

8 June 2006

## CHARLES STANLEY GROUP PLC RESULTS FOR THE YEAR ENDED 31 MARCH 2006

Charles Stanley, a major independent stockbroker, announces its preliminary results for the year ended 31 March 2006.

### Highlights:

- Revenue up by 18% to £92.6 million (2005: £78.7 million)
- Profit before tax up by 24% to £13.0 million (2005: £10.5 million)
- Funds under management up by £2 billion (26%) to £9.7 billion (2005: £7.7 billion)
- Earnings per share up 26% to 20.45p (2005: 16.18p)
- Final dividend up by 28% to 5.35p (2005: 4.15p)
- Total dividend up by 28% to 6.75p (2005: 5.25p)
- New 15 strong investment team in London made an excellent start
- New Birmingham and Glasgow offices extend Charles Stanley's nationwide presence

**Sir David Howard, Chairman, commented:** "Charles Stanley has enjoyed another excellent year. The income of the Group reached a new record figure and our profit before tax was up by 24%. In the next two or three years stockbrokers face some fundamental changes in the way that they do things, due principally to the Financial Services Action Plan of the European Union. I believe that Charles Stanley is well positioned to implement this challenging programme of change. Despite the uncertainties, and the obvious risks of making predictions in a business like this, I look forward to the year ahead with a degree of optimism."

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## Chairman's Statement

Charles Stanley has enjoyed another excellent year. The income of the Group for the twelve months ended 31 March 2006 reached a new record figure of £92.6 million, an increase of 17.7% compared with the figure for 2004/05 of £78.7 million. Profit before tax was £13.0 million, an increase of 23.9% on the previous year (2005: £10.5 million).

While our transaction volumes increased by 3% the commission income which these volumes generated rose by nearly 19%, from £48.15 million to £57.25 million.

At the same time our investment management and administration fees increased by 18.6% from £23.6 million to £27.9 million, and our corporate finance income increased by 34.0% from £5.2 million to £6.9 million.

The investment funds that we manage and administer for clients rose during the year by 26% from £7.7 billion to £9.7 billion.

The net assets of the Group at the year-end have risen from £48.5 million (as at 31 March 2005, as restated under IFRS accounting principles) to £55.4 million, while our cash balances at the year-end have increased to £48.1 million (2005: £44.2 million).

In view of these results we propose raising the final dividend to 5.35p (2005: 4.15p), making a total dividend for the year of 6.75p, an increase of 28.5% on last year's total dividend of 5.25p per share. The dividend will be paid on 28 July 2006 to shareholders who are registered on 7 July 2006.

In the past 15 years the dividend per share (adjusted for bonus issues) has risen by 4,300%. This represents an annual average compound rate over this fifteen year period which works out at approximately 28.5% per annum.

## Review of the Year

Charles Stanley remains, as always, committed to providing a comprehensive stockbroking and wealth management service, tailoring different levels of our offering to meet the varied needs of our client base. But we strive constantly to make these services increasingly valuable to our clients.

The funds which we manage or administer on behalf of our clients, on a fee-charging basis, rose during the year by 26% from £7.7 billion to £9.7 billion. Within this figure the funds under discretionary management increased by 57% from £1.4 billion to £2.2 billion, whereas those under advisory management rose by 28% from £2.1 billion to £2.7 billion.

The range and value of our fee-based services continues to move ahead. The increase in the numbers of clients choosing our discretionary or advisory investment management services, and the rise in the value of their portfolios, led to an increase of 23.4% in our investment management fee income from £10.6 million to £13.0 million.

We hold a further £4.8 billion of clients' assets on their behalf for which we charge administration but not investment management fees. The figures are as follows:

	31.3.2006 £ billion	31.3.2005 £ billion
<b>Discretionary funds under management</b>		
In Group's nominee or Crest personal membership	2.2	1.4
<b>Advisory portfolio funds under management</b>		
In Group's nominee or Crest personal membership	2.1	1.6
Not held in Group's nominee	0.6	0.5
<b>Total managed funds</b>	4.9	3.5
<b>Advisory dealing funds</b>		
In Group's nominee or Crest personal membership	2.4	1.9
<b>Execution only funds</b>		
In Group's nominee or Crest personal membership	2.4	2.3
<b>Total administered funds</b>	4.8	4.2
<b>Total funds under management and administration</b>	9.7	7.7

The overall impact of the improvements on our total investment management, administration and corporate finance income was an increase of 21.6% from £28.7 million to £34.9 million. The ratio of fee income to total revenue moved further ahead, to 37.7% (2005: 36.5%).

As I indicated in my annual statement last year, our target for the margin of profit before tax and the sale of fixed assets, as a percentage of revenue, is 15%. In the past the margin has been both significantly higher and significantly lower in volatile market conditions. In 2004-05 we achieved 13.4%, and the margin in the latest year is 14.1%. Our target of 15% would have been exceeded but for one-off revenue costs incurred following the acquisitions which were made during the year.

### **Acquisitions**

I am pleased to report that a number of brokers joined us during the year both in London and in several of our branches. I advised in our half-year statement that we opened a new office in Glasgow on 1 June 2005, based on an institutional team formerly with Aitken Campbell. This has added to Charles Stanley's growing presence in Scotland.

On 1 August 2005 we opened a new office in the centre of Birmingham, based on a group of private client stockbrokers formerly with Gerrards. And over the course of the year we were delighted to welcome a group of 15 investment managers to our London office who were previously with Dryden Wealth Management.

These, and indeed all who have joined Charles Stanley in the past 12 months, have made an excellent start, and they add yet greater breadth and depth to the level of service that we offer.

### **Corporate Finance**

This division had another strong year, growing its retained corporate client list to an overall fifty five. Its focus remains upon acting for good quality smaller and growing UK-listed companies across the majority of stock market sectors.

Overall £83 million was raised on behalf of corporate clients across fourteen transactions and the division advised on a further eleven transactions valued in total at £286 million. Nine IPOs were also completed, including those of several foreign companies. In consequence, our corporate finance income increased by 34.0% to £6.9 million (2005: £5.2m).

Several highly experienced individuals have been appointed to ensure that this division remains appropriately resourced to service both its existing client base and its expected growth. This includes a significant investment in the expansion of its institutional sales trading activities.

Earlier this year the division was re-branded as Charles Stanley Securities. This not only reflects the growth of the division, but is more in keeping with the particular nature of its activities.

### **EBS (Pensions Administration), Financial Planning and Benefit Consultancy**

The division has shown a further year of growth with revenues rising to £4.5 million compared with revenues in 2005 of £3.2 million.

EBS has advanced strongly, with more than 300 SIPPs taken on in the latest twelve months.

During the year the Benefit Consultancy Division has further consolidated its position with the integration into a single division of our Plymouth, London and Southampton offices.

We are actively looking at expanding each of these areas through a mixture of acquisition and organic growth.

## **The quality of our service**

As always, I draw the attention of shareholders to the enormous amount of hard work, skill and dedication from a large and growing team of very professional people, in producing such an excellent set of results at Charles Stanley.

During the year we engaged an independent consultant to conduct a major survey of our clients. This was very well received and provided independent confirmation of Charles Stanley's strong reputation for client service. The results will help us with future planning to improve still further the quality of our services.

In the next two or three years we face some fundamental changes in the way that we do things, due principally to the Financial Services Action Plan of the European Union. We are a company that engages pro-actively with our regulators, with trade bodies and with industry working groups. This not only enhances our skills and the quality of the service that we offer but also keeps us in close touch with regulatory developments. Thus, I believe we are well positioned to implement this challenging programme of change.

On behalf of shareholders I offer my thanks to everyone at Charles Stanley who has made 2005-06 such a successful year.

## **Outlook**

Against a turbulent financial background the world's stock exchanges are dancing a strange quadrille: a whirl of partners who move to and fro in dizzy patterns. This at a time when European legislation threatens to dismantle the monopoly that some of these exchanges have enjoyed. We see interesting opportunities in the merger of markets, whether these involve the London Stock Exchange or not. But the range of possible outcomes is too varied at this stage to know with any precision what these opportunities might be.

In such conditions our shareholders might expect even greater caution this year than I express in every annual statement about the prospects for the year ahead. But I see other factors too. Economic conditions remain generally benign. Forthcoming European legislation, however complicated and onerous, opens up new opportunities with its promise of breaking down barriers.

Despite the obvious risks of making predictions, I look forward to the year ahead with, once again, a degree of optimism.

Sir David Howard

Chairman

## **Financial Calendar**

8 June 2006	Results announced
5 July 2006	Ex-dividend date for final dividend
7 July 2006	Record date for final dividend
18 July 2006	Annual General Meeting
28 July 2006	Final dividend paid

**Charles Stanley Group PLC**  
**Consolidated Income Statement**  
Year ended 31 March 2006

	<i>Notes</i>	<b>2006</b> <b>£'000</b>	<i>2005</i> <i>£'000</i>
<b>Continuing operations</b>			
Revenue	2	<b>92,555</b>	78,687
Administrative expenses		<b>(81,194)</b>	(69,657)
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Operating profit	4	<b>11,361</b>	9,030
Interest payable and similar charges	5	<b>(153)</b>	(118)
Interest receivable	5	<b>1,825</b>	1,605
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Profit before tax		<b>13,033</b>	10,517
Taxation	6	<b>(4,377)</b>	(3,688)
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Profit for the year		<b>8,656</b>	6,829
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Profit attributable to minority interest		<b>34</b>	9
Profit attributable to equity shareholders		<b>8,622</b>	6,820
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		<b>8,656</b>	6,829
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## Earnings per Share

	<i>Notes</i>	<b>2006</b>	2005
<b>Based on profit for the year</b>			
Basic	7	<b>20.45p</b>	16.18p
Diluted	7	<b>19.62p</b>	15.47p

## Statement of Recognised Income and Expense

	<b>£'000</b>	£'000
Profit for the year	<b>8,656</b>	6,829
Revaluation of financial assets	<b>2,483</b>	2,406
Deferred tax on revaluation of financial assets	<b>(443)</b>	(427)
Retirement benefit scheme actuarial loss	<b>(2,284)</b>	(311)
Deferred tax on retirement benefit scheme actuarial loss	<b>729</b>	-
Net gains not recognised in the income statement	<b>485</b>	1,668
Total recognised income for the year	<b>9,141</b>	8,497
Attributable to minority interest	<b>34</b>	9
Attributable to equity shareholders	<b>9,107</b>	8,488
	<b>9,141</b>	8,497

**Charles Stanley Group PLC**  
**Consolidated Balance Sheet**  
31 March 2006

	Notes	2006 £'000	2005 £'000
<b>Assets</b>			
Non-current assets			
Goodwill	9	15,603	15,575
Property, plant and equipment	10	5,480	5,995
Financial assets	11	7,170	4,787
		<b>28,253</b>	26,357
Current assets			
Trade and other receivables	12	239,890	232,055
Financial assets		-	1,108
Cash and cash equivalents	13	48,108	44,234
		<b>287,998</b>	277,397
<b>Liabilities</b>			
Current liabilities			
Financial liabilities	14	(1,001)	(991)
Trade and other payables	15	(253,190)	(249,357)
Current tax liabilities		(3,099)	(2,250)
		<b>(257,290)</b>	(252,598)
Net current assets		<b>30,708</b>	24,799
Non-current liabilities			
Financial liabilities	14	(556)	(600)
Retirement benefit liability		(2,429)	(111)
Deferred tax liabilities		(504)	(831)
Other non-current liabilities	15	(100)	(1,079)
		<b>(3,589)</b>	(2,621)
<b>Net assets</b>		<b>55,372</b>	48,535
<b>Shareholders' equity</b>			
Ordinary shares	16	10,541	10,538
Share premium	17	21	3
Other reserves	17	3,955	2,863
Retained earnings	17	40,675	34,928
Total shareholders' equity	18	55,192	48,332
Minority interest in equity		180	203
<b>Total equity</b>		<b>55,372</b>	48,535

**Charles Stanley Group PLC**  
**Consolidated Cash Flow Statement**  
Year ended 31 March 2006

	<i>Notes</i>	<b>2006</b> <b>£'000</b>	<b>2005</b> <b>£'000</b>
<b>Cash flows from operating activities</b>			
Cash generated from operations	19	<b>10,062</b>	18,258
Interest received		<b>1,825</b>	1,605
Interest paid		<b>(153)</b>	(118)
Tax paid		<b>(3,527)</b>	(3,489)
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Net cash from operating activities		<b>8,207</b>	16,256
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<b>Cash flows from investing activities</b>			
Acquisition of subsidiaries and other businesses		<b>(2,461)</b>	(2,802)
Proceeds from sale of property, plant and equipment		<b>28</b>	408
Purchase of property, plant and equipment		<b>(1,846)</b>	(2,922)
Proceeds from available for sale investments		<b>2,956</b>	1,415
Purchase of available for sale investments		<b>(445)</b>	(298)
Dividends received		<b>83</b>	438
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Net cash used in investing activities		<b>(1,685)</b>	(3,761)
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<b>Cash flows from financing activities</b>			
Net proceeds from issue of ordinary share capital		<b>21</b>	4
Capital element of finance lease payments		<b>(329)</b>	(214)
Dividends paid to shareholders		<b>(2,340)</b>	(2,044)
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Net cash used in financing activities		<b>(2,648)</b>	(2,254)
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<b>Net increase in cash and cash equivalents</b>		<b>3,874</b>	10,241
Cash and cash equivalents at start of year		<b>44,234</b>	33,993
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Cash and cash equivalents at end of year		<b>48,108</b>	44,234
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## General information

### **Basis of preparation**

The results are an abridged extract from the financial statements for the year ended 31 March 2006, which have not yet been delivered to the Registrar of Companies. The auditors' report on the full financial statements has yet to be signed.

The results have been prepared on a basis consistent with the accounting policies set out below. 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 comparative figures for the year ended 31 March 2005 have been taken from, but do not constitute, the Company's statutory financial statements for that financial year as restated for the effects of the adoption of International Financial Reporting Standards. Those financial statements have been reported on by the Company's auditors and delivered to the Registrar of Companies. The report was unqualified.

The financial information for the year ended 31 March 2006 has been prepared in accordance with International Financial Reporting Standards ("IFRS") subject to exemptions referred to below.

### **Explanation of transition to IFRS**

This is the first year for which the Group has presented its financial statements under IFRS. The last financial statements under UK GAAP were for the year ended 31 March 2005.

The Group has applied the transitional provisions of IFRS 1 "First time adoption of International Financial Reporting Standards". The date of transition to International Financial Reporting and Accounting Standards was 1 April 2004 and all comparative information in these financial statements has been restated to reflect the Group's adoption of International Financial Reporting and Accounting Standards.

IFRS 1 contains a number of exemptions which companies are permitted to apply. The Group has elected:

- not to restate its financial information for acquisitions occurring before 1 April 2004;
- to deem cumulative translation differences to be zero at 1 April 2004;
- to recognise all actuarial gains and losses on pensions and other post-retirement benefits directly in equity attributable to equity holders of the parent at 1 April 2004;
- To apply IFRS 2 to all grants of equity instruments after 7 November 2002 that had not vested as of 1 January 2005.

The financial information for the year ended 31 March 2005 has been derived from audited UK GAAP information adjusted for the impact of IFRS. The impact of the transition from UK GAAP to IFRS at 1 April 2004 and 31 March 2005 is contained in the reconciliations of equity that are shown as note 20 of this announcement.

## 1 Accounting Policies

### **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 2006. For the purposes of these accounts, uniform accounting policies have been followed by the Group. All significant intercompany transactions and balances between Group entities are eliminated on consolidation.

### **Revenue**

Revenue comprises stockbroking commission, investment management fees, corporate finance fees, the profit on buying and selling securities, and the profit or loss arising on positions held in securities.

Dividends are credited to the income statement in the year in which they are receivable and are shown exclusive of tax credits. Stockbroking commission and fees are stated gross but exclude value added tax.

### **Foreign currencies**

Foreign currency items 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 income statement.

### **Intangible assets**

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary at the date of acquisition.

Goodwill is recognised as an asset and is reviewed for impairment at least annually, or on such other occasions where changes in circumstances indicate that it might be impaired. Any impairment is recognised immediately in the income statement and is not subsequently reversed. Goodwill arising on acquisition is allocated to cash-generating units for purposes of impairment testing.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amount and was subject to an impairment review at the date of transition.

### **Impairment**

The Group reviews the carrying amounts of its tangible and intangible assets with finite lives to determine whether there is any indication that those assets have suffered an impairment loss on an annual basis. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of fair value less any cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present values using a pre-tax discount rate. This rate reflects current market assessments of the time value of money as well as the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of the impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase. However, impairment losses relating to goodwill may not be reversed.

### **Property, plant and equipment**

Property, plant and equipment are included in the balance sheet at cost less accumulated depreciation and any provisions for impairment.

Freehold land is not depreciated. Other property, plant and equipment 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 income statement using the annuity method. Depreciation on the relevant assets is charged to the income

statement. All other leases are “operating leases”, and the annual rentals are charged to the income statement on a straight line basis over the lease term.

### **Financial assets**

Investments in securities are recognised and derecognised on trade date. Such investments are initially measured at cost, excluding transaction costs which are expensed immediately.

After initial recognition, investments which are classified as held for trading or available-for-sale are measured at fair value. Gains or losses on investments held for trading are recognised in the profit and loss for the period. Gains or losses on available-for-sale investments are recognised directly as a separate component of equity until the investment is sold, or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the profit or loss for the period.

Investments are classified as held to maturity when they are non-derivatives with fixed or determinable payments and a fixed maturity that the Group has a positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification.

For investments that are actively traded in organised financial markets, fair value is determined by reference to quoted bid prices at the close of business on the balance sheet date. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same. Alternatively, it is calculated based on the expected cash flows of the underlying net asset base of the investment.

### **Retirement benefit costs**

The cost of providing benefits under defined benefit plans are determined using the projected unit credit method, with actuarial valuations being carried out on an annual basis.

Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the income statement and are presented in the statement of recognised income and expense. Past service cost is recognised immediately to the extent that the benefits are already vested. The amount recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to the unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

### **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.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible.

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.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. Deferred tax liabilities are recognised for all temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences may be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affect neither the tax profit nor the accounting profit.

The carrying amounts of deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the rates that are expected to apply when the asset or liability is settled or when the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

### Share-based payments

The Group has applied the requirements of IFRS 2 "Share-based Payments". In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that had not vested as of 1 January 2005.

The Group grants share options to certain employees. These are measured at fair value at the date of grant. The fair value so determined is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of shares that will eventually vest. The fair value of share options granted at market price is determined using a Black Scholes valuation model.

## 2 Revenue

	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
Commission	<b>57,248</b>	48,150
Investment management fees	<b>13,021</b>	10,556
Administration fees	<b>14,923</b>	13,012
Corporate finance fees	<b>6,911</b>	5,158
Other income	<b>452</b>	1,811
	<b>92,555</b>	78,687

## 3 Staff costs

**The average number of persons employed (including Directors) during the year was 517 (2005: 485).**

Staff costs for the Group during the year:

Wages and salaries	<b>26,781</b>	21,401
Social security costs	<b>3,315</b>	2,394
Other pension costs	<b>2,364</b>	2,116
	<b>32,460</b>	25,911

## 4 Operating profit

The following items have been included in arriving at operating profit:

Depreciation of property, plant and equipment:		
- owned assets	<b>2,193</b>	2,108
- assets held under finance leases	<b>212</b>	171
Profit on disposal of property, plant and equipment	<b>(61)</b>	-
Profit on disposal of financial assets	<b>(408)</b>	(257)
Auditors' remuneration		
- Audit services	<b>106</b>	101
- Further assurance services (including "due diligence" work)	<b>-</b>	27
- Tax Services	<b>40</b>	36
Operating lease rentals payable	<b>1,215</b>	1,210
Sublet of lease – George Street, Edinburgh	<b>-</b>	444
One-off revenue costs relating to new investment teams	<b>2,201</b>	-

## 5 Finance income – net

	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
Interest expense:		
Interest payable on bank borrowings	<b>(32)</b>	(13)
Interest payable on other loans	<b>(102)</b>	(83)
Interest payable on finance leases	<b>(19)</b>	(22)
Interest payable and similar charges	<b>(153)</b>	(118)
Interest income	<b>1,825</b>	1,605
Finance income – net	<b>1,672</b>	1,487

## 6 Taxation

Current taxation		
- Continuing operations	<b>4,489</b>	3,723
- Relating to prior years	<b>(106)</b>	-
Deferred taxation		
- Continuing operations	<b>(6)</b>	(35)
	<b>4,377</b>	3,688

## 7 Earnings per share

	<b>£'000</b>	<b>£'000</b>
Earnings attributable to ordinary shareholders	<b>8,622</b>	6,820
	<b>No.</b>	<b>No.</b>
	<b>'000</b>	<b>'000</b>
Weighted average number of shares in issue in the year	<b>42,158</b>	42,151
Dilution	<b>1,780</b>	1,932
	<b>43,938</b>	44,083
Basic earnings per share	<b>20.45p</b>	16.18p
Diluted earnings per share	<b>19.62p</b>	15.47p

## 8 Dividends paid

	<b>£'000</b>	<b>£'000</b>
Final paid for 2005: 4.15p (2004: 3.75p) per 25p share	<b>1,750</b>	1,581
Interim paid for 2006: 1.40p (2005: 1.10p) per 25p share	<b>590</b>	463
	<b>2,340</b>	2,044

In addition, the Directors are proposing a final dividend in respect of the year ended 31 March 2006 of 5.35p per share which will absorb an estimated £2.3 million of shareholders' funds. It will be paid on 28 July 2006 to shareholders who are on the register of members on 7 July 2006.

## 9 Goodwill

	<b>2006</b>	2005
	<b>£'000</b>	£'000
Cost		
1 April 2005	<b>19,664</b>	15,935
Additions	<b>660</b>	3,729
Disposals and adjustment to deferred consideration	<b>(718)</b>	-
31 March 2006	<b>19,606</b>	19,664
Aggregate amortisation		
1 April 2005	<b>4,089</b>	4,089
Disposals	<b>(86)</b>	-
31 March 2006	<b>4,003</b>	4,089
Net book value at 31 March 2006	<b>15,603</b>	15,575

## 10 Property, plant and equipment

	<i>Freehold premises</i>	<i>Long leasehold premises</i>	<i>Short leasehold premises</i>	<i>Office equipment and motor vehicles</i>	<i>Total</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Cost					
1 April 2005	185	1,893	3,393	11,212	16,683
Additions	-	8	661	1,271	1,940
Disposals	-	-	(262)	(4,581)	(4,843)
31 March 2006	185	1,901	3,792	7,902	13,780
Depreciation					
1 April 2005	21	1,324	1,446	7,897	10,688
Charge for year	3	160	466	1,776	2,405
Disposals	-	-	(262)	(4,531)	(4,793)
31 March 2006	24	1,484	1,650	5,142	8,300
Net book value					
31 March 2006	161	417	2,142	2,760	5,480
31 March 2005	164	569	1,947	3,315	5,995

## 11 Financial assets

	<i>Listed investments £'000</i>	<i>Unlisted investments £'000</i>	<i>Total £'000</i>
Fixed asset investments 1 April 2005			
Cost	394	305	699
Revaluation	2,027	2,061	4,088
<b>Book value</b>	<b>2,421</b>	<b>2,366</b>	<b>4,787</b>
Additions	1,065	-	1,065
Disposals	(1,165)	-	(1,165)
Revaluation in year	2,391	92	2,483
<b>31 March 2006</b>	<b>4,712</b>	<b>2,458</b>	<b>7,170</b>
Cost	1,218	305	1,523
Revaluation	3,494	2,153	5,647

## 12 Trade and other receivables

	<b>2006 £'000</b>	<b>2005 £'000</b>
Current:		
Trade debtors	<b>237,530</b>	229,897
Other debtors	<b>556</b>	630
Prepayments and accrued income	<b>1,804</b>	1,528
	<b>239,890</b>	232,055

## 13 Cash and cash equivalents

Cash at bank and in hand	<b>48,108</b>	44,234
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## 14 Financial liabilities

Current:		
3% redeemable loan	<b>157</b>	157
4.5% convertible redeemable loan note	<b>469</b>	469
4.5% redeemable unsecured loan note	<b>81</b>	171
Obligations under finance leases	<b>94</b>	194
Short position holdings	<b>200</b>	-
	<b>1,001</b>	991
Non-current:		
4.5% convertible redeemable loan note	<b>468</b>	468
Obligations under finance leases	<b>88</b>	132
	<b>556</b>	600

## 15 Trade and other payables

	2006 £'000	2005 £'000
Current:		
Trade payables	902,061	788,643
Less funds held on behalf of clients in segregated bank accounts	<b>(658,166)</b>	(548,817)
	<b>243,895</b>	239,826
Other taxes and social security	<b>2,570</b>	2,100
Other creditors	<b>1,293</b>	3,121
Accruals and deferred income	<b>5,432</b>	4,310
	<b>253,190</b>	249,357
Non-current:		
Other creditors	<b>100</b>	1,079

## 16 Called up share capital

Authorised:		
80,000,000 ordinary shares of 25p each	<b>20,000</b>	20,000
Allotted and fully paid:		
42,165,335 (2005: 42,153,753) ordinary shares of 25p each	<b>10,541</b>	10,538

On 31 March 2006 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	38,583	£2.87
Grant dated 2 January 2003 Exercisable during the six months commencing 1 February 2008	1,741,110	£0.96

During the year 6,666 ordinary shares were issued fully paid for cash at 96p each and 4,916 ordinary shares were issued fully paid for cash at 287p each following the exercise of options by former employees.

## 17 Reserves

	Share premium £'000	Revaluation reserve £'000	Retained earnings £'000
1 April 2005	3	2,863	34,928
Net profit	-	-	8,622
Dividends paid	-	-	(2,340)
Revaluation of financial assets	-	2,483	-
Deferred tax on revaluation of financial assets	-	(443)	-
Transfer of realised revaluation surplus	-	(948)	948
Retirement benefit scheme actuarial loss	-	-	(2,284)
Deferred tax on retirement benefit scheme actuarial loss	-	-	729
Share options - value of employee services	-	-	72
– issue of shares	18	-	-
31 March 2006	21	3,955	40,675

**18 Statement of changes in shareholders' equity**

	<i>Share capital £'000</i>	<i>Share premium £'000</i>	<i>Other reserves £'000</i>	<i>Retained earnings £'000</i>	<i>Total £'000</i>
1 April 2004	10,537	-	1,876	29,428	41,841
Net profit	-	-	-	6,820	6,820
Dividends paid	-	-	-	(2,044)	(2,044)
Revaluation of financial assets	-	-	2,406	-	2,406
Deferred tax on revaluation of financial assets	-	-	(427)	-	(427)
Transfer realised revaluation surplus	-	-	(992)	992	-
Retirement benefit scheme actuarial loss	-	-	-	(311)	(311)
Share options – value of employee services	-	-	-	43	43
– issue of shares	1	3	-	-	4
<b>31 March 2005</b>	<b>10,538</b>	<b>3</b>	<b>2,863</b>	<b>34,928</b>	<b>48,332</b>
Net profit	-	-	-	8,622	8,622
Dividends paid	-	-	-	(2,340)	(2,340)
Revaluation of financial assets	-	-	2,483	-	2,483
Deferred tax on revaluation of financial assets	-	-	(443)	-	(443)
Transfer realised revaluation surplus	-	-	(948)	948	-
Retirement benefit scheme actuarial loss	-	-	-	(2,284)	(2,284)
Deferred tax on retirement benefit scheme actuarial loss	-	-	-	729	729
Share options – value of employee services	-	-	-	72	72
– proceeds of shares issued	3	18	-	-	21
<b>31 March 2006</b>	<b>10,541</b>	<b>21</b>	<b>3,955</b>	<b>40,675</b>	<b>55,192</b>

**19 Reconciliation of net profit to cash generated from operations**

	<b>2006 £'000</b>	<b>2005 £'000</b>
Net profit	<b>13,033</b>	10,517
Adjustments for:		
Depreciation	<b>2,405</b>	2,279
Retirement benefit credit	-	(49)
Share option cost	<b>72</b>	43
Dividend income	<b>(83)</b>	(436)
Interest income	<b>(1,825)</b>	(1,605)
Interest expense	<b>153</b>	118
Profit on disposal of property, plant and equipment	<b>(61)</b>	-
Profit on disposal of financial assets	<b>(408)</b>	(257)
Financial assets acquired in lieu of fees	<b>(620)</b>	-
Changes in working capital:		
Increase in debtors	<b>(7,710)</b>	(60,566)
Increase in creditors	<b>5,106</b>	68,214
<b>Cash generated from operations</b>	<b>10,062</b>	<b>18,258</b>

## 20 Reconciliation of net assets and profit under UK GAAP to IFRS

Charles Stanley Group PLC reported under UK GAAP in its previous published financial statements for the year ended 31 March 2005. The analysis below shows a reconciliation of net assets and profit as reported under UK GAAP as at 31 March 2005 to the revised net assets and profit under IFRS as reported in these financial statements. In addition there is a reconciliation of net assets under UK GAAP to IFRS at the transition date for this company, being 1 April 2004.

### Reconciliation of profit for the year ended 31 March 2005

	Notes	Previous GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
<b>Continuing operations</b>				
Revenue		78,021	666	78,687
Administrative expenses	(a) (c) (d)	(71,773)	2,116	(69,657)
Operating profit		6,248	2,782	9,030
Profit on sale of fixed assets		257	(257)	-
Income from fixed asset investments		438	(438)	-
Interest payable and similar charges		(118)	-	(118)
Interest receivable		1,605	-	1,605
Profit before tax		8,430	2,087	10,517
Taxation	(e)	(3,723)	35	(3,688)
Profit for the year		4,707	2,122	6,829

Under IFRS profit on sale of fixed assets and income from fixed asset investments are included in revenue.

## Reconciliation of equity at 1 April 2004 (date of transition to IFRS)

	Notes	Previous GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
<b>Assets</b>				
Non-current assets				
Goodwill		11,846	-	11,846
Property, plant and equipment		5,493	-	5,493
Financial assets		3,670	-	3,670
Retirement benefit asset	(d)	-	73	73
		21,009	73	21,082
Current assets				
Trade and other receivables		171,489	-	171,489
Financial assets		908	-	908
Cash and cash equivalents		33,993	-	33,993
		206,390	-	206,390
<b>Liabilities</b>				
Current liabilities				
Financial liabilities		(509)	-	(509)
Trade and other payables	(b)	(182,640)	1,581	(181,059)
Current tax liabilities		(2,016)	-	(2,016)
		(185,165)	1,581	(183,584)
Net current assets		21,225	1,581	22,806
Non-current liabilities				
Financial liabilities		(293)	-	(293)
Deferred tax liabilities	(e)	-	(385)	(385)
Other non-current liabilities		(1,125)	-	(1,125)
		(1,418)	(385)	(1,803)
<b>Net assets</b>		40,816	1,269	42,085
<b>Shareholders' equity</b>				
Ordinary shares		10,537	-	10,537
Other reserves	(e)	2,675	(799)	1,876
Retained earnings	(a to e)	27,360	2,068	29,428
Total shareholders' equity		40,572	1,269	41,841
Minority interest in equity		244	-	244
<b>Total equity</b>		40,816	1,269	42,085

## Reconciliation of equity at 31 March 2005

	Notes	Previous GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
<b>Assets</b>				
Non-current assets				
Goodwill	(a)	13,518	2,057	15,575
Property, plant and equipment		5,995	-	5,995
Financial assets		4,787	-	4,787
		24,300	2,057	26,357
<b>Current assets</b>				
Trade and other receivables		232,055	-	232,055
Financial assets		1,108	-	1,108
Cash and cash equivalents		44,234	-	44,234
		277,397	-	277,397
<b>Liabilities</b>				
<b>Current liabilities</b>				
Financial liabilities		(991)	-	(991)
Trade and other payables	(b)	(251,107)	1,750	(249,357)
Current tax liabilities		(2,250)	-	(2,250)
		(254,348)	1,750	(252,598)
Net current assets		23,049	1,750	24,799
<b>Non-current liabilities</b>				
Financial liabilities		(600)	-	(600)
Retirement benefit liabilities	(d)	-	(111)	(111)
Deferred tax liabilities	(e)	-	(831)	(831)
Other non-current liabilities		(1,079)	-	(1,079)
		(1,679)	(942)	(2,621)
<b>Net assets</b>		45,670	2,865	48,535
<b>Shareholders' equity</b>				
Ordinary shares		10,538	-	10,538
Share premium		3	-	3
Other reserves	(e)	4,089	(1,226)	2,863
Retained earnings	(a to e)	30,837	4,091	34,928
Total shareholders' equity		45,467	2,865	48,332
Minority interest in equity		203	-	203
<b>Total equity</b>		45,670	2,865	48,535

## **Notes to the reconciliation of equity due to IFRS**

This is the first year that the Group has presented its accounts under IFRS. The following disclosures are required in the year of transition to describe how the transition from UK generally accepted accounting principles (UK GAAP) has affected the reported financial position, financial performance and cash flows of the Group. The date of transition to IFRS is 1 April 2004, and the earliest period for which full comparative information is presented in accordance with IFRS is the year ended 31 March 2005. The effects that each of these statements have on the restated comparative information are also shown below.

### **(a) IFRS 3 – Business Combinations**

In accordance with the transitional provisions of IFRS 1, the Group has chosen to apply IFRS 3 retrospectively from the date of transition. The result of this application is that the value of goodwill arising from previous acquisitions is frozen at the value held on the Group balance sheet as at 1 April 2004, and the reversal of any amortisation charged in the year to 31 March 2005.

This change results in the reversal of £2.1 million previously charged to the income statement under UK GAAP for the year ended 31 March 2005. The value of intangible assets is therefore also increased by £2.1 million for the year ended 31 March 2005.

### **(b) IAS 10 - Events after Balance Sheet Date**

Under this standard, assets and liabilities should be adjusted for subsequent events that existed at the balance sheet date, but not for events that are indicative of conditions that arose subsequent to the balance sheet date. Under UK GAAP proposed dividends at the year end were accrued even though there is no obligation to pay until the dividend is declared. Under IAS 10, entities are not permitted to recognise a liability for dividends declared after the balance sheet date.

The impact of this change is to increase equity at 1 April 2004 by £1.5 million, and at 31 March 2005 by £1.7 million.

### **(c) IFRS 2 – Share-based Payment**

The Group recognises a charge to the income statement for the fair value of outstanding share options in relation to the Company's Save As You Earn scheme granted to employees after 7 November 2002 and not vested by 1 January 2005. These charges are calculated using a Black-Scholes technique, and are spread over the relevant vesting periods, taking account of actual and expected levels of vesting. Under UK GAAP, there was no charge in the income statement in relation to share option awards.

This change results in a charge of £0.02 million to profit for the year ended 31 March 2005.

### **(d) IAS 19 – Employee Benefits**

The Group recognises the net asset/liability on defined benefit schemes in the balance sheet and takes all service costs to the profit and loss statement.

These changes increase equity at 1 April 2004 by £0.1 million, and reduce equity at 31 March 2005 by £0.1 million. This standard also requires an increase in profit of £0.05 million to be recorded for the year ended 31 March 2005.

### **(e) IAS 12 – Income Taxes**

The Group recognises a deferred tax liability on timing differences, unused capital tax losses, revaluations of investments and on retirement benefit assets/liabilities.

These changes result in the recording of a deferred tax liability of £0.4 million at 1 April 2004, and a deferred tax liability of £0.8 million at 31 March 2005.