Company Registration No. 1903304 (England and Wales)

CHARLES STANLEY & CO LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2003

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CHARLES STANLEY & CO LIMITED

COMPANY INFORMATION

Directors	Sir David Howard Bt E M Clark P A Hurst M R I Lilwall S C King M M Murphy P C Nathan M Anderson J A Butcher M J Pitts V J Malpas
Secretary	Gary Teper
Company number	1903304
Registered office	25 Luke Street London EC2A 4AR
Auditors	Saffery Champness Lion House Red Lion Street London WC1R 4GB
Bankers	Bank of Scotland New Uberior House 11 Earl Grey Street Edinburgh EH3 9BN

CHARLES STANLEY & CO LIMITED

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2003

The directors present their report and financial statements for the year ended 31 March 2003.

Principal activities and review of the business
The company is regulated by the Financial Services Authority and is a member of the London Stock Exchange and carries on business as an agency broker.

Against a background of weaker market conditions the company has recorded a solid performance. Turnover and profit are below the record levels of the last two years and the results are in line with expectations.

Results and dividends
The results for the year are set out on page 4.

The profit for the year after taxation amounted to £1,671,297 (2002: £5,823,820). Dividends of 172.41p (2002: 172.41p) per share amounting to £5,000,000 (2002: £5,000,000) were paid during the year.

Directors
The following directors have held office since 1 April 2002:

Sir David Howard Bt
E M Clark
P A Hurst
M R I Lilwall
S C King
M M Murphy
P C Nathan
M Anderson
J A Butcher
E R Hurrell (Retired 31 March 2003)
M J Pitts
V J Malpas (Appointed 31 March 2003)

Directors' interests
The directors' beneficial interests in the shares of the parent company were as stated below:

	31 March 2003		1 April 2002 or date of appointment	
	Ordinary shares	Option scheme	Ordinary shares	Option scheme
S C King	40,000	12,500	44,700	5,879
M M Murphy	46,756	12,500	57,256	5,879
P C Nathan	508,882	25,000	413,979	11,758
M Anderson	14,930	12,500	11,730	5,879
J A Butcher	72,831	12,500	72,831	5,879
M J Pitts	2,650	12,500	2,650	5,879
V J Malpas	1,450	12,500	1,450	12,500

The other directors are also directors of the holding company and their interests are disclosed in that company's annual financial statements.

Creditor payment policy
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 trade creditors at the balance sheet date represent approximately 26 days' credit.

Auditors
In accordance with Section 385 of the Companies Act 1985, a resolution proposing that Saffery Champness be reappointed as auditors of the company will be put to the Annual General Meeting.

Directors' responsibilities
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 of its profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company 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 company and to 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.

By order of the board

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Gary Teper
Company Secretary

10 June 2003

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF CHARLES STANLEY & CO LIMITED

We have audited the financial statements on pages 4 to 14 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 page 6.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities on page 2, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements 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 are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Saffery Champness

Chartered Accountants
Registered Auditors

Lion House
Red Lion Street
London
WC1R 4GB

10 June 2003

CHARLES STANLEY & CO LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2003

	Notes	2003 £	2002 £
Turnover	2	51,051,441	54,603,339
Operating expenses		(49,908,654)	(48,335,058)
Operating profit	3	1,142,787	6,268,281
Profit on sale of investments		-	581,615
Other interest receivable and similar income		1,058,672	1,551,389
Interest payable and similar charges	4	(33,239)	(58,465)
Profit on ordinary activities before taxation		2,168,220	8,342,820
Tax on profit on ordinary activities	5	(496,923)	(2,519,000)
Profit on ordinary activities after taxation		1,671,297	5,823,820
Dividends	6	(5,000,000)	(5,000,000)
Retained (loss)/profit for the year	13	(3,328,703)	823,820

The profit and loss account has been prepared on the basis that all operations are continuing operations.

The notes on pages 6 to 14 form part of these financial statements.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2003 £	2002 £
Profit for the financial year	1,671,297	5,823,820
Unrealised (deficit)/surplus on revaluation of investments	(1,241,000)	1,181,250
Total recognised gains and losses relating to the year	430,297	7,005,070

NOTE OF HISTORICAL COST PROFITS AND LOSSES

	2003 £	2002 £
Reported profit on ordinary activities before taxation	2,168,220	8,342,820
Realisation of investment revaluation gains of previous years	-	806,750
Historical cost profit on ordinary activities before taxation	2,168,220	9,149,570
Historical cost (loss)/profit for the year retained after taxation and dividends	(3,328,703)	1,630,570

CHARLES STANLEY & CO LIMITED

BALANCE SHEET
AS AT 31 MARCH 2003

	Notes	2003 £	2003 £	2002 £	2002 £
Fixed assets					
Investments	7		2,413,890		3,554,890
Current assets					
Debtors	8	181,211,550		146,409,236	
Investments	9	322,304		152,260	
Cash at bank and in hand		24,564,343		25,927,812	
		206,098,197		172,489,308	
Creditors: Amounts falling due within one year	10	(180,052,458)		(143,014,866)	
Net current assets			26,045,739		29,474,442
Total assets less current liabilities			28,459,629		33,029,332
Capital and reserves					
Called up share capital	12		2,900,000		2,900,000
Revaluation reserve	13		2,096,500		3,337,500
Profit and loss account	13		23,463,129		26,791,832
Shareholders' funds - equity interests	14		28,459,629		33,029,332

The notes on pages 6 to 14 form part of these financial statements.

The financial statements were approved by the Board on 10 June 2003.

David Howard

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Sir David Howard Bt
Director

....
P A Hurst
Director

1 Accounting policies

1.1 Accounting convention

The company has adopted the following accounting policies which should be read in conjunction with the financial statements set out on pages 4 to 14 which have been prepared under the historical cost convention, as modified by the revaluation of fixed asset investments. The accounts have been prepared in accordance with applicable accounting standards.

1.2 Turnover

Income represents gross commission on all transactions executed during the year together with investment management fees and other stockbroking income.

1.3 Investments

Fixed asset investments are stated at market value. Unlisted investments are included at directors' valuation. 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 or deficits recognised on revaluation of those assets in earlier years are dealt with by transfer between reserves.

Current asset investments are stated at market value. Changes in the value of those assets are reflected in the profit and loss account.

1.4 Pensions

The cost of providing pension benefits is charged to the profit and loss account over the period of service of employees.

1.5 Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither 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

The total turnover of the company for the year has been derived from its principal activity wholly undertaken in the United Kingdom.

3 Operating profit

	2003 £	2002 £
Operating profit is stated after charging/(crediting):		
Management fees paid to group undertakings	4,368,563	3,860,262
Auditors' remuneration for audit services	61,379	56,250
Auditors' remuneration for non-audit services	28,785	18,300

4 Interest payable

	2003 £	2002 £
On bank loans and overdrafts	33,239	58,465

5 Taxation

	2003 £	2002 £
Current taxation		
U.K. corporation tax at 30 % (2002 – 30%)	575,000	2,213,425
Adjustment in respect of prior periods	(78,077)	305,575
Total Current Tax	496,923	2,519,000

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

	2003 £	2002 £
Profit on ordinary activities before tax	2,168,220	8,342,820
Profit on ordinary activities multiplied by the standard rate of tax of 30%	650,466	2,502,846
Effects of:		
Expenses not deductible for tax purposes	51,102	113,505
Group relief	-	(174,485)
Adjustments in respect of previous periods	(78,077)	305,575
Potential deferred tax asset not provided	-	(228,441)
Other adjustments	(126,568)	-
Current tax charge for the year	496,923	2,519,000

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

6 Dividends

	2003 £	2002 £
First ordinary interim paid of 172.41p per share (2002 – 68.96p)	5,000,000	2,000,000
Second ordinary interim paid nil (2002 – 103.45p)	-	3,000,000
	5,000,000	5,000,000

7 Fixed asset investments

	Listed investments £	Unlisted investments £	Total £
Cost or valuation			
At 1 April 2002	3,337,500	217,390	3,554,890
Additions	100,000	-	100,000
Revaluation	(1,241,000)	-	(1,241,000)
At 31 March 2003	2,196,500	217,390	2,413,890

Holdings of more than 20%
The company holds more than 20% of the share capital of the following companies:

Company	Country of registration or incorporation	Shares held Class	%
Subsidiary undertakings			
Rock (Nominees) Limited	England	Ordinary	100
Exempt Nominees Limited	England	Ordinary	100

The aggregate amount of capital and reserves and the results of these undertakings for the last relevant financial year were as follows:

	Capital and reserves £	Profit for the year £
Rock (Nominees) Limited	15	-
Exempt Nominees Limited	20	-

The company is exempt from the obligation to prepare and deliver group accounts because it is included in the group accounts of the holding company.

8 Debtors

	2003 £	2002 £
Stockbroking debtors	177,380,285	142,617,474
Amounts owed by parent and fellow subsidiary undertakings	2,318,604	2,297,577
Other debtors	383,334	747,269
Prepayments and accrued income	1,129,327	746,916
	181,211,550	146,409,236

9 Current asset investments

	2003 £	2002 £
Listed investments	322,304	152,260

10 Creditors: amounts falling due within one year

	2003 £	2002 £
Stockbroking creditors	585,739,644	512,296,911
Less funds held in protected bank accounts on behalf of clients	(408,220,663)	(374,392,613)
	177,518,981	137,904,298
Bank loans and overdrafts – subordinated	-	750,000
Corporation tax	173,039	1,129,463
Other creditors	269,846	461,359
Other taxes and social security costs	1,298,596	1,448,566
Accruals and deferred income	791,996	1,321,180
	180,052,458	143,014,866

The bank loan was repayable in 12 quarterly instalments commencing in March 2000. Interest was charged at 1.75% above the Bank of Scotland base rate.

11 Pension costs

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund.

The company also operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company, being invested with insurance companies. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent valuation was at 13 May 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 company over the financial year have been £562,000, equivalent to 13.6% of pensionable pay. This contribution rate has 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.

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

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

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

Balance Sheet	**£**	**£**
Assets	11,209,000	10,524,000
Liabilities	11,566,000	10,456,000
Net pension (liability)/asset	(357,000)	68,000
Net assets excluding pension (liability)/asset	28,460,000	33,029,000
Net assets including pension (liability)/asset	28,103,000	33,097,000

11 Pension costs (continued)

Assets	Expected rate of return	£	Expected rate of return	£
Equities	6.5%	258,000	7.0%	310,000
With profits deposit held with AMP NPI and cash	5.0%	10,951,000	5.0%	10,214,000
		11,209,000		10,524,000

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

11 Pension costs (continued)

History of experience gains and losses	2003	2002
Difference between expected and actual returns on scheme assets		
• Amount	£(243,000)	£26,000
• % of assets	(2%)	0.2%
Experience gains/(losses) on scheme liabilities		
• amount	£(142,000)	£(693,000)
• % of liabilities	(1%)	(6.6%)
Effects of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities		
• amount	£78,000	-
• % of liabilities	1%	-
Total actuarial gain/(loss)		
• amount	£(307,000)	£(667,000)
• % of liabilities	(3%)	(6.4%)

12 Share capital

	2003 £	2002 £
Authorised		
5,000,000 Ordinary shares of £1 each	5,000,000	5,000,000
Allotted, called up and fully paid		
2,900,000 Ordinary shares of £1 each	2,900,000	2,900,000

13 Statement of movements on reserves

	Revaluation reserve £	Profit and loss account £
Balance at 1 April	3,337,500	26,791,832
Retained (loss)/profit for the year	-	(3,328,703)
Revaluation during the year	(1,241,000)	-
Balance at 31 March	2,096,500	23,463,129

14 Reconciliation of movements in shareholders' funds

	2003 £	2002 £
Profit for the financial year	1,671,297	5,823,820
Dividends	(5,000,000)	(5,000,000)
	(3,328,703)	823,820
Other recognised gains and losses	(1,241,000)	1,181,250
Net (reduction in)/addition to shareholders' funds	(4,569,703)	2,005,070
Opening shareholders' funds	33,029,332	31,024,262
Closing shareholders' funds	28,459,629	33,029,332

15 Contingent liabilities

In the normal course of business the company undertakes to satisfy claims relating to the delivery of securities and the entitlements attaching thereto. At 31 March 2003 there were no known claims not provided for in these financial statements.

The company has received 96 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 the accounts.

16 Directors' emoluments

	2003 £	2002 £
Emoluments for qualifying services	1,723,404	1,908,586
Company pension contributions to money purchase scheme	49,250	80,950
	1,772,654	1,989,536

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 4 (2002 – 5).
The number of directors for whom retirement benefits are accruing under defined benefit schemes amounted to 6 (2002 – 6).
The number of directors who exercised share options during the year was 0 (2002 – 0).

Emoluments disclosed above include the following amounts paid to the highest paid director:

	2003 £	2002 £
Emoluments for qualifying services	263,247	280,678
Accrued pension at the end of the year	58,838	54,894
Accrued lump sum at the end of the year	132,386	123,511

Aggregate remuneration disclosed above includes £104,793 (2002 - £140,183) in respect of commission earned.

17 Employees

Number of employees

The average monthly number of employees (including directors) during the year was 458 (2002: 430).

Employment costs	**2003**	**2002**
	£	**£**
Wages and salaries	15,622,470	13,823,498
Social Security costs	1,562,743	1,393,556
Other pension costs	1,465,126	1,336,071
	18,650,339	16,553,125

18 Control

The ultimate parent company is Charles Stanley Group Plc, a company registered in England and Wales.

Charles Stanley Group Plc prepares group financial statements and copies can be obtained from the registered office.

19 Related party transactions

The company has taken advantage of the exemption in Financial Reporting Standard 8 from the requirement to disclose transactions with group companies on the grounds that consolidated financial statements are prepared by the ultimate parent company.

The directors undertake transactions in stocks and shares in the ordinary course of the company's business for their own accounts. No amounts were owed by directors to the company at 31 March 2003. There were no other material contracts between the company and directors.

CHARLES STANLEY & CO LIMITED

DETAILED TRADING AND PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2003

	2003 £	2002 £
Turnover		
Commissions receivable	33,862,555	38,408,239
Other income	17,188,886	16,195,100
	51,051,441	54,603,339
Commission shared	(17,316,289)	(18,360,684)
	33,735,152	36,242,655
Operating expenses	(32,592,365)	(29,974,374)
Operating profit	1,142,787	6,268,281
Other interest receivable and similar income		
Profit on sale of investments	-	581,615
Other interest received	1,058,672	1,551,389
Interest payable		
Bank interest payable	(33,239)	(58,465)
Profit before taxation	2,168,220	8,342,820

This page does not form part of the financial statements on which the auditors have reported.

CHARLES STANLEY & CO LIMITED

SCHEDULE OF ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED 31 MARCH 2003

	2003	2002
	£	£
Operating expenses		
Wages and salaries (excl. NI)	13,399,855	11,996,708
Employer's NI Contributions	1,562,743	1,393,556
Pension costs	1,465,126	1,336,071
Other staff costs	1,347,680	1,201,340
Settlement costs	1,167,384	1,537,804
Computerised accounting charges	182,258	168,021
Option charges	179,765	160,840
Stock Exchange communication	1,617,044	1,301,102
Insurance	388,113	366,767
Management charge including accommodation	4,368,563	3,860,262
Printing and stationery	804,893	646,433
Advertising	194,929	225,881
Postage	537,329	436,188
Telephone	558,194	483,526
Computer running costs	1,540,648	2,119,516
Research	120,534	72,951
Travel and motor expenses	197,141	125,678
Entertaining	107,542	83,395
Legal and professional fees	208,516	243,401
Audit fees	61,379	56,250
Other non-audit fees	28,785	18,300
Bank charges	595,822	521,614
Dealing losses	44,229	38,727
Non-recoverable VAT	1,242,464	942,085
Sundry expenses	269,625	262,067
Stock Exchange subscriptions	144,609	180,307
Subscriptions and donations	192,991	195,584
	32,592,365	29,974,374

This page does not form part of the financial statements on which the auditors have reported.