

# Charles Stanley

GROUP PLC

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12 June 2001

## **ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 MARCH 2001**

- Pre-tax profit up 2% at £15.47 million
- Turnover up 2% at £70.44 million
- Earnings per share up 11% at 26.55p
- Dividends per share up 23% at 4.00p
- Net asset value per share up 47% at 86.44p

I am delighted to report that Charles Stanley Group has once again achieved record results. Though stock market volumes have been subdued this year, the Group has succeeded in consolidating the rapid profits growth of recent years. The Directors view this as an excellent result. Profit before tax reached £15.5 million, compared with £15.2 million for the previous year, and earnings per share increased from 23.82p to 26.55p. Excluding goodwill amortisation, earnings per share increased from 24.68p to 27.20p. The final dividend is increased to 3.25p making a total of 4.00p for the year, an increase of 23%. Shareholders' funds rose by 53% from £23.8 million to £36.4 million.

The strategy of the Group is to provide the widest range of stockbroking and investment services, from the higher value added discretionary management of clients' portfolios through full-service advisory stockbroking to dealing-only services by telephone and the internet. We offer a range of products and services including ISAs and PEPs, Self Invested Pension Plans and more recently stakeholder pension plans, together with cash management. In addition to this breadth of service to the retail market we have a significant agency broking operation serving the institutional market. We also have a growing Corporate Finance department, providing both general and specific advice to the smaller quoted companies sector. These services and products are supported by our independent research capability.

By providing services along the entire waterfront, to a complete range of clients, we believe that we remain well positioned to manage our business as different areas of the market place experience growth and contraction.

This relies also on our attention to quality, our proactive embrace of new technology, and the excellence of our staff. For example, we followed our prestigious award last year as the "Best Medium Stockbroker" for 1999, according to readers of the

Investors Chronicle, by their award this year of “Best Dealing-Only UK Stockbroker” for 2000. We were the first stockbroker to own our own web site, and through our on-line service, Xest, we have pioneered successful internet share-dealing services for Egg and Fidelity Investments.

Because stockbroking is a volatile business we build a significant degree of gearing into our expenditure. Fixed overheads are kept as low as possible, so that expenditure rises – and, more significantly, in adverse conditions falls – in line with income. At the same time we seek a steady increase in fee income. This is volatile, too. It depends on factors such as stock market valuations and the volume of corporate finance activity. But it often follows a different cycle to dealing commission income, still our primary source of revenue, and therefore helps to balance the portfolio still further.

## **Results for the year**

Once again all divisions of the Group performed well. Turnover increased by 2% from £69.4 million to £70.4 million. A decrease in commission was more than offset by increased investment management and corporate finance fees. Funds under management have risen to £6.1 billion with £775 million under discretion. Within this, £800 million is held in PEPs and ISAs. Key aspects which have influenced the results are detailed below.

### **Commission**

Gross commission decreased by 6% from £57.3 million to £53.9 million in line with a decrease of 6% in bargain numbers, though we have maintained our market share of approximately 3% of total volumes. Last year’s figures included the five months from November 1999 to March 2000 when stock market trades suddenly increased, fuelled by a combination of excitement over “dot.com” stocks and the excitement, too, of carrying out share transactions on the internet.

Our dealing only services, “Gold Dealing Card” and Xest, enjoyed another successful year. The number of bargains dealt over our internet services doubled during the year. “Gold Dealing Card” telephone-dealing bargain numbers fell in line with the fall in market volumes. Taken together our dealing-only services generated revenues of £3.2 million, the same level as last year. We have a rolling programme of regular updates of the web-site, with new design and added content. The client base is growing steadily, and the service, though very competitively priced, generates a useful contribution.

The research and development which we have carried out to create the internet delivery of our services has a direct impact on our upstream investment management and advisory business, too. During the year we have rolled out a variety of services to our investment clients, enabling viewing of their portfolios, dealing statements and in-house research on-line.

### **Investment management fees**

Fees, principally from ISAs and PEPs, investment and cash management, reached a new record of £13.7 million in the year to 31 March 2001 compared with £10.2 million for 1999/2000, an increase of 34%.

## **Corporate finance and corporate broking**

This division has had a good year with fees in excess of £2.75 million against £1.87 million in the previous year. During the year we have acted on six flotations and several larger secondary placings together with a number of general advisory instructions. At the year end the division acted on a retainer basis for thirty clients, who are either fully listed or listed on AIM.

## **Acquisitions**

The Group seeks to make strategic acquisitions to complement its geographical or business coverage, financed where possible from its own resources. We purchased for cash in January 2001 a successful stockbroking branch in the Isle of Wight, and in March 2001 Forester MacLean Benefit Consultants Limited to strengthen our financial planning division. Both businesses are expected to make contributions in the coming year.

## **Management of change**

Few industries can have undergone the pace and extent of change which stockbroking has, in recent years. A key ingredient in our growth has been the ability to plan for these changes, and to manage them successfully. In coming months we anticipate far-reaching regulatory changes, for which much work is being undertaken. And we expect significant developments in the world of trading, clearing and settlement. New trading platforms are evolving, old ones are consolidating, and there is a constant ferment of activity and speculation. All of these developments will, we think, bring clients greater choice, better prices and more efficiency, and we view all this positively.

Underlying this is a steady upward trend, globally, in equity share ownership. Our skills and our range of experience suggest that the Group is well placed to benefit from all this.

## **Dividends**

The Directors recommend an increase in the final dividend from 2.75p to 3.25p net per share. Taken together with the increase in the interim dividend from 0.50p to 0.75p net per share this gives a total for the year of 4.00p (1999/2000: 3.25p), an overall increase of 23%.

In the past six years the amount distributed in dividend has increased by 663%, but the dividend remains well covered by earnings, at 6.6 times.

## **Shareholders' funds**

Shareholders' funds rose by 53% from £23.8 million at 31 March 2000 to £36.4 million at 31 March 2001. Of this increase of £12.6 million, £2.9 million represents for the first time the Group's holding of 100,000 shares in the London Stock Exchange.

## **Capital expenditure**

Expenditure on tangible fixed assets totalled £4.2 million during the year. £1.5 million of this figure was invested in replacing our mainframe computer and telephone system.

## **Our staff**

As always, our staff are the key to this business. On behalf of shareholders I pay tribute to everyone in Charles Stanley for their skill, commitment and dedication in achieving such a successful year.

Once again we propose to issue Charles Stanley shares, purchased in the market, to our employees so as to reinforce their involvement in the company. This is the eighth year that we have done so. The current Profit Sharing Scheme is being phased out by the Inland Revenue and is being replaced by the new All-Employee Share Ownership Plan (which shareholders have previously approved). While there are numerous additional features to the new scheme, it contains similar provisions to our existing scheme and it will be operated in a similar way.

## **Outlook**

Market conditions remain subdued in the opening weeks of the new financial year. It is impossible at this early stage of the year to see to what extent we might expect an upturn in volumes. If this does not materialise it is inevitable that our results for the half-year will fall short of last year's record interim profits notwithstanding the improvement in the mix of our business going forward. Much will depend on the economic indicators in the USA and Europe. While we do not foresee an imminent return to the over-heated conditions of 18 months ago, we are looking for an improved economic picture during the third or fourth quarter of the current year.

We are well placed to weather any continuing downturn. Our balance sheet is strong, and we continue to seek suitable acquisitions. It is too early to predict the outcome for the year, but our overall assessment is positive.

FOR FURTHER INFORMATION PLEASE CONTACT

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Chairman and  
Managing Director

PETER HURST  
Finance Director

MARTINA MURPHY  
Financial Controller

### **HSBC INVESTMENT BANK PLC**

**Phone 020 7336 9000**

TOM DURIE  
Director

CHARLES STANLEY GROUP PLC  
Consolidated Profit and Loss Account  
Year ended 31 March 2001

	<i>Note</i>	<b>2001</b> <b>£'000</b>	<b>2000</b> <b>£'000</b>
TURNOVER	2	70,443	69,372
Operating expenses		<u>56,153</u>	<u>54,979</u>
OPERATING PROFIT		14,290	14,393
Interest receivable		1,565	1,074
Interest payable	3	<u>384</u>	<u>307</u>
PROFIT BEFORE TAX		15,471	15,160
Taxation	4	<u>4,447</u>	<u>5,510</u>
PROFIT ATTRIBUTABLE TO SHAREHOLDERS		11,024	9,650
Dividends	5	<u>1,686</u>	<u>1,317</u>
PROFIT RETAINED FOR THE YEAR		<u>9,338</u>	<u>8,333</u>
EARNINGS PER SHARE			
- basic	6	<u>26.55p</u>	<u>23.82p</u>
- diluted	6	<u>26.19p</u>	<u>22.90p</u>
Excluding goodwill amortisation			
- basic		<u>27.20p</u>	<u>24.68p</u>
- diluted		<u>26.83p</u>	<u>23.73p</u>

There were no differences between the results on a historical basis and those reflected above.

Statement of Total Recognised Gains and Losses

	<b>2001</b> <b>£'000</b>	<b>2000</b> <b>£'000</b>
Profit for the year	11,024	9,650
Unrealised gains on investments	2,954	115
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR	<u>13,978</u>	<u>9,765</u>

CHARLES STANLEY GROUP PLC  
CONSOLIDATED BALANCE SHEET  
31 MARCH 2001

	<i>Notes</i>	<i>2001</i> <i>£'000</i>	<i>2000</i> <i>£'000</i>
<b>FIXED ASSETS</b>			
Intangible		2,533	1,890
Tangible		6,814	4,305
Investments		3,667	577
		<u>13,014</u>	<u>6,772</u>
<b>CURRENT ASSETS</b>			
Debtors	7	173,914	448,835
Listed Investments		624	1,292
Cash at bank and in hand		<u>31,489</u>	<u>25,083</u>
		206,027	475,210
CREDITORS: due within one year	8	<u>181,160</u>	<u>455,986</u>
		24,867	19,224
NET CURRENT ASSETS		<u>24,867</u>	<u>19,224</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		37,881	25,996
		1,402	2,097
CREDITORS: due after one year	9	44	44
Minority Interests		<u>36,435</u>	<u>23,855</u>
		36,435	23,855
<b>CAPITAL AND RESERVES</b>			
Called up share capital	10	10,537	10,130
Revaluation reserve		3,069	115
Profit and loss account		<u>22,829</u>	<u>13,610</u>
EQUITY SHAREHOLDERS' FUNDS		<u>36,435</u>	<u>23,855</u>
Net Asset Value per Share		<u>86.44p</u>	<u>58.87p</u>

CHARLES STANLEY GROUP PLC  
CONSOLIDATED CASH FLOW STATEMENT  
YEAR ENDED 31 MARCH 2001

	<b>Notes</b>	<b>2001</b> <b>£'000</b>	<b>2000</b> <b>£'000</b>
NET CASH INFLOW FROM OPERATING ACTIVITIES	11	17,691	14,333
Returns on investments and servicing of finance		1,224	438
Taxation		(5,847)	(3,716)
Capital expenditure and financial investment		(3,018)	(1,152)
Acquisitions		(663)	(1,427)
Equity dividends paid		<u>(1,431)</u>	<u>(835)</u>
Cash inflow before financing		7,956	7,641
<b>FINANCING</b>			
Issue of ordinary share capital		288	9
Decrease in debt		<u>(1,838)</u>	<u>(743)</u>
Increase in cash in the period		<u>6,406</u>	<u>6,907</u>
<b>RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS</b>			
Increase in cash in the year		6,406	6,907
Cash outflow from change in debt and lease financing		<u>1,838</u>	<u>743</u>
New finance leases		8,244	7,650
		<u>(1,245)</u>	<u>(368)</u>
Movement in net funds in the year		6,999	7,282
Net funds at 1 April		<u>21,537</u>	<u>14,255</u>
Net funds at 31 March		<u>28,536</u>	<u>21,537</u>

CHARLES STANLEY GROUP PLC  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED 31 MARCH 2001

**1 BASIS OF PREPARATION**

The results are an abridged extract from the financial statements for the year ended 31 March 2001 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 on pages 20 and 21 of Charles Stanley Group PLC's annual report and financial statements for the year ended 31 March 2000. The preliminary financial statements should therefore be read in conjunction with the 2000 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 comparative figures for the year ended 31 March 2000 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. The report was unqualified.

**2 TURNOVER**

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

	<b>2001</b>	<b>2000</b>
	<b>£'000</b>	<b>£'000</b>
Commission	53,901	57,319
Investment management fees	13,696	10,179
Corporate finance fees	2,846	1,874
	<u>70,443</u>	<u>69,372</u>

**3 INTEREST PAYABLE**

On bank loans and overdrafts	314	273
Finance lease interest	70	34
	<u>384</u>	<u>307</u>

**4 TAXATION**

Current year:		
UK corporation tax at 30% (2000: 30%)	4,515	5,129
Prior years corporation tax	(68)	381
	<u>4,447</u>	<u>5,510</u>

**5 DIVIDENDS**

Interim paid of 0.75p per share (2000: 0.50p)	316	202
Proposed final of 3.25p per share (2000: 2.75p)	1,370	1,115
	<u>1,686</u>	<u>1,317</u>

The directors have recommended a final dividend of 3.25p per share. This will be paid on 30 July 2001 to shareholders registered on 22 June 2001.

The ordinary shares are expected to be quoted ex dividend on 20 June 2001.

**6 EARNINGS PER SHARE**

The calculation of earnings per share and diluted earnings per share is based on the profit for the year of £11,024,000 (2000: £9,650,000). For the basic earnings per share the weighted average number of actual shares of 41,525,134 in issue (2000: 40,503,490) is used. For the diluted earnings per share the weighted average number of actual and potential shares of 42,086,953 (2000: 42,139,070) is used.

## 7 DEBTORS

	<b>2001</b>	<b>2000</b>
	<b>£'000</b>	<b>£'000</b>
Trade debtors	172,741	448,026
Other debtors	238	299
Prepayments	935	510
	<u>173,914</u>	<u>448,835</u>

## 8 CREDITORS: amounts due within one year

Trade creditors	169,797	443,009
Bank loans	54	240
Subordinated bank loan	1,000	1,000
Obligations under finance leases	497	209
Corporation tax	2,306	3,704
Other taxes and social security	2,286	1,592
Other creditors	619	546
Accruals and deferred income	3,231	4,571
Proposed dividend	1,370	1,115
	<u>181,160</u>	<u>455,986</u>

## 9 CREDITORS: amounts due after one year

Bank loan	-	40
Subordinated bank loan	750	1,750
Obligations under finance leases	652	307
	<u>1,402</u>	<u>2,097</u>

## 10 CALLED UP SHARE CAPITAL

Authorised:		
80,000,000 (2000: 80,000,000) ordinary shares of 25p each	20,000	20,000
Allotted and fully paid:		
42,149,378 (2000: 40,519,894) ordinary shares of 25p each	10,537	10,130

During the year 1,629,484 ordinary shares were issued as fully paid following the exercise of options by employees.

On 31 March 2000 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.

	<b>No. of shares</b>	<b>Option price</b>
Grant dated 18 October 2000	<u>561,819</u>	<u>£5.07</u>

Options are exercisable during the six months commencing 1 December 2005.

## 11. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

Operating profit	14,290	14,393
Provision made against fixed asset investments	-	84
Depreciation charges	1,647	1,773
Goodwill written off	270	348
Profit on sale of fixed assets	(29)	(17)
Decrease/(increase) in debtors	275,591	(248,681)
(Decrease)/increase in creditors	<u>(274,078)</u>	<u>246,433</u>
Net cash inflow from operating activities	<u>17,691</u>	<u>14,333</u>