

Charles Stanley
GROUP PLC

Interim Report
2003/2004

Financial Highlights

- **Turnover increased by 11.8% to £30.1 million**
- **Profit before tax and goodwill £3.0 million**
(September 2002: £1.5 million)
- **Profit before tax £2.4 million**
(September 2002: £1.0 million)
- **Earnings per share 3.10p (September 2002: 1.51p)**
- **Dividend 1.00p (September 2002: 1.00p)**
- **Acquisition of EBS (Employee Benefit Services)**
- **Acquisition of part of Durlacher's private client stockbroking operation**
- **Acquisition of "Nothing Ventured" online sharedealing service**

Chairman's Statement

Charles Stanley, one of the largest independent private client stockbrokers in the UK, is pleased to announce that for the six months ended 30th September 2003 profit before tax and amortisation has doubled from £1.54 million (2002) to £3.03 million. Turnover for the period has risen by 11.8% to £30.15 million (2002: £26.98 million). Profit before tax, but after amortisation and the sale of investments, was £2.44 million (2002: £1.04 million).

The improvement in turnover corresponds to an increase of 11.35% in the volume of stock exchange transactions undertaken by the company in the period. At the same time, fixed costs have remained under tight control, resulting in a doubling of the profit. We propose maintaining the dividend at 1.00p net per share.

Markets continue to be difficult, and although the latest results represent a significant improvement the directors consider that trading volumes remain below the long-term trend-line. Our strategy, as described in previous statements, has been to take advantage of these weak conditions to continue to build the business. The latest results illustrate the success of this strategy. Our acquisitions during this prolonged downturn in the market have integrated very well into Charles Stanley, and are now bearing fruit.

Acquisitions

During the latest six months we have made a number of further acquisitions. Often these consist of small teams or individual stockbrokers who fit neatly into our existing operations. Two acquisitions are of particular note. First is the acquisition of the well-known leading-edge firm of pension administrators and pension advisers, EBS Management PLC. For some years we have been steadily building a specialist financial planning capability to complement the wealth management available to our stockbroking clients, and to offer skilled services in areas of specialisation such as employee benefit schemes. This process began in February 2001 with the purchase of Forester MacLean Benefit Consultants Limited, followed now by the acquisition of EBS Management and its subsidiary companies.

EBS provides services to some 500 Small Self-Administered Schemes ("SSASs"), 850 Self Invested Personal Pension Schemes ("SIPPs") and 35 Exempt Property Unit Trusts ("EPUTs"), with total assets exceeding £700 million, generating revenues of about £1.2 million p.a. We are particularly delighted to have been joined by the founder of EBS, Mr Dryden Gilling-Smith, the well-known expert and commentator who has done so much to popularise personal pension provision.

Secondly, in September we acquired a significant part of the private client stockbroking division of Durlacher PLC. More recently, in October, just after the end of the half-year, we acquired the internet share-trading business of Durlacher PLC, which operated under the name of "Nothing Ventured".

I have referred in previous statements to our policy of advancing the growth of the group on all fronts, in an evenly balanced way. For example, at this time last year, and again at the year-end, I mentioned our success in attracting a significant corporate finance and corporate broking team to our London office, where they have subsequently enjoyed an excellent 12 months. In the same way we have been looking to expand our internet share-trading services. In February last year these grew to roughly double their previous size when, as a result of acquiring the prestigious business of Torrie & Co in Edinburgh, we were able to merge its well-known FasTrade internet service with our own pioneering Xest operation. This now operates as a popular site under the FasTrade label.

The acquisition of the Nothing Ventured business offers significant further improvements to our FasTrade clients, in particular in the range and quality of information and research available on the website. We are already seeing a significant increase in the volume of our internet trading as a result of this latest development.

Operations

All parts of the business performed well during the half-year.

For example, we now hold very nearly £900 million for clients in Charles Stanley PEPs and ISAs. This is a new record for us, and has been achieved in the face of FTSE share indices which stand substantially below their peak - a benchmark to which PEP and ISA values are closely linked.

The revenue of our Financial Planning division more than doubled in the six months, to £533,000, and should more than double again with the acquisition of EBS Management.

Despite an almost complete dearth of corporate finance activity in the market in the latest period, our Corporate Finance division has continued to attract important new clients. We now act for 40 companies. In the first seven months of the current year (that is, up to the end of October 2003) the fee income of the Corporate Finance division has exceeded £2.38 million, which was the figure for the whole of last year, 2002-03.

Our run of awards has continued, recognising the quality of the service that we provide to our clients. The latest is the award from Shares Magazine for the Best Discretionary Stockbroker of 2003.

Fee income now represents 31% of total income. In the light of our programme of steady improvement in the range of services offered to our investment management clients we are moving more strongly to fee-based remuneration. This is a major exercise which is progressing well. The ratio between fee and commission income will fluctuate over time, as commission income is more volatile, but we are actively planning for a steady increase in the medium-term trend of the percentage that fees contribute to our total revenue.

In my last report to shareholders (in June 2003) I explained our view that no provision needed to be made in respect of advice given on split capital investment trust shares. There has been no significant change in the information which I gave at that time, and our view remains the same.

Dividend

It is proposed to pay a dividend of 1.00p per share, net of tax, on 17th December 2003 to shareholders registered on 21st November 2003.

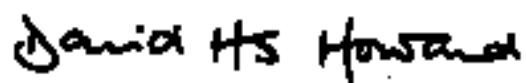
Outlook

Market conditions remain well below their best, but the underlying tone has been rather more "bullish" than at any time in the three-year recessionary period of 2000, 2001 and 2002. Recent months have seen a reasonably persistent upward trend in business levels, and this has been maintained into the opening weeks of our second half-year.

But there are many uncertainties. While the UK economy is growing again at somewhere near its long-term trend, the weakness of the continental economies is bound to affect export growth. The proportion of empty commercial property in the City is close to record levels, and this is very tangible evidence of an economy working well below capacity. The diversion of resources by the government from the private to the public sector (whose productivity rate has actually been falling) is worrying for the future. And we think that the combined effect of a probable increase in personal taxation to pay for this, and of the steady expansion in regulations, could place further strains on the financial services sector.

Views are divided as to whether the world is now moving decisively out of the long recession. Certainly the pace of change will vary from region to region. China, and now Japan, are becoming significant drivers of world growth. Europe, by contrast, seems destined to languish under the weight of self-imposed structural and institutional barriers, and attempts to dismantle these look unlikely to succeed. Nevertheless the UK economy seems to be gathering speed.

Against this background one has to say that the broader outlook, while more encouraging than in the recent past, remains unclear. Within your company, though, we are seeing the benefit of recent acquisitions, and we think that the improvement in market conditions is fairly soundly based. Given the good start to the second six months we take a reasonably positive view of the outlook for the remainder of the current year.

A handwritten signature in black ink that reads "David HS Howard". The signature is written in a cursive, slightly slanted style.

Sir David Howard, Bt.

Chairman

11 November 2003

Consolidated Profit and Loss Account

Six months ended 30 September 2003

	Notes	Half-year 30 Sept 2003 £'000	Half-year 30 Sept 2002 £'000	Year 31 March 2003 £'000
Turnover	2			
Continuing operations		29,963	25,216	47,553
Acquisitions		186	1,760	3,511
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Operating expenses		30,149 (28,224)	26,976 (26,413)	51,064 (51,058)
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Operating profit/(loss)				
Continuing operations		1,951	545	350
Acquisitions		(26)	18	(344)
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Profit/(loss) on sale of investments – continuing operations		1,925 32	563 (19)	6 (50)
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Interest receivable		1,957 512	544 559	(44) 1,142
Interest payable	3	(31)	(67)	(120)
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Profit on ordinary activities before goodwill amortisation and profit on sale of investments		3,033	1,542	1,997
Goodwill amortisation		(627)	(487)	(969)
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Profit/(loss) on sale of investments		2,406 32	1,055 (19)	1,028 (50)
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Profit on ordinary activities before taxation		2,438	1,036	978
Tax on profit on ordinary activities	4	(1,130)	(400)	(534)
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Profit for the period		1,308	636	444
Dividends	5	(421)	(421)	(1,897)
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Transfer to/(from) reserves		887	215	(1,453)
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Earnings per Share

	Notes	Half-year 30 Sept 2003	Half-year 30 Sept 2002	Year 31 March 2003
Basic	6	3.10p	1.51p	1.05p
Diluted	6	2.97p	1.51p	1.02p
Excluding goodwill				
Basic	6	4.59p	2.66p	3.35p
Diluted	6	4.39p	2.66p	3.25p

Statement of Total Recognised Gains and Losses

	£'000	£'000	£'000
Profit for the period	1,308	636	444
Unrealised gains/(losses) on investments	472	(847)	(1,241)
Total recognised gains and losses relating to the period	1,780	(211)	(797)

Note of Historical Cost Profits and Losses

	£'000	£'000	£'000
Reported profit on ordinary activities before taxation	2,438	1,036	978
Realisation of investment revaluation gains/(losses) of previous years	4	—	(27)
Historical cost profit on ordinary activities before taxation	2,442	1,036	951
Historical cost profit/(losses) for the year after taxation and dividends	891	215	(1,480)

Consolidated Balance Sheet

At 30 September 2003

	Notes	30 Sept 2003 £'000	30 Sept 2002 £'000	31 March 2003 £'000
Fixed assets				
Intangible – Goodwill		10,979	8,439	8,191
Tangible		5,328	5,766	5,227
Investments		3,255	3,118	2,732
		19,562	17,323	16,150
Current assets				
Debtors		208,814	134,450	178,896
Listed investments		419	105	322
Cash at bank and in hand		28,666	27,977	26,948
		237,899	162,532	206,166
Creditors: amounts falling due within one year		(216,826)	(139,432)	(182,931)
Net current assets		21,073	23,100	23,235
Total assets less current liabilities		40,635	40,423	39,385
Creditors: amounts falling due after more than one year		(1,046)	(131)	(1,155)
Minority interests		(44)	(44)	(44)
Net assets		39,545	40,248	38,186
Capital and reserves				
Called up share capital	7	10,537	10,537	10,537
Revaluation reserve		2,568	2,490	2,096
Profit and loss account		26,440	27,221	25,553
Equity shareholders' funds		39,545	40,248	38,186

Consolidated Cash Flow Statement

Six months ended 30 September 2003

	Notes	Half-year 30 Sept 2003 £'000	Half-year 30 Sept 2002 £'000	Year 31 March 2003 £'000
Cash flow from operating activities	8	4,941	5,595	6,972
Returns on investments and servicing of finance		482	487	1,027
Taxation		(317)	(863)	(1,486)
Capital expenditure and financial investment		(586)	(799)	(1,278)
Acquisitions		(1,054)	(160)	106
Equity dividends paid		(1,476)	(1,475)	(1,897)
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Cash inflow before financing		1,990	2,785	3,444
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Financing				
Decrease in debt		(272)	(956)	(2,644)
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Increase in cash in the period		1,718	1,829	800
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Reconciliation of net cash flow to movement in net funds				
Increase in cash in the period		1,718	1,829	800
Cash outflow from change in debt and lease financing		272	956	2,644
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		1,990	2,785	3,444
New finance leases		(571)	(43)	(43)
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Movement in net funds in the period		1,419	2,742	3,401
Net funds at start of period		26,623	23,222	23,222
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Net funds at close of period		28,042	25,964	26,623
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Notes to the Financial Statements

1 Basis of preparation

The interim results have been prepared on a basis consistent with the accounting policies set out on pages 29 and 30 of Charles Stanley Group PLC's Annual Report and Financial Statements for the year ended 31 March 2003. The unaudited interim financial statements should therefore be read in conjunction with the 2003 Annual Report and Financial Statements.

The financial information as set out in this report is unaudited and does not comprise statutory accounts for the purposes of Section 240 of the Companies Act 1985. The Auditors have carried out a review and their report is set out on page 14.

The comparative figures for the year ended 31 March 2003 have been taken from, but do not constitute, the Company's statutory financial statements for that financial year. Those financial statements have been reported on by the Company's Auditors and delivered to the Registrar of Companies. Their report was unqualified and did not contain a statement under Section 237(2) or (3) of the Companies Act 1985.

A copy of this statement is being forwarded to all shareholders and will be available for members of the public at the Company's registered office, 25 Luke Street, London EC2A 4AR.

2 Turnover

	30 Sept 2003 £'000	30 Sept 2002 £'000	31 March 2003 £'000
Commission	20,808	17,919	33,862
Investment management fees	7,696	7,285	14,817
Corporate finance fees	1,645	1,772	2,385
	<hr/>	<hr/>	<hr/>
	30,149	26,976	51,064
	<hr/>	<hr/>	<hr/>

3 Interest payable

On bank loans and overdrafts	15	21	35
Finance lease interest	16	18	38
On convertible debt	—	28	47
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	31	67	120
	<hr/>	<hr/>	<hr/>

4 Tax on profit on ordinary activities

	30 Sept 2003 £'000	30 Sept 2002 £'000	31 March 2003 £'000
Current period:			
UK corporation tax at 30%	987	446	585
Adjustments in respect of previous periods	143	(46)	(51)
	1,130	400	534

5 Dividends

Proposed interim of 1.00p per share (2002: 1.00p)	421	421	421
Final of 3.50p per share	–	–	1,476
	421	421	1,897

6 Earnings per share

	No.	No.	No.
Weighted average number of shares in issue in the period	42,149,378	42,149,378	42,149,378
Weighted average number of options outstanding	1,943,500	–	1,371,565
	44,092,878	42,149,378	43,520,943
	£'000	£'000	£'000
Profit for the year before goodwill	1,935	1,123	1,413
Goodwill amortisation	(627)	(487)	(969)
Profit for the period	1,308	636	444

7 Called up share capital

	30 Sept 2003 £'000	30 Sept 2002 £'000	31 March 2003 £'000
Authorised:			
80,000,000 ordinary shares of 25p each	20,000	20,000	20,000
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Allotted and fully paid:			
42,149,378 ordinary shares of 25p each	10,537	10,537	10,537

On 30 September 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	56,901	£2.87
Exercisable during the six months commencing 1 September 2006		
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Grant dated 2 January 2003	1,943,500	£0.96
Exercisable during the six months commencing 1 February 2008		

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

Operating profit	1,925	563	6
Provision made against fixed asset investments	(28)	91	59
Depreciation charges	1,063	1,200	2,212
Goodwill amortised	627	487	969
(Increase)/decrease in debtors	(30,014)	9,717	(34,946)
Increase/(decrease) in creditors	31,368	(6,463)	38,672
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Net cash inflow from operating activities	4,941	5,595	6,972

Financial Calendar

11 November 2003	Results announced
19 November 2003	Ex-dividend date for interim dividend
21 November 2003	Record date for interim dividend
17 December 2003	Interim dividend paid
June 2004	Final results announced

Independent Review Report to Charles Stanley Group PLC

Introduction

We have been instructed by the company to review the financial information set out above which comprises the profit and loss account, balance sheet, cash flow statement, statement of total recognised gains and losses and the related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modification that should be made to the financial information as presented for the six months ended 30 September 2003.

Saffery Champness
Chartered Accountants
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11 November 2003

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