Charles Stanley
GROUP PLC

Annual Report and Accounts 2003

Contents

Financial Highlights

- Resilient performance in subdued markets
- Several strategic acquisitions
- Turnover £51.06 million (2001-02: £54.61 million)
- Profit before tax, goodwill amortisation and loss on sale of investments £1.99 million (2001-02: £7.59 million)
- Earnings per share excluding goodwill amortisation 3.35p (2001-02: 13.58p)
- Total dividends for the year unchanged at 4.5p net

Chairman's Statement

I am pleased to announce that, despite the worst stock market conditions in recent memory, Charles Stanley has succeeded in maintaining its turnover close to last year's figure, and has continued to trade profitably.

Turnover for the year ended 31 March 2003 was £51.06 million, some 6.5% lower than the figure of £54.61 million recorded for the previous year. Having maintained our turnover at the half-way stage (at £26.98 million, compared with £26.96 million in the first half of 2001/02) the further general decline in stock market trading volumes in the second half of our year denied us the chance of repeating this achievement for the full year.

The profit for the year, before tax, amortisation and investment losses, was £1.99 million, compared with £7.59 million for the year ended 31 March 2002. A higher charge in the latest year for amortising goodwill, arising from recent acquisitions, left us with a figure of profit before tax for the year of £978,000 compared with £7.71 million in the previous year.

Traditionally we have pursued a cautious dividend policy. In past years we have held the dividend well below our earnings per share, knowing the unpredictability of stock market trading volumes to which the Company's fortunes are linked. So when conditions are less favourable, as they have been in the latest year, we can demonstrate our confidence in the future by maintaining the dividend. Our recommendation is to pay a final dividend at last year's record level of 3.5p net per share, making a total dividend, once again, of 4.5p net per share. This is covered by our operating cashflow.

Analysis of the results

Our turnover is derived essentially from two sources, commission on Stock Exchange transactions and fees for our services. Commission, in particular, reflects the fluctuating level of stock market volumes. In the latest year our commission income fell by 11.8%. We track our performance against the total number of UK retail Stock Exchange transactions, as measured by the leading survey company ComPeer Ltd. In the same period this total number of transactions fell by 22.5%. Against such a background we think that this is a satisfactory result.

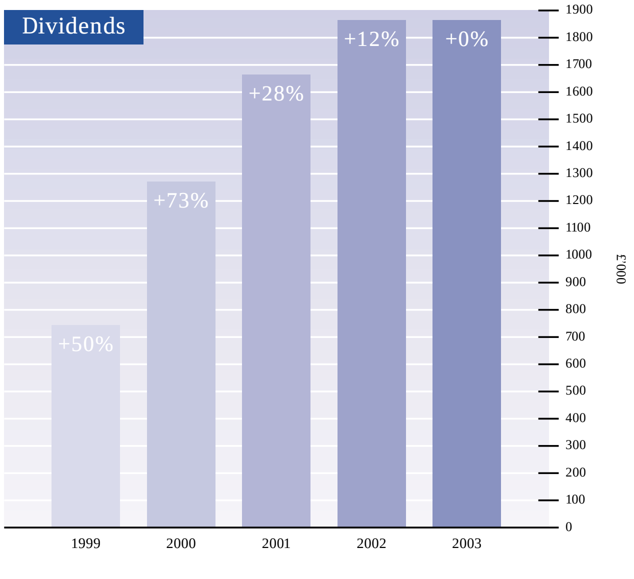
It is pleasing to be able to report that fee income, the other major component of our turnover, rose yet again in the latest year. At £17.20 million fee income now represents 33.7% of overall turnover, compared with 29.7% (£16.20 million) in the previous year.

An important element of this is the fees from various added-value services which we provide to our large private client base. One example is our cash management service, which holds on deposit more than £400 million of clients' uninvested funds. Another is our ISA and PEP service. This continues to attract significant levels of subscription, and even at this depressed level of stock market indices, we currently administer more than £750 million of clients' ISA and PEP funds.

Further added-value services were introduced during the year, for example even more comprehensive reporting for clients. We have a programme of consistent improvements in the quality and range of services that we provide, and we anticipate that this will lead to a continuing steady increase in fee income to reflect these improvements.

Our on-line service for discretionary and advisory managed clients has proved particularly popular. This allows clients to view their current portfolio valuations and their dealing history at the click of a button.

An excellent year, too, was enjoyed by our internet share-trading services - by FasTrade (our own service) and by our provision of “white-labelling" services for major financial houses - and also by our Gold Dealing execution-only telephone service.



The dearth of corporate finance activity in recent months has been well publicised. But this area of our business has performed creditably, contributing £2.39 million to revenue compared to £2.25 million in the year to 31 March 2002.

In difficult markets our Sales Trading team experienced a particularly successful year.

Our Financial Planning and Employee Benefit Division performed strongly, too. It now contributes nearly £1 million to revenue. This is an area in which we are actively seeking further relevant acquisition opportunities.

Finally, I am pleased to report that, despite a fall in values because of market conditions, the inflow of new money together with acquisitions lifted the total of clients' funds under management from £6.16 billion to £6.21 billion.

Our strategy

The performance of the Group flows directly from the strategy which the Directors have consistently adopted over many years. An appreciation of this strategy is therefore important in understanding the latest results.

Charles Stanley is a “full-service" stockbroking Company, serving primarily a UK private client base, but with substantial involvement, too, in other stockbroking activity such as corporate finance, institutional trading and personal financial planning. Our policy has been to expand the Group evenly on all fronts - organically, by acquisition, and by developing new products and services. We seek to achieve this against the background of unpredictable stock market conditions and we therefore have to measure our success over the longer term.

In earlier times “boom and bust" seemed to operate in economic cycles of perhaps four or five years, and one could measure the growth of the business from one cycle to the next. This pattern is less predictable now. The long bull market which ran for eight years from September 1992 was succeeded by three years of sharp stock market contraction.

The cycles are longer and the peaks and troughs are more pronounced - the exuberance of the late 1990s having given way to greater uncertainty.

The Group has steered its way carefully through this, building its balance sheet in times of high business volumes so as to expand its trading activity when conditions are less favourable. It is not our policy to make severe cuts in the business operation when times are hard, but rather to devote the accumulated resources to building it further. So our strategy, and our resulting performance, have to be viewed against a longer-term perspective.

The latest results of the Group reflect this. Income has held up well, thanks partly to recent acquisitions. Expenditure is higher, because these acquisitions bring more personnel, premises and systems costs. Our policy is to integrate acquisitions immediately, closing legacy systems and repositioning the staff. All of this carries additional short-term cost (which we estimate at a non-recurring £750,000 in the latest year) but higher long-term savings.

Yet, despite paying cash for our acquisitions during the latest year, our cash balances (at £26.95 million) - another measure to which we pay great attention - are higher at the year-end than they were at the beginning.

Acquisitions

In June 2002, at the end of the first quarter of the latest year, we completed the acquisition of Robson Cotterell Ltd, the principal competitor to our large and well-established office in Bournemouth. Robson Cotterell, with offices in Bournemouth, Dorchester, Eastbourne and Wimborne, enjoyed a high reputation, and we were delighted to welcome such a powerful addition to our presence on the South Coast.

In October 2002 we were joined by a well-regarded group of corporate finance, corporate broking and smaller company research teams, adding considerable strength to our existing presence in these areas. The quality of the new business introduced has been particularly pleasing, and the division is performing to budget, with over six transactions and £20 million raised already since the beginning of the current year, 1 April 2003.

Finally, in November 2002 we opened our new office in Brighton and Hove. This has got off to a flying start and, with a well-respected team, it has enjoyed rapid expansion.

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.

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.

Split Capital Trusts

In view of the media interest in the problems caused by the collapse of a number of split capital investment trusts, and the concern which shareholders may therefore have, I deal in some detail with the impact of this issue on the Group.

Split capital investment trust shares performed satisfactorily for many years, as a reliable investment with a reasonably predictable outcome. They played a valuable role, in the spectrum of investment opportunities, for investors with particular financial requirements. At some point a limited number of these trusts embarked on higher risk strategies, leading to their collapse when the value of their share portfolios fell away.

Like other advisers, we recommended split capital investment trust shares to a number of clients, to meet their specific investment requirements. We did not act as corporate broker to, nor float, any of these trusts, we were not involved in any marketing arrangements for them, nor did we promote them aggressively. Our role in every case was to act as an independent adviser accountable only to the client, seeking the best investment in the client's particular circumstances. Though our advice in a proportion of cases subsequently proved unsuccessful, and regretfully so, it was, we believe, appropriate in the light of information known at the time.

We have received a total of 95 complaints from clients, which we have carefully investigated. They do not in our view demonstrate any pattern of mis-selling. 40 of these complaints have been referred to the Financial Ombudsman, from whom we have received no rulings.

In the circumstances we do not believe it appropriate to make any provision in relation to our advice on split capital investment trusts, nor for any additional resources required to consider them. These are handled within the normal activity of our internal Compliance team. And if, despite our considered view, this judgement is proved wrong, we carry extensive insurance coverage to meet this kind of eventuality.

A world of change

The pace of change in our industry, to which I refer every year, has continued to accelerate. Much of the time of management is absorbed in trying to predict future developments on the widest front - in legislation, in IT and settlement systems, in regulation and in Directives from Brussels. We try to plan for it all, we play an active role in industry-wide initiatives, and against a constantly-shifting future we seek to gain the best possible benefits for our clients.

We coped well, we think, with the dramatic change-over to the new regulatory system at “N2", on 30 November 2001. The Directors and managers of the Group play an ever greater role on regulatory, professional and industry boards and committees. The financial services sector in the UK, as in Europe, continues to evolve at break-neck speed, and Charles Stanley is an active participant.

This, I believe, is one of our strengths – the careful and structured way in which we plan for, and assimilate, this rapid rate of change. Always there is something new, more work to be done, more to plan for. I am biased, of course, but I think our team, throughout the Group, is second to none.

Outlook

Any company engaged in financial services expects the occasional poor quarter, and sometimes two. But to experience deteriorating market conditions for three years in a row taxes the memories of all of us.

So it is pleasing to report that we have finally seen a glimmer of improvement. The FTSE-100 Index has recovered a little ground, back above 4000 again (having been well above 6000 not long ago). The economic fundamentals look better, and there is more activity on the corporate front.

Stock market trading volumes, too, have shown signs of recovery. It is early in our financial year, but if this trend continues, and in the absence of any significant further developments, I feel rather more optimistic about the outlook than I did at this time last year.

David HS Howard

Sir David Howard, Bt.
Chairman

10 June 2003

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 57. 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) and of The Securities Institute.

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

Peter Hurst is 54 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 had worked in banking for 10 years having been previously in audit practice.

E. Michael Clark, M.S.I.
Michael Clark is 56 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 45 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

25 Luke Street,
London EC2A 4AR

Websites

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

Registrars

Northern Registrars Limited
Northern House, Woodsome Park, Fenay Bridge,
Huddersfield HD8 0LA

Brokers

HSBC Bank plc
8 Canada Square,
London E14 5HQ

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 2003.

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 £444,000.

Dividends

The Directors have declared and now recommend the following dividends in respect of the year ended 31 March 2003:

	2003	2002
Interim dividend paid 21 December 2002 of 1.00p per share (2002: 1.00p)	421,494	421,494
Final dividend proposed of 3.50p (2002: 3.50p)	1,475,228	1,475,228
	£1,896,722	£1,896,722

The final dividend will be posted on 30 July 2003 to shareholders on the Company's register at close of business on 11 July 2003.

Review of the year and future developments

A review of the year and of future developments is set out on pages 2 to 7.

Directors

The Directors named on page 8 served throughout the year. Mr. E. Michael Clark and Mr. Michael R. I. Lilwall retire by rotation at the Annual General Meeting and, being eligible, offer themselves for re-election.

Other share interests

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

	No. of shares	
	10.6.03	31.3.03
John L.S. Howard	4,953,192	4,953,192
Schroders PLC and its associated companies	4,789,750	4,215,813
Abtrust Fund Managers Limited and its associated companies	2,512,887	2,512,887
Queen Street Securities Limited (a company of which Sir David Howard is a director)	1,675,000	1,675,000
Caroline P.S. Howard	1,309,946	1,309,946
Robert P.S. Howard	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 26 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 £8,246.

No political donations were made 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
10 June 2003

Directors’ Remuneration Report

The Company is required by the Companies Act 1985 to prepare a Directors' remuneration report for the year ended 31 March 2003 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 2003.

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 scheme, which was open to all employees after a certain period of employment with the Company.

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

Details of entitlements to share options and pension arrangements are disclosed on page 16 of this report.

Policy on Directors' remuneration

It is the policy of the Board that the Directors are remunerated in similar 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 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 and entitlements to exercise any options granted under the Charles Stanley Save As You Earn Scheme. Those elements of the Directors' remuneration and benefits that are not related to performance are 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.

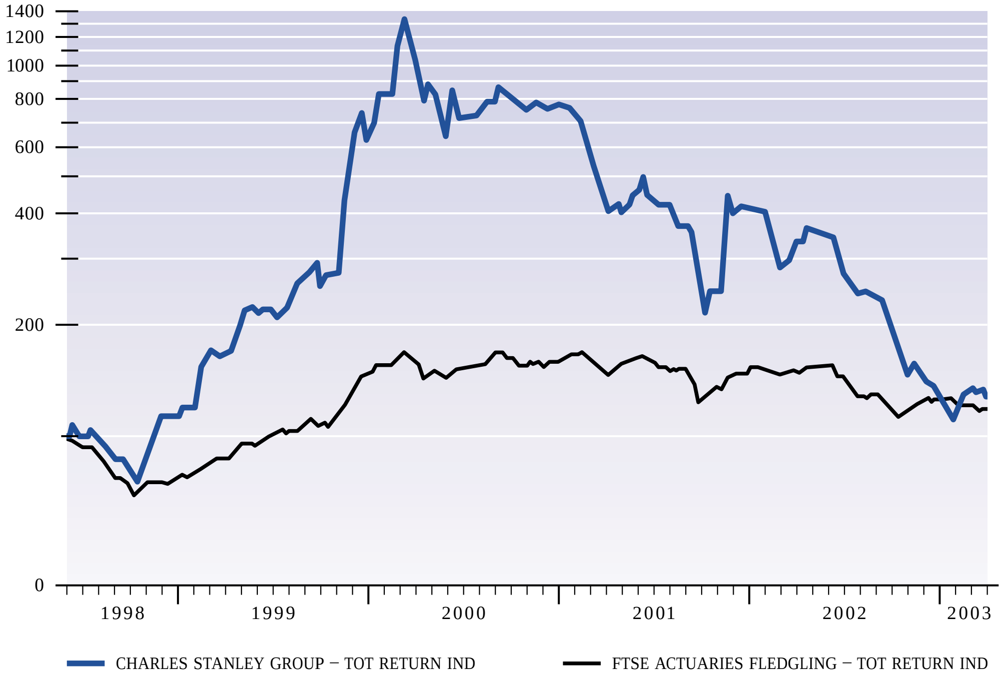
Share options

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 Fledgling 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 2003	2002
Emoluments						
Sir David Howard (Chairman, Managing and highest paid Director)	5,250	236,667	—	26,580	268,497	285,928
Peter A. Hurst (Finance Director)	—	186,667	—	11,039	197,706	216,794
Michael Clark	—	226,667	—	11,445	238,112	257,174
Michael R. I. Lilwall	—	208,467	—	13,541	222,008	237,725
	£5,250	£858,468	—	£62,605	£926,323	£997,621
2002	£5,250	£856,144	£80,083	£56,144	£997,621	

Employee savings related share option schemes

	Period of option	Exercise price	31 March 2003	Lapsed	Granted	1 April 2002
Peter A. Hurst (Finance Director)	July 2001 to September 2006	287p	—	(5,879)	—	5,879
	January 2003 to January 2008	96p	12,500	—	12,500	—
Michael Clark	July 2001 to September 2006	287p	—	(5,879)	—	5,879
	January 2003 to January 2008	96p	12,500	—	12,500	—
Michael R.I. Lilwall	July 2001 to September 2006	287p	—	(5,879)	—	5,879
	January 2003 to January 2008	96p	12,500	—	12,500	—
			37,500	(17,637)	37,500	17,637

The market price of the ordinary shares at 31 March 2003 was 92p and the range during the year was 80p to 268p.

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.

At 31 March	2003			2002		
	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	58,838	132,386	34,855	54,894	123,511	68,509
Peter A. Hurst	48,222	108,500	21,500	45,111	101,500	46,472
Michael Clark	75,556	170,000	29,598	71,778	161,500	75,317

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 2003. 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		
	10.6.03	31.3.03	1.4.02	10.6.03	31.3.03	1.4.02
Charles Stanley Group PLC						
Sir David Howard	9,450,000	9,450,000	9,400,000	1,419,355	1,419,355	1,350,350
Peter A. Hurst	162,436	162,436	162,436	747,355	747,355	678,350
E. Michael Clark	668,867	668,867	668,867	—	—	—
Michael R.I. Lilwall	51,000	51,000	47,705	—	—	—
Gryphon Investments PLC						
Sir David Howard	15,000	15,000	15,000	—	—	—

Approval

This report was approved by the board of Directors on 10 June 2003 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 14 Principles of Good Governance applicable to listed companies and the paragraphs below, together with the Directors' Remuneration Report on pages 13 to 17, 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 judgments 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 (A.2.1, A.3.1, A.3.2, 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.5.1). 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:

Compliance and Risk 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, the review of individual transactions and the identification of risk.

Operations Committee
This committee meets monthly. The membership of the committee comprises 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, the 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.

Projects Committee

This committee meets at least quarterly and comprises all four of the Board Directors, the head of IT, client services manager and finance department manager. The committee's main brief is to review the Company's project list and provide strategic direction and prioritization of future projects.

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.

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 2003 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 Company does not have any non-executive Directors on the board (A.2.1, A.3.1, A.3.2, A.6.1).

The Company does not have a nomination committee (A.5.1).

The Company does not have a formal remuneration committee (B.1.1-3, B.1.9-10, B.2.1-6, C.2.3) 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.2.3, D.3.1, D.3.2) 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 24 to 45 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 29 to 30. 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 18.

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 auditor's 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 18 to 21 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, 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 2003 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

10 June 2003

Consolidated Profit and Loss Account

Year ended 31 March 2003

	Note	2003		2002	
		£'000	£'000	£'000	£'000
Turnover					
Continuing operations		47,553			53,518
Acquisitions		3,511			1,095
	2		51,064		54,613
Operating expenses		(47,877)		(46,123)	
Depreciation and amortisation		(3,181)		(2,796)	
			(51,058)		(48,919)
Operating profit					
Continuing operations		350		5,616	
Acquisitions		(344)		78	
	4		6		5,694
(Loss)/profit on sale of investments – continuing operations			(50)		581
			(44)		6,275
Interest receivable			1,142		1,560
Interest payable	5		(120)		(123)
Profit on ordinary activities before goodwill amortisation and (loss)/profit on sale of investments		1,997		7,586	
Goodwill amortisation		(969)		(455)	
Operating profit and interest before taxation		1,028		7,131	
(Loss)/profit on sale of investments		(50)		581	
Profit on ordinary activities before taxation			978		7,712
Tax on profit on ordinary activities	6		(534)		(2,445)
Profit for the year	7		444		5,267
Dividends	8		(1,897)		(1,897)
Transfer (from)/to reserves	18		(1,453)		3,370

The notes on pages 29 to 45 form part of these financial statements.

Earning per Share

Year ended 31 March 2003

	Note	2003 Basic	2003 Diluted	2002 Basic	2002 Diluted
Basic	9	1.05p	1.02p	12.50p	12.26p
Excluding goodwill amortisation	9	3.35p	3.25p	13.58p	13.32p
Based on historical cost profit for the year	9	0.99p	0.96p	14.42p	14.14p

Statement of Total Recognised Gains and Losses

	2003 £'000	2002 £'000
Profit for the year	444	5,267
Unrealised (losses)/gains on investments	(1,241)	1,075
Total recognised gains and losses	(797)	6,342

Note of Historical Cost Profits and Losses

	2003 £'000	2002 £'000
Reported profit on ordinary activities before taxation	978	7,712
Realisation of investment revaluation (losses)/gains of previous years	(27)	807
Historical cost profit on ordinary activities before taxation	951	8,519
Historical cost (loss)/profit for the year retained after taxation and dividends	(1,480)	4,177

The notes on pages 29 to 45 form part of these financial statements.

Consolidated Balance Sheet

31 March 2003

	Note	2003 £'000	2003 £'000	2002 £'000	2002 £'000
Fixed assets					
Intangible	10		8,191		7,516
Tangible	11		5,227		6,212
Investments	12		2,732		3,987
			16,150		17,715
Current assets					
Debtors	13	178,896		144,120	
Listed investments		322		152	
Cash at bank and in hand		26,948		26,148	
		206,166		170,420	
Creditors: amounts falling due within one year	14	(182,931)		(146,934)	
Net current assets			23,235		23,486
Total assets less current liabilities			39,385		41,201
Creditors: amounts falling due after more than one year	15		(1,155)		(277)
Minority interests			(44)		(44)
Net assets			38,186		40,880
Capital and reserves					
Called up share capital	17		10,537		10,537
Revaluation reserve	18		2,096		3,337
Profit and loss account	18		25,553		27,006
Equity shareholders' funds	19		38,186		40,880

Approved by the Board on 10 June 2003

Sir David Howard
Peter Hurst
Directors

The notes on pages 29 to 45 form part of these financial statements.

Consolidated Cash Flow Statement

Year ended 31 March 2003

	Note	2003 £'000	2002 £'000
Net cash inflow from operating activities	20	6,972	4,650
Returns on investments and servicing of finance	21	1,027	1,380
Taxation		(1,486)	(3,626)
Capital expenditure and financial investment	22	(1,278)	(373)
Acquisitions	23	106	(4,008)
Equity dividends paid		(1,897)	(1,791)
Cash inflow/(outflow) before financing		3,444	(3,768)
Financing			
Decrease in debt	24	(2,644)	(1,573)
Increase/(decrease) in cash in the year		800	(5,341)
Reconciliation of net cash flow to movement in net funds			
Increase/(decrease) in cash in the year		800	(5,341)
Cash outflow from change in debt and lease financing		2,644	1,573
		3,444	(3,768)
Convertible debt issued		—	(1,500)
New finance leases		(43)	(46)
Movement in net funds in the year		3,401	(5,314)
Net funds at 1 April 2002		23,222	28,536
Net funds at 31 March 2003	25	26,623	23,222

The notes on pages 29 to 45 form part of these financial statements.

Company Balance Sheet

31 March 2003

	Note	2003 £'000	2003 £'000	2002 £'000	2002 £'000
Fixed assets					
Intangible	10		6,647		7,516
Tangible	11		5,227		6,212
Investments	12		32,187		32,962
			44,061		46,690
Current assets					
Debtors	13	7		1,406	
Cash at bank and in hand		245		220	
		252		1,626	
Creditors: amounts falling due within one year	14	(4,972)		(7,159)	
Net current liabilities			(4,720)		(5,533)
Total assets less current liabilities			39,341		41,157
Creditors: amounts falling due after more than one year	15		(1,155)		(277)
Net assets			38,186		40,880
Capital and reserves					
Called up share capital	17		10,537		10,537
Revaluation reserve	18		(3,938)		23,262
Profit and loss account	18		31,587		7,081
Equity shareholders' funds	19		38,186		40,880

Approved by the Board on 10 June 2003

Sir David Howard
Peter Hurst
Directors

The notes on pages 29 to 45 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 24 to 45, 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 and corporate finance fees and dividends on investments.

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 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 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 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 continuing stockbroking operations in the United Kingdom analysed as follows:

	2003 £'000	2002 £'000
Commission	33,862	38,408
Investment management fees	14,817	13,958
Corporate finance fees	2,385	2,247
	51,064	54,613

3 Particulars of staff

The average number of persons employed (including Directors) during the year was 458 (2002: 430).

	2003 £'000	2002 £'000
Staff costs:		
Wages and salaries	15,628	13,829
Social security costs	1,563	1,394
Other pension costs	1,465	1,336
	18,656	16,559

4 Operating profit

	2003 £'000	2002 £'000
Operating profit is stated after charging:		
Depreciation on owned assets	1,769	1,782
Depreciation on assets held under finance leases	443	559
Goodwill amortisation	969	455
Auditors' remuneration		
Audit work	81	70
Non-audit work – tax advice	74	47
Operating lease rentals	928	710

5 Interest payable

	2003 £'000	2002 £'000
On bank loans and overdrafts	35	59
Finance lease interest	38	64
On convertible loans	47	—
	120	123

6 Tax on profit on ordinary activities

	2003 £'000	2002 £'000
Current taxation:		
UK corporation tax at 30% (2002: 30%)	585	2,213
Adjustment in respect of prior periods	(51)	232
Total current taxation	534	2,445

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.

	2003 £'000	2002 £'000
Profit on ordinary activities before tax	978	7,712
Tax at standard rate	293	2,314
Effects of:		
Depreciation for the year in excess of capital allowances	337	100
Utilisation of tax losses	—	(174)
Items not allowable for tax purposes	71	(27)
Adjustments in respect of previous periods	(51)	232
Other adjustments	(116)	—
	241	131
Current tax charge for the year	534	2,445

No provision has been made for the tax liability of approximately £630,000 which would arise if the Group's fixed asset investments were disposed of at their revalued amount.

7 Profit for the year

The consolidated profit for the year of £444,000 (2002: £5,267,000) includes a profit of £34,395,000 (2002: £4,444,000) which is dealt with in the accounts of the parent undertaking. The profit dealt with in the accounts of the parent undertaking included dividends receivable from subsidiaries of £38,622,993 (2002: £5,000,000).

8 Dividends

	2003 £'000	2002 £'000
Interim paid of 1.00p per share (2002: 1.00p)	421	421
Proposed final of 3.50p per share (2002: 3.50p)	1,476	1,476
	1,897	1,897

9 Earnings per share

	2003 No.	2002 No.
Basic		
Weighted average number of shares in issue in the year	42,149,378	42,129,763
Diluted		
Weighted average number of options outstanding for the year	1,371,565	828,413
Diluted weighted average number of shares in issue in the year	43,520,943	42,958,176
	£'000	£'000
Profit for the year before goodwill	1,413	5,722
Goodwill amortisation	(969)	(455)
Profit for the year	444	5,267
Realisation of investment revaluation (losses)/gains of previous years	(27)	807
Historical cost profit for the year	417	6,074

10 Intangible fixed assets

	2003 Group £'000	2003 Company £'000	2002 Group £'000	2002 Company £'000
Goodwill				
Cost				
1 April	9,042	9,042	3,604	3,604
Increase during year				
Initial cash consideration/(adjustments)	(320)	(413)	3,850	3,850
Convertible debt issued	—	—	1,500	1,500
Deferred consideration/(adjustments)	1,750	320	(70)	(70)
Fees	214	30	158	158
31 March	10,686	8,979	9,042	9,042
Amortisation				
1 April	1,526	1,526	1,071	1,071
Profit and loss account	969	806	455	455
31 March	2,495	2,332	1,526	1,526
Net book value	8,191	6,647	7,516	7,516

11 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 2002	372	1,890	2,484	8,932	13,678
Additions	—	5	356	914	1,275
Disposals	—	(5)	(736)	(2,719)	(3,460)
	372	1,890	2,104	7,127	11,493
Depreciation					
1 April 2002	21	832	1,322	5,291	7,466
Charge for year	7	151	261	1,793	2,212
Disposals	—	(5)	(736)	(2,671)	(3,412)
	28	978	847	4,413	6,266
Net book value					
31 March 2003	344	912	1,257	2,714	5,227
31 March 2002	351	1,058	1,162	3,641	6,212

11 Tangible fixed assets (continued)

The net book value of tangible fixed assets includes £286,000 (2002: £685,000) in respect of assets held under finance leases and hire purchase contracts.

Disposals under cost and depreciation include £3,353,000 for assets which have reached the end of their useful lives and have been fully depreciated.

Fixed assets include fully depreciated assets costing £780,000.

12 Fixed asset investments

	Shares in Group undertakings £'000	Listed investments £'000	Unlisted investments £'000	Total £'000
(a) Group				
1 April 2002				
Cost		441	217	658
Revaluation surplus		3,329	—	3,329
Book value		3,770	217	3,987
Additions		170	—	170
Disposals		(125)	—	(125)
Revaluation in year and amounts written off		(1,300)	—	(1,300)
31 March 2003		2,515	217	2,732
Cost		486	217	703
Revaluation		2,029	—	2,029
(b) Company				
1 April 2002				
Cost	1,277	441	—	1,718
Revaluation surplus	31,253	(9)	—	31,244
Book value	32,530	432	—	32,962
Additions	38,654	70	—	38,724
Disposals	(25)	(125)	—	(150)
Revaluation in year and amounts written off	(39,290)	(59)	—	(39,349)
31 March 2003	31,869	318	—	32,187
Cost	39,903	386	—	40,289
Revaluation	(8,034)	(68)	—	(8,102)

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%

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

	2003		2002	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Trade debtors	177,380	—	142,617	—
Amounts owed by Group undertakings	—	—	—	1,406
Other debtors	387	7	756	—
Prepayments and accrued income	1,129	—	747	—
	178,896	7	144,120	1,406

14 Creditors: amounts falling due within one year

	2003		2002	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Trade creditors	585,740	—	512,297	—
Less funds held on behalf of clients in protected bank accounts	(408,114)	—	(374,303)	—
	177,626	—	137,994	—
Subordinated bank loan	—	—	750	—
Amounts owed to Group undertakings	—	2,229	—	3,328
Obligations under finance leases	120	120	399	399
Corporation tax	173	—	1,125	—
Other taxes and social security	1,298	—	1,448	—
Other creditors	1,404	1,103	884	423
Accruals and deferred income	834	44	1,358	33
Proposed dividends	1,476	1,476	1,476	1,476
	182,931	4,972	145,434	5,659
Convertible debt:				
3% Fixed rate convertible redeemable loan notes 2007	—	—	1,500	1,500
	182,931	4,972	146,934	7,159

The 3% fixed rate convertible redeemable loan notes 2007 were 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 would have been repayable in full at par on 15 February 2007. These loan notes were repaid in full at par on 31 March 2003.

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

15 Creditors: amounts falling due after more than one year

	2003		2002	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Obligations under finance leases	205	205	277	277
Other creditors	950	950	—	—
	1,155	1,155	277	277

16 Financial instruments and risk management

Funding and liquidity

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

	2003 £'000	2002 £'000
Borrowings – UK sterling		
Floating rate borrowings	—	750
Fixed rate borrowings	325	676
Fixed rate convertible redeemable loan notes	—	1,500
	325	2,926
Cash at bank and in hand:		
UK Sterling	25,795	24,919
United States Dollars	588	868
Euros	289	294
Others	276	67
	26,948	26,148

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 2003, 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	205
Less than one year	120
	325

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

	2003 £'000	2002 £'000
Revolving borrowing facilities:		
Expiring within one year	9,000	11,000

Further disclosures in respect of financial instruments are included in the Chairman's Statement on pages 2 to 7.

17 Called up share capital

	2003 £'000	2002 £'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 2003 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	59,768	£2.87
Grant dated 2 January 2003 Exercisable during the six months commencing 1 February 2008	2,005,358	£0.96

18 Reserves

	Group		Company	
	Revaluation reserve £'000	Profit and loss account £'000	Revaluation reserve £'000	Profit and loss account £'000
1 April 2002	3,337	27,006	23,262	7,081
(Loss)/profit retained	—	(1,453)	—	32,498
Transfer to revaluation reserve	—	—	7,992	(7,992)
Deficit on revaluation	(1,241)	—	(35,192)	—
	2,096	25,553	(3,938)	31,587

Cumulative goodwill written off in previous years directly to reserves amounts to £530,000 (2002: £530,000).

19 Reconciliation of movements in shareholders' funds

	2003 £'000	2002 £'000
Profit for the year	444	5,267
Other recognised (losses)/gains	(1,241)	1,075
Dividends	(1,897)	(1,897)
Net (decrease)/increase in shareholders' funds	(2,694)	4,445
Opening shareholders' funds	40,880	36,435
Closing shareholders' funds	38,186	40,880

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

	2003 £'000	2002 £'000
Operating profit	6	5,694
Depreciation charges	2,212	2,341
Goodwill amortised	969	455
Amount written off investments	59	9
Loss on sale of fixed asset investments	—	6
(Increase)/decrease in debtors	(34,946)	30,266
Increase/(decrease) in creditors	38,672	(34,121)
Net cash inflow from operating activities	6,972	4,650

21 Returns on investments and servicing of finance

	2003 £'000	2002 £'000
Interest received	1,142	1,560
Interest paid	(77)	(116)
Interest element of finance lease payments	(38)	(64)
Net cash inflow for returns on investments and servicing of finance	1,027	1,380

22 Capital expenditure and financial investment

	2003 £'000	2002 £'000
Purchase of tangible fixed assets	(1,183)	(1,718)
Purchase of investments	(170)	(355)
Sale of investments	75	1,700
Net cash outflow for capital expenditure and financial investment	(1,278)	(373)

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 £43,000 which did not generate immediate cash flows.

23 Acquisitions

Purchase of subsidiary undertakings and other businesses

	2003 £'000	2002 £'000
Net assets acquired	3,858	—
Goodwill	1,750	5,350
	5,608	5,350

	2003 £'000	2002 £'000
Satisfied by		
Cash	3,858	3,850
Deferred consideration	1,750	—
Convertible loan issued	—	1,500
	5,608	5,350

	2003 £'000	2002 £'000
Net cash flows for acquisitions		
Acquisition of the business of Torrie & Co and the Tunbridge Wells branch	320	(4,008)
Acquisition of Robson Cotterell Limited and the Brighton & Hove branch	(214)	—
	106	(4,008)

24 Financing

	2003 £'000	2002 £'000
Capital element of finance lease payments	(394)	(519)
Capital element of loan repayments	(2,250)	(1,054)
Cash outflow from change in debt and lease financing	(2,644)	(1,573)

25 Analysis of net funds

	At 31.3.03 £'000	Cash flow £'000	Other changes £'000	At 1.4.02 £'000
Cash at bank and in hand	26,948	800	—	26,148
Debt due within one year	—	2,250	—	(2,250)
Finance leases	(325)	394	(43)	(676)
Total	26,623	3,444	(43)	23,222

26 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. As referred to in the Chairman's Statement on page 6, the Group has received ninety five 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.

27 Lease commitments

	2003 £'000	2002 £'000
Group and Company		
Annual commitments under operating leases at 31 March were:		
Land and buildings		
Expiring within one year	41	16
Expiring within two to five years	142	92
Expiring after five years	781	834

28 Capital commitments

	Group and Company £'000
Authorised but not contracted for	570

29 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 £562,000, equivalent to 13.6% of pensionable pay. This contribution rate has now been increased to 22.6% of pensionable pay 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 ultimately be applied to a decreasing payroll.

29 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:

	2003	2002
Inflation	2.75%	3.0% p.a.
Salary increases	3.75%	4.0% p.a.
Rate of discount	5.75%	6.0% p.a.
Pension in payment increases (LPI)	2.75%	3.0% p.a.
Revaluation rate for deferred pensioners	2.75%	3.0% p.a.

Balance sheet

	Expected long term rate of return	2003 £'000	Expected long term rate of return	2002 £'000
Equities	6.50%	258	7.00%	310
With profit deposits and cash	5.00%	10,951	5.00%	10,214
Assets		11,209		10,524
Liabilities		(11,566)		(10,456)
Net pension (liability)/asset		(357)		68
Net assets excluding pension (liability)/asset		38,186		40,880
Net assets including pension (liability)/asset		37,829		40,948

29 Pension costs (continued)

	2003 £'000	2002 £'000
Amount which would have been charged to operating profit		
Current service cost	582	
Past service cost	—	
Settlements and curtailments	—	
Total operating charge	582	
Amount which would have been included as other finance income/(charge)		
Expected return on pension scheme assets	542	
Interest on scheme pension scheme liabilities	(640)	
Net charge	(98)	
Other gains/(losses) which would have been recognised		
Actual less expected return on assets	(243)	
Experience gains/(losses) on liabilities	(142)	
Effect of change in assumptions on liabilities	78	
Other losses recognised	(307)	
Movement in deficit during the year		
Surplus in scheme at 1 April	68	739
Current service cost	(582)	(551)
Cash contribution	562	553
Other finance charges	(98)	(6)
Actuarial loss	(307)	(667)
(Deficit)/surplus in scheme at 31 March	(357)	68

History of experience gains and losses

	% of assets	Amount	% of assets	Amount
Difference between expected and actual returns on scheme assets	(2%)	(243)	0.2%	26
Experience gains/(losses) on scheme liabilities	(1%)	(142)	(6.6%)	(693)
Effects of changes in the demographics and financial assumptions underlying the present value of the scheme liabilities	1%	78	—	—
Total actuarial loss	(3%)	(307)	(6.4%)	(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 8.

Financial Calendar

10 June 2003	Results announced
9 July 2003	Ex-dividend date for final dividend
11 July 2003	Record date for final dividend
23 July 2003	Annual General Meeting
30 July 2003	Final dividend paid
November 2003	Interim results announced

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 103rd Annual General Meeting of Charles Stanley Group PLC will be held at 25 Luke Street EC2 on 23 July 2003 at 11.00 am, for the following purposes:

Ordinary Business

1. To receive and adopt the Accounts for the year ended 31 March 2003 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 13 to 17 of the Annual Report and Accounts.
4. To re-elect Mr Michael Clark as a Director.
5. To re-elect Mr Michael R. I. Lilwall as a Director.
6. To re-appoint the Auditors and to authorise the Directors to determine their remuneration.

Resolution 7

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 2004 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 8

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 7 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 2004 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 9

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 23 January 2005; and

(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
10 June 2003

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

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

Birmingham
52 High Street
Henley-in-Arden
Solihull
West Midlands B95 9AN
T: 01564 777201
F: 01564 771766
(institutional sales only)

Bournemouth
2 Westover Road
Bournemouth BH1 2BY
T: 01202 317788
F: 01202 317754

Brighton & Hove
24A Wilbury Grove
Eaton Road
Hove
East Sussex BN3 3JQ
T: 01273 229880
F: 01273 229881

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

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

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

Eastbourne
30 Hyde Gardens
Eastbourne
East Sussex BN21 4PX
T: 01323 738059
F: 01323 738408

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

Ipswich
16 Northgate Street
Ipswich IP1 3DB
T: 01473 297700
F: 01473 225736

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

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

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

Norwich
24 Castle Meadow
Norwich NR1 3DH
T: 01603 665990
F: 01603 610560

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

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

Plymouth
12 The Crescent
Plymouth
Devon PL1 3AB
T: 01752 666661
F: 01752 253969

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

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

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

Head Office
25 Luke Street
London EC2A 4AR
T: 020 7739 8200
F: 020 7739 7798
Email: info@charles-stanley.co.uk

Charles Stanley Group Plc
25 Luke Street London EC2A 4AR
Tel: 020 7739 8200 / 020 7953 2000
Fax: 020 7739 7798
DX 123150 BROADGATE-1

www.charlesstanleyplc.co.uk

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