Bankers

Bank of Scotland
41 South Gyle Crescent,
Edinburgh EH12 9DR

Auditors

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

The Directors submit their report and financial statements for the year ended 31 March 2002.

Principal activities

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

Results

The Group profit for the year after taxation amounted to £5.27 million.

Dividends

The Directors have declared and now recommend the following dividends in respect of the year ended 31 March 2002:

	2002	2001
Interim dividend paid 21 December 2001 of 1.00p per share (2001: 0.75p)	421,494	316,120
Final dividend proposed of 3.50p (2001: 3.25p)	1,475,228	1,369,855
	£1,896,722	£1,685,975

The final dividend will be posted on 31 July 2002 to shareholders on the Company's register at close of business on 5 July 2002.

Profit retained for the year after dividends amounted to £3.37 million.

Review of the year and future developments

A review of the year and of future developments is set out on pages 2 to 6.

Directors

The Directors named on page 7 served throughout the year. Sir David Howard and Mr. Peter A. Hurst retire by rotation at the Annual General Meeting and, being eligible, offer themselves for re-election.

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. Sir David Howard has no service contract.

Under the terms of employee savings related share option schemes Mr Michael Clark, Mr Peter A. Hurst and Mr Michael R.I. Lilwall have a potential interest in 5,879 ordinary shares (2001: 3,328 ordinary shares).

Directors' remuneration

The Group does not have a Remuneration Committee as required by the Combined Code on Corporate Governance and the Board carries out these duties.

It is the policy of the Board that the Directors are remunerated in identical fashion to Group employees generally; that is to say that remuneration consists predominately of fixed salaries which are reviewed annually by the Board, with the addition of occasional non-formula-linked discretionary bonuses. In determining Directors' remuneration, the Board gives full consideration to Section B of the best practice provisions annexed to the Listing Rules.

Details of the Directors' remuneration are set out in note 5.

Directors' interests

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

Other share interests

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

	No. of shares	
	12.6.02	31.3.02
John L.S. Howard	4,953,192	4,953,192
Schroders PLC and its associated companies	4,256,488	4,256,488
Abtrust Fund Managers Limited and its associated companies	2,712,920	2,712,920
Queen Street Securities Limited (a company of which Sir David Howard is a director)	1,660,000	1,660,000
Caroline P.S. Howard	1,337,412	1,337,412
Robert P.S. Howard	1,272,369	1,272,369

	Beneficially held			Otherwise held		
	12.6.02	31.3.02	1.4.01	12.6.02	31.3.02	1.4.01
Charles Stanley Group PLC						
Sir David Howard	9,400,000	9,400,000	9,319,900	1,348,430	1,350,350	700,325
Peter A. Hurst	162,436	162,436	162,036	676,430	678,350	700,325
E. Michael Clark	668,867	668,867	609,092	—	—	—
Michael R.I. Lilwall	47,705	47,705	41,355	—	—	—
Gryphon Investments PLC						
Sir David Howard	15,000	15,000	15,000	—	—	—

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 43 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 £5,443.

There were no political donations during the year.

Employees and associates

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 formal and informal meetings and the

intranet. Employees are consulted regularly on a wide range of matters affecting their current and future interests. The Group's Profit Sharing Scheme and the Save As You Earn share option scheme have been running successfully since 1989. In addition employees receive discretionary bonuses.

The Group 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 with 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.

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
12 June 2002

Corporate Governance

The Combined Code on Corporate Governance issued by the London Stock Exchange contains 14 Principles of Good Governance applicable to listed companies and the paragraphs below, together with the Directors' Report and note 5 to the Financial Statements on Directors' remuneration, 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 Group Board comprises four executive Directors, and is responsible for the overall direction and strategy of the Group. As the great majority of the Group's business is conducted within the trading subsidiary Charles Stanley & Co Ltd, the Group Directors meet formally on a regular monthly basis with the seven executive directors of Charles Stanley & Co Ltd (who are listed on page 34). 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 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:

Compliance and Risk Committee

This group meets monthly and comprises the four Board Directors, compliance officers, 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, the review of individual transactions and the identification of risk.

Operations Committee

This committee meets monthly. The membership of the committee comprises of one Board director and the seven 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. Its main brief is to ensure the effective implementation of projects.

Investment Committee

This committee meets monthly and comprises three Board Directors, the head of research and fund managers. It supervises the output of the research department and monitors the performance of the model portfolio (in which the Group has an investment of £500,000) and the Managed and Regular High Income PEPs.

Dealing Committee

This committee meets monthly and comprises one Board Director, head dealers, head of IT and settlement manager. 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.

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.

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 Directors have 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.

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 2002 to have been prepared on a going concern basis.

Compliance with the Combined Code

In addition to the 14 Principles of Good Governance the Combined Code also contains a Code of Best Practice with 45 detailed provisions.

The Board has no non-executive Directors and the Group does not have a Nominations Committee, a Directors' Remuneration Committee or an Audit Committee. These functions are carried out by the full Board. The Directors have in mind to appoint one or more non-executive Directors at an appropriate stage in the Group's development, to broaden the range of skills and experience available to the Board, but believe that the present arrangement of a professional unitary executive Board best promotes the interests of shareholders as a whole at the current time.

As a consequence the Group has not complied with 17 of the 45 Code provisions which require the involvement of non-executive Directors (A3.1 and 2, A5.1, B1.1 to 4, 9 and 10, B2.1 to 5, C2.3 and D3.1 and 2).

Report of the Independent Auditors to the Members

We have audited the financial statements on pages 14 to 33 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 19 and 20.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the annual 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 11. Our responsibility is to audit the financial statements in accordance with the relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the United Kingdom Listing Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are 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 or the Listing Rules regarding Directors' remuneration and transactions with the Group is not disclosed.

We review whether the Corporate Governance statement on pages 11 and 12 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, 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 the other information contained in the annual report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report, the Chairman's Statement 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. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group'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 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2002 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Saffery Champness
Chartered Accountants Registered Auditors
London, 12 June 2002

Consolidated Profit and Loss Account

Year ended 31 March 2002

	Note	2002		2001	
		£'000	£'000	£'000	£'000
Turnover					
Continuing operations			53,518		70,443
Acquisitions			1,095		—
<hr/>					
Operating expenses	2		54,613		70,443
			(48,919)		(56,153)
Operating profit					
Continuing operations		5,616		14,290	
Acquisitions		78		—	
<hr/>					
Profit on sale of investments - continuing operations	4		5,694		14,290
			581		—
<hr/>					
Interest receivable			6,275		14,290
Interest payable	6		1,560		1,565
			(123)		(384)
Profit on ordinary activities before goodwill amortisation and profit on sale of investments		7,586		15,741	
Goodwill amortisation		(455)		(270)	
<hr/>					
Operating profit and interest before taxation		7,131		15,471	
Profit on sale of investments		581		—	
<hr/>					
Profit on ordinary activities before taxation			7,712		15,471
Tax on profit on ordinary activities	7		(2,445)		(4,447)
<hr/>					
Profit for the year	8		5,267		11,024
Dividends	9		(1,897)		(1,686)
<hr/>					
Profit retained for the year	19		3,370		9,338

The notes on pages 19 to 33 form part of these financial statements.

Earnings Per Share

Year ended 31 March 2002

	Note	2002		2001	
		Basic	Diluted	Basic	Diluted
Basic	10	12.50p	12.26p	26.55p	26.19p
Excluding goodwill amortisation	10	13.58p	13.32p	27.20p	26.83p
Based on historical cost profit for the year	10	14.42p	14.14p	27.20p	26.83p

Statement of Total Recognised Gains and Losses

	2002	2001
	£'000	£'000
Profit for the year	5,267	11,024
Unrealised gains on investments	1,075	2,954
	6,342	13,978

Note of Historical Cost Profits and Losses

	2002	2001
	£'000	£'000
Reported profit on ordinary activities before taxation	7,712	15,471
Realisation of investment revaluation gains of previous years	807	—
Historical cost profit on ordinary activities before taxation	8,519	15,471
Historical cost profit for the year retained after taxation and dividends	4,177	9,338

The notes on pages 19 to 33 form part of these financial statements.

Consolidated Balance Sheet

At 31 March 2002

	Note	2002		2001	
		£'000	£'000	£'000	£'000
Fixed assets					
Intangible	11		7,516		2,533
Tangible	12		6,212		6,814
Investments	13		3,987		3,667
			17,715		13,014
Current assets					
Debtors	14	144,120		173,914	
Listed investments		152		624	
Cash at bank and in hand		26,148		31,489	
		170,420		206,027	
Creditors: amounts falling due within one year	15	(146,934)		(181,160)	
Net current assets			23,486		24,867
Total assets less current liabilities			41,201		37,881
Creditors: amounts falling due after more than one year	16		(277)		(1,402)
Minority interests			(44)		(44)
Net assets			40,880		36,435
Capital and reserves					
Called up share capital	18		10,537		10,537
Revaluation reserve	19		3,337		3,069
Profit and loss account	19		27,006		22,829
Equity shareholders' funds	20		40,880		36,435

Approved by the Board on 12 June 2002

Sir David Howard

Peter Hurst

Directors

The notes on pages 19 to 33 form part of these financial statements.

Consolidated Cash Flow Statement

Year ended 31 March 2002

		2002		2001	
	Note	£'000	£'000	£'000	£'000
Net cash inflow from operating activities	21		4,650		17,691
Returns on investments and servicing of finance	22		1,380		1,224
Taxation			(3,626)		(5,847)
Capital expenditure and financial investment	23		(373)		(3,018)
Acquisitions	24		(4,008)		(663)
Equity dividends paid			(1,791)		(1,431)
Cash (outflow)/inflow before financing			(3,768)		7,956
Financing					
Issue of ordinary share capital			—	288	
Decrease in debt			(1,573)	(1,838)	
	25		(1,573)		(1,550)
(Decrease)/increase in cash in the period			(5,341)		6,406
Reconciliation of net cash flow to movement in net funds					
(Decrease)/increase in cash in the year			(5,341)		6,406
Cash outflow from change in debt and lease financing			1,573		1,838
			(3,768)		8,244
Convertible debt			(1,500)		—
New finance leases			(46)		(1,245)
Movement in net funds in the year			(5,314)		6,999
Net funds at 1 April 2001			28,536		21,537
Net funds at 31 March 2002	26		23,222		28,536

The notes on pages 19 to 33 form part of these financial statements.

Company Balance Sheet

At 31 March 2002

	Note	2002		2001	
		£'000	£'000	£'000	£'000
Fixed assets					
Intangible	11		7,516		2,533
Tangible	12		6,212		6,814
Investments	13		32,962		31,169
			46,690		40,516
Current assets					
Debtors	14	1,406		1,399	
Cash at bank and in hand		220		199	
		1,626		1,598	
Creditors: amounts falling due within one year	15	(7,159)		(5,027)	
Net current liabilities			(5,533)		(3,429)
Total assets less current liabilities			41,157		37,087
Creditors: amounts falling due after more than one year	16		(277)		(652)
Net assets			40,880		36,435
Capital and reserves					
Called up share capital	18		10,537		10,537
Revaluation reserve	19		23,262		21,364
Profit and loss account	19		7,081		4,534
Equity shareholders' funds	20		40,880		36,435

Approved by the Board on 12 June 2002

Sir David Howard
Peter Hurst

Directors

The notes on pages 19 to 33 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 14 to 33, 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 dividends on investments, profits on sale of investments, stockbroking commission and investment management and corporate finance fees.

Dividends are credited to profit and loss account in the year in which they are received 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 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

Lease 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.

Notes to the Financial Statements (continued)

Fixed asset investments

Listed investments including own shares, are shown in the financial statements at market value. Unlisted investments are shown at Directors' valuation. Shares in Group undertakings are shown at Directors' valuation at net asset value at 31 March each year. 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 pension costs have been charged in the financial statements in accordance with SSAP 24. Further details are included in note 29.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially 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 continuing stockbroking operations in the United Kingdom analysed as follows:

	2002 £'000	2001 £'000
Commission	38,408	53,901
Investment management fees	13,958	13,696
Corporate finance fees	2,247	2,846
	54,613	70,443

3 Particulars of staff

The average number of persons employed (including Directors) during the year was 430 (2001: 414).

	2002 £'000	2001 £'000
Staff costs:		
Wages and salaries	13,829	15,722
Social security costs	1,394	1,703
Other pension costs	1,336	938
	16,559	18,363

4 Operating profit

	2002 £'000	2001 £'000
Operating profit is stated after charging:		
Depreciation on owned assets	1,782	1,161
Depreciation on assets held under finance leases	559	486
Goodwill amortisation	455	270
Auditors' remuneration		
Audit work	70	70
Non-audit work	47	37
Operating lease rentals	710	552

5 Directors

	Fees	Salary	Bonus	Benefits in kind	Total 2002	2001
(a) Emoluments						
Sir David Howard (<i>Chairman, Managing and highest paid Director</i>)	5,250	236,111	20,060	24,507	285,928	311,785
Peter A. Hurst (<i>Finance Director</i>)	—	186,111	20,060	10,623	216,794	242,632
Michael Clark	—	226,111	20,060	11,003	257,174	287,404
Michael R. I. Lilwall	—	207,811	19,903	10,011	237,725	245,398
	£5,250	£856,144	£80,083	£56,144	£997,621	£1,087,219
2001	£5,250	£783,875	£244,314	£53,780	£1,087,219	

Notes to the Financial Statements (continued)

5 Directors (continued)

(b) Employee savings related share option schemes

	Period of option	Exercise price	31 March 2002	Lapsed	Granted	1 April 2001
Peter A. Hurst (<i>Finance Director</i>)	October 2000 to December 2005	507p	—	(3,328)	—	3,328
	July 2001 to September 2006	287p	5,879	—	5,879	—
Michael Clark	October 2000 to December 2005	507p	—	(3,328)	—	3,328
	July 2001 to September 2006	287p	5,879	—	5,879	—
Michael R.I. Lilwall	October 2000 to December 2005	507p	—	(3,328)	—	3,328
	July 2001 to September 2006	287p	5,879	—	5,879	—
			17,637	(9,984)	17,637	9,984

The market price of the ordinary shares at 31 March 2002 was £2.48 and the range during the year was £1.475 to £3.75.

(c) Pension schemes

Retirement benefits were accruing to one Director under a money purchase scheme and to three Directors under a defined benefit scheme.

Money purchase schemes:	2002	2001
Pension contributions by the Company		
Peter A. Hurst	—	14,800
Michael R. I. Lilwall	—	6,075
	—	£20,875

Defined benefit scheme:

Sir David Howard		
Accrued pension at end of year	£54,894	£47,361
Accrued lump sum at end of year	£123,511	£106,562
Michael Clark		
Accrued pension at end of year	£71,778	£63,000
Accrued lump sum at end of year	£161,500	£141,750
Peter Hurst		
Accrued pension at end of year	£45,111	£40,500
Accrued lump sum at end of year	£101,500	£91,125

The transfer values of the increase in accrued pension during the year were £68,509 for Sir David Howard, £75,317 for Mr Michael Clark and £36,472 for Mr Peter Hurst.

5 Directors (continued)

(d) 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 2002. There were no other material contracts between the Group and Directors.

6 Interest payable	2002	2001
	£'000	£'000
On bank loans and overdrafts	59	314
Finance lease interest	64	70
	123	384

7 Tax on profit on ordinary activities	2002	2001
	£'000	£'000
Current taxation:		
UK corporation tax at 30% (2001: 30%)	2,213	4,515
Adjustment in respect of prior periods	232	(68)
Total current taxation	2,445	4,447

Tax on profit on ordinary activities

The tax charged for the year is greater than the standard rate of corporation tax in the UK of 30%. The differences are explained below.

	2002	2001
	£'000	£'000
Profit on ordinary activities before tax	7,712	15,471
Tax at standard rate	2,314	4,641
Effects of:		
Depreciation for the year in excess of capital allowances	100	64
Utilisation of tax losses	(174)	—
Items not allowable for tax purposes	(27)	(190)
Adjustments in respect of previous periods	232	(68)
	131	(194)
Current tax charge for the year	2,445	4,447

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

Notes to the Financial Statements (continued)

8 Profit for the year

The consolidated profit for the year of £5,267,000 (2001: £11,024,000) includes a profit of £4,444,000 (2001: £2,645,000) which is dealt with in the accounts of the parent undertaking.

9 Dividends

	2002	2001
	£'000	£'000
Interim paid of 1.00p per share (2001: 0.75p)	421	316
Proposed final of 3.50p per share (2001: 3.25p)	1,476	1,370
	1,897	1,686

10 Earnings per share

	2002	2001
	No.	No.
Basic		
Weighted average number of shares in issue in the year	42,129,763	41,525,134
Diluted		
Weighted average number of options outstanding for the year	828,413	561,819
Diluted weighted average number of shares in issue in the year	42,958,176	42,086,953
	£'000	£'000
Profit for the year before goodwill	5,722	11,294
Goodwill amortisation	(455)	(270)
Profit for the year	5,267	11,024
Realisation of investment revaluation gains of previous years	807	—
Historical cost profit for the year	6,074	11,024

11 Intangible fixed assets	2002	2001
	£'000	£'000
Group and Company		
Goodwill:		
Cost		
1 April	3,604	2,691
Increase during year		
Initial cash consideration	3,850	629
Convertible debt issued	1,500	—
Deferred consideration	(70)	250
Fees	158	34
31 March	9,042	3,604
Amortisation		
1 April	1,071	801
Profit and loss account	455	270
31 March	1,526	1,071
Net book value	7,516	2,533

12 Tangible fixed assets					
	Freehold premises £'000	Long leasehold premises £'000	Short leasehold premises £'000	Office equipment and motor vehicles £'000	Total £'000
Group and Company					
Cost					
1 April 2001	372	1,887	2,165	8,496	12,920
Additions	—	3	319	1,440	1,762
Disposals	—	—	—	(1,004)	(1,004)
	372	1,890	2,484	8,932	13,678
Depreciation					
1 April 2001	13	682	1,100	4,311	6,106
Charge for year	8	150	222	1,961	2,341
Disposals	—	—	—	(981)	(981)
	21	832	1,322	5,291	7,466
Net book value					
31 March 2002	351	1,058	1,162	3,641	6,212
31 March 2001	359	1,205	1,065	4,185	6,814

Notes to the Financial Statements (continued)

12 Tangible fixed assets (continued)

The net book value of tangible fixed assets includes £685,000 (2001: £1,224,000) in respect of assets held under finance leases and hire purchase contracts.

Disposals under cost and depreciation include £967,000 for assets which have reached the end of their useful lives and have been fully depreciated.

Fixed assets include fully depreciated assets of £3 million.

13 Fixed asset investments

	Shares in Group undertakings £'000	Own shares £'000	Listed investments £'000	Unlisted investments £'000	Total £'000
(a) Group					
1 April 2001					
Cost		100	438	105	643
Revaluation surplus		90	2,891	43	3,024
Book value		190	3,329	148	3,667
Additions		—	168	187	355
Disposals		(100)	(884)	(118)	(1,102)
Revaluation in year		(90)	1,157	—	1,067
31 March 2002		—	3,770	217	3,987
Cost		—	441	217	658
Revaluation		—	3,329	—	3,329
(b) Company					
1 April 2001					
Cost	1,277	100	438	—	1,815
Revaluation surplus	29,248	90	16	—	29,354
Book value	30,525	190	454	—	31,169
Additions	—	—	168	—	168
Disposals	—	(100)	(165)	—	(265)
Revaluation in year	2,005	(90)	(25)	—	1,890
31 March 2002	32,530	—	432	—	32,962
Cost	1,277	—	441	—	1,718
Revaluation	31,253	—	(9)	—	31,244

13 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%
Oceana Services Limited	Dormant		100%
Charles Stanley Services Limited	Holding company		100%
Charles Stanley & Co Limited	Stockbrokers	(1) & (2)	100%
Xest Corporation Limited	Dormant		100%
Rock (Nominees) Limited	Nominee company	(3)	100%
Stockmarket Independent Limited	Dormant		100%
Exempt Nominees Limited	Nominee company	(3)	100%
Forester MacLean Benefit Consultants Limited	Dormant		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 Services Limited.

3 Shares held by Charles Stanley & Co Limited.

	2002		2001	
	Group £'000	Company £'000	Group £'000	Company £'000
14 Debtors				
Trade debtors	142,617	—	172,741	—
Amounts owed by Group undertakings	—	1,406	—	1,392
Other debtors	756	—	238	7
Prepayments and accrued income	747	—	935	—
	144,120	1,406	173,914	1,399

Notes to the Financial Statements (continued)

15 Creditors: amounts falling due within one year

	2002		2001	
	Group £'000	Company £'000	Group £'000	Company £'000
Trade creditors	512,297	—	517,649	—
Less funds held on behalf of clients in protected bank accounts	(374,303)	—	(347,852)	—
	137,994	—	169,797	—
Bank loans	—	—	54	54
Subordinated bank loan (note 16)	750	—	1,000	—
Amounts owed to Group undertakings	—	3,328	—	2,677
Obligations under finance leases	399	399	497	497
Corporation tax	1,125	—	2,306	—
Other taxes and social security	1,448	—	2,286	—
Other creditors	884	423	619	356
Accruals and deferred income	1,358	33	3,231	73
Proposed dividends	1,476	1,476	1,370	1,370
	145,434	5,659	181,160	5,027
Convertible debt:				
3% Fixed rate convertible redeemable loan notes 2007	1,500	1,500	—	—
	146,934	7,159	181,160	5,027

The 3% fixed rate convertible redeemable loan notes 2007 are convertible at the option of the holders into fully paid ordinary shares of the Company at £2.704 per ordinary share at any time after 16 August 2002. Any notes not previously repaid or purchased will be repayable in full at par on 15 February 2007.

16 Creditors: amounts falling due after more than one year

	2002		2001	
	Group £'000	Company £'000	Group £'000	Company £'000
Subordinated bank loan	—	—	750	—
Obligations under finance leases	277	277	652	652
	277	277	1,402	652

The bank loan was on normal banking terms and was repayable over five years. Interest was charged at 1.25% above the Royal Bank of Scotland base rate.

Subordinated bank loan repayments commenced on 1 March 2000. From that date the loan is repayable in 12 equal quarterly instalments. Interest is charged at 1.75% over the Bank of Scotland base rate.

17 Financial instruments and risk management

Funding and liquidity

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

	2002	2001
	£'000	£'000
Borrowings – UK sterling		
Floating rate borrowings	750	1,804
Fixed rate borrowings	676	1,149
Fixed rate convertible redeemable loan notes	1,500	—
	2,926	2,953
Cash at bank and in hand:		
UK Sterling	24,919	30,501
United States Dollars	868	582
Euros	294	250
Others	67	156
	26,148	31,489

The floating rate borrowings bear interest at 1.25% and 1.75% over the Royal Bank of Scotland and Bank of Scotland base rates respectively.

At 31 March 2002, the maturity profile of the Group's financial liabilities, other than short-term creditors such as trade creditors and accruals, was as follows:

	Convertible debt	Loans	Finance leases	Total
	£'000	£'000	£'000	£'000
More than two years	—	—	—	—
Between one and two years	—	—	277	277
Less than one year	1,500	750	399	2,649
	1,500	750	676	2,926

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

	2002	2001
	£'000	£'000
Revolving borrowing facilities:		
Expiring within one year	11,000	11,000

Further disclosures in respect of financial instruments are included in the Chairman's Statement on pages 2 to 6.

Notes to the Financial Statements (continued)

18 Called up share capital	2002	2001
	£'000	£'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 2002 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	1,146,549	£2.87

Options are exercisable during the six months commencing 1 September 2006.

19 Reserves

	Group		Company	
	Revaluation reserve £'000	Profit and loss account £'000	Revaluation reserve £'000	Profit and loss account £'000
1 April 2001	3,069	22,829	21,364	4,534
Profit retained	—	3,370	—	2,547
Transfer of realised revaluation reserve	(807)	807	—	—
Surplus on revaluation	1,075	—	1,898	—
	3,337	27,006	23,262	7,081

Cumulative goodwill written off in previous years directly to reserves amounts to £530,000 (2001: £530,000).

20 Reconciliation of movements in shareholders' funds

	2002	2001
	£'000	£'000
Profit for the year	5,267	11,024
Other recognised gains	1,075	2,954
Dividends	(1,897)	(1,686)
Issue of shares	—	288
Net increase in shareholders' funds	4,445	12,580
Opening shareholders' funds	36,435	23,855
Closing shareholders' funds	40,880	36,435

21 Reconciliation of operating profit to net cash inflow from operating activities	2002	2001
	£'000	£'000
Operating profit	5,694	14,290
Depreciation charges	2,341	1,647
Goodwill amortised	455	270
Amount written off investments	9	—
Loss/(profit) on sale of fixed asset investments	6	(29)
Decrease in debtors	30,266	275,591
Decrease in creditors	(34,121)	(274,078)
Net cash inflow from operating activities	4,650	17,691

22 Returns on investments and servicing of finance	2002	2001
	£'000	£'000
Interest received	1,560	1,565
Interest paid	(116)	(271)
Interest element of finance lease payments	(64)	(70)
Net cash inflow for returns on investments and servicing of finance	1,380	1,224

23 Capital expenditure and financial investment	2002	2001
	£'000	£'000
Purchase of tangible fixed assets	(1,718)	(2,983)
Purchase of investments	(355)	(235)
Sale of investments	1,700	200
Net cash outflow for capital expenditure and financial investment	(373)	(3,018)

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 £44,000 which did not generate immediate cash flows.

24 Acquisitions	2002	2001
	£'000	£'000
Acquisition of Isle of Wight branch and business of Forester MacLean Benefit Consultants Limited	—	(663)
Acquisition of the business of Torrie & Co and Tunbridge Wells branch	(4,008)	—
	(4,008)	(663)

In addition to the cash consideration above, convertible debt of £1,500,000 was issued in connection with the acquisition of the business of Torrie & Co as detailed in note 15.

Notes to the Financial Statements (continued)

25 Financing

	2002	2001
	£'000	£'000
Issue of ordinary share capital	—	288
Capital element of finance lease payments	(519)	(612)
Capital element of loan repayments	(1,054)	(1,226)
	(1,573)	(1,550)

26 Analysis of net funds

	At 31.3.02	Cash flow	Other	At 1.4.01
	£'000	£'000	£'000	£'000
Cash at bank and in hand	26,148	(5,341)	—	31,489
Debt due within one year	(2,250)	1,054	(2,250)	(1,054)
Debt due after one year	—	—	750	(750)
Finance leases	(676)	519	(46)	(1,149)
Total	23,222	(3,768)	(1,546)	28,536

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.

28 Lease commitments

	Group and Company £'000
Annual commitments under operating leases at 31 March were:	
Land and buildings	
Expiring within one year	16
Expiring within two to five years	92
Expiring after five years	834

29 Pension costs

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

The Company also operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Company, 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 Company. 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 1999. 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 7% per annum, and that salary increases would average 5% per annum.

29 Pension scheme (continued)

The 1999 actuarial valuation showed that the market value of the scheme's assets was £6,010,586 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 Company over the financial year have been £552,600, equivalent to 13.6% of pensionable pay. This contribution rate is to continue until reviewed following the triennial valuation of the scheme due as at 13 May 2002. 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 ultimately be applied to a decreasing payroll.

In accordance with the requirements of Financial Reporting Statement 17 — Retirement Benefits, additional information is provided about the defined benefit pension scheme as follows:

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

	2002	2001
Inflation	3.0% p.a.	2.5% p.a.
Salary increases	4.0% p.a.	3.5% p.a.
Rate of discount	6.0% p.a.	5.5% p.a.
Pension in payment increases (LPI)	3.0% p.a.	2.5% p.a.
Revaluation rate for deferred pensioners	3.0% p.a.	2.5% p.a.
Balance sheet	2002	2001
	£'000	£'000
Assets	10,524	9,612
Liabilities	10,456	8,873
Surplus	68	739
Assets	2002	2001
	£'000	£'000
Equities	310	94
Bonds	—	—
With profit deposit	10,214	9,518
	10,524	9,612
Expected long term rate of return	2002	2001
Equities	7.0%	7.0%
Bonds	5.5%	5.0%
With profit deposit	5.0%	5.0%

Directors of Charles Stanley & Co Limited

Name	Responsibility
Stephen C. King	General Manager
Martina M. Murphy	Financial Controller
Philip C. Nathan	Dealing
Andrew Butcher	Client Services
Mac Anderson	e-Commerce
Eric R. Hurrell	Compliance
Michael J. Pitts	IT

together with the Directors of Charles Stanley Group PLC as listed on page 7.

Financial Calendar

12 June 2002	Results announced
25 June 2002	Extraordinary General Meeting (to consider resolutions authorising the Directors to issue shares (with particular reference to the proposed acquisition of Robson Cotterell Limited))
3 July 2002	Ex-dividend date for final dividend
5 July 2002	Record date for final dividend
24 July 2002	Annual General Meeting
31 July 2002	Final dividend paid
November 2002	Interim results announced

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 102nd Annual General Meeting of Charles Stanley Group PLC will be held at 25 Luke Street EC2 on 24 July 2002 at 11.00 am, for the following purposes:

Ordinary Business

1. To receive and adopt the Accounts for the year ended 31 March 2002 with the reports of the Directors and Auditors.
2. To declare a final dividend.
3. To confirm the remuneration of the Directors.
4. To re-elect Sir David Howard as a Director.
5. To re-elect Mr Peter A. Hurst as a Director.
6. To re-appoint the Auditors and to authorise the Directors to determine their remuneration.

Special Resolution

Resolution 7

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 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 conclusion of the Annual General Meeting following the passing of this Resolution and in any event will expire on 16 January 2004;
- (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.

By Order of the Board

Gary Teper

Secretary

12 June 2002

Notes:

1. A member entitled to attend and vote is entitled to appoint one or more proxies to attend and on a poll vote instead of him. A proxy for a corporation may vote on a show of hands. A proxy need not be a member of the Company.
2. To be valid, the form of proxy and a power of attorney (if any) under which it is signed, or a notarially certified office copy thereof, must be delivered to the Company's registered office not later than 48 hours before the meeting or, as the case may be, adjourned meeting. There will be available for inspection at the registered office of the Company during usual business hours from the date of this notice until the date of the Annual General Meeting and at the place of the Annual General Meeting for 15 minutes prior to and until the conclusion of the meeting:
 - (a) particulars of transactions of Directors and of their family interests in the shares of the Company and its subsidiaries; and
 - (b) copies of all contracts of service of the Directors with the Company or its subsidiaries other than those expiring or determinable by the Company without compensation within 12 months.

Bath

28 Gay Street
Bath BA1 2PD
T: 01225 335616
F: 01225 311375
DX 8039 Bath

Bedford

11 Grove Place
Bedford MK40 3JJ
T: 01234 351131
F: 01234 273834
DX 5632 Bedford

Birmingham

52 High Street
Henley-in-Arden
Solihull
West Midlands
B95 9AN
T: 01564 777201
F: 01564 771766

Bournemouth

2 Westover Road
Bournemouth BH1 2BY
T: 01202 317788
F: 01202 317754
DX 7693 Bournemouth - 1

Cambridge

Richmond House
16-20 Regent Street
Cambridge CB2 1DB
T: 01223 316726
F: 01223 321215
DX 5861 Cambridge - 1

Crowborough

2 Old Bank Chambers
London Road
Crowbrough TN6 2TT
T: 01892 665599
F: 01892 662871
DX 36863 Crowborough

***Dorchester**

1 Colliton Walk
Dorchester
Dorset DT1 1TZ
T: 01305 251155
F: 01305 250188
DX 8714 Dorchester

***Eastbourne**

30 Hyde Gardens
Eastbourne
East Sussex BN21 4PX
T: 01323 738519
F: 01323 738408
DX 6957 Eastbourne

Edinburgh

81 George Street
Edinburgh EH2 3ES
T: 0131 225 1766
F: 0131 220 2363
DX ED 176 Edinburgh

Ipswich

16 Northgate Street
Ipswich IP1 3DB
T: 01473 297700
F: 01473 225736
DX 3282 Ipswich - 1

Isle of Wight

1 Langley Court
Pyle Street
Newport PO30 1LA
T: 01983 520922
F: 01983 520897

Lewes

24-25 Cliffe High Street
Lewes BN7 2AH
T: 01273 486244
F: 01273 486225
DX 3117 Lewes - 1

Manchester

2nd Flr. Sunlight House
Quay Street
Manchester M3 3JZ
T: 0161 828 0200/ 0161 288 7397
F: 0161 828 0201

Milton Keynes

Witan Court
305 Upper Fourth Street
Central Milton Keynes MK9 1EH
T: 01908 691681
F: 01908 691682
DX 31441 Milton Keynes - 1

Newbury

4 The Pentangle, Park Street
Newbury RG14 1EA
T: 01635 553700
F: 01635 44720
DX 30838 Newbury - 1

Norwich

24 Castle Meadow
Norwich NR1 3DH
T: 01603 665990
F: 01603 610560
DX 5264 Norwich - 1

Nottingham

42-46 Upper Parliament Street
Nottingham
NG1 2AG
T: 0115 958 0200
F: 0115 989 7919
DX 15471 Nottingham - 2

Oxford

Abbey House
121 St Aldates
Carfax
Oxford OX1 1EA
T: 01865 320000
F: 01865 209048
DX 4372 Oxford - 1

Plymouth

12 The Crescent
Plymouth
Devon PL1 3AB
T: 01752 666661
F: 01752 253969
DX 8257 Plymouth - 1

Reading

Dukesbridge Chambers
1 Duke Street
Reading
Berkshire RG1 4SA
T: 0118 902 2800
F: 0118 956 6611
DX 54706 Reading - 2

*From 1 July 2002

Member of the London Stock Exchange.
Regulated by the Financial Services Authority.
Member of the London International Financial Futures and Options Exchange.

Southampton

13 & 14 Oxford Street
Southampton SO14 3DJ
T: 023 8038 1800
F: 023 8023 2307

Southend-on-Sea

Hamilton House
12 Nelson Street
Southend-on-Sea
Essex SS1 1EF
T: 01702 221700
F: 01702 221709
DX 2860 Southend-on-Sea - 1

Tunbridge Wells

43 Dudley Road
Tunbridge Wells
Kent
TN1 1LE
T: 01892 557100
F: 01892 557101

***Wimborne**

6 Church Street
Wimborne
Dorset BH21 1JH
T: 01202 882820
F: 01202 888861
DX 45320 Wimborne

Head Office

25 Luke Street
London EC2A 4AR
T: 020 7739 8200
F: 020 7739 7798
DX 123150 Broadgate - 1
Email: info@charles-stanley.co.uk

Charles Stanley

GROUP PLC

25 LUKE STREET · LONDON · EC2A 4AR

