

# ANNUAL REPORT AND ACCOUNTS 2011

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Companies in the Charles Stanley group provide investment services covering:

- Discretionary and Advisory portfolio management
- Advisory and Execution-only share dealing
- Charity services
- Matterley Funds
- Wealth Management
- Financial Planning
- Corporate and Employee Wealth Management
- SIPP/SSAS Administration
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- Traded Options, CFDs, ETFs
- Corporate Finance
- Institutional Dealing

**Albion Saddlemakers**  
**Understanding individual needs**

Albion Saddles was founded 25 years ago and has become one of the world's leading saddle makers.

They know that having the right saddle really matters. Not only must it offer the rider stability, it must also give the horse the freedom to perform to its best.

When success can mean the difference between clearing a pole and clipping it, it's important that the team works together to reach their potential.

It's the same with investments. That's why at Charles Stanley we take the time to work together with our clients to understand their individual needs.

## FINANCIAL HIGHLIGHTS

Revenue for the year £125.6 million  
(2010: £115.0 million) 9.2% increase

Reported profit before tax £13.4 million  
(2010: £10.3 million) 30.1% increase

Adjusted profit before tax £17.7 million  
(2010: £13.7 million) 29.2% increase

Funds under management and administration  
£14.5 billion (2010: £12.8 billion) 13.3% increase

Private client income £106.0 million  
(2010: £96.1 million) 10.3% increase

Reported earnings per share 21.42p  
(2010: 15.44p) 38.7% increase

Adjusted earnings per share 28.39p  
(2010: 21.18p) 34.0% increase

Total dividend 10.75p (2010: 9.45p) 13.8% increase

Acquisition of Jobson James Financial Services  
Limited in May 2011

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# CHAIRMAN'S STATEMENT

Charles Stanley Group is pleased to announce that revenue for the year ended 31 March 2011 has risen by 9% to £125.6 million (2010: £115.0 million). Profit before tax has risen by 30% to £13.4 million (2010: £10.3 million). The adjusted profit before tax, which excludes the effect of amortisation and a levy of £2.6 million imposed by the Financial Services Compensation Scheme in respect of unrelated businesses, was 29% higher at £17.7 million (2010: £13.7 million). Despite the continuing unsettled economic background we are pleased to have achieved a new record level of turnover and a significant increase in profits and funds under management.

Client funds managed and administered by Charles Stanley Group have risen to £14.50 billion at 31 March 2011, an increase of 13.3% compared with the total of £12.80 billion at 31 March 2010. Within this figure the funds under discretionary or advisory management have risen from £6.35 billion to £7.20 billion, an increase of 13.4%. This compares with an increase over the same period of 3.5% in the FTSE 100 Share Index and of 4.3% in our principal benchmark, the APCIMS Balanced Portfolio Index. This increase in managed funds derives from market performance across clients' portfolios averaging 3.4% while net incoming funds from new and existing clients added 10.0% to the total.

In line with our emphasis on steadily increasing the level of discretionary fund management, our clients' discretionary funds now represent 64.0% of managed funds compared with 61.2% at 31 March 2010.

Following the year-end, on 16 May 2011 we acquired Jobson James Financial Services Limited, a Birmingham-based provider of wealth-management solutions to companies and individuals, for a consideration of up to £2.25 million. Charles Stanley has a growing presence in the Midlands, and Jobson James is an excellent strategic fit both in terms of its business and geographically. During the year we were delighted to welcome a number of additions to our teams of stockbrokers in London and around the country, and we opened a new office in Cirencester, which has made an excellent start.

The results once again reflect the Group's traditional emphasis on maintaining strong cash balances, particularly while conditions remain so uncertain. This allows us to fund acquisitions from our own resources. The figure for our cash balances at 31 March 2011 was £45.5 million compared to £36.6 million at 31 March 2010.

In the light of these results the Directors recommend an increase in the final dividend to 8.25p per share, making a total dividend for the year of 10.75p. This represents an increase of 13.8% compared to the total dividend of 9.45p last year. The dividend will be paid on 3 August 2011 to shareholders registered on 17 June 2011. Once again we are also offering shareholders a scrip alternative.

Charles Stanley Group provides a comprehensive range of investment, wealth management and financial planning services to retail, institutional and corporate clients. A detailed report of our performance and operations during the past year is set out in the following Business Review and Operating and Financial Review.

In my statement last year I wrote at some length about the unfairness of the Financial Services Compensation Scheme, which imposes levies on companies like ours to compensate victims of loss caused by the collapse or misbehaviour of other, completely unrelated firms. More often than not these appear to be rogue businesses, operating in areas of the industry unrelated to us, marketing products or services that should have been stopped at inception. In this context we welcome the plans of the FSA to vet complicated financial products before they reach the market.

Last year I was critical of the extraordinary levy of £686,000 which was taken straight off our pre-tax profit to compensate clients for other people's failures. This year the share of the levy imposed on us is no less than the truly astonishing figure of £2.6 million. The total levy being taken from investment firms is more than £300 million. We join with the many companies, professional bodies and trade associations that are calling for a high-level enquiry into how such a thing, on such a scale, could possibly have been allowed to happen.

# CHAIRMAN'S STATEMENT

## THE QUALITY OF OUR SERVICE

These results reflect a great deal of dedication and commitment of everyone in the Group. Once again on behalf of shareholders I express the appreciation of the Directors for another year of strenuous effort in producing this successful outcome.

I should like to take this opportunity to pay tribute to my fellow Directors, both at Group level and trading subsidiary level, who drive the business with such skill and care. And particularly to Peter Hurst, our Finance Director, who is retiring at the AGM in July, after 24 years of dedicated service to Charles Stanley. During that time the Group has grown beyond all recognition, and Peter has been absolutely central to this. I know that all shareholders will join me in thanking Peter and wishing him a long and happy retirement.

Arrangements are well advanced to appoint Peter's successor and a further announcement will follow.

## OUTLOOK

The recovery remains weak, but after the wild swings in the FTSE 100 index which I spoke of last year it has stabilised at ten or fifteen percent below its historic high. This has been driven as much perhaps by the corporate sector performing well, with a steady rise in profitability and by strong dividend performance, as by expectations of further economic recovery. With the economy looking anaemic still, it seems likely, but ironic, that the infusion of liquidity by the government is driving debt reduction and asset build-up rather than an expansion of consumer spending; and this effect is mirrored at Charles Stanley in the inflows of cash from our existing client base.

It is difficult to conclude from this shift in spending and saving patterns that the upturn from the recession has gained much traction yet.

The projections for growth in the UK are faltering, and we remain perplexed at whether a default in the Eurozone will bring down the whole structure of the euro, with all the collateral damage that this would cause. However the banks continue to re-build their balance sheets, surely underpinning a recovery, and corporate Britain looks in reasonable health.

Regulation continues to dominate much of our attention, to the detriment of management focus on running a commercial business. But we see this as sadly inevitable after the public policy disasters, predominantly in wholesale finance, which have once again led to calls for further ratcheting up the protection of the retail consumer. Charles Stanley is a traditional investment business acting for a very large number of successful clients who place their trust in our values and traditions and the quality of our service. Like so much of the UK's highly developed and sophisticated financial system – insurance, investment services, foreign exchange and maritime services – we have continued to function efficiently, and deliver value, throughout the crisis. Intensified regulation, however inevitable, comes with a cost.

Charles Stanley has performed strongly in the past twelve months, and our confidence a year ago has been amply justified. But the future remains as uncertain as ever – with worries over the strength and timing of the UK recovery, the near and medium-term problems of the Eurozone, and the continuing depressive effect of ever more intrusive regulation. But the stock market has performed well, our clients continue to garner more investment funds, and we are well placed to move forward. So my guarded feeling of confidence about the outlook remains undaunted.

Sir David Howard  
Chairman

7 June 2011

# BUSINESS REVIEW

## OBJECTIVE

Our objective is to build Charles Stanley over the longer term and thereby maximise the return to shareholders, while paying proper regard to the interests of all our stakeholders and to the surrounding community.

## STRATEGY

We seek to achieve this through a combination of both organic growth and carefully selected acquisitions which either reinforce the Group's existing business lines or diversify into complementary activities. Allied to that we have a long standing focus and proven levels of customer satisfaction that are the bedrock for the future development of the business. We have a commitment to building bespoke and exceptionally responsive investment services for clients and ensuring that our services are efficient, innovative and of outstanding quality.

## RESOURCES

The Group sees its people as one of its key resources. We take pride in being able to attract and retain the highest calibre of staff. As such our levels of staff turnover are amongst the lowest in the sector. Allied to that is the Group's conservative approach to cash management which has allowed it to cope with the recent downturn and subsequent recovery.

## REVIEW OF BUSINESS

The Group is organised into three operating divisions: Private Clients, Financial Services and Charles Stanley Securities.

### Private Clients

The division has demonstrated the strength of the core retail business. Total income has risen by 10.3% to £106.0 million from £96.1 million and on a like for like basis income has risen by 11.0%. Income comprises commission on trades on behalf of clients, investment management fees for the division's discretionary and advisory managed clients, and administration fees.



Transaction levels have remained steady during 2011 leading to a small increase of 2.2% in commission income - £56.0 million compared with £54.8 million in 2010.

The division's fee income has continued to grow. Total fee income rose 20.8% to £50.0 million from £41.4 million, and within that, investment management fees increased by 18.9% to £27.0 million from £22.7 million in 2010. Administration fees also increased during the year. An increase in investment by clients in collectives resulted in increased trail fees during the year. Interest turn continues to be depressed due to low interest rates but this has been partly offset by increased income from foreign currency transactions due to improved systems. The Private Client ratio of commission to fee income is 52.9% to 47.1% compared with 57.0% and 43.0% respectively for 2010.

# BUSINESS REVIEW

Total funds under management and administration are shown below:

|   | 2011<br>£ billion | 2010<br>£ billion | Change<br>% |
|---|-------------------|-------------------|-------------|
| <b>Discretionary funds under management</b>                                   |                   |                   |             |
| In Group's nominee or Euroclear UK<br>and Ireland ("EUI") personal membership | 4.61              | 3.89              | 18.5%       |
| <b>Advisory managed funds</b>   |                   |                   |             |
| In Group's nominee or EUI personal membership                                 | 2.39              | 2.26              |             |
| Not held in Group's nominee   | 0.20              | 0.20              |             |
|   | 2.59              | 2.46              | 5.3%        |
| Total managed funds   | 7.20              | 6.35              | 13.4%       |
| <b>Advisory dealing funds</b>   |                   |                   |             |
| In Group's nominee or EUI personal membership                                 | 3.03              | 2.79              | 8.6%        |
| <b>Execution only funds</b>   |                   |                   |             |
| In Group's nominee or EUI personal membership                                 | 4.27              | 3.66              | 16.7%       |
| Total administered funds  | 7.30              | 6.45              | 13.2%       |
| <b>Total funds under management and administration</b>                        | <b>14.50</b>      | 12.80             | 13.3%       |

The Group has seen a 13.3% increase in the value of its funds under management and administration from March 2010, compared with an increase in the FTSE 100 of 3.5% and the APCIMS Balanced Portfolio Index of 4.3%. The Group continues to attract discretionary funds, and we are pleased to see such funds are now 31.8% of total funds under management and administration (2010: 30.4%).

Included in this increase in funds were additional ISA subscriptions during the year of £142 million (2010: £116 million) of which £84 million (2010: £68 million) were under management and £58 million under administration.

## Charity team

Over the years our Charity team and investment managers have earned a reputation for meeting the investment needs of a diverse range of charities and foundations. In the last five years, with an increased emphasis on the personal support that we offer to our charity clients and to the charitable sector it is very encouraging to report that charitable funds held have increased from £320 million to £750 million at 31 March 2011.

### Managed clients

Funds under management have increased by 13.4% during the year of which 7.2% related to net organic growth as shown in the table below.

|   | Discretionary<br>managed<br>£bn | Advisory<br>managed<br>£bn | Total<br>£bn  | Change<br>%    |
|---|---------------------------------|----------------------------|---------------|----------------|
| Funds at 1 April 2010                               | 3.89                            | 2.46                       | 6.35          |                |
| <b>Inflows</b>                                      |                                 |                            |               |                |
| New clients of existing investment managers         | 0.40                            | 0.10                       | 0.50          |                |
| Clients of new investment managers                  | 0.07                            | 0.01                       | 0.08          |                |
| Organic – new funds from existing clients           | 0.46                            | 0.26                       | 0.72          |                |
| <b>Total inflows</b>                                | <b>0.93</b>                     | <b>0.37</b>                | <b>1.30</b>   | <b>20.5%</b>   |
| <b>Outflows</b>                                     |                                 |                            |               |                |
| Lost clients  | (0.20)                          | (0.23)                     | (0.43)        |                |
| Organic – withdrawal of funds from existing clients | (0.16)                          | (0.10)                     | (0.26)        |                |
| <b>Total outflows</b>                               | <b>(0.36)</b>                   | <b>(0.33)</b>              | <b>(0.69)</b> | <b>(10.9%)</b> |
| Net inflow of funds                                 | 0.57                            | 0.04                       | 0.61          | 9.6%           |
| Market movement                                     | 0.15                            | 0.09                       | 0.24          | 3.8%           |
| <b>Funds at 31 March 2011</b>                       | <b>4.61</b>                     | <b>2.59</b>                | <b>7.20</b>   |                |
| % increase year on year                             | 18.5%                           | 5.3%                       | 13.4%         |                |

The increase in funds under management has followed through into an increase of 15.3% in income levels.

|                                | Disc<br>£m | Adv<br>£m | 2011<br>Total<br>£m | Disc<br>£m | Adv<br>£m | 2010<br>Total<br>£m | Change |        |
|--------------------------------|------------|-----------|---------------------|------------|-----------|---------------------|--------|--------|
|                                |            |           |                     |            |           |                     | £m     | %      |
| Commission                     | 18.9       | 8.9       | 27.8                | 17.7       | 8.6       | 26.3                | 1.5    | 5.7%   |
| Recurring fees                 | 23.5       | 10.5      | 34.0                | 18.2       | 9.1       | 27.3                | 6.7    | 24.5%  |
|                                | 42.4       | 19.4      | 61.8                | 35.9       | 17.7      | 53.6                | 8.2    | 15.3%  |
|                                | £bn        | £bn       | £bn                 | £bn        | £bn       | £bn                 | £bn    | %      |
| Average funds under management | 4.25       | 2.52      | 6.77                | 3.30       | 2.20      | 5.50                | 1.27   | 23.1%  |
|                                | bps        | bps       | bps                 | bps        | bps       | bps                 | bps    | %      |
| Revenue margin                 | 0.99       | 0.77      | 0.91                | 1.09       | 0.80      | 0.97                | (0.06) | (6.2%) |

There was less volatility in the markets during the year resulting in lower levels of commission and a reduced revenue margin compared with 2010.

# BUSINESS REVIEW

## Non-managed clients

Funds under administration increased by 13.2% of which 7.0% related to net organic growth.

|                               | Advisory<br>dealing<br>£bn | Execution<br>only<br>£bn | Total<br>£bn |
|-------------------------------|----------------------------|--------------------------|--------------|
| At 1 April 2010               | 2.79                       | 3.66                     | 6.45         |
| Net (outflow)/inflow of funds | (0.10)                     | 0.30                     | 0.20         |
| Net organic growth            | 0.24                       | 0.21                     | 0.45         |
| Market movement               | 0.10                       | 0.10                     | 0.20         |
| <b>At 31 March 2011</b>       | <b>3.03</b>                | <b>4.27</b>              | <b>7.30</b>  |
| % increase year on year       | 8.6%                       | 16.7%                    | 13.2%        |

Net organic growth represents an inflow of funds from existing clients. This increase in funds under administration has led to an increase in administration fees as shown below which has offset the slight decrease in commission earned during the year.

|                | 2011      |           |             | 2010      |           |             | Change |        |
|----------------|-----------|-----------|-------------|-----------|-----------|-------------|--------|--------|
|                | Adv<br>£m | Exe<br>£m | Total<br>£m | Adv<br>£m | Exe<br>£m | Total<br>£m | £m     | %      |
| Commission     | 14.3      | 13.9      | <b>28.2</b> | 14.1      | 14.4      | <b>28.5</b> | (0.3)  | (1.0%) |
| Recurring fees | 6.6       | 9.2       | <b>15.8</b> | 4.6       | 9.4       | <b>14.0</b> | 1.8    | 12.8%  |
|                | 20.9      | 23.1      | <b>44.0</b> | 18.7      | 23.8      | <b>42.5</b> | 1.5    | 3.5%   |

Michael Clark  
Director of Private Client Stockbroking

Peter Hurst  
Finance Director

## FINANCIAL SERVICES

The division includes EBS Management PLC (“EBS”), a SIPP administration services provider, Garrison Investment Analysis (“Garrison”), a discount financial intermediary, CS Financial Solutions Limited (formerly Griffiths & Armour (Financial Services) Limited) (“CS Financial Solutions”), an employee benefits provider together with the existing Charles Stanley financial planning, wealth management areas and funds management.

Total income has risen by 10.6% during 2011 as analysed below:

|  | 2011<br>£m | 2010<br>£m |
|--|------------|------------|
| EBS  | 1.9        | 1.8        |
| Garrison   | 1.6        | 1.6        |
| CS Financial Solutions                             | 2.7        | 2.8        |
| Financial Planning<br>(including funds management) | 3.2        | 2.3        |
| <b>Total</b>                                       | <b>9.4</b> | <b>8.5</b> |

### EBS

Revenue increased during the year to £1.9 million from £1.8 million. The new registered scheme reported in last year's accounts has been established, although the product has not yet gone live hence the income which was expected to begin being reflected in the 31 March 2011 accounts is not yet available. We hope to report substantial business from this SIPP in next year's accounts.

In total, 495 SIPPs were added to the portfolio for the year, although with losses taken into account the net increase in SIPP numbers is 369. EBS now administers 1,500 full SIPPs, 1,200 Alpha SIPPS, 300 white label SIPPs and 360 SSASs.

The Coalition Government's 2010 Budget has simplified contributions and tax relief for high earners, therefore we are expecting more new money to be introduced into the clients' portfolios. This increases activities such as new SIPPs and money moving to Charles Stanley for investing. It is evident from the scheme numbers that the Alpha SIPP, which is used by Charles Stanley and a number of other companies, is growing in numbers rapidly, whereas the full SIPP remains fairly static.

### Garrison

Garrison Investment Analysis maintained revenues at £1.6 million the same as last year even though we introduced a loyalty bonus for clients on the Cofunds platform rebating 30% of the trail commission. Increased levels of new business and our cost cutting throughout the year helped increase the pre tax profits by 11% to £559,000. Assets continue to grow standing at £461 million which reflects the increases in the markets and our success in retaining business as a result of the loyalty bonus.

We intend to expand our client base with a combination of further improvements to our website, improving our branding and expanding our marketing initiatives. We are confident that these measures will further increase our asset base and profit levels in the coming year.

### CS Financial Solutions

CS Financial Solutions revenues were slightly reduced at £2.7 million for the year to March 2011 versus £2.8 million for the 12 months to March 2010. Revenues were behind those anticipated mainly due to the continued downward pressure on corporate spending across the employee benefits area; compounded by the exposure that the business has in particular market sectors. In addition, business revenue suffered as low (or zero) pay awards continued across the client base; total salary roll and funds under management both suffered as a consequence. This was exacerbated further by a real lack of staff recruitment, so, overall, the net effect was scheme membership numbers reduced with leavers not being replaced by new joiners. All of which links directly to the level of fee income received by the business. The process of amalgamating all of the Group's benefit consultancy business within this Company is almost complete and we now look forward to offering a uniform employee benefits service across our geographical reach. Following the Liverpool office move and the subsequent rebrand to CS Financial Solutions margins in the Company were further depressed by the relatively significant rebranding and establishment costs, but we look forward to an improvement in the margins in the future.

# BUSINESS REVIEW

## Financial Planning

The financial planning and wealth management teams have put in a solid performance during the year. The department provides an increasingly important contribution with regard to the collective portfolio service and collective research for the whole Group. During the next twelve months we look to provide this service to an increasing number of external IFAs and wealth managers.

## Fund Management

The launch of the Matterley Fund department has gone well over the last twelve months with a good increase in assets under management. The Matterley Undervalued Asset Fund has made particular progress with assets increasing four-fold and the achievement of a Citywire AA rating for performance. The Regular High Income Fund has also achieved a Citywire A rating.

The Group currently has funds in-house which together with the IHT Portfolio fund totalled £147.2 million (March 2010: £104.4 million).

|                                | <b>2011</b>  | 2010  |
|--------------------------------|--------------|-------|
|                                | <b>£m</b>    | £m    |
| International Growth Portfolio | <b>18.7</b>  | 14.4  |
| Regular High Income Fund       | <b>40.8</b>  | 36.5  |
| Equity                         | <b>7.7</b>   | 7.0   |
| UK & International Growth      | <b>36.8</b>  | 26.2  |
| Undervalued Asset Fund         | <b>26.7</b>  | 6.2   |
| IHT Portfolio                  | <b>16.5</b>  | 14.1  |
| <b>Total funds</b>             | <b>147.2</b> | 104.4 |

## Acquisition

Since the year end the Group has acquired Jobson James Financial Services Limited ("JJFS"). Formed in 1993 and based in Edgbaston, Birmingham, JJFS provides wealth management advice and services for both private and corporate clients including pensions and retirement planning. The company also advises on life and health assurance products and provides tax advisory services. The business is a high-quality acquisition and complements our expanding activities in this area of financial services. The acquisition also contributes to our strategic aim of building a stronger presence in the Midlands.

## CHARLES STANLEY SECURITIES

CS Securities, the Group's advisory, broking and corporate finance arm for smaller and mid cap UK listed companies, together with the Sutherlands Agency Bond business produced slightly lower revenues for 2011 at £10.2 million versus £10.4 million for 2010. This was due in the main as we forecast to a significant decrease in activity in bond trading in the Sutherlands business.

During the period a number of corporate clients were taken over and some clients were lost. Comparative retainer income fell from £1.45 million in 2010 to £1.16 million in 2011. A number of transactions were completed during the year and several notable new clients have been taken on, on a retained basis. The Sales Trading team, having been rated number one in the Extel Survey in 2010 for smaller company execution, had another good year.

Income within the division is shown below:

|              | <b>2011</b> | 2010 |
|--------------|-------------|------|
|              | <b>£m</b>   | £m   |
| Commission   | <b>7.0</b>  | 7.1  |
| Fees         | <b>3.2</b>  | 3.3  |
| <b>Total</b> | <b>10.2</b> | 10.4 |

Whilst this area of the market remains challenging we believe we are in a strong position to take advantage of an up-turn in activity should it arise.

Michael Lilwall  
Director

# OPERATING AND FINANCIAL REVIEW

This review has been prepared solely to provide additional information to the Group's shareholders to assess the Group's strategies and the potential for those strategies to succeed. It should not be relied on by any other party or for any other purpose.

The review contains several forward-looking statements made by the Directors in good faith based on the information available to them up to the time of their approval of this report. These statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying such forward-looking information.

The Directors have prepared this review in accordance with the Accounting Standards Board Reporting Statement: Operating and Financial Review.

The review has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to Charles Stanley Group PLC and its subsidiary undertakings when viewed as a whole.

The review covers the following areas:

- nature, aim, strategy and objectives of the business;
- results for the 2011 financial year and financial position;
- future outlook;
- risks and uncertainties; and
- relationships.

Group policies and other information relating to environmental matters, employees and social and community issues are set out in a separate corporate social responsibility report on pages 20 to 23.

## **NATURE, AIM, STRATEGY AND OBJECTIVES OF THE BUSINESS**

Charles Stanley Group PLC has four trading companies, Charles Stanley & Co. Limited ("Charles Stanley"), EBS Management PLC ("EBS") Garrison Investment Analysis Limited ("Garrison") and CS Financial Solutions Limited (formerly Griffiths & Armour (Financial Services) Limited). ("CS Financial Solutions") Charles Stanley provides full service stockbroking, financial planning and benefit consultancy and small and mid-cap advisory and institutional broking. EBS provides specialist pensions administration services. Garrison markets unit trusts, open-ended investment company units and packaged financial products to private clients, both directly and in wrappers such as ISAs and pensions. CS Financial Solutions is an employee benefits provider.

Since the year-end the Group acquired Jobson James Financial Services Limited ("JJFS"). JJFS provides wealth management advice and services for both private and corporate clients.

All five companies are regulated by the Financial Services Authority. The Group has 33 offices around the United Kingdom, and all revenue is earned in the United Kingdom. These offices are listed on page 98.

Our strategy and objectives are discussed in our business review on pages 6 to 11.

## OPERATING AND FINANCIAL REVIEW

We monitor our performance against our financial objectives by using the following key performance indicators:

| Indicator                                     | Description  | 2011            | 2010     | % change |
|---|--|-----------------|----------|----------|
| Ratio of adjusted operating profit to revenue | Ratio of operating profit before amortisation and one-off costs as a percentage of revenue   | <b>13.8%</b>    | 11.6%    | 18.9%    |
| Ratio of adjusted profit to revenue           | Profit before gains or losses on available for sale financial assets, amortisation and one-off costs as a percentage of revenue  | <b>14.1%</b>    | 11.9%    | 18.5%    |
| Adjusted earnings per share                   | Earnings before gains or losses on available for sale financial assets, amortisation and one-off costs divided by weighted average number of shares in issue during the year | <b>28.39p</b>   | 21.18p   | 34.0%    |
| Funds under management and administration     | Valuation of client assets at the year end   | <b>£14.5 bn</b> | £12.8 bn | 13.3%    |
| Discretionary funds under management          | Valuation of discretionary client assets at the year end   | <b>£4.6 bn</b>  | £3.9 bn  | 17.9%    |
| Staff turnover                                | Ratio of staff leavers to average staff during the year  | <b>11.9%</b>    | 6.3%     | 88.9%    |
| Fees  | Value of non-commission income for Private Clients   | <b>£50.0 m</b>  | £41.4 m  | 20.8%    |

## RESULTS FOR 2011 FINANCIAL YEAR AND FINANCIAL POSITION

During 2011 total revenue for the Group grew by 9.2% to £125.6 million from £115.0 million. Reported profit for the year of £13.4 million is stated after amortisation of £1.7 million (2010: £1.7 million), FSCS levy of £2.6 million (2010: £0.7 million) and revenue costs relating to new investment teams last year of £1.2 million.

The financial impact of the FSCS levy, which arises from other industry failures, is wholly outside our control. The interim levy of £2.2 million arising from the failure of the Keydata Investment Services Limited and other intermediaries announced in January 2011 is unwelcome and adds to the £0.4 million we had already anticipated resulting in a £2.6 million charge for the year (2010: £0.7 million).

|   | 2011<br>£m   | 2010<br>£m | Change<br>£m | %      |
|---|--------------|------------|--------------|--------|
| Revenue   | 125.6        | 115.0      | 10.6         | 9.2%   |
| Administrative expenses                                 | (112.7)      | (105.4)    | (7.3)        | (6.9%) |
| Other income  | 0.1          | 0.1        | —            | —      |
| Operating profit  | 13.0         | 9.7        | 3.3          | 34.0%  |
| Net interest and finance income                         | 0.4          | 0.4        | —            | —      |
| Gains and losses on available for sale financial assets | —            | 0.2        | (0.2)        |        |
| <b>Reported profit</b>                                  | <b>13.4</b>  | 10.3       | 3.1          | 30.1%  |
| <i>Ratio to revenue</i>                                 | <b>10.7%</b> | 9.0%       |              |        |
| Add back:   |              |            |              |        |
| Gains and losses on available for sale financial assets | —            | (0.2)      | 0.2          |        |
| Revenue costs for investment teams                      | —            | 1.2        | (1.2)        |        |
| FSCS Levy   | 2.6          | 0.7        | 1.9          |        |
| Amortisation of customer relationships                  | 1.7          | 1.7        | —            | —      |
| <b>Adjusted profit</b>                                  | <b>17.7</b>  | 13.7       | 4.0          | 29.2%  |
| <i>Ratio to revenue</i>                                 | <b>14.1%</b> | 11.9%      |              |        |

Revenue by division for the year is summarised below:

|                            | 2011<br>£m   | 2010<br>£m | Change<br>£m | %      |
|----------------------------|--------------|------------|--------------|--------|
| Private Clients            | 106.0        | 96.1       | 9.9          | 10.3%  |
| Financial Services         | 9.4          | 8.5        | 0.9          | 10.6%  |
| Charles Stanley Securities | 10.2         | 10.4       | (0.2)        | (1.9%) |
| <b>Total</b>               | <b>125.6</b> | 115.0      | 10.6         | 9.2%   |

The Group seeks, over time, to alter the balance between commission and fee income increasingly in favour of fees. In 2010-11 the proportion of fee income (excluding corporate finance fees) to total revenue was 47.2% compared to 44.6% in 2009-10 and 45.4% the previous year.

# OPERATING AND FINANCIAL REVIEW

## ADMINISTRATIVE EXPENSES

Administrative expenses are summarised below:

|  | <b>2011</b>  | 2010  | Change |         |
|--|--------------|-------|--------|---------|
|  | <b>£m</b>    | £m    | £m     | %       |
| Staff costs  | <b>50.2</b>  | 48.5  | 1.7    | 3.5%    |
| Depreciation   | <b>2.2</b>   | 2.7   | (0.5)  | (18.5%) |
| Amortisation of intangible assets                    | <b>1.7</b>   | 1.7   | —      | —       |
| Other costs  | <b>56.0</b>  | 50.6  | 5.4    | 10.7%   |
| <b>Total before one-off costs</b>                    | <b>110.1</b> | 103.5 | 6.6    | 6.4%    |
| One-off costs relating to new teams                  | <b>—</b>     | 1.2   | (1.2)  | —       |
| FSCS Levy  | <b>2.6</b>   | 0.7   | 1.9    |         |
| <b>Total</b>   | <b>112.7</b> | 105.4 | 7.3    | 6.9%    |
| Allocated to:  |              |       |        |         |
| Private Client division                              | <b>63.9</b>  | 58.1  | 5.8    | 10.0%   |
| Financial Services                                   | <b>9.2</b>   | 8.5   | 0.7    | 8.2%    |
| Charles Stanley Securities                           | <b>9.2</b>   | 10.5  | (1.3)  | (12.4%) |
| <b>Total allocated to divisions and other income</b> | <b>82.3</b>  | 77.1  | 5.2    | 6.7%    |
| Unallocated  | <b>30.4</b>  | 28.3  | 2.1    | 7.4%    |
|  | <b>112.7</b> | 105.4 | 7.3    | 6.9%    |

Total costs have increased by 6.9% from £105.4 million to £112.7 million. Staff costs are analysed in note 7. These have increased by 3.5% to £50.2 million from £48.5 million and represent 44.5% of our total costs (2010: 46.0%). Average employee numbers have risen by 2.5% to 747 from 729.

For management purposes costs are allocated to divisions by direct attribution and this is shown in note 5.

Due to acquisitions and joiners, salary costs of client facing staff have risen and the ratio of the number of times these salaries are covered by revenue has changed.

|                              | <b>2011</b> | 2010 | Change |       |
|------------------------------|-------------|------|--------|-------|
|                              | <b>£m</b>   | £m   | £m     | %     |
| Client facing staff salaries | <b>25.1</b> | 21.6 | 3.5    | 16.2% |
| Total income to salary ratio | <b>5.0</b>  | 5.3  |        |       |

Given the increases in revenue, non-salary fixed costs have decreased slightly relative to revenue as follows:

|   | <b>2011</b>  | 2010  |
|---|--------------|-------|
|   | <b>%</b>     | %     |
| Business support costs as % of revenue          | <b>17.3%</b> | 16.9% |
| Overhead costs as % of revenue                  | <b>10.3%</b> | 15.1% |
| <b>Total general fixed costs as % of income</b> | <b>27.6%</b> | 32.0% |

The Group did not incur any costs in respect of new investment teams this year (2010: £1.2 million). The FSCS levy increased this year to £2.6 million. Excluding these costs total expenses have increased by 6.4% to £110.1 million from £103.5 million.

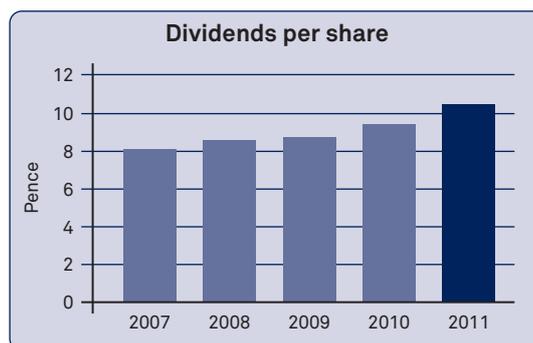
Costs also include depreciation of £2.2 million (2010: £2.7 million) and amortisation of intangible assets of £1.7 million (2010: £1.7 million). Further details are shown in notes 14 and 15. The proportion of our total costs which are fixed decreased to 63.8% from 65.9%. The proportion of fixed costs which is covered by fees has therefore increased to 88.7% from 77.7%.

Interest receivable of £0.4 million (2010: £0.4 million) includes interest on bank deposits and interest earned from interest bearing available for sale investments. The Group's cash balances stood at £45.5 million as at 31 March 2011 (2010: £36.6 million). Interest rates have been held by the Bank of England at 0.5% for the year.

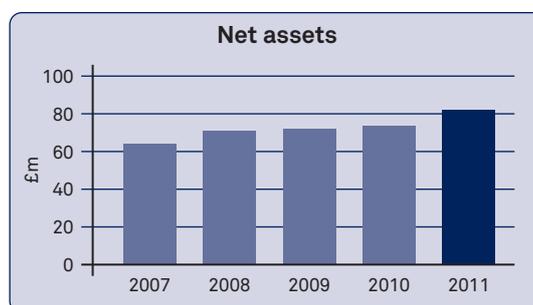
The tax charge of £3.9 million (2010: £3.4 million) is analysed in note 10. This represents 29.1% of the Group's profit before tax of £13.4 million (2010: 33.0% of £10.3 million). The effective rate is higher than the UK standard rate of 28% due to differences between accounting and taxation treatment of certain items, and the effects of prior year taxation adjustments.

Earnings per share after one-off costs were 21.42p (2010: 15.44p). There was a slight dilution at 31 March 2011 of earnings giving diluted earnings per share of 21.40p. Further details on earnings per share are explained in note 13.

As indicated in the Chairman's statement the final dividend for the year is recommended to be 8.25p in addition to the interim dividend of 2.50p, giving a total dividend for the year of 10.75p. Shareholders will be offered a scrip alternative.



At 31 March 2011 the Group had net assets of £82.1 million (2010: £73.4 million) equivalent to £1.82 per share (2010: £1.67 per share).



## FUTURE OUTLOOK

The future outlook of the Group is discussed in the Chairman's statement on pages 4 and 5.

# OPERATING AND FINANCIAL REVIEW

## RISKS AND UNCERTAINTIES

There are a number of potential risks and uncertainties which could have a material impact on the Group's long term performance:

### Credit risk

This represents the risk of loss through default by a counterparty. The most significant risk to the Group is either a client or market counterparty failing to settle a trade. Given the wide range of retail clients of the Group it is not considered that a material default by connected counterparties would arise. Other credit risks, such as Free Delivery of stock or cash, are not deemed to be significant as the Group has an effective credit control department to recover any monies or stock owed through default.

The Credit Control department monitors both the collateral requirements of individual client accounts, as well as any debit balances that occur if stock purchases are not settled on due date, or that are due to losses that have been incurred during client trading activity, on a daily basis.

Shares are only delivered free of payment to a client or their agents once settlement has been achieved and there is no outstanding debit balance on the account. In the event of an error, it will again be made immediately apparent the next day when both the debit balances and collateral requirements of clients accounts are monitored.

On occasion delivery of stock to a recognised professional counterparty may take place free of payment via an electronic settlement system, but only on prior confirmation from their custodians that the required funds in settlement will be wired to our appropriate bank account. There have been no instances where this has created an irrecoverable loss.

Exposures for trades that are outstanding beyond the contractual settlement date are monitored on a daily basis.

The Group has a Market Risk Working Group (comprising three Charles Stanley Group PLC Directors, Compliance Director, other Charles Stanley & Co. Limited Directors as deemed necessary and the Risk Manager) that reviews exposures to market counterparties and banks on a daily basis. The working group also sets exposure limits to individual market counterparties.

### Market risk

This is the risk that arises from fluctuations in values of, or income from, assets or in interest or exchange rates. The Group only trades as principal for the purposes of executing client orders. Other principal positions may arise from dealing errors.

All position limits are monitored daily in accordance with policies determined by the Board.

The Group has small currency exposures. We run positions in a variety of currencies, principally the US dollar, to support clients' dealing activities. Group policy requires any significant net exposures to be hedged using forward currency contracts as soon as a commitment is made.

The Group does not conduct derivative business on its own account. Client deals have to be transacted by the Group as principal, under the rules of LIFFE, but these are always matching, back to back transactions. In all cases where such transactions place the client or the Group at risk suitable collateral is held. This normally takes the form of a lien over the customer's assets giving a claim on these assets for both existing and future liabilities.

### Operational risk

This is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk. These are outlined further in the risk matrix.

The Group's risk matrix uses the Basel II framework for Operational Risk and the framework for risk assessment, and management, is monitored by the Group's Risk and Regulatory Review Group.

The Group's systems and controls are reviewed not only through internal procedures but also by the external auditors. Whilst the auditors do not conduct a full review of all the internal controls operating in the Group they do report on any significant weaknesses to the audit committee. The auditor's report is shown on pages 38 and 39.

Within operational risk we pay particular attention to employment risk. This risk is mitigated by employment contract provisions and competitive remuneration packages.

### **Liquidity risk**

This is the risk that the Group, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost.

The Group maintains a mixture of cash and cash equivalents that is designed to meet the Group's operational and trading activities. The Group does not use the wholesale markets for any funding and is confident that it has sufficient liquidity for the foreseeable future. At 31 March 2011 the Group had \$45.5 million in bank accounts and accordingly a high degree of liquidity.

The Group's liquidity risk is overwhelmingly short term in nature and arises from the settlement of trades within the stockbroking business.

The treasury function operates within strict policies and procedures approved by the Board, which include strict controls on the use of financial instruments in managing the Group's risk. A policy of using a combination of high credit rated banks is used to deposit client money. This was done to guard against the risk of only using one bank.

The Group's financial instruments comprise borrowings, cash and liquid resources, and various items including trade debtors and trade creditors that arise directly from its operations. We review the credit quality of counterparties and we limit aggregate credit exposures accordingly.

The majority of the short term creditors arise from settlement of clients' trading activities, and it is the policy to pay stockbroking creditors on Settlement Day or when the stock is delivered, whichever is later. The policy is also to pay suppliers in accordance with their payment terms.

### **Business risk**

This is defined (in a narrow sense) as the risk that income falls or is volatile relative to the cost base of the Group. It is also defined in a broader sense as exposure to macro economic, geopolitical, industrial, regulatory and other external risks. Regulatory risk is assessed separately below.

Risk is assessed by use of stress and scenario testing performed by the finance department. The risks are set in the framework of the risk matrix and any capital is allocated on a judgemental basis accordingly.

The major assumptions underpinning this analysis are that the shared income expenses continue to be a variable rather than fixed cost as brokers' income fluctuates directly with that of the Group, though new brokers joining tend to be salaried. It is also assumed that the existing cost controls continue to operate effectively.

The Group operates in a highly competitive market with significant product innovations. It is subject to the threat of competitors launching new products in our markets; however it continues to be responsive to market demand.

Within a wider context, it is assumed that the Group continues to operate primarily within the UK retail stockbroking market and that its attitude to risk mitigation will enable it to continue trading during a recession.

### **Regulatory risk**

The Group operates in a heavily regulated financial services sector. The Group monitors developments in regulation, assesses the impact on the business, and implements any changes that will be required to meet these requirements.

The Group's current level of capital remains well in excess of our regulatory requirements. We play an active role in industry groups which are closely involved in preparing for the Basel III requirements. The Group continues to monitor the Financial Services Authority ("FSA") announcements, particularly potential revisions to the Capital Requirements Directive and implementation of the Retail Distribution Review in 2012, and works closely with relevant trade bodies such as APCIMS.

# OPERATING AND FINANCIAL REVIEW

## **Reputational risk**

The Group has built a reputation as a high quality provider of investment management and client services. This has been carefully developed over many years and there is a risk that reputational damage could lead to a loss of our existing client base, which could possibly lead to financial loss.

This risk is monitored and managed by our emphasis on compliance with all aspects of relevant regulation including those of the Financial Services Authority.

## **RELATIONSHIPS**

### **Regulators**

The Group's investment activities are regulated and authorised by the FSA. The Group has a forward looking agenda with regard to the requirements that we will need to implement for future changes.

### **Clients**

We seek to set a high standard of service to our clients. We have conducted an extensive survey to ensure that we provide the type and level of service that our clients appreciate, and believe that this has chimed well with the FSA's major initiative to promote "Treating the Customer Fairly", to which we are strongly committed. We are one of the founding signatories of the seven Ethical Principles propounded by the Chartered Institute for Securities and Investment, and we seek at all times to offer our service in an ethical and professional manner.

### **Suppliers, contractors and creditors**

We maintain professional relationships with our suppliers and ensure that payments are made according to the terms of the contract.

### **Staff**

The Group's relationship with its staff is set out in more detail in our corporate social responsibility report on pages 20 to 23.

Peter Hurst  
Finance Director

7 June 2011

# CORPORATE SOCIAL RESPONSIBILITY REPORT

This is the fifth corporate social responsibility (“CSR”) report for the Group. The implementation and management of the CSR policy is recognised as a Group-wide responsibility and this report, made over the last 12 months, evidences the ongoing commitment to CSR at all levels of the business.

As a financial services organisation, our primary responsibility is to maximise investment returns to our clients in accordance with our contractual relationships. However, we continue to recognise the non-financial considerations that are taken into account in the running of our business. For this reason, the Board and senior managers within the Group are committed to ensuring the Group interacts responsibly with its employees, clients, shareholders and the wider environment.

Each year we report on our aim to develop our CSR policy and practices in our four key areas: business integrity; our people; the environment; and, the community. The CSR committee meets on a quarterly basis to review progress in each of these areas.

## **BUSINESS INTEGRITY**

### **Corporate governance**

We follow the corporate governance guidelines contained in the Combined Code on Corporate Governance issued by the Financial Reporting Council and annexed to the Listing Rules of the UK Listing Authority.

We ensure that the Group complies with the Combined Code or, where it has not done so, explain why this is the case. We compete fairly in the markets in which we operate and believe in the concept of business transparency and ethical behaviour.

The Group is an inaugural corporate member of the Chartered Institute of Securities and Investment (“CISI”) and has signed up to its Code of Conduct. Core to this is the commitment to support success in CISI qualifications and to foster a culture of continuing professional development for employees.

### **Client care**

We are committed to the highest standard of client care and support the FSA’s Treating Customers Fairly regulatory framework. We work with our clients to ensure our relationships deliver investment performance, protection from inappropriate risk and communications that are clear, fair and not misleading.

## **Disclosure**

All Charles Stanley staff are expected to conduct business in such a way so as to enhance the Group’s reputation and to safeguard against unfair or unethical business practices. Our disclosure policy (concerning instances of whistleblowing) is monitored and enforced where necessary. Fraud and other corrupt practices are recognised as bad for business and for stakeholders and we take strict measures to prevent such practices.

All business is conducted in accordance with the laws and regulations of the United Kingdom and the directives of the European Union.

## **PEOPLE**

The Group acknowledges that the reputation and success of Charles Stanley is due to the service provided to clients by highly qualified and committed staff. Our staff are one of the key assets of the organisation and it is our policy to attract and retain the best people.

### **Employee involvement**

Charles Stanley understands the importance of providing its staff systematically with information on matters of concern to them and, where appropriate, consulting with them so their views can be taken into account when making decisions that are likely to affect their interests. In addition to the usual informal structures, there are a number of regular forums where staff and senior management meet, along with a formal appraisal system that operates to provide all staff an opportunity to formally meet with their line manager.

To enable staff to become involved in the financial performance of the Group, participation in the Charles Stanley Save As You Earn Scheme and/or the Share Incentive Plan (“SIP”) is encouraged. These schemes are open to all employees (with the exception of Sir David Howard) and the level of take up for both schemes is high. SIP membership for 2011 was 25.6% (2010: 22.6%). A new Save as You Earn Scheme was launched in February 2011 with 51.7% of staff participating.

# CORPORATE SOCIAL RESPONSIBILITY REPORT

## Training

The Group continues to meet its business objectives by having a highly trained and professional workforce. We have a dedicated learning and development department to ensure that our training policy, designed to invest in staff, provides for career development and allows for succession planning. Staff are required to gain appropriate professional qualifications for their roles and to undertake sufficient and relevant continuing professional development to ensure their skills are up to date. Furthermore, our interactive training portal provides greater access to materials and enables staff to log and monitor their own achievements and learning.

The Board continues to manage the process of ensuring minimum exam qualifications in accordance with the FSA's Retail Distribution Review Programme ("RDR") and does not foresee the exam requirements or the Continuing Professional Development ("CPD") gap-fill element of the RDR being a matter of concern for the Group.

## Benefits

The flexible benefits system called 'Choice' continues to be a success. Choice is an intranet accessible application which allows staff to select benefits which match their lifestyle. The Choice system has proved very popular with 75% of all employees participating in one or more flexible benefit.

The benefits currently included in the Choice system are smart pension exchange, Denplan, charitable-give-as-you-earn, extra death in service life cover, child care vouchers and Ride-2-Work. In the past year the Group has also offered staff the ability to acquire additional annual leave via salary exchange.

The Choice benefits are in addition to the standard benefits we provide for all our employees including interest-free season ticket loans, above average contributions to pensions, private medical insurance that extends to direct family members of employees, permanent health insurance and death in service benefits.

To ensure the health and wellbeing of our workforce we also provide subsidised gym membership in London and a Ride-2-Work Scheme that allows employees to purchase bicycles at a reduced cost for the purpose of commuting. In the past year the Group has also introduced an employee assistance programme.

We also provide access to dedicated medical facilities in the London offices including annual health screening.

## Disabled employees

Applications for employment made by disabled persons are given full and fair consideration, having regard to the particular aptitudes and abilities of the applicant. In the event of employees becoming disabled, the Group makes every effort to ensure the individuals' continuing employment within the Group through the provision of suitable equipment and arranging appropriate training as necessary. The Group ensures that, so far as is possible, the training, career development and promotion of disabled employees is identical to that of other staff members.

## Health and safety

The Group is committed to ensuring a working environment that meets and exceeds the required health and safety standards.

All our staff have access to and are encouraged to practice the Health and Safety Policy. The Policy is reviewed and updated on an ongoing basis taking into account any changes in the law and all staff are notified of any changes that are made.

Pregnant and other high risk personnel are subject to Health and Safety desk assessments where applicable.

## Ethos

Charles Stanley believes in supporting the work/life balance of all of our employees. We do not expect our employees to work excessive or unnecessary hours and we provide childcare vouchers and the possibility of flexible working hours to support those employees with young children.

In addition to the above we also have policies in place to ensure that all employees can expect a working environment free from discrimination and harassment. We believe in informing and involving employees, and our retention rates are evidence of the loyalty of our employees. Staff losses were 11.9% for 2011 (2010: 6.3%) with gains of 12.2% (2010: 11.5%). Our turnover rate of 11.9% in 2011 is less than the average figure of 13.5% released by the CIPD (Source: CIPD Annual Survey Report 2010).



Charles Stanley sponsors British Masters Showjumping.

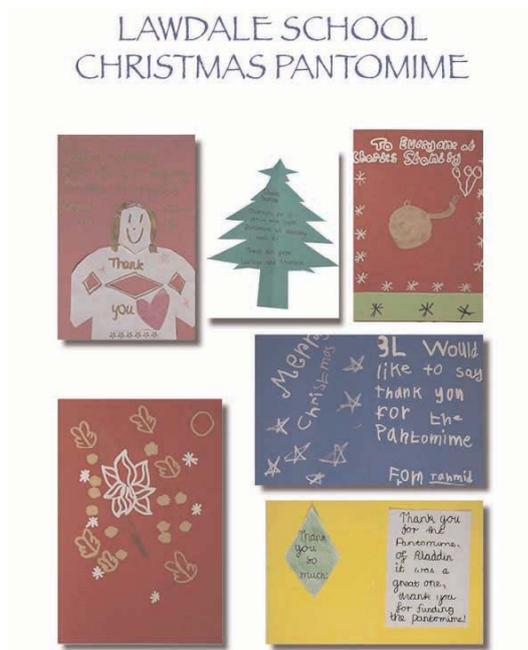
### COMMUNITY

The Group continues to foster strong relationships with the communities in which we are based and we have links with local businesses, primary schools and charities. We are a socially responsible employer and aim to make a positive contribution both locally and internationally.

### Schools

One of our stronger community links continues to be Lawdale Primary School and is co-ordinated by the Tower Hamlets Business Education Partnership. A group of London-based employees volunteer to visit the school on a weekly basis to assist the children with their reading.

The children that take part are showing good progress in reading levels and also look forward to the reading sessions.



Thank you cards for the Christmas pantomime.

Charles Stanley also has fundraising activities for Lawdale School with the proceeds raised being used to arrange extracurricular activities for the children.

### Charities

The Alzheimer's Society was chosen by a vote of all staff to be the annual charity of Charles Stanley for 2010/11 and the fundraising activities included a World Cup sweepstake, quiz nights, cake sales and a toy auction.

Through the hard work of the staff, their generous donations and the support of the Group a large amount of money was raised for the Alzheimer's Society. More detailed information can be found on the Group's website. The annual charity for 2011/12 chosen by popular vote is the Rainbow Centre for Conductive Education.



A cheque of £18,500 was presented to the Alzheimer's Society following a successful year of charity fundraising for our Charity of the Year 2010/11.

In addition to our Charity of the Year we offer our employees the opportunity to be sponsored by the Group if they are taking part in a fundraising activity. Some of these activities have included running the London Marathon for Scope, Tonya's Challenge Bike Ride for the Southall Care Project, completing a triathlon for the Sarcoma Trust, and a triathlon for the Huntington's Disease Association. Other charitable activities included making donations to the St Andrew's Youth Club, the Cleveland Alzheimer's Residential Centre, Leukaemia & Lymphoma Research, SSFA, the National Maternity Foundation, REMAP, ERT Search & Rescue and the East London Cabbies Outing. Many of our branches are also involved with local charities, taking part in and helping to organise fundraising events. These fundraising events have included the Great Guildford Pancake Race 2011, sponsorship

# CORPORATE SOCIAL RESPONSIBILITY REPORT



James Norman from CS Securities running a marathon for National Maternity Support Foundation.

of the Widnes Vikings Rugby League Club and the Ruddington Grange Leukaemia Golf Day.

The Group now also offers employees the facility to give-as-they-earn in a tax efficient manner via the Charities Aid Foundation.

## Business

Charles Stanley also has strong links with other City firms that are established either through work or, more often than not, through sport. The Group frequently sponsors sporting events ranging from golf to rounders and show-jumping at the British Masters (a pre-qualifier for the 2012 Olympics). Our employees also participate in inter-firm competitions including 5-a-side football tournaments, cricket and the Stock Exchange Sailing Club.

## ENVIRONMENT

The Group continues to recognise its impact on the environment and takes steps to minimise it. Although our activities have only a comparatively small impact, Charles Stanley is aware that environmental risks and uncertainties impact to some extent on all companies.

### Initiative

Over the past year refurbishment has taken place at a number of our offices and measures have been introduced wherever possible to increase energy efficiency and reduce energy consumption. Within our London offices the average electricity consumption per head during 2011 was 170kWh per month (2010: 215kWh) and the average gas consumption per head during 2011 was 25kWh per month (2010: 15kWh).

We have also developed a number of initiatives to save costs and increase efficiency through reducing and managing resource use, for

example we source re-use programmes for surplus equipment and we review our supply partners to ensure their policies are in line with ours. We currently use paper from sustainable sources for our main marketing and other publicly available documentation, and we aim to procure a greater proportion of recycled paper for photocopying and printing purposes in the future.

### Commitment

Charles Stanley encourages recycling at all of our offices. Recycling is measured in volume. During the period April 2010 to March 2011, 7,622 sacks of paper were recycled. This is the equivalent of 16 trees and has resulted in a donation of in excess of £4,200 to



Hacks v Flaks charity netball match which raised £9,000 for REMAP ([www.remap.org.uk](http://www.remap.org.uk)) a charity which helps adapt equipment.

the Castle Howard Arboretum Trust on behalf of Charles Stanley. We recognise that the business saves costs and increases efficiency through reducing and managing resource use.

We run a Ride-2-Work Scheme on an annual basis and this not only promotes a healthier lifestyle for our employees but also reduces the environmental impact of the journey to work for those employees who take part in the scheme. There were 8 new entrants to the Ride-2-Work Scheme in 2011 (2010: 11).

### Investment

Finally, whilst the overall investment policy of the Group is concerned solely with obtaining the best return for clients, we also endeavour to construct portfolios which take into account the personal preferences of our clients in relation to environmental and ethical matters.

# DIRECTORS AND COMPANY INFORMATION

Charles Stanley Group PLC was incorporated on 16 July 1896. The business had been established on 2 January 1792 and Charles Stanley was first recorded as a member of the London Stock Exchange in 1852.

## **DIRECTORS**

### **Sir David Howard Bt. MA, DSc, FCSI (Hon)**

#### *Chairman and Managing Director*

Sir David is 65. He joined Charles Stanley in 1967. He became Managing Partner in 1971, Managing Director (on incorporation of the partnership) in 1988, and Chairman in 1999. He was Lord Mayor of London in 2000-2001. He has served on Stock Exchange, CREST and LIFFE committees and as a Director of the Financial Services Skills Council, as Chairman of the Council of City University and as President of the Chartered Management Institute, is an alternate member of the Takeover Panel and serves on the CREST Settlements Appeals Panel. He is a Director of APCIMS (the private client stockbrokers' trade association) and the Chartered Institute for Securities and Investment ("CISI") and chairs the CityUK Education, Training and Qualifications Group and the CISI Examinations Board.

### **Peter A Hurst FCA, ACIB, MCSI**

#### *Finance Director*

Peter Hurst is 62 and joined Charles Stanley in 1987. His main areas of responsibility are finance, information technology, premises, branches, health and safety and ecommerce. He is a member of the compliance and risk monitoring and corporate finance approvals committees. Prior to joining Charles Stanley he had worked in banking for ten years having previously been in audit practice.

### **E Michael Clark FCSI**

Michael Clark is 64 and became a member of the Stock Exchange in 1970. He joined Charles Stanley in 1976, became a partner in 1982 and a Director (on incorporation of the partnership) in 1988. He is responsible for London private client brokers, dealing and research.

### **Michael R I Lilwall BSc, FCSI (Dip)**

Michael Lilwall is 53 and joined Charles Stanley as a Director in 1997. He is responsible for Charles Stanley Securities, the Financial Services division and takes an active role in business development for the Group. Previously he was Chief Executive of Shaw & Co. Limited, whose business was acquired by Charles Stanley in 1997. Prior to that he was a Director of Seymour Pierce Butterfield and Brewin Dolphin & Co. Limited.

# DIRECTORS AND COMPANY INFORMATION

## **Secretary**

Gary Teper LLB (Hons), MSc, MSI

## **Company registration number**

48796 (England and Wales)

## **Registered office**

25 Luke Street, London, EC2A 4AR

## **Websites**

[www.charlesstanleyplc.co.uk](http://www.charlesstanleyplc.co.uk)

- Investor relations

[www.charles-stanley.co.uk](http://www.charles-stanley.co.uk)

- Corporate

<https://media.charles-stanley.co.uk>

- Media Centre

[www.fastrade.co.uk](http://www.fastrade.co.uk)

- Internet trading

[www.csysecurities.com](http://www.csysecurities.com)

- Institutional sales  
and corporate broking

[www.ebsmanagement.co.uk](http://www.ebsmanagement.co.uk)

- SIPP and SSAS consultancy  
and SIPP administration

[www.fundchoice.co.uk](http://www.fundchoice.co.uk)

- Funds supermarket

[www.csfinancialsolutions.co.uk](http://www.csfinancialsolutions.co.uk)

- Corporate benefits and employee wealth  
management services

[www.matterley.com](http://www.matterley.com)

- Equity investment for retail  
and institutional clients

## **Registrars**

Capita Registrars Limited  
The Registry, 34 Beckenham Road  
Kent BR3 4TU

## **Principal bankers**

Bank of Scotland  
New Uberior House, 11 Earl Grey Street,  
Edinburgh EH3 9BN

## **Auditors**

KPMG Audit Plc  
Chartered Accountants  
15 Canada Square,  
London, E14 5GL

## **Brokers**

Canaccord Genuity  
Cardinal Place, 7th Floor,  
80 Victoria Street,  
London, SW1E 5JL

# REPORT OF THE DIRECTORS

The Directors submit their report and financial statements for the year ended 31 March 2011.

## PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company and its Group undertakings operate as investment companies and provide stockbroking, corporate finance, investment services and pensions administration. The Company is a public limited company which is listed on the London Stock Exchange.

A review of the business is set out on pages 6 to 11.

## DIVIDENDS

The Directors have declared and now recommend the following dividends in respect of the year ended 31 March 2011:

|  | 2011      | 2010      |
|--|-----------|-----------|
|  | £         | £         |
| First Interim dividend paid on 31 December 2010 of 2.50p (2010: 2.20p) | 1,115,893 | 976,479   |
| Second Interim dividend paid on 25 March 2010 of nil (2010: 5.00p)     | —         | 2,222,301 |
| Final dividend proposed of 8.25p (2010: 2.25p)                         | 3,717,346 | 1,002,330 |
|  | <hr/>     | <hr/>     |
|  | 4,833,239 | 4,201,110 |

The final dividend will be paid on 3 August 2011 to shareholders on the Company's register at close of business on 17 June 2011.

## CHANGE OF CONTROL

The Company does not have agreements with any Director or Officer that would provide compensation for loss of office or employment resulting from a change of control following a takeover bid, except that the provisions of the Company's share plans may cause options and awards granted under such schemes to vest on a takeover.

All of the Company's share schemes contain provisions relating to a change of control. Outstanding options and awards would normally vest and become exercisable for a limited period of time upon change of control following a takeover, reconstruction or winding up of the Company (not being an internal re-organisation),

subject at that time to rules concerning the satisfaction of any conditions.

## SHARE CAPITAL

As at 31 March 2011, 45,058,740 fully paid ordinary shares of 25 pence were in issue and listed on the London Stock Exchange. The rights and obligations attaching to the Company's ordinary shares are as follows:

- in terms of voting every member who is present in person or by proxy at a general meeting of the company should have one vote on a show of hands and one vote for every share held on a poll;
- all shares in issue on the record date rank pari passu for dividends. Shareholders are entitled to receive dividends following declaration by the Company;
- employees are restricted from any transfer of shares of the Company that would result in a change in beneficial holding during the period between the end of the Group's financial year end each year and the date on which the Group announces its preliminary financial results. This restriction also applies during the period between the end of the Group's financial half-year and the announcement of the Group's half-year results. Further restrictions may apply under the Disclosure and Transparency rules of the Financial Services Authority in respect of certain employees;
- there are no restrictions on the voting rights attached to the Company's ordinary shares or on the transfer of securities in the Company;
- no person holds securities in the Company carrying special rights with regard to control of the Company.

The Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or on voting rights. Each of the Company's Directors (apart from Sir David Howard) have options on 3,585 shares at £2.51 per share which are exercisable from the 1 May 2014 at their discretion pursuant to Save-As-You Earn Option Provisions. With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the Combined Code, the Companies Act 2006 and

# REPORT OF THE DIRECTORS

related legislation. The Company's Articles of Association may be amended by a special resolution of the Company's shareholders, copies of which can be obtained from Companies House or by writing to the Company Secretary.

During the year ended 31 March 2011 all the Directors (apart from Sir David Howard) exercised their options under the Save As You Earn Scheme 2007 for 1,887 shares each with the option price of £2.48.

The Directors propose (Resolution 8 in the Notice of Meeting) to renew the authority granted to them at the Annual General Meeting held in 2010 to allot equity securities up to an aggregate nominal value of £3,680,000 (the 'section 551 authority'). If approved at the forthcoming Annual General Meeting, the authority will expire no later than 15 months from the date on which the resolution is passed, or at the conclusion of the Annual General Meeting to be held in 2012, whichever is the sooner.

The limited power granted to the Directors at last year's Annual General Meeting to allot equity shares for cash other than pro rata to existing shareholders expires no later than 30 October 2011. Subject to the terms of section 560 of the Companies Act 2006, the Directors recommend (Resolution 9 in the Notice of Meeting) that this authority should be renewed so as to give them the ability, until the Annual General Meeting to be held in 2012, to issue ordinary shares for cash, other than pro rata to existing shareholders, in connection with a rights issue or up to a limit of 5 per cent of the ordinary share capital issued at the date of this report. The Directors recommend that you vote in favour of Resolutions 8 and 10 to maintain the Company's flexibility in relation to future share issues.

A Special Resolution will also be proposed (Resolution 10 in the Notice of Meeting) to renew the Directors' limited authority last granted in 2010 to repurchase the Company's ordinary shares in the market. The authority will be limited to a maximum of 4,505,874 ordinary shares (being approximately 10 per cent of the Company's issued share capital at the date

of this report) and also sets the minimum and maximum prices which may be paid. The authority will enable the Directors to respond promptly should circumstances arise in which they consider such a purchase would result in an increase in earnings per share and would be in the best interests of the Company.

## DIRECTORS

The Directors named on page 24 served throughout the year. Their biographies are also set out on page 24. Sir David Howard Bt., Edward Michael Clark and Michael R.I. Lilwall retire by rotation at the Annual General Meeting and, being eligible, offer themselves for re-election by the members.

Directors' interests in the shares of Charles Stanley Group PLC are disclosed in the Directors' remuneration report on page 32.

At 31 March 2011, the Directors had the authority to purchase 4,454,000 of ordinary shares in the capital of the Company. This authority was not exercised during the year. The Directors confirm that there are procedures in place to deal with Directors' conflicts and they have operated effectively.

## TAXATION STATUS

As far as the Directors are aware, the Company is not a close company for taxation purposes.

## PAYMENTS TO CREDITORS

It is the Group's policy to pay stockbroking creditors on settlement day or when stock has been delivered, whichever is later, and to pay suppliers in accordance with their payment terms. Amounts due to suppliers at the balance sheet date represent approximately 24 days' credit based on the total amounts of goods and services invoiced by them during the year.

## CHARITABLE AND POLITICAL DONATIONS

Charitable donations during the year amounted to £35,135.

No political donations were made during the year.

### **SUBSTANTIAL SHARE INTERESTS**

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

|  | No. of shares |           |
|--|---------------|-----------|
|  | 7.6.11        | 31.3.11   |
| John L S Howard  | 5,153,192     | 5,153,192 |
| Schroders PLC<br>and its associated<br>companies   | 2,927,057     | 2,927,057 |
| Queen Street Securities<br>Limited (a company of<br>which Sir David Howard<br>is a director) | 2,070,100     | 2,070,100 |
| Aberforth Partners   | 3,517,247     | 3,566,447 |

### **ESSENTIAL BUSINESS CONTRACTS**

There are no persons with whom the Group has contractual or other arrangements that are considered essential to the business of the Group.

### **AUDITORS**

Following a formal tender process, the Directors decided to change the Group's auditors. Saffery Champness resigned on 28 September 2010 and KPMG Audit Plc were appointed in their place. The Company's auditors, KPMG Audit Plc, are willing to continue in office, and a resolution proposing their re-appointment and authorising the Directors to determine their remuneration will be put to the Annual General Meeting.

So far as each of the Directors is aware, there is no relevant information that has not been disclosed to the Company's auditors and each of the Directors believes that all steps have been taken that ought to have been taken to make them aware of any relevant audit information and to establish that the Company's auditors have been made aware of that information.

By Order of the Board  
Gary Teper  
Secretary

7 June 2011

# DIRECTORS' REMUNERATION REPORT

The Company is required by the Companies Act 2006 to prepare a Directors' remuneration report for the year ended 31 March 2011 and to put that report to a shareholder vote. A resolution to approve this report will be proposed at the Annual General Meeting of the Company to be held on 29 July 2011.

The auditors are required to report on the auditable part of the Directors' remuneration report and to state whether, in their opinion, that part of the report has been properly prepared in accordance with the Companies Act 2006. The report has, therefore, been divided into separate sections for unaudited and audited information.

## UNAUDITED INFORMATION

### Directors' remuneration

The pay and benefits for executive Directors are determined by Sir David Howard, Mr E Michael Clark, Mr Peter A Hurst and Mr Michael R I Lilwall, taking into account individual performance and market conditions.

The basic salaries of the Directors are reviewed annually and when a change of responsibility occurs.

Directors (excluding Sir David Howard) are entitled to participate in the profit related pay and Save As You Earn schemes which are open to all employees after a certain period of employment with the Company. The Directors (excluding Sir David Howard) participate in the Charles Stanley Share Incentive Plan.

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

Details of entitlements to share options and pension arrangements are disclosed below.

### Policy on Directors' remuneration

It is the policy of the Board that the Directors are remunerated in a broadly similar fashion to Group employees generally; that is to say remuneration consists predominantly of fixed salaries which are reviewed annually by the Board, with the addition of occasional non-contractual bonuses which are not formula-based but which broadly reflect individual performance and the profitability of the Group.

During the year the Board reviewed the remuneration policy in light of the rules and guidance contained in the FSA Remuneration Code ("the Code") published in December 2010. The Code itself implements remuneration rules required by the Capital Requirements Directive ("CRD 3") and the Financial Services Act 2010.

While some firms within the Group are within the scope of the Code, the proportionality principle contained in the Code rules requires the Company to comply with the Code only in a way and to the extent that is appropriate to its size, internal organisation and the nature, the scope and the complexities of its activities. The Company falls within the lowest level of Code categorisation (Tier 4), which means that it is not required to comply with some of the more prescriptive rules set out in the Code such as deferral and retained shares.

The Group is also aware of its CRD III disclosures on remuneration requirements and will be publishing the relevant information on its website in due course.

In fixing the remuneration packages for current and future financial years the Directors have the following in mind:

- the need to attract, retain and motivate Directors of the quality required;
- what comparable companies are paying, taking into account relative performance; and
- pay and employment conditions elsewhere in the Group.

The Board has given full consideration to Schedule A of the Combined Code on Directors' remuneration in framing its remuneration policy.

In addition to basic salary, the Directors receive other benefits, some of which are performance related. Those that are related to performance are the occasional non-formula-linked discretionary bonuses paid to Directors. Those that are not related to performance are entitlements to exercise any options granted under the Charles Stanley Save As You Earn Scheme, health insurance, vehicle running costs, telephone expenses and pension entitlements. It is the Board's view that those elements of remuneration and benefits that are profit related are in the case of each of the Directors sufficiently important to incentivise the Director concerned to improve the performance of the Group.

## Pensions

Three of the Directors are members of the Group's defined benefit pension scheme which has a normal retirement age of 65. Each of these Directors is entitled to a pension equal to 1/60<sup>th</sup> of final salary for each year of pensionable service up to a maximum of 40/60<sup>th</sup>.

In the event of death in service, a lump sum benefit equal to four times the Director's basic annual salary at the date of death is payable.

The pension arrangements for the Directors ensure that benefits provided are consistent with those provided by other companies in the market place. The expected cost of providing retirement benefits to the Directors is assessed in accordance with the advice of independent qualified actuaries.

One Director has a money purchase scheme. Contributions to this scheme may be taken as salary at the option of the Director.

## Share options

The Company currently does not operate Executive Option Schemes or Long-Term Incentive Plans. All option schemes currently in operation are open to all employees and Directors, except Sir David Howard, once they have met the necessary service requirements. Charles Stanley currently operates one Save As You Earn Scheme (2011). Options were offered

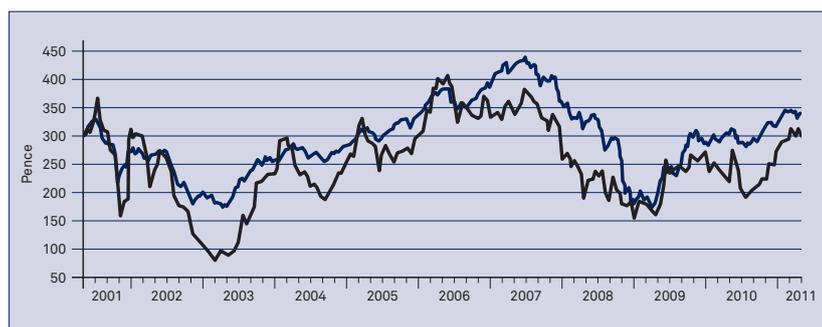
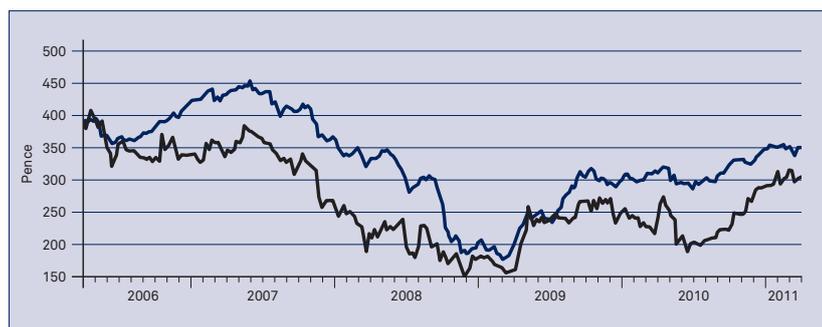
at a discount of 15% to the average of the mid-market closing price for the three days prior to the offer and are exercisable for a period of six months commencing three years after the saving contract commencement date. In common with similar schemes, the exercise of options under this scheme is not subject to any performance conditions. The 2007 scheme options vested in February 2011.

## Directors' contracts

Each of the Directors has a service contract except for Sir David Howard who has no service contract. No Director has a service contract for a duration of more than one year except for Mr Peter A Hurst who has a service contract which provides for one year's notice to be given in October of any year. Mr Hurst gave notice prior to October 2010 that he wishes to retire with effect from the close of the Annual General Meeting to be held on 29 July 2011, which the Board has accepted.

## Performance graphs

The following graphs show the Company's share price performance (measured in pence) over the last five years and ten years compared with the performance of the FTSE Small Cap Index. This index has been selected as being appropriate in giving a broad equity view.



— CHARLES STANLEY GROUP - TOT RETURN IND — FTSE ALL SMALL EX INV. TRUSTS - TOT RETURN IND

# DIRECTORS' REMUNERATION REPORT

## AUDITED INFORMATION

|   | Fees<br>£ | Salary<br>£ | Bonus<br>£ | Benefits<br>in kind<br>£ | Total<br>2011<br>£ | Total<br>2010<br>£ |
|---|-----------|-------------|------------|--------------------------|--------------------|--------------------|
| <b>Emoluments</b>                                       |           |             |            |                          |                    |                    |
| Sir David Howard<br>(Chairman and<br>Managing Director) | 5,250     | 291,305     | 85,400     | 38,215                   | 420,170            | 405,263            |
| Peter A Hurst<br>(Finance Director)                     | —         | 266,437     | 85,400     | 14,136                   | 365,973            | 351,201            |
| E Michael Clark   | —         | 290,290     | 85,400     | 13,668                   | 389,358            | 375,657            |
| Michael R I Lilwall                                     | —         | 330,509     | 85,400     | 12,495                   | 428,404            | 406,206            |
|   | 5,250     | 1,178,541   | 341,600    | 78,514                   | 1,603,905          | 1,538,327          |
| 2010  | 5,250     | 1,136,374   | 313,600    | 83,103                   | 1,538,327          |                    |

## Employee savings related share option schemes

| At 31 March 2011    |                      |                |                |
|---------------------|----------------------|----------------|----------------|
|                     | Period of option     | Exercise price | Number granted |
| Peter A Hurst       | May 2011 to May 2014 | 251p           | 3,585          |
| E Michael Clark     | May 2011 to May 2014 | 251p           | 3,585          |
| Michael R I Lilwall | May 2011 to May 2014 | 251p           | 3,585          |
|                     |                      |                | 10,755         |

| At 31 March 2010    |                                |                |                |
|---------------------|--------------------------------|----------------|----------------|
|                     | Period of option               | Exercise price | Number granted |
| Peter A Hurst       | February 2008 to February 2011 | 248p           | 1,887          |
| E Michael Clark     | February 2008 to February 2011 | 248p           | 1,887          |
| Michael R I Lilwall | February 2008 to February 2011 | 248p           | 1,887          |
|                     |                                |                | 5,661          |

The market price of the ordinary shares at 31 March 2011 was 312p (2010: 238p) and the range during the year was 187p to 317p (2010: 160p to 282p).

## Pension schemes

Retirement benefits were accruing to three Directors under a defined benefit scheme and one Director under a money purchase scheme. During the year no contributions were made to the money purchase scheme.

|                  | Increase <sup>2</sup><br>in accrued<br>pension<br>excluding<br>inflation<br>£ | Transfer <sup>3</sup><br>value of<br>increase<br>£ | Accrued <sup>1</sup><br>pension<br>2011<br>£ | Accrued <sup>4</sup><br>pension<br>2010<br>£ | Transfer<br>value of<br>accrued<br>pension<br>2011<br>£ | Transfer<br>value of<br>accrued<br>pension<br>2010<br>£ | Increase <sup>5</sup><br>in value of<br>Directors'<br>benefits<br>£ |
|------------------|---|--|--|--|---|---|---|
| Sir David Howard | 1,439   | 28,071   | 105,022                                      | 103,583                                      | 2,036,884   | 1,953,505   | 83,379  |
| E Michael Clark  | 2,171   | 40,186   | 129,183                                      | 127,012                                      | 2,423,283   | 2,309,811   | 113,472   |
| Peter A Hurst    | 1,475   | 25,227   | 97,569                                       | 96,094                                       | 1,784,145   | 1,716,659   | 67,486  |

### Pension schemes (continued)

- <sup>1</sup> The pension entitlement shown is that which would have been paid annually on retirement based upon Pensionable Service to the end of the financial year, excluding any future statutory entitlement to increases prior to retirement which would be due after the financial year end.
- <sup>2</sup> The increase in the accrued pension during the financial year excludes the increase for inflation. The inflation rate used is that published by the Secretary of State for Social Security in accordance with Schedule 3 of the Pension Schemes Act 1993.
- <sup>3</sup> The Transfer Value of the increase in entitlement during the financial year is shown net of the Director's own personal contributions to the Scheme over the financial year (if any). This value represents the cash equivalent of the increase in accrued benefits. For this purpose it is assumed that the benefit entitlement is increased until Normal Retirement Date in accordance with statutory levels on the notional basis that each director ceased Pensionable Service at the end of the financial year.
- <sup>4</sup> The pension accrued at the end of the previous financial year is valued on the transfer value basis in force at the end of the previous financial year. The pension accrued at the financial year end is valued on the transfer value basis in force at the end of the financial year, where the pension accrued is calculated as per note 1.
- <sup>5</sup> The increase in the value of the Director's benefits over the financial year is shown net of the Director's own personal contributions to the scheme over the financial year (if any). The increase has been calculated as the difference between the value of accrued benefits at the end of the financial year and the value of accrued benefits at the end of the previous financial year, where the values are calculated as per note 4. No allowance for price inflation has been included.

### Directors' interests in ordinary shares

The interests of the Directors and of their connected persons in the share capital of the Group Companies were:

|                           | Beneficially Held |            |            | Otherwise held |         |         |
|---------------------------|-------------------|------------|------------|----------------|---------|---------|
|                           | 7.6.11            | 31.3.11    | 1.4.10     | 7.6.11         | 31.3.11 | 1.4.10  |
| Charles Stanley Group PLC |                   |            |            |                |         |         |
| Sir David Howard          | 12,753,815        | 12,753,815 | 12,678,884 | 311,573        | 311,573 | 305,170 |
| Peter A Hurst             | 172,632           | 172,593    | 168,177    | 311,573        | 311,573 | 305,170 |
| E Michael Clark           | 809,555           | 809,476    | 790,394    | —              | —       | —       |
| Michael R I Lilwall       | 109,247           | 109,168    | 85,892     | —              | —       | —       |
| Gryphon Investments PLC   |                   |            |            |                |         |         |
| Sir David Howard          | 15,000            | 15,000     | 15,000     | —              | —       | —       |

### Related party transactions

The Directors undertake transactions in stocks and shares in the ordinary course of the Group's business for their own accounts. No amounts were owed by the Directors to the Group as at 31 March 2011. There were no material contracts between the Group and Directors.

### APPROVAL

This report was approved by the board of Directors and signed on its behalf by

Gary Teper  
Secretary

7 June 2011

# CORPORATE GOVERNANCE

The benefits of good corporate governance continue to be recognised by Charles Stanley. The Directors remain committed to maintaining corporate governance standards and achieve this by compliance, wherever possible, with the best practice provisions of the Financial Reporting Council's Combined Code on Corporate Governance (the "Combined Code") published in June 2008 which can be accessed at [www.frc.org.uk/corporate/combinedcode.cfm](http://www.frc.org.uk/corporate/combinedcode.cfm).

The Combined Code governs the relationship between the constituent parts of the Company, namely the board and its committees; relations with shareholders; and, accountability and audit. The current position of the Group in each of these areas is explained in the paragraphs below, together with the report of the Directors and the Directors' remuneration report on pages 29 to 32, describing how the principles are applied within the Group.

The Directors are aware of their responsibilities as a listed company under the Combined Code and where the principles of the Code have been applied, will either confirm that the provisions of the Code have been complied with or, where it is felt that departure from the provisions is appropriate, an explanation will be provided. The Company will continue to consider and, where necessary, respond to corporate governance developments.

The Group welcomes the development and introduction of the UK Corporate Governance Code, which is effective for accounting periods beginning on or after 29 June 2010. As the UK Corporate Governance Code does not apply for the accounting period commencing 1 April 2010, the Group has continued using the Combined Code of 2008. We will of course be applying the UK Corporate Governance Code to our next annual report and as is normal practice we will confirm where the Group has complied with the UK Corporate Governance Code or, where it is felt a departure from the provisions is appropriate, an explanation will be provided.

The Directors believe that the most important factor for a company is the protection of the members' interests and they maintain that the current management structure does provide the best approach for running the Group.

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The following statement is made for the purposes of clarifying for members the collective responsibilities of the Directors in the preparation of the financial statements.

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of the affairs of the Company and the Group at the end of the financial year and of the Group's profit or loss for the financial year. In preparing these financial statements the Directors are required to use the appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and confirm that all applicable accounting standards have been followed. The Directors are required to prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 2006 and any subsequent amendments. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## THE BOARD AND ITS COMMITTEES

### The board

The Group continues to use a management structure typical of a professional firm and operates a two-tier board structure comprising the board of the parent company Charles Stanley Group PLC ("the Company Board"), and the board of its primary operating subsidiary, Charles Stanley & Co. Limited. Collectively these boards are known as the "Combined Board".

The Company Board comprises four executive Directors, and a short biography of each can be found on page 24. The Company currently has no non-executive Directors (Combined Code A.1.1, A.1.3, A.3.1, A.3.2, A.3.3 and A.6.1) and whilst the Company recognises that non-executive Directors can add value, it is felt that the current composition of the Company Board enables it to operate flexibly. This dynamic approach is deemed to be the most appropriate for the business and we believe it promotes the interests of the shareholders as a whole.

The four Directors of the Company also serve on the Combined Board, together with eight further executive Directors. This structure is designed so that responsibilities are correctly allocated between strategic and operational matters and provides a diversity of skills and opinions which ensures decisions are constructively challenged and proposals are effectively developed. Charles Stanley & Co. Limited, EBS Management PLC, Garrison Investment Analysis Limited and CS Financial Solutions Limited are regulated by the Financial Services Authority and accordingly are responsible in their own right for meeting regulatory requirements.

The Company Board is headed by a combined Chairman and Chief Executive. Although this is not recommended practice as set out in Combined Code A.2, the balance of power is akin to that of a partnership with no one individual exercising unfettered decision making powers. The current management structure provides stability for the Company and ensures decisions are made promptly and in accordance with the best interests of the Company.

A formal schedule of matters is reserved to the Company Board which includes setting the strategic direction of the Group, reviewing operational and financial performance and ensuring there is a reasonable discourse with shareholders. Operational matters such as ensuring the Group complies with its legal and regulatory obligations and ensuring the integrity of the Company's internal control and management systems are usually handled by the Combined Board.

All Directors also have the right to seek independent professional advice at the Company's expense where this is appropriate to enable the Directors, either individually or as a group, to properly fulfil their obligations.

Copies of any instructions and advice given by an independent professional advisor to a Director are supplied by the Director to the Company Secretary who will, where appropriate, circulate to other Directors sufficient information to ensure that other members of the Combined Board are kept informed on issues arising which affect the Company.

The Combined Board is assisted by the Company Secretary who is responsible for ensuring compliance in relation to legal practices and corporate governance, together with the flow of good information within the Combined Board and its committees. All Directors have access to the advice and services of the Company Secretary, whose appointment and removal is a matter for the Company Board.

The Articles of Association require one third of the Company's Directors to retire by rotation each year. It is the policy of the Company that no Director should serve for more than three years without seeking re-election.

One of the overall objectives of the Group is to maintain and enhance professional standards as required by the Financial Services Authority Training and Competence rules. Directors and staff are required to carry out continuous professional development throughout the year to ensure our staff meet the high professional standards expected by the Group.

#### **Board meetings**

The Combined Board meets each month (excluding August) with ad hoc meetings also held when required. In respect of certain business reserved to the Company Board the four Directors of the Company meet on the same date.

There were 14 Combined Board meetings during the year and attendance was as follows:  
David Howard 14; Peter Hurst 14;  
Michael Clark 13; Michael Lilwall 14.

All Directors receive appropriate and timely information to enable them to discharge their duties, and briefing papers are distributed to all Directors in advance. Presentations are made to the Combined Board by senior executives or external advisers as appropriate.

The Combined Board recognises and adopts the duties of Directors as codified by the Companies Act 2006 and ensures they are taken into account for every matter under consideration.

# CORPORATE GOVERNANCE

## **Board committees**

The Company Board has established an audit committee with the role and responsibilities described in the Combined Code C.3.2. Terms of reference for the audit committee have been developed and are subject to regular review. Membership of the committee comprises Gordon Montgomery FCA (independent Chairman), Michael Clark, Michael Lilwall and Gary Teper. There are no independent non-executive Directors on the committee. The committee is satisfied that Gordon Montgomery, who is neither a Director nor an employee of the Group, has recent and relevant financial experience as required by Combined Code C.3.1. The committee meets on a quarterly basis. On invitation, senior management and external auditors attend the meetings to assist the committee in fulfilling its duties. The committee may also seek external professional advice at the Company's expense.

The committee is responsible for monitoring and reviewing the effectiveness of the Group's internal audit function and considering reports from internal audit on internal controls and risk management. It is also responsible for ensuring an objective and professional relationship is maintained with the Group's external auditors.

The role of the audit committee includes reviewing the independence and the nature of non-audit services supplied and non-audit fee levels relative to the audit fee. The committee is satisfied that the independence of the auditors has not been impaired by providing these services. Details of the auditors' fees are shown in note 8 of the financial statements on page 65.

In line with this responsibility to ensure the appropriateness and independence of the external auditor and conscious of the increasing impact of existing and prospective regulation on the financial services industry, the Audit Committee conducted a review and tender process of external auditors during the year which led to the announcement in October 2010 of KPMG Audit Plc's appointment as the new auditor for the Group.

There were six meetings during the year and each meeting was fully attended.

The Company does not have a formal remuneration committee (B.2) or a formal nomination committee (A.4). Decisions on remuneration and appointments to the Board are made by the Company Board.

## **SHAREHOLDER RELATIONS**

The Directors communicate regularly with the Company's institutional shareholders. All regulatory news announcements, press releases and financial reports are available on the Company's website ([www.charlesstanleyplc.co.uk](http://www.charlesstanleyplc.co.uk)).

All shareholders have the opportunity to meet Directors at the Annual General Meeting. The Company Board welcomes questions and comments from shareholders during and at the end of the meeting. Votes are taken on a show of hands unless a poll is requested, and full details of proxy voting figures are disclosed after the vote and on the website. In its annual and interim reports, results presentations and City announcements generally, the Company endeavours to present an accurate, objective and balanced picture in a style and format which is appropriate for the intended audience.

## **RISK MANAGEMENT AND INTERNAL CONTROL**

The Company Board has overall responsibility for the Group's system of internal controls, the objectives of which are the safeguarding of the Group's assets, the maintenance of proper accounting records, and the availability of reliable financial information for use within the business and for publication. This system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement and loss, and to prevent and detect fraud and other irregularities.

The Combined Board regularly reviews the effectiveness of the Group's internal control system. There is an ongoing process for identifying, evaluating and managing significant risks which was in place throughout the year. This process meets the Turnbull Guidance.

The Group's system of internal control includes appropriate levels of authorisation and segregation of duties. Financial reports are presented to the Combined Board monthly detailing the results, variances against forecast and other performance data.

The Group has an internal audit department and an audit plan. The results of these audits are reported to the audit committee at the quarterly meetings. The suitability and effectiveness of the Group's internal controls and risk management are discussed, together with the ongoing monitoring of compliance, financial and operational controls and risk management. This information is reported to the Combined Board which is able to conclude, with reasonable assurance, that the appropriate internal control systems have been maintained throughout the year.

### **INSURANCE**

The Company maintains appropriate insurance cover in respect of litigation against the Directors and Officers of the Company.

### **GOING CONCERN**

The Directors have satisfied themselves that the Company and the Group have adequate resources to continue in business for the foreseeable future and that it is therefore appropriate for the financial statements for the year ended 31 March 2011 to have been prepared on a going concern basis.

### **COMPLIANCE WITH THE COMBINED CODE**

In relation to the Combined Code it is confirmed that:

- the Group is headed by a combined Chairman and Chief Executive Officer (A.2). It is felt that this dual role provides stability whilst the partnership-style of decision making ensures that no one individual has unfettered decision making powers;
- the Company does not have any non-executive Directors on the Board (A.3) as it believes the current two-tier structure of the Group Board works effectively to best promote the interests of the shareholders as a whole;

- the Company has no nomination committee (A.4) as there are no non-executive Directors;
- the board and its committees do not undergo annual evaluations of their performance (A.6), instead performance is assessed on a continuous basis;
- performance-related elements do not form a significant proportion of the total remuneration package of executive Directors (B.1). However, the Company gives full consideration to Schedule A of the Combined Code when forming its remuneration policy;
- the Company does not have a formal remuneration committee (B.2) but the emoluments of Directors are the subject of appraisal by the Chairman and the Directors and take into account individual performance and market conditions;
- whilst the Company has established an audit committee with the roles and responsibilities described in Combined Code (C.3.2) which is chaired by an independent Chairman, and includes members with recent and relevant financial experience as described in Combined Code (C.3.1), the committee comprises mainly executive Directors (with the exception of the committee Chairman) and has no independent non-executive Directors as members, as prescribed by the Combined Code (C.3.1). In all other respects it does however perform the functions of an audit committee as set out in the Combined Code.

# STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the EU and applicable law and have elected to prepare the parent Company financial statements on the same basis.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company 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 they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group and the parent Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By Order of the Board  
Gary Teper  
Secretary

7 June 2011

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHARLES STANLEY GROUP PLC

We have audited the financial statements of Charles Stanley Group Plc for the year ended 31 March 2011 set out on pages 40 to 92. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Directors' responsibilities statement set out on page 37, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

## OPINION ON FINANCIAL STATEMENTS

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 March 2011 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

## OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- information given in the Corporate Governance Statement set out on pages 33 to 36 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHARLES STANLEY GROUP PLC

## **MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION**

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 36, in relation to going concern;
- the part of the Corporate Governance Statement on pages 33 to 36 relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

**Mike Peck (Senior Statutory Auditor)  
For and on behalf of KPMG Audit Plc,  
Statutory Auditor**

Chartered Accountants  
15 Canada Square  
London, E14 5GL

7 June 2011

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# CONSOLIDATED INCOME STATEMENT

YEAR ENDED 31 MARCH 2011

|   | Notes | 2011<br>£'000 | 2010<br>£'000 |
|---|-------|---------------|---------------|
| <b>Continuing operations</b>                            |       |               |               |
| Revenue   | 5     | 125,573       | 114,992       |
| Administrative expenses                                 |       | (112,687)     | (105,356)     |
| Other income  | 6     | 63            | 88            |
| Operating profit  | 8     | 12,949        | 9,724         |
| Finance income  | 9     | 444           | 399           |
| Finance costs   | 9     | (53)          | (22)          |
| Gains and losses on available for sale financial assets | 9     | 37            | 170           |
| Profit before tax                                       |       | 13,377        | 10,271        |
| Tax expense   | 10    | (3,857)       | (3,428)       |
| Profit for the year attributable to equity shareholders |       | 9,520         | 6,843         |

## Earnings per share

|  |    |        |        |
|--|----|--------|--------|
| <b>Based on reported profit for the year</b> |    |        |        |
| Basic  | 13 | 21.42p | 15.44p |
| Diluted                                      | 13 | 21.40p | 15.44p |

The notes on pages 47 to 83 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## YEAR ENDED 31 MARCH 2011

|   | <b>2011</b>    | 2010  |
|---|----------------|-------|
|   | <b>£'000</b>   | £'000 |
| Profit for the year   | <b>9,520</b>   | 6,843 |
| Other comprehensive income  |                |       |
| Revaluation of property   | <b>29</b>      | —     |
| Gains and losses on available for sale financial assets                     | <b>(1,266)</b> | 343   |
| Deferred tax on available for sale financial assets                         | <b>377</b>     | (95)  |
| Retirement benefit scheme actuarial deficit                                 | <b>1,433</b>   | (993) |
| Deferred tax on retirement benefit scheme actuarial deficit                 | <b>(515)</b>   | 297   |
| Other comprehensive income net of tax                                       | <b>58</b>      | (448) |
| Total comprehensive income for the year attributable to equity shareholders | <b>9,578</b>   | 6,395 |

The notes on pages 47 to 83 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 MARCH 2011

|   | Notes | 2011  |                  | 2010      |        |
|---|-------|-------|------------------|-----------|--------|
|   |       | £'000 | £'000            | £'000     | £'000  |
| <b>Assets</b>   |       |       |                  |           |        |
| Non-current assets                                    |       |       |                  |           |        |
| Intangible assets                                     | 14    |       | <b>34,126</b>    |           | 35,428 |
| Property, plant and equipment                         | 15    |       | <b>6,216</b>     |           | 6,070  |
| Deferred tax assets                                   | 22    |       | <b>534</b>       |           | 516    |
| Available for sale financial assets                   | 16    |       | <b>5,223</b>     |           | 6,426  |
| Trade and other receivables                           | 17    |       | <b>1,431</b>     |           | 1,511  |
|   |       |       | <b>47,530</b>    |           | 49,951 |
| Current assets  |       |       |                  |           |        |
| Trade and other receivables                           | 17    |       | <b>224,720</b>   | 188,103   |        |
| Financial assets at fair value through profit or loss | 18    |       | <b>170</b>       | 75        |        |
| Cash and cash equivalents                             | 19    |       | <b>45,540</b>    | 36,617    |        |
|   |       |       | <b>270,430</b>   | 224,795   |        |
| <b>Liabilities</b>                                    |       |       |                  |           |        |
| Current liabilities                                   |       |       |                  |           |        |
| Trade and other payables                              | 20    |       | <b>(230,613)</b> | (192,945) |        |
| Borrowings  | 21    |       | <b>(94)</b>      | (843)     |        |
| Current tax liabilities                               |       |       | <b>(1,772)</b>   | (1,662)   |        |
|   |       |       | <b>(232,479)</b> | (195,450) |        |
| Net current assets                                    |       |       | <b>37,951</b>    |           | 29,345 |
| Non-current liabilities                               |       |       |                  |           |        |
| Trade and other payables                              | 20    |       | —                | (900)     |        |
| Borrowings  | 21    |       | —                | (15)      |        |
| Retirement benefit obligations                        | 27    |       | <b>(3,357)</b>   | (4,956)   |        |
|   |       |       | <b>(3,357)</b>   | (5,871)   |        |
| Net assets  |       |       | <b>82,124</b>    |           | 73,425 |
| <b>Shareholders' equity</b>                           |       |       |                  |           |        |
| Ordinary shares                                       | 23    |       | <b>11,265</b>    |           | 11,136 |
| Share premium   | 23    |       | <b>2,491</b>     |           | 1,772  |
| Revaluation reserve                                   |       |       | <b>1,463</b>     |           | 2,323  |
| Retained earnings                                     |       |       | <b>66,852</b>    |           | 58,097 |
| Total shareholders' equity                            |       |       | <b>82,071</b>    |           | 73,328 |
| Minority interests                                    |       |       | <b>53</b>        |           | 97     |
| Total equity  |       |       | <b>82,124</b>    |           | 73,425 |

Approved by the Board on 7 June 2011

Company registration number 48796 (England and Wales)

Sir David Howard

Peter Hurst

Directors

The notes on pages 47 to 83 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 MARCH 2011

|  | Share<br>capital<br>£'000 | Share<br>premium<br>£'000 | Re-<br>valuation<br>reserve<br>£'000 | Retained<br>earnings<br>£'000 | Total<br>£'000 | Minority<br>interests<br>£'000 | Total<br>equity<br>£'000 |
|--|---------------------------|---------------------------|--------------------------------------|-------------------------------|----------------|--------------------------------|--------------------------|
| <b>1 April 2010</b>  | <b>11,136</b>             | <b>1,772</b>              | <b>2,323</b>                         | <b>58,097</b>                 | <b>73,328</b>  | <b>97</b>                      | <b>73,425</b>            |
| <b>Profit for the year</b>                                     | —                         | —                         | —                                    | <b>9,520</b>                  | <b>9,520</b>   | —                              | <b>9,520</b>             |
| <b>Other comprehensive income:</b>                             |                           |                           |                                      |                               |                |                                |                          |
| Revaluation of property  | —                         | —                         | <b>29</b>                            | —                             | <b>29</b>      | —                              | <b>29</b>                |
| Gains and losses on available for<br>sale financial assets     | —                         | —                         | <b>(1,266)</b>                       | —                             | <b>(1,266)</b> | —                              | <b>(1,266)</b>           |
| Deferred tax on available for<br>sale financial assets         | —                         | —                         | <b>377</b>                           | —                             | <b>377</b>     | —                              | <b>377</b>               |
| Retirement benefit scheme<br>actuarial gain                    | —                         | —                         | —                                    | <b>1,433</b>                  | <b>1,433</b>   | —                              | <b>1,433</b>             |
| Deferred tax on retirement benefit<br>scheme actuarial deficit | —                         | —                         | —                                    | <b>(515)</b>                  | <b>(515)</b>   | —                              | <b>(515)</b>             |
| <b>Total other comprehensive income<br/>for the year</b>       | —                         | —                         | <b>(860)</b>                         | <b>918</b>                    | <b>58</b>      | —                              | <b>58</b>                |
| <b>Total comprehensive income<br/>for the year</b>             | —                         | —                         | <b>(860)</b>                         | <b>10,438</b>                 | <b>9,578</b>   | —                              | <b>9,578</b>             |
| Change in ownership of subsidiary                              | —                         | —                         | —                                    | —                             | —              | <b>(44)</b>                    | <b>(44)</b>              |
| Dividends paid to equity shareholders                          | —                         | —                         | —                                    | <b>(1,729)</b>                | <b>(1,729)</b> | —                              | <b>(1,729)</b>           |
| Scrip dividend   | <b>43</b>                 | <b>(43)</b>               | —                                    | —                             | —              | —                              | —                        |
| Share options – value of<br>employee services                  | —                         | —                         | —                                    | <b>46</b>                     | <b>46</b>      | —                              | <b>46</b>                |
| – issue of shares  | <b>77</b>                 | <b>686</b>                | —                                    | —                             | <b>763</b>     | —                              | <b>763</b>               |
| Conversion of loan notes                                       | <b>9</b>                  | <b>76</b>                 | —                                    | —                             | <b>85</b>      | —                              | <b>85</b>                |
| <b>31 March 2011</b>   | <b>11,265</b>             | <b>2,491</b>              | <b>1,463</b>                         | <b>66,852</b>                 | <b>82,071</b>  | <b>53</b>                      | <b>82,124</b>            |

The notes on pages 47 to 83 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 MARCH 2011

|  | Share<br>capital<br>£'000 | Share<br>premium<br>£'000 | Re-<br>valuation<br>reserve<br>£'000 | Retained<br>earnings<br>£'000 | Total<br>£'000 | Minority<br>interests<br>£'000 | Total<br>equity<br>£'000 |
|--|---------------------------|---------------------------|--------------------------------------|-------------------------------|----------------|--------------------------------|--------------------------|
| 1 April 2009   | 11,035                    | 1,873                     | 2,295                                | 56,850                        | 72,053         | 97                             | 72,150                   |
| Profit for the year  | —                         | —                         | —                                    | 6,843                         | 6,843          | —                              | 6,843                    |
| Other comprehensive income:                                    |                           |                           |                                      |                               |                |                                |                          |
| Gains and losses on available for<br>sale financial assets     | —                         | —                         | 123                                  | 220                           | 343            | —                              | 343                      |
| Deferred tax on available for<br>sale financial assets         | —                         | —                         | (95)                                 | —                             | (95)           | —                              | (95)                     |
| Retirement benefit scheme<br>actuarial deficit                 | —                         | —                         | —                                    | (993)                         | (993)          | —                              | (993)                    |
| Deferred tax on retirement benefit<br>scheme actuarial deficit | —                         | —                         | —                                    | 297                           | 297            | —                              | 297                      |
| Total other comprehensive income<br>for the year               | —                         | —                         | 28                                   | (476)                         | (448)          | —                              | (448)                    |
| Total comprehensive income<br>for the year                     | —                         | —                         | 28                                   | 6,367                         | 6,395          | —                              | 6,395                    |
| Dividends paid to equity shareholders                          | —                         | —                         | —                                    | (5,162)                       | (5,162)        | —                              | (5,162)                  |
| Scrip dividend   | 101                       | (101)                     | —                                    | —                             | —              | —                              | —                        |
| Share options – value of<br>employee services                  | —                         | —                         | —                                    | 42                            | 42             | —                              | 42                       |
| 31 March 2010  | 11,136                    | 1,772                     | 2,323                                | 58,097                        | 73,328         | 97                             | 73,425                   |

# CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 MARCH 2011

|   | Notes | 2011<br>£'000 | 2010<br>£'000 |
|---|-------|---------------|---------------|
| <b>Cash flows from operating activities</b>               |       |               |               |
| Cash generated from operations                            | 24    | 18,015        | 12,405        |
| Interest received   | 9     | 444           | 399           |
| Interest paid   | 9     | (53)          | (22)          |
| Tax paid  |       | (3,906)       | (2,067)       |
| Net cash from operating activities                        |       | 14,500        | 10,715        |
| <b>Cash flows from investing activities</b>               |       |               |               |
| Acquisition of subsidiaries and other businesses          |       | (800)         | (4,132)       |
| Acquisition of intangible assets                          |       | (1,001)       | (493)         |
| Purchase of property, plant and equipment                 | 15    | (2,346)       | (542)         |
| Proceeds from sale of property, plant and equipment       |       | 18            | 39            |
| Purchase of available for sale financial assets           | 16    | (320)         | (2,484)       |
| Proceeds from sale of available for sale financial assets |       | 297           | 2,770         |
| Dividends received  | 6     | 63            | 88            |
| Net cash used in investing activities                     |       | (4,089)       | (4,754)       |
| <b>Cash flows from financing activities</b>               |       |               |               |
| Net proceeds from issue of ordinary share capital         | 23    | 763           | —             |
| Cash outflow from change in debt and lease financing      |       | (522)         | (133)         |
| Dividends paid to equity shareholders                     | 12    | (1,729)       | (5,162)       |
| Net cash used in financing activities                     |       | (1,488)       | (5,295)       |
| <b>Net increase in cash and cash equivalents</b>          |       |               |               |
| Cash and cash equivalents at start of year                |       | 36,617        | 35,951        |
| Cash and cash equivalents at end of year                  | 19    | 45,540        | 36,617        |

The notes on pages 47 to 83 are an integral part of these consolidated financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2011

## 1 GENERAL INFORMATION

Charles Stanley Group PLC is the parent company of a group of companies ("the Group") which provides a range of investment and financial services within the United Kingdom.

The Company is a public limited company which is listed on the London Stock Exchange and is incorporated and domiciled in the UK. The address of its registered office is 25 Luke Street, London EC2A 4AR.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated and parent Company financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The consolidated financial statements were authorised for issue by the Board of Directors on 7 June 2011.

### 2.1 Basis of preparation

The Group's consolidated financial statements are prepared on a going concern basis and in accordance with International Financial Reporting Standards as adopted by the European Union and IFRIC Interpretations (IFRSs as adopted by the EU) and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, available for sale financial investments, and financial assets and financial liabilities at fair value through profit and loss.

These consolidated financial statements are presented in sterling which is the Group's functional currency. All financial information presented in sterling has been rounded to the nearest thousand.

#### 2.1.1 Changes in accounting policy and disclosures

The same accounting policies, presentation and methods of computation are followed in these financial statements as applied in the Group's financial statements for the year ended 31 March 2010 except as described below.

The Group has adopted the following new and revised Standards and Interpretations in the current year. Their adoption has not had any significant impact on the amounts reported in these financial statements but may impact the accounting for future transactions and arrangements:

- IFRS 3, 'Business Combinations (revised 2008)';
- IAS 27, 'Consolidated and Separate Financial Statements (revised 2008)';
- IFRIC 17, 'Distributions of Non-cash Assets to Owners';
- Amendments to IFRS 2, 'Share-based Payments: Vesting Conditions and Cancellations & Group Cash-settled Share-based Payment Transactions'.

The following amendments were made as part of 'Improvements to IFRS (2009)':

- Amendments to IAS 38 'Intangible Assets';
- Amendments to IFRS 8 'Operating Segments';
- Amendments to IAS 7 'Statement of Cash Flows';
- Amendments to IAS 36 'Impairment of Assets'.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.1.1 Changes in accounting policy and disclosures (continued)

A number of new standards and interpretations have been issued with effective dates after the date of these financial statements. These changes are currently being assessed and the Directors do not anticipate that the adoption of these standards and interpretations will materially impact the Group's financial statements in the period of initial application although there could be revised and additional disclosures. The Group plans to apply these standards, once endorsed, in the first reporting period that commences after the effective date.

| <i>Endorsed and available for early adoption</i>  | <i>Effective date</i>          |
|---|--------------------------------|
| Amendment to IFRS 1 – Limited exemption from comparative IFRS 7 disclosures for first-time adopters | 1 July 2010                    |
| IAS 24 Related Party Disclosures (revised 2009)   | 1 January 2011                 |
| Amendment to IFRIC 14 Prepayments of a Minimum Funding Requirement                                  | 1 January 2011                 |
| IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments                              | 1 July 2010                    |
| <i>Not yet endorsed</i>   |                                |
| Improvements to IFRSs (Issued May 2010)   | Various, mostly 1 January 2011 |
| Amendment to IFRS 7 Disclosures – Transfers of Financial Assets                                     | 1 July 2011                    |
| Amendment to IAS 12 Recovery of Underlying Assets   | 1 January 2012                 |
| IFRS 9 Financial Instruments  | 1 January 2013                 |

### 2.2 Consolidation

#### (a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains or losses on transactions between Group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2011

## **2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **2.2 Consolidation (continued)**

#### (b) Transactions and minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group and are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

### **2.3 Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of the parent company that makes strategic decisions.

Segment results that are reported to the chief operating decision maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses and income tax liabilities.

### **2.4 Foreign currency translation**

Foreign currency transactions are translated into sterling using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

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

Freehold property is shown at fair value, based on periodic valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of freehold property are credited to other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against other reserves directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original costs is transferred from "other reserves" to "retained earnings".

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.5 Property, plant and equipment (continued)

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

|                                   |               |
|-----------------------------------|---------------|
| Freehold and leasehold properties | 3 to 50 years |
| Vehicles                          | 3 years       |
| Furniture, fittings and equipment | 3 to 10 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.7).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other (losses)/gains – net" in the income statement.

When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

### 2.6 Intangible assets

#### (a) Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in "intangible assets". Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units ("CGUs") for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

#### (b) Customer relationships

Customer relationships acquired in a business combination are recognised at fair value at the acquisition date. Those customer relationships acquired outside of a business combination are initially recognised at cost. The customer relations have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over their useful lives of seven to ten years or earlier if impaired.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2011

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.7 Impairment of non-financial assets

Intangible assets, such as goodwill, are regarded as having an indefinite useful life when there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group. These assets are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (Cash Generating Units or CGUs). Fair value less costs to sell is established based on recent public transactions for similar businesses. If the carrying amount relating to any CGU exceeds the fair value less costs to sell a value in use is calculated using a discounted cash flow method. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### 2.8 Non-current assets held for sale

Non-current assets held for sale are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

### 2.9 Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on nature of the instruments and the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

#### 2.9.1 Classification

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Assets in this category are classified as current assets.

(b) Loans and receivables

Loans and receivables are non-derivative assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables" and cash and cash equivalents in the statement of financial position (notes 2.11 and 2.12).

(c) Available for sale financial assets

Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

## **2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **2.9.2 Recognition and measurement**

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available for sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the “financial assets at fair value through profit or loss” are presented in the income statement within “other (losses)/gains – net” in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group’s right to receive payments is established.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as “gains and losses from investment securities”.

Interest on available for sale securities calculated using the effective interest method is recognised in the income statement as part of finance income. Dividends on available for sale equity instruments are recognised in the income statement as part of other income when the Group’s right to receive payment is established.

### **2.10 Impairment of financial assets**

The Group assesses as at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

Assets classified as available for sale

These include listed and unlisted securities. The cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the separate income statement on equity investments are reversed through equity. If, in a subsequent period, the fair value of debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the separate income statement.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2011

## **2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **2.11 Trade receivables**

Trade receivables are amounts due from clients and other counterparties for services performed in the ordinary course of business. If collection is expected in one year or less they are classified as current assets. If not, they are presented in non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

### **2.12 Cash and cash equivalents**

Cash and cash equivalents include cash in hand and cash held at call with banks.

### **2.13 Segregated funds**

Segregated funds are held in trust by the Group on behalf of clients in accordance with the Client Asset Rules of the Financial Services Authority and the corresponding liability to clients is not shown in the statement of financial position.

### **2.14 Trade payables**

Trade payables consists of amounts payable to clients and other counterparties and obligations to pay suppliers for goods or services in the ordinary course of business. Accounts payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### **2.15 Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently at amortised cost; any difference between the proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

### **2.16 Current and deferred income tax**

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or in equity. In this case the tax is recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the UK.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

## **2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **2.16 Current and deferred income tax(continued)**

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

### **2.17 Employee benefits**

#### **2.17(a) Pension obligations**

The Group operates two pension schemes - a defined benefit and a defined contribution scheme. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan which is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the statement of financial position in respect of the defined benefit plan is the present value of the defined benefit obligations at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of AA credit rated corporate bonds that have terms of maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

#### **2.17(b) Short term employee benefits**

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. Payments made in advance of services being provided are treated as prepayments.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2011

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.18 Share-based payments

The Group operates a Save As You Earn scheme under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the options are exercised the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

### 2.19 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the provision of services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

- (a) Commission  
Commission income and expenses are recognised on a trade date basis.
- (b) Fees  
Investment management, administration and corporate finance retainer fees are recognised evenly over the period the service is provided. Corporate finance success fees are recognised when earned.
- (c) Dividend income  
Dividend income is recognised when the right to receive payment is established.
- (d) Interest income  
Interest income is recognised using the effective interest method.

## **2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **2.20 Leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Leases where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement date at the lower of fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

### **2.21 Dividend distribution**

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

### **2.22 Investments in subsidiaries**

Investments in subsidiaries are stated at cost less, where appropriate, provision for impairment.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2011

## 3 FINANCIAL RISK MANAGEMENT

Through its normal operations the Group is exposed to a number of risks, the most significant of which are market, credit and liquidity risks. A full qualitative description of the Group's risk management framework is given in the operating and financial review on pages 12 to 19.

### Market risk

#### *Equity risk*

The Group is exposed to equity market risk through its equity holdings. These comprise: i) available for sale financial investments, ii) held for trading assets and liabilities and iii) the impact on investment management fees.

The Group has performed sensitivity analysis assessing the impact of a 10% increase or decrease in underlying equity prices. The results shown below are indicative of the impact at the year end.

#### i) Available for sale investments

Note 16 summarises the available for sale investments held at the year end date, and the disposals and fair value movements made in the year.

Approximately 40% of the Group's available for sale investments are unlisted. Accordingly a rise or fall of 10% does not have an immediate impact on the Group's equity reserves. A similar increase/decrease on the Group's listed investments would have an impact on reserves of £313,000 (2010: £302,000).

#### ii) Held for trading assets and liabilities

The Group's exposure to market risk on its held for trading positions is monitored daily and reported to the appropriate Directors and senior management. Positions are monitored against limits set down by the risk and regulatory review group/compliance committee. Any breaches of the limits are notified immediately to the Compliance Director.

A 10% increase/decrease in equity prices on trading assets and liabilities would increase/decrease profit in the Income statement by £17,000 (2010: £8,000).

#### iii) Investment Management fees

A 10% increase/decrease in equity prices would increase/decrease profit on investment management fees in the Income statement by £2.0 million (2010: £1.6 million).

The Group does not hold derivatives on its own account.

#### *Foreign exchange risk*

The table below summarises the Group's currency exposure arising from unmatched monetary assets or liabilities not denominated in the Group's functional currency:

|                  | <b>2011</b>  | 2010  |
|------------------|--------------|-------|
|                  | <b>£'000</b> | £'000 |
| Net assets       |              |       |
| Euros            | <b>464</b>   | 593   |
| US Dollars       | <b>505</b>   | 892   |
| Other currencies | <b>913</b>   | 682   |
|                  | <b>1,882</b> | 2,167 |

The Group's activities are primarily denominated in sterling and it does not enter into forward exchange contracts for hedging anticipated transactions. The risk of adverse currency movements for settlement of non-GBP trades on behalf of clients is not borne by the Group. The Group is exposed to currency risk for settlement of non-GBP trade suppliers and miscellaneous income streams. At 31 March 2011 these totalled £14,491 (2010: £12,413).

### 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### *Interest rate risk*

The Group has interest bearing assets, principally in cash and cash deposits and available for sale financial assets, and liabilities including loan notes accruing interest at fixed rates. The Group views such exposure to interest rate fluctuations as immaterial. If interest rates had been 200 basis points higher/lower profit for the year would have been £911,000 higher/lower (2010: £726,000).

#### **Credit risk**

Trade receivables represent monies due from clients and market counterparties. The risk department undertakes reviews of new accounts and periodically reviews all counterparties.

Cash and cash equivalents are held with top tier regulated financial institutions with credit ratings typically no lower than AA-. The list of approved banks is reviewed at least annually by the treasury committee. The Group has no concerns over the credit quality of these institutions.

The following table of financial assets analyses amounts by ageing:

| As at 31 March 2011       |   |                                 |                                  |                                  |           |                                  |                                     |
|---------------------------|---|---------------------------------|----------------------------------|----------------------------------|-----------|----------------------------------|-------------------------------------|
|                           | <b>Neither<br/>due nor<br/>impaired<br/>£'000</b> | <b>0-3<br/>months<br/>£'000</b> | <b>Past due but not impaired</b> |                                  |           | <b>Over 1<br/>year<br/>£'000</b> | <b>Carrying<br/>value<br/>£'000</b> |
|                           |   |                                 | <b>3-6<br/>months<br/>£'000</b>  | <b>6-12<br/>months<br/>£'000</b> |           |                                  |                                     |
| Trade receivables         | <b>211,275</b>                                    | <b>10,966</b>                   | <b>199</b>                       | <b>87</b>                        | <b>61</b> |                                  | <b>222,588</b>                      |
| Cash and cash equivalents | <b>45,540</b>                                     | <b>—</b>                        | <b>—</b>                         | <b>—</b>                         | <b>—</b>  |                                  | <b>45,540</b>                       |

As at 31 March 2010

|                           |         |       |     |    |     |  |         |
|---------------------------|---------|-------|-----|----|-----|--|---------|
| Trade receivables         | 178,883 | 5,798 | 341 | 89 | 279 |  | 185,390 |
| Cash and cash equivalents | 36,617  | —     | —   | —  | —   |  | 36,617  |

A provision for impairment of receivables existed at 31 March 2011 of £402,000 (31 March 2010: £234,000).

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2011

## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

### Liquidity risk

The tables below analyse the Group's future cash outflows based on the remaining period to the contractual maturity date. The amounts shown are contractual undiscounted cash flows.

| As at 31 March 2011   | Less<br>than 1<br>year<br>£'000 | 1-2<br>years<br>£'000 | 2-5<br>years<br>£'000 | Over 5<br>years<br>£'000 | Carrying<br>value<br>£'000 |
|-----------------------|---------------------------------|-----------------------|-----------------------|--------------------------|----------------------------|
| Trade payables        | 220,308                         | —                     | —                     | —                        | 220,308                    |
| Other payables        | 3,068                           | —                     | —                     | —                        | 3,068                      |
| Accruals              | 4,678                           | —                     | —                     | —                        | 4,678                      |
| Financial liabilities | 94                              | —                     | —                     | —                        | 94                         |

As at 31 March 2010

|                               |         |     |   |   |         |
|-------------------------------|---------|-----|---|---|---------|
| Trade payables                | 181,692 | —   | — | — | 181,692 |
| Other payables                | 4,236   | —   | — | — | 4,236   |
| Accruals                      | 3,390   | —   | — | — | 3,390   |
| Financial liabilities         | 843     | 15  | — | — | 858     |
| Other non-current liabilities | —       | 900 | — | — | 900     |

### 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### Capital risk management

The Group has an internal capital adequacy assessment process, as required by the Financial Services Authority ("FSA"), which it uses to manage capital. This assessment is Group wide and covers current capital requirements as well as projected capital requirements. The Group is satisfied that there is and will be sufficient capital to meet these requirements.

The process, which has been approved by the board of Directors, includes both qualitative and quantitative analyses of the requirements as calculated using both Pillar 1 and Pillar 2 methodologies. Any changes to the Group's business activities is considered within this framework.

Capital adequacy is monitored daily by the Group's management for all regulated companies within the Group. Compliance with FSA regulatory requirements was maintained during the year.

The regulatory capital resources of the Group calculated in accordance with FSA definitions were as follows:

|                               | <b>2011</b><br><b>£'000</b> | 2010<br>£'000 |
|-------------------------------|-----------------------------|---------------|
| Tier 1 capital resources      |                             |               |
| Ordinary shares               | <b>11,265</b>               | 11,136        |
| Share premium                 | <b>2,491</b>                | 1,772         |
| Retained earnings*            | <b>67,027</b>               | 58,272        |
|                               | <b>80,783</b>               | 71,180        |
| Deduction – intangible assets | <b>(34,126)</b>             | (35,428)      |
|                               | <b>46,657</b>               | 35,752        |
| Tier 2 capital resources      |                             |               |
| Revaluation reserve           | <b>1,463</b>                | 2,323         |
| Total capital resources       | <b>48,120</b>               | 38,075        |

\*includes adjustments for defined pension liability in accordance with FSA rules.

#### Fair value of financial instruments

The carrying value of financial assets not held at fair value (cash and cash equivalents, trade receivables, other receivables, and trade and other payables) is not significantly different from the fair value.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2011

## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

### Fair value estimation

IFRS 7 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – Inputs for assets that are not based on observable market data (that is, unobservable inputs)

The table below presents the Company's assets that are measured at fair value at 31 March 2011.

| As at 31 March 2011            | Level 1<br>£'000 | Level 2<br>£'000 | Level 3<br>£'000 | Total<br>£'000 |
|--------------------------------|------------------|------------------|------------------|----------------|
| Held for trading investments   | 170              | —                | —                | 170            |
| Available for sale investments | 3,129            | —                | 2,094            | 5,223          |
|                                | 3,299            | —                | 2,094            | 5,393          |

As at 31 March 2010

|                                | £'000 | £'000 | £'000 | £'000 |
|--------------------------------|-------|-------|-------|-------|
| Held for trading investments   | 75    | —     | —     | 75    |
| Available for sale investments | 3,016 | —     | 3,410 | 6,426 |
|                                | 3,091 | —     | 3,410 | 6,501 |

The fair value of financial instruments traded in active markets is based on quoted market prices at balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and prices represent actual and regulatory occurring market transactions on arms length basis. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in Level 1. Instruments in Level 1 comprise primarily London Stock Exchange equity investments and fixed income securities classified as held for trading and available for sale.

If one or more significant inputs are not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value the financial instruments include:

- i) Quoted market prices
- ii) Other techniques, such as discounting, are used to determine the fair value for the remaining financial instruments.

#### 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2.7. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (note 14). Based on these calculations no impairment losses arose on goodwill.

(b) Revenue recognition

Fee income receivable is estimated based on current portfolio valuations, historical experience of debt collection and future expectations.

(c) Pension benefits

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost/(income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high quality corporate bonds that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 27.

Were the discount rate to differ by 10% from the management's estimates, the carrying amount of pension obligations would be an estimated £2.8 million higher or lower.

(d) Available for sale investments

Unlisted available for sale financial assets include an investment in Euroclear plc. The fair value of this investment has been estimated by the Directors based on the Group's share of net assets, dividend yield and the prices of similar companies discounted for liquidity. This is discussed in note 16.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2011

## 5 SEGMENT INFORMATION

For management purposes the Group is organised into three divisions – Private Clients, Financial Services and Charles Stanley Securities. The principal activity of the private client division is the provision of investment management services to individuals, trusts and charities. The financial services division includes a SIPP administrator, a discount financial intermediary, employee benefits provider and financial planning and wealth management areas. Charles Stanley Securities is the Group's advisory, broking and corporate finance arm for smaller and mid cap UK listed companies. Sales between segments are carried out at arm's length. All of the Group's activities are undertaken in the United Kingdom.

|                                 | Private<br>Clients<br>£'000 | Financial<br>Services<br>£'000 | Charles<br>Stanley<br>Securities<br>£'000 | Sub-<br>total<br>£'000 | Central<br>costs<br>£'000 | Total<br>£'000 |
|---------------------------------|-----------------------------|--------------------------------|---|------------------------|---------------------------|----------------|
| <b>Year ended 31 March 2011</b> |                             |                                |   |                        |                           |                |
| Commission                      | 56,016                      | 310                            | 6,977                                     | 63,303                 | —                         | 63,303         |
| Fees                            |                             |                                |   |                        |                           |                |
| Investment management           | 26,999                      | 373                            | —   | 27,372                 | —                         | 27,372         |
| Administration                  | 22,953                      | 8,715                          | 304                                       | 31,972                 | —                         | 31,972         |
| Corporate finance               | —                           | —                              | 2,926                                     | 2,926                  | —                         | 2,926          |
|                                 | 49,952                      | 9,088                          | 3,230                                     | 62,270                 | —                         | 62,270         |
| <b>Total revenue</b>            | <b>105,968</b>              | <b>9,398</b>                   | <b>10,207</b>                             | <b>125,573</b>         | <b>—</b>                  | <b>125,573</b> |
| Administrative expenses         | (63,882)                    | (9,201)                        | (9,182)                                   | (82,265)               | (30,422)                  | (112,687)      |
| Other income                    | —                           | —                              | —   | —                      | 63                        | 63             |
| Operating profit                | <b>42,086</b>               | <b>197</b>                     | <b>1,025</b>                              | <b>43,308</b>          | <b>(30,359)</b>           | <b>12,949</b>  |
| Segment assets                  | <b>234,967</b>              | <b>14,317</b>                  | <b>6,763</b>                              | <b>256,047</b>         | <b>61,913</b>             | <b>317,960</b> |
| Segment liabilities             | <b>214,012</b>              | <b>—</b>                       | <b>6,354</b>                              | <b>220,366</b>         | <b>15,470</b>             | <b>235,836</b> |

## 5 SEGMENT INFORMATION (CONTINUED)

|                                 | Private<br>Clients<br>£'000 | Financial<br>Services<br>£'000 | Charles<br>Stanley<br>Securities<br>£'000 | Sub-<br>total<br>£'000 | Central<br>costs<br>£'000 | Total<br>£'000 |
|---------------------------------|-----------------------------|--------------------------------|---|------------------------|---------------------------|----------------|
| <b>Year ended 31 March 2010</b> |                             |                                |   |                        |                           |                |
| Commission                      | 54,768                      | 135                            | 7,123                                     | 62,026                 | —                         | 62,026         |
| Fees                            |                             |                                |   |                        |                           |                |
| Investment management           | 22,695                      | 261                            | —   | 22,956                 | —                         | 22,956         |
| Administration                  | 18,690                      | 8,054                          | 152                                       | 26,896                 | —                         | 26,896         |
| Corporate finance               | —                           | —                              | 3,114                                     | 3,114                  | —                         | 3,114          |
|                                 | 41,385                      | 8,315                          | 3,266                                     | 52,966                 | —                         | 52,966         |
| <b>Total revenue</b>            | <b>96,153</b>               | <b>8,450</b>                   | <b>10,389</b>                             | <b>114,992</b>         | <b>—</b>                  | <b>114,992</b> |
| Administrative expenses         | (58,064)                    | (8,511)                        | (10,478)                                  | (77,053)               | (28,303)                  | (105,356)      |
| Other income                    | —                           | —                              | —   | —                      | 88                        | 88             |
| Operating profit/(loss)         | 38,089                      | (61)                           | (89)                                      | 37,939                 | (28,215)                  | 9,724          |
| Segment assets                  | 189,535                     | 13,923                         | 17,498                                    | 220,956                | 53,790                    | 274,746        |
| Segment liabilities             | 164,217                     | 800                            | 18,996                                    | 184,013                | 17,308                    | 201,321        |

## 6 OTHER INCOME

|  | 2011<br>£'000 | 2010<br>£'000 |
|--|---------------|---------------|
| Dividend income on available for sale financial assets | 63            | 88            |

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2011

## 7 EMPLOYEE BENEFIT EXPENSE

The average number of persons employed (including Directors) during the year was 747 (2010: 729).

|  | <b>2011</b>   | 2010   |
|--|---------------|--------|
|  | <b>£'000</b>  | £'000  |
| Staff costs for the Group during the year: |               |        |
| Wages and salaries                         | <b>42,245</b> | 40,443 |
| Social security costs                      | <b>4,084</b>  | 4,276  |
| Share options – value of employee services | <b>46</b>     | 42     |
| Pension costs                              |               |        |
| Defined contribution plans                 | <b>2,995</b>  | 2,649  |
| Defined benefit plan                       | <b>854</b>    | 1,056  |
|  | <b>50,224</b> | 48,466 |

The comparative figure for wages and salaries has been adjusted to include commission earned by employees.

## 8 OPERATING PROFIT

|   | <b>2011</b>  | 2010  |
|---|--------------|-------|
|   | <b>£'000</b> | £'000 |
| The following items have been included in arriving at operating profit: |              |       |
| Depreciation of property, plant and equipment:                          |              |       |
| Owned assets  | <b>2,204</b> | 2,694 |
| Assets held under finance leases  | <b>7</b>     | 50    |
| Amortisation of intangible assets                                       | <b>1,740</b> | 1,712 |
| Auditors' remuneration:   |              |       |
| Audit of the Company's annual accounts                                  | <b>20</b>    | 39    |
| Audit of the Company's subsidiaries                                     | <b>175</b>   | 124   |
| Services relating to taxation   | <b>70</b>    | 102   |
| All other services  | <b>25</b>    | 14    |
| Gains on financial assets at fair value through profit or loss          | <b>(28)</b>  | (53)  |
| Gains on foreign currency exchange                                      | <b>(508)</b> | (496) |
| Operating lease rentals   | <b>1,961</b> | 1,811 |
| Revenue costs relating to new investment teams                          | <b>—</b>     | 1,217 |
| Financial Services Compensation Scheme levy                             | <b>2,600</b> | 686   |

Fees paid to the Group's auditor includes all fees in their capacity as such. The amounts for 2010 were payable to Saffrey Champness and for 2011 to KPMG Audit Plc.

Revenue costs relating to new investment teams consist of the following:

|  | <b>2011</b>  | 2010  |
|--|--------------|-------|
|  | <b>£'000</b> | £'000 |
| Initial costs of setting up investment teams including rent,<br>ICT costs and stock transfer costs | <b>—</b>     | 540   |
| Recruitment costs  | <b>—</b>     | 192   |
| Incentive payments   | <b>—</b>     | 485   |
|  | <b>—</b>     | 1,217 |

## 9 FINANCE INCOME – NET

|   | 2011<br>£'000 | 2010<br>£'000 |
|---|---------------|---------------|
| Interest income   | 444           | 399           |
| Interest expense  |               |               |
| Interest payable on bank borrowings                     | (5)           | (7)           |
| Interest payable on other loans                         | (47)          | (8)           |
| Interest payable on finance leases                      | (1)           | (7)           |
| Interest and similar charges payable                    | (53)          | (22)          |
| Gains and losses on available for sale financial assets | 37            | 170           |
| Finance income – net                                    | 428           | 547           |

## 10 TAX EXPENSE

|   | 2011<br>£'000 | 2010<br>£'000 |
|---|---------------|---------------|
| Analysis of charge in year                        |               |               |
| Current taxation                                  |               |               |
| Continuing operations                             | 3,954         | 3,245         |
| Adjustment in respect of prior years              | 59            | (90)          |
| Deferred taxation                                 |               |               |
| Origination and reversal of temporary differences |               |               |
| Continuing operations                             | (156)         | (220)         |
| Adjustment in respect of prior years              | —             | 493           |
|   | 3,857         | 3,428         |

In addition to the amount charged to the income statement, deferred tax of £(377,000) (2010: £95,000) relating to the revaluation of the Group's available for sale financial assets has been (credited)/charged directly to equity and deferred tax of £515,000 (2010: £(297,000)) relating to the retirement benefit scheme actuarial deficit has been charged/(credited) directly to equity.

The aggregate current tax relating to items that have been charged/(credited) directly to equity is £41,000 (2010: £(41,000)).

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2011

## 10 TAX EXPENSE (CONTINUED)

The tax charge for the year is higher than the standard rate of corporation tax in the UK of 28% (2010: 28%). The differences are explained below.

|   | <b>2011</b>   | 2010   |
|---|---------------|--------|
|   | <b>£'000</b>  | £'000  |
| Profit before tax   | <b>13,377</b> | 10,271 |
| Profit multiplied by rate of corporation tax in the UK of 28% (2010: 28%) | <b>3,746</b>  | 2,876  |
| Tax effects of  |               |        |
| Income not subject to tax   | <b>(13)</b>   | (21)   |
| Expenses not allowed for tax  | <b>163</b>    | 193    |
| Adjustments in respect of prior years                                     | <b>59</b>     | 403    |
| Change in tax rate  | <b>17</b>     | —      |
| Other adjustments   | <b>(115)</b>  | (23)   |
|   | <b>111</b>    | 552    |
| Tax charge for the year   | <b>3,857</b>  | 3,428  |

## 11 PROFIT FOR THE YEAR

The Company has elected to take the exemption under section 408 of the Companies Act 2006 to not present the parent Company profit and loss account. The profit for the parent Company for the year was £3,000,000 (2010: £3,453,000).

## 12 DIVIDENDS PAID

Amounts recognised as distributions to equity shareholders in the year:

|  | <b>2011</b>  | 2010  |
|--|--------------|-------|
|  | <b>£'000</b> | £'000 |
| Final paid of 2.50p per share (2010: 6.65p)        | <b>828</b>   | 2,375 |
| Interim paid of 2.50p per share (2010: 2.20p)      | <b>901</b>   | 813   |
| Second interim paid of nil per share (2010: 5.00p) | <b>—</b>     | 1,974 |
|  | <b>1,729</b> | 5,162 |

In addition, the Directors are proposing a final dividend in respect of the year ended 31 March 2011 of 8.25p per share which will absorb an estimated £3.7 million of shareholders' funds. It will be paid on 3 August 2011 to shareholders who are on the register of members on 17 June 2011.

### 13 EARNINGS PER SHARE

The Directors believe that a truer reflection of the performance of the Group's on-going business is given by the measure of adjusted earnings per share. "Adjusted earnings" represent earnings before gains and losses on available for sale financial assets, FSCS levy and amortisation of customer relationships. This measure is also followed by the analyst community as a benchmark of the Group's on-going performance.

|   | 2011<br>No.<br>000 | 2010<br>No.<br>000 |
|---|--------------------|--------------------|
| Weighted average number of shares in issue in the year                    | 44,447             | 44,320             |
| Effect of share options   | 44                 | —                  |
| <b>Diluted weighted average number of shares in issue during the year</b> | <b>44,491</b>      | 44,320             |
|   | <b>£'000</b>       | £'000              |
| Reported earnings attributable to ordinary shareholders                   | 9,520              | 6,843              |
| Gains and losses on available for sale financial assets                   | (37)               | (170)              |
| Amortisation of client relationships                                      | 1,740              | 1,712              |
| Revenue costs relating to new investment teams                            | —                  | 1,217              |
| Financial Services Compensation Scheme Levy                               | 2,600              | 686                |
| Tax on adjusting items  | (1,205)            | (903)              |
| <b>Adjusted earnings attributable to ordinary shareholders</b>            | <b>12,618</b>      | 9,385              |
| <b>Based on reported earnings</b>   |                    |                    |
| Basic earnings per share  | <b>21.42p</b>      | 15.44p             |
| Diluted earnings per share  | <b>21.40p</b>      | 15.44p             |
| <b>Based on adjusted earnings</b>   |                    |                    |
| Basic earnings per share  | <b>28.39p</b>      | 21.18p             |
| Diluted earnings per share  | <b>28.36p</b>      | 21.18p             |

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2011

## 14 INTANGIBLE ASSETS

|                                      | Goodwill<br>£'000 | Customer<br>relationships<br>£'000 | Brand<br>costs<br>£'000 | Total<br>£'000 |
|--------------------------------------|-------------------|------------------------------------|-------------------------|----------------|
| Cost                                 |                   |                                    |                         |                |
| 1 April 2009                         | 25,450            | 13,326                             | 183                     | 38,959         |
| Acquisitions                         | —                 | 493                                | —                       | 493            |
| Adjustment to deferred consideration | —                 | —                                  | (183)                   | (183)          |
| <b>31 March 2010</b>                 | <b>25,450</b>     | <b>13,819</b>                      | <b>—</b>                | <b>39,269</b>  |
| <b>Acquisitions</b>                  | <b>—</b>          | <b>438</b>                         | <b>—</b>                | <b>438</b>     |
| <b>31 March 2011</b>                 | <b>25,450</b>     | <b>14,257</b>                      | <b>—</b>                | <b>39,707</b>  |
| Amortisation                         |                   |                                    |                         |                |
| 1 April 2009                         | —                 | 2,129                              | 183                     | 2,312          |
| Amortisation during year             | —                 | 1,712                              | —                       | 1,712          |
| Disposal                             | —                 | —                                  | (183)                   | (183)          |
| <b>31 March 2010</b>                 | <b>—</b>          | <b>3,841</b>                       | <b>—</b>                | <b>3,841</b>   |
| <b>Amortisation during year</b>      | <b>—</b>          | <b>1,740</b>                       | <b>—</b>                | <b>1,740</b>   |
| <b>31 March 2011</b>                 | <b>—</b>          | <b>5,581</b>                       | <b>—</b>                | <b>5,581</b>   |
| <b>Net book value</b>                |                   |                                    |                         |                |
| <b>31 March 2011</b>                 | <b>25,450</b>     | <b>8,676</b>                       | <b>—</b>                | <b>34,126</b>  |
| 31 March 2010                        | 25,450            | 9,978                              | —                       | 35,428         |
| 31 March 2009                        | 25,450            | 11,197                             | —                       | 36,647         |

None of the intangible assets have been pledged as security. Customer relationships of £9 million includes three customer lists with an aggregate carrying value of £6 million being amortised over a remaining period of 6 to 7 years.

## 14 INTANGIBLE ASSETS (CONTINUED)

Impairment tests for goodwill

Goodwill is allocated to groups of cash generating units ("CGUs") according to operating division as follows:

|                             | <b>2011</b>   | 2010   |
|-----------------------------|---------------|--------|
|                             | <b>£'000</b>  | £'000  |
| Private Client division     | <b>10,618</b> | 10,618 |
| Financial Services division | <b>13,308</b> | 13,308 |
| Charles Stanley Securities  | <b>1,524</b>  | 1,524  |
|                             | <b>25,450</b> | 25,450 |

The recoverable amount of an individual CGU is determined by first calculating the fair value less costs to sell. These calculations are largely based on turnover multiples of between one and five as implied by recent transactions in the market or where appropriate, similar quoted businesses. When calculating the fair value less cost to sell key assumptions were stress tested to determine whether the calculations were sensitive to a reasonably possible change in these assumptions. The recoverable amount of a Financial Services CGU is supported by a five times turnover multiple. The Directors consider this assumption is appropriate based on market information; however, a reduction in this multiple would result in the carrying amount exceeding the recoverable amount. No other material differences were found. For a small number of CGUs where the fair value less cost to sell is lower than the carrying amount the recoverable amount is then determined based on value in use calculations. These calculations use pre-tax cash flow projections based on revenue and expense forecasts covering a five to seven year period. The main assumptions used in the forecast period are:

|               |        |
|---------------|--------|
| Growth rate   | 5%     |
| Inflation     | 3%     |
| Discount rate | 10-12% |

Management determined revenue and expense budgets based on past performance and its expectations of market development.

The discount rate used relates to the risk of not achieving the projected income stream due to risks inherent in the industry the CGUs operate in. The rate used reflects current market assessments of these risks.

Based on these calculations there was no impairment to goodwill at 31 March 2011.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2011

## 15 PROPERTY, PLANT AND EQUIPMENT

|                            | Freehold<br>premises<br>£'000 | Long<br>leasehold<br>premises<br>£'000 | Short<br>leasehold<br>premises<br>£'000 | Office<br>equipment<br>and motor<br>vehicles<br>£'000 | Total<br>£'000 |
|----------------------------|-------------------------------|--|---|---|----------------|
| Cost                       |                               |  |   |   |                |
| 1 April 2009               | 474                           | 2,002                                  | 5,251                                   | 9,654   | 17,381         |
| Additions                  | —                             | 10                                     | 94                                      | 988   | 1,092          |
| Disposals                  | —                             | —                                      | —                                       | (646)   | (646)          |
| <b>31 March 2010</b>       | <b>474</b>                    | <b>2,012</b>                           | <b>5,345</b>                            | <b>9,996</b>  | <b>17,827</b>  |
| <b>Additions</b>           | <b>76</b>                     | <b>115</b>                             | <b>544</b>                              | <b>1,611</b>  | <b>2,346</b>   |
| <b>Revaluation</b>         | <b>29</b>                     | <b>—</b>                               | <b>—</b>                                | <b>—</b>  | <b>29</b>      |
| <b>Disposals</b>           | <b>—</b>                      | <b>—</b>                               | <b>—</b>                                | <b>(1,782)</b>  | <b>(1,782)</b> |
| <b>31 March 2011</b>       | <b>579</b>                    | <b>2,127</b>                           | <b>5,889</b>                            | <b>9,825</b>  | <b>18,420</b>  |
| Depreciation               |                               |  |   |   |                |
| 1 April 2009               | 40                            | 1,627                                  | 2,691                                   | 5,276   | 9,634          |
| Charge for the year        | 10                            | 27                                     | 441                                     | 2,266   | 2,744          |
| Disposals                  | —                             | —                                      | —                                       | (621)   | (621)          |
| <b>31 March 2010</b>       | <b>50</b>                     | <b>1,654</b>                           | <b>3,132</b>                            | <b>6,921</b>  | <b>11,757</b>  |
| <b>Charge for the year</b> | <b>10</b>                     | <b>21</b>                              | <b>524</b>                              | <b>1,656</b>  | <b>2,211</b>   |
| <b>Disposals</b>           | <b>—</b>                      | <b>—</b>                               | <b>—</b>                                | <b>(1,764)</b>  | <b>(1,764)</b> |
| <b>31 March 2011</b>       | <b>60</b>                     | <b>1,675</b>                           | <b>3,656</b>                            | <b>6,813</b>  | <b>12,204</b>  |
| <b>Net book value</b>      |                               |  |   |   |                |
| <b>31 March 2011</b>       | <b>519</b>                    | <b>452</b>                             | <b>2,233</b>                            | <b>3,012</b>  | <b>6,216</b>   |
| 31 March 2010              | 424                           | 358                                    | 2,213                                   | 3,075   | 6,070          |
| 31 March 2009              | 434                           | 375                                    | 2,560                                   | 4,378   | 7,747          |

Fixed assets include fully depreciated assets costing £5.5 million (2010: £6.7 million).

Freehold premises includes £394,000 for a freehold property that was valued at 31 May 2007 at the current market value by GVA Grimley, a firm of independent chartered surveyors. The historical cost of the freehold was £189,321. The Directors consider that the value in use of the property exceeds its carrying value and consequently no impairment is required.

The Group leases various vehicles and equipment under non-cancellable finance lease agreements. The lease terms are between one and three years, and ownership of assets lie within the Group. Office equipment and motor vehicles include the following amounts where the Group is a lessee under a finance lease.

|                                   | 2011<br>£'000 | 2010<br>£'000 |
|-----------------------------------|---------------|---------------|
| Cost – capitalised finance leases | 92            | 654           |
| Accumulated depreciation          | (65)          | (81)          |
| <b>Net book value</b>             | <b>27</b>     | <b>573</b>    |

## 16 AVAILABLE FOR SALE FINANCIAL ASSETS

|                            | Listed<br>investments<br>£'000 | Unlisted<br>investments<br>£'000 | Total<br>£'000 |
|----------------------------|--------------------------------|----------------------------------|----------------|
| <b>Fair value</b>          |                                |                                  |                |
| 1 April 2009               | 2,808                          | 3,392                            | 6,200          |
| Additions                  | 2,454                          | 30                               | 2,484          |
| Disposals                  | (2,592)                        | (9)                              | (2,601)        |
| Revaluation in year        | 346                            | (3)                              | 343            |
| <b>31 March 2010</b>       | <b>3,016</b>                   | <b>3,410</b>                     | <b>6,426</b>   |
| <b>Additions</b>           | <b>320</b>                     | <b>—</b>                         | <b>320</b>     |
| <b>Disposals</b>           | <b>(257)</b>                   | <b>—</b>                         | <b>(257)</b>   |
| <b>Revaluation in year</b> | <b>50</b>                      | <b>(1,316)</b>                   | <b>(1,266)</b> |
| <b>31 March 2011</b>       | <b>3,129</b>                   | <b>2,094</b>                     | <b>5,223</b>   |

The fair value of listed investments is determined by reference to quoted prices on active markets.

Listed investments include a £2.0 million holding in Gilts which is pledged to Fortis Global Clearing NV.

Unlisted investments include the Group's holding of 6,030 shares in Euroclear plc for which no observable market data is available as to its value. In previous years the Directors estimated the value of this holding based largely on the Group's share of net assets. However, Euroclear plc recorded a loss in 2010 and cut its dividend per share from €20.49 to €11.46. The Directors now feel it is appropriate to estimate the value of this holding on a dividend yield basis and therefore the investment has been valued at £2.0 million representing a £1.3 million reduction in fair value which has been taken to equity.

Previous revaluation now realised on disposal amounted to £28,000 (2010: £52,000).

## 17 TRADE AND OTHER RECEIVABLES

|                                | 2011<br>£'000  | 2010<br>£'000 |
|--------------------------------|----------------|---------------|
| <b>Current</b>                 |                |               |
| Trade receivables              | 220,385        | 184,142       |
| Other receivables              | 2,203          | 1,048         |
| Prepayments and accrued income | 2,132          | 2,913         |
|                                | <b>224,720</b> | 188,103       |
| <b>Non current</b>             |                |               |
| Other receivables              | 246            | 200           |
| Prepayments and accrued income | 1,185          | 1,311         |
|                                | <b>1,431</b>   | 1,511         |

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2011

## 18 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

|                    | 2011<br>£'000 | 2010<br>£'000 |
|--------------------|---------------|---------------|
| <b>Current</b>     |               |               |
| Listed investments | 170           | 75            |

## 19 CASH AND CASH EQUIVALENTS

|              |        |        |
|--------------|--------|--------|
| Cash at bank | 45,540 | 36,617 |
|--------------|--------|--------|

## 20 TRADE AND OTHER PAYABLES

|   |                |         |
|---|----------------|---------|
| <b>Current</b>                          |                |         |
| Trade payables                          | 220,308        | 181,692 |
| Other taxes and social security         | 2,559          | 3,627   |
| Other payables                          | 3,068          | 4,236   |
| Accruals and deferred income            | 4,678          | 3,390   |
|   | <b>230,613</b> | 192,945 |
| <b>Non current</b>                      |                |         |
| Other payables – deferred consideration | —              | 900     |

Non-current deferred consideration of £900,000 has now become current and is included in current other payables.

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 3.

## 21 BORROWINGS

|  | 2011<br>£'000 | 2010<br>£'000 |
|--|---------------|---------------|
| <b>Current</b>                             |               |               |
| Bank of England base rate redeemable loan  | —             | 157           |
| 4.5% convertible redeemable loan note 2011 | 80            | 173           |
| Obligations under finance leases           | 14            | 513           |
|  | <b>94</b>     | <b>843</b>    |
| <b>Non-current</b>                         |               |               |
| Obligations under finance leases           | —             | 15            |

The 4.5% fixed rate convertible redeemable unsecured loan note 2011 is convertible into fully paid ordinary shares at £2.48 per share at the holders' discretion, or redeemable on expiry in 2011. There is no material equity component in the convertible loan note. For more information about the group's exposure to interest rate risk, see note 3.

## 22 DEFERRED TAX (ASSET)/LIABILITIES

|   | Revaluation<br>£'000 | Retirement<br>benefit<br>liability<br>£'000 | Capital<br>allowances<br>£'000 | Other<br>timing<br>differences<br>£'000 | Total<br>£'000 |
|---|----------------------|---|--------------------------------|---|----------------|
| 1 April 2009  | 817                  | (1,092)                                     | (312)                          | —                                       | (587)          |
| Charge/(credit) to statement of<br>comprehensive income         | 95                   | (297)                                       | —                              | —                                       | (202)          |
| Charge to income statement                                      | —                    | —   | 273                            | —                                       | 273            |
| <b>1 April 2010</b>   | <b>912</b>           | <b>(1,389)</b>                              | <b>(39)</b>                    | <b>—</b>                                | <b>(516)</b>   |
| <b>(Credit)/charge to statement of<br/>comprehensive income</b> | <b>(377)</b>         | <b>515</b>                                  | <b>—</b>                       | <b>—</b>                                | <b>138</b>     |
| <b>Charge/(credit) to income statement</b>                      | <b>—</b>             | <b>—</b>                                    | <b>89</b>                      | <b>(245)</b>                            | <b>(156)</b>   |
| <b>31 March 2011</b>  | <b>535</b>           | <b>(874)</b>                                | <b>50</b>                      | <b>(245)</b>                            | <b>(534)</b>   |

The Emergency Budget announced a phased reduction in the main UK corporation tax rate from 28% to 24% with the first and second 1% reduction taking effect from 1 April 2011 and substantively enacted on 20 July 2010 and 29 March 2011 respectively.

In preparing these financial statements UK deferred tax assets and liabilities have been calculated at 26% where the temporary timing difference is expected to reverse after 1 April 2011.

No account has been taken of the expected further 2% reduction in tax rates until substantive enactment of these changes. If enacted this would result in a reduction to the deferred tax asset of approximately £40,000.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2011

## 23 CALLED UP SHARE CAPITAL AND SHARE PREMIUM

|  | <i>Number<br/>shares<br/>'000</i> | Ordinary<br>shares<br>£'000 | Share<br>premium<br>£'000 | Total<br>£'000 |
|--|-----------------------------------|-----------------------------|---------------------------|----------------|
| Authorised shares with a par value of 25p each | 80,000                            | 20,000                      | —                         | 20,000         |
| Allotted and fully paid:                       |                                   |                             |                           |                |
| 1 April 2009                                   | 44,143                            | 11,035                      | 1,873                     | 12,908         |
| Scrip dividend                                 | 405                               | 101                         | (101)                     | —              |
| <b>31 March 2010</b>                           | <b>44,548</b>                     | <b>11,136</b>               | <b>1,772</b>              | <b>12,908</b>  |
| <b>Scrip dividend</b>                          | <b>170</b>                        | <b>43</b>                   | <b>(43)</b>               | <b>—</b>       |
| <b>Exercise of Shares options</b>              | <b>308</b>                        | <b>77</b>                   | <b>686</b>                | <b>763</b>     |
| <b>Conversion of loan notes</b>                | <b>34</b>                         | <b>9</b>                    | <b>76</b>                 | <b>85</b>      |
| <b>31 March 2011</b>                           | <b>45,060</b>                     | <b>11,265</b>               | <b>2,491</b>              | <b>13,756</b>  |

The rights and obligations attaching to the Company's ordinary shares are set out in the report of the Directors on page 26.

During the year 169,716 (2010: 404,792) ordinary shares were issued fully paid following the issue of scrip dividends.

During the year 307,579 ordinary shares were issued fully paid for cash at £2.48 each following the exercise of options by employees. These shares had a nominal value of £76,895 and a total consideration of £762,796.

On 30 March 2011 33,935 ordinary shares were issued fully paid at £2.48 each in respect of convertible loan notes of £84,402.

### Share options and share based payment

At 31 March 2011 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.

|  |              |             |
|--|--------------|-------------|
| Date of grant                                | 7 March 2011 | 19 Dec 2007 |
| Exercisable during the six months commencing | 1 May 2014   | 1 Feb 2011  |
| Number of shares                             | 820,495      | 11,757      |
| Exercise price per share                     | £2.51        | £2.48       |
| Expected fair value per share                | £0.79        | £0.56       |

The fair value of the options has been calculated using a Black-Scholes model with the following inputs. Expected volatility is based on the historical share price volatility.

|                              |           |           |
|------------------------------|-----------|-----------|
| Share price at date of grant | £3.15     | £2.74     |
| Expected life                | 3.0 years | 3.0 years |
| Expected volatility          | 28.57%    | 22.62%    |
| Risk free rate               | 1.73%     | 4.63%     |
| Expected dividend yield      | 3.10%     | 2.96%     |

The Group recognised total expenses of £46,000 (2010: £42,000) related to equity-settled share-based payment transactions.

## 23 CALLED UP SHARE CAPITAL AND SHARE PREMIUM (CONTINUED)

The following table reconciles outstanding share options at the beginning and end of the financial year.

|             | 2011             |                                 | 2010             |                                 |
|-------------|------------------|---------------------------------|------------------|---------------------------------|
|             | Number of shares | Weighted average exercise price | Number of shares | Weighted average exercise price |
| 1 April     | 362,013          | £2.48                           | 397,367          | £2.48                           |
| Exercised   | (307,579)        | £2.48                           | —                | —                               |
| Forfeited   | (42,677)         | £2.48                           | (35,354)         | £2.48                           |
| Granted     | 820,495          | £2.51                           | —                | —                               |
| 31 March    | 832,252          | £2.51                           | 362,013          | £2.48                           |
| Exercisable | 11,757           | £2.48                           | —                | —                               |

The following share options granted under the Company's Save As You Earn Scheme were exercised during the year:

### Year ended 31 March 2011

| Grant date       | Number exercised | Exercise date | Share price at exercise date |
|------------------|------------------|---------------|------------------------------|
| 19 December 2007 | 277,190          | 1 Feb 2011    | £3.04                        |
|                  | 14,888           | 3 Feb 2011    | £3.07                        |
|                  | 9,840            | 4 Feb 2011    | £3.12                        |
|                  | 1,887            | 9 Feb 2011    | £3.00                        |
|                  | 1,887            | 18 Feb 2011   | £3.03                        |
|                  | 1,887            | 7 Mar 2011    | £3.13                        |

The weighted average share price at the date of exercise of share options was £3.04.

Year ended 31 March 2010

None exercised

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2011

## 24 RECONCILIATION OF NET PROFIT TO NET CASH GENERATED FROM OPERATIONS

|  | 2011<br>£'000 | 2010<br>£'000 |
|--|---------------|---------------|
| Profit before tax  | 13,377        | 10,271        |
| Adjustments for  |               |               |
| Depreciation   | 2,211         | 2,744         |
| Amortisation of intangible assets  | 1,740         | 1,712         |
| Write back of deferred consideration   | (454)         | —             |
| Share options – value of employee services                                   | 46            | 42            |
| Retirement benefit scheme  | (166)         | 69            |
| Dividend income  | (63)          | (88)          |
| Interest income  | (444)         | (399)         |
| Interest expense   | 53            | 22            |
| Profit on disposal of property, plant and equipment                          | —             | (12)          |
| Profit on disposal of available for sale financial assets                    | (37)          | (170)         |
| Changes in working capital   |               |               |
| (Increase)/decrease in financial assets at fair value through profit or loss | (95)          | 89            |
| (Increase)/decrease in receivables   | (36,537)      | 67,573        |
| Increase/(decrease) in payables  | 38,384        | (69,448)      |
| Net cash inflow from operations  | <b>18,015</b> | 12,405        |

## 25 LEASE COMMITMENTS

### Operating leases

|  | 2011<br>£'000 | 2010<br>£'000 |
|--|---------------|---------------|
| Total commitments under leases at 31 March were: |               |               |
| Operating leases - land and buildings            |               |               |
| Not later than one year                          | 2,099         | 2,029         |
| Later than one but not later than five years     | 6,467         | 6,764         |
| Later than five years                            | 2,702         | 2,991         |
|  | <b>11,268</b> | 11,784        |

### Finance leases

|  | Minimum lease<br>payments |               | Present value of<br>minimum lease<br>payments |               |
|--|---------------------------|---------------|---|---------------|
|  | 2011<br>£'000             | 2010<br>£'000 | 2011<br>£'000                                 | 2010<br>£'000 |
| Not later than one year                      | 14                        | 516           | 14  | 514           |
| Later than one but not later than five years | —                         | 16            | —   | 15            |
|  | <b>14</b>                 | 532           | <b>14</b>                                     | 529           |
| Less future finance charges                  | —                         | (3)           | —   | —             |
| Present value of minimum lease payments      | <b>14</b>                 | 529           | <b>14</b>                                     | 529           |
| Included in the financial statements as:     |                           |               |   |               |
| Current liabilities (note 21)                |                           |               | 14  | 514           |
| Non-current liabilities (note 21)            |                           |               | —   | 15            |
|  |                           |               | <b>14</b>                                     | 529           |

## 26 CAPITAL COMMITMENTS

|                                   | 2011<br>£'000 | 2010<br>£'000 |
|-----------------------------------|---------------|---------------|
| Authorised but not contracted for | —             | —             |

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2011

## 27 RETIREMENT BENEFIT OBLIGATIONS

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in independently administered funds.

The Group also sponsors the Charles Stanley & Co. Limited Retirement Benefits Scheme ("the Scheme"), which is a wholly funded defined benefit arrangement. A full actuarial valuation of the Scheme was carried out at 13 May 2008 and updated on an approximate basis to 31 March 2011 by a qualified actuary, independent of the Scheme's sponsoring employer. The major assumptions made are shown below.

The Company currently pays contributions at the rate of 24.3% of pensionable pay plus £243,000 per annum. This rate is net of member contributions of 3% of pensionable pay (nil for Directors).

It is the policy of the Group to recognise all actuarial gains and losses in the year in which they occur outside the income statement and in the statement of comprehensive income.

### Assets

|   | 2011<br>£'000 | 2010<br>£'000 |
|---|---------------|---------------|
| Equities                                    | 12,638        | 10,291        |
| Bonds                                       | 7,481         | 9,770         |
| Other                                       | 4,717         | 1,635         |
| Fair value of plan assets                   | 24,836        | 21,696        |
| Present value of defined benefit obligation | (28,193)      | (26,652)      |
| Deficit in scheme                           | (3,357)       | (4,956)       |

### Reconciliation of opening and closing balances of the fair value of plan assets

|   | 2011<br>£'000 | 2010<br>£'000 |
|---|---------------|---------------|
| Fair value of assets at 1 April                                 | 21,696        | 16,163        |
| Expected return on assets                                       | 1,409         | 938           |
| Actuarial gains   | 805           | 3,740         |
| Contributions by employer                                       | 1,020         | 987           |
| Contributions by plan participants                              | 77            | 86            |
| Benefits paid, death in service insurance premiums and expenses | (171)         | (218)         |
| Fair value of assets at 31 March                                | 24,836        | 21,696        |

The fair value of the assets shown above include £975,000 (2010: £575,134) of shares in Charles Stanley Group PLC.

The actual return on the scheme assets over the year ended 31 March 2011 was £2,214,000 (2010: £4,678,000).

## 27 RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

### Reconciliation of opening and closing balances of the present value of the defined benefit obligation

|   | 2011<br>£'000 | 2010<br>£'000 |
|---|---------------|---------------|
| Defined benefit obligation at 1 April                           | 26,652        | 20,057        |
| Total employer current service cost                             | 737           | 672           |
| Interest cost   | 1,526         | 1,322         |
| Employee contributions  | 77            | 86            |
| Actuarial (gain)/loss   | (628)         | 4,733         |
| Benefits paid, death in service insurance premiums and expenses | (171)         | (218)         |
| Defined benefit obligation at 31 March                          | <b>28,193</b> | 26,652        |

### Total expense recognised in the income statement

|  | 2011<br>£'000 | 2010<br>£'000 |
|--|---------------|---------------|
| Current service cost                     | 737           | 672           |
| Interest on pension scheme liabilities   | 1,526         | 1,322         |
| Expected return on pension scheme assets | (1,409)       | (938)         |
| Total expense                            | <b>854</b>    | 1,056         |

### Gains and losses recognised in statement of comprehensive income

|   | 2011         | 2010    | 2009    | 2008    | 2007  |
|---|--------------|---------|---------|---------|-------|
| Difference between expected and actual return on scheme assets:   |              |         |         |         |       |
| Amount (£'000)  | 805          | 3,740   | (3,741) | (2,803) | 1,105 |
| Percentage of scheme assets   | 3%           | 17%     | (23%)   | (16%)   | 6%    |
| Experience gains and losses arising on the scheme liabilities:  |              |         |         |         |       |
| Amount (£'000)  | 1,049        | 105     | 410     | 37      | (304) |
| Percentage of present value of scheme liabilities   | 4%           | 0%      | 2%      | 0%      | (2%)  |
| Effects of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities: |              |         |         |         |       |
| Amount (£'000)  | (421)        | (4,838) | 1,283   | 2,188   | 24    |
| Percentage of present value of scheme liabilities   | (1%)         | (18%)   | 6%      | 12%     | 0%    |
| Total amount recognised in statement of comprehensive income:   |              |         |         |         |       |
| Percentage of present value of scheme liabilities   | <b>1,433</b> | (993)   | (2,048) | (578)   | 825   |
|   | <b>5%</b>    | (4%)    | (10%)   | (3%)    | 4%    |

The cumulative amount of actuarial losses recognised in the statement of comprehensive income since adoption of IAS19 is £4.0 million (2010: £5.4 million).

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2011

## 27 RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

### History of scheme assets and obligations

|                             | 2011<br>£'000 | 2010<br>£'000 | 2009<br>£'000 | 2008<br>£'000 | 2007<br>£'000 |
|-----------------------------|---------------|---------------|---------------|---------------|---------------|
| Fair value of assets        | 24,836        | 21,696        | 16,163        | 17,956        | 18,672        |
| Present value of obligation | (28,193)      | (26,652)      | (20,057)      | (19,908)      | (20,193)      |
| Deficit in scheme           | (3,357)       | (4,956)       | (3,894)       | (1,952)       | (1,521)       |

### Assumptions

|   | 2011<br>% per annum | 2010<br>% per annum | 2009<br>% per annum | 2008<br>% per annum |
|---|---------------------|---------------------|---------------------|---------------------|
| Inflation   | 3.40                | 3.50                | 3.10                | 3.70                |
| Salary increases  | 3.00                | 3.00                | 3.00                | 3.00                |
| Rate of discount  | 5.55                | 5.66                | 6.50                | 6.35                |
| Allowance for pension in payment increases<br>of RPI or 5% p.a. if less     | 3.35                | 3.45                | 3.05                | 3.65                |
| Allowance for revaluation of deferred pensions<br>of RPI or 5% p.a. if less | 3.40                | 3.50                | 3.10                | 3.70                |

The Occupational Pensions (Revaluation) Order 2010 issued in July 2010 confirmed the government's intention to move to using the Consumer Price Index ("CPI") rather than the Retail Price Index ("RPI") as the inflation measure for determining the minimum pension increases to be applied to the statutory index-linked features of retirement benefits. Charles Stanley continued to use RPI in calculating liability as at 31 March 2011.

### Expected long term rates of return

The expected return on bonds is determined by reference to UK long dated gilt and bond yields at the balance sheet date. The expected rate of return on equities has been determined by setting an appropriate risk premium above gilt/bond yields having regard to market conditions at the balance sheet date.

The expected long term rates of return are as follows:

|                    | 2011<br>% per annum | 2010<br>% per annum | 2009<br>% per annum | 2008<br>% per annum |
|--------------------|---------------------|---------------------|---------------------|---------------------|
| Equities           | 7.50                | 7.50                | 6.75                | 7.25                |
| Bonds              | 5.55                | 5.50                | 4.75                | 6.35                |
| Cash               | 3.25                | 4.30                | 4.00                | 4.25                |
| Overall for scheme | 6.10                | 6.36                | 5.65                | 6.12                |

As all actuarial gains and assets are recognised, the deficits shown are those recognised in the balance sheet.

The best estimate of contributions (employer and employee) to be paid to the plan for the year ending 31 March 2012 is £1,020,000 (2011: £990,000).

The mortality assumptions adopted at 31 March 2011 imply the following life expectations at age 65:

|                                   |            |
|-----------------------------------|------------|
| Male retiring at age 65 in 2011   | 22.5 years |
| Female retiring at age 65 in 2011 | 25.0 years |
| Male retiring at age 65 in 2030   | 24.4 years |
| Female retiring at age 65 in 2030 | 26.8 years |

## 28 RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are accordingly not disclosed.

The financial statements of the parent Company include amounts attributable to subsidiaries. These amounts have been disclosed in aggregate in the relevant notes to the financial statements and in detail in the following table:

|                                      | Amounts owed<br>by related parties |               | Amounts owed<br>to related parties |               |
|--------------------------------------|------------------------------------|---------------|------------------------------------|---------------|
|                                      | 2011<br>£'000                      | 2010<br>£'000 | 2011<br>£'000                      | 2010<br>£'000 |
| Charles Stanley & Co. Limited        | —                                  | —             | 22,194                             | 24,879        |
| EBS Management PLC                   | —                                  | 852           | —                                  | —             |
| EBS Pensioneer Trustees Limited      | —                                  | —             | 2                                  | 2             |
| Gryphon Investments PLC              | —                                  | —             | 924                                | 924           |
| Sutherlands Group Limited            | —                                  | —             | 265                                | 265           |
| Garrison Investment Analysis Limited | 200                                | 411           | —                                  | —             |
|                                      | <b>200</b>                         | 1,263         | <b>23,385</b>                      | 26,070        |

The only effect of related party transactions on the income statement was in respect of dividends and management charges.

The parent Company received dividends totalling £2.0 million (2010: £3.0 million) from Charles Stanley & Co. Limited and £200,000 (2010: £308,549) from Garrison Investment Analysis Limited.

The parent Company received a management charge from Charles Stanley & Co. Limited of £2.4 million (2010: £2.0 million) during the year. Charles Stanley & Co. Limited received management charges from Garrison Investment Analysis Limited of £nil (2010: £10,000) and from CS Financial Solutions Limited of £50,000 (2010: £nil).

The Group's transactions with the Charles Stanley Retirement Benefits Scheme are described in note 27. At 31 March 2011 no monies were owed to or outstanding from the scheme (2010: nil).

### Key management compensation

The compensation paid to key management is detailed below. Key management has been determined as the Directors of the trading Companies within the Group.

|   | 2011<br>£'000 | 2010<br>£'000 |
|---|---------------|---------------|
| Salaries and short-term employee benefits | 4,139         | 4,218         |
| Post employment benefits                  | 448           | 256           |
| Social security costs                     | 455           | 558           |
|   | <b>5,042</b>  | 5,032         |

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2011

## 29 EVENTS AFTER THE END OF THE REPORTING PERIOD

On 16 May 2011 the Group completed the acquisition of 100% of the issued share capital of Jobson James Financial Services Limited, a financial planning business based in Birmingham. The acquisition will contribute to Charles Stanley's strategic positioning of building a stronger presence in the Midlands.

Details of net assets acquired are as follows:

|   | £'000   |
|---|---------|
| Cash consideration  |         |
| Paid on date of acquisition   | 1,600   |
| Deferred consideration – payable on first anniversary of completion | 200     |
| – contingent upon achieving revenue targets over two years          | 450     |
| Total cash consideration  | 2,250   |
| Fair value of assets acquired – provisional estimate                | (2,250) |
|   | —       |

Final completion accounts are not available at the date of approval of the Group financial statements and accordingly no analysis of the acquired assets and liabilities is given. If Jobson James Financial Services Limited had been a member of the Group since 1 April 2010 it is expected that revenues would be £1.8 million higher, with profit before tax £0.3 million higher.

# PARENT COMPANY STATEMENT OF FINANCIAL POSITION

AT 31 MARCH 2011

|                                     | Notes | 2011  |                 | 2010     |          |
|-------------------------------------|-------|-------|-----------------|----------|----------|
|                                     |       | £'000 | £'000           | £'000    | £'000    |
| <b>Assets</b>                       |       |       |                 |          |          |
| Non-current assets                  |       |       |                 |          |          |
| Intangible assets                   | 30    |       | <b>18,703</b>   |          | 20,006   |
| Deferred tax asset                  | 37    |       | <b>74</b>       |          | —        |
| Available for sale financial assets | 31    |       | <b>1,077</b>    |          | 958      |
| Investments in subsidiaries         | 32    |       | <b>35,983</b>   |          | 36,032   |
|                                     |       |       | <b>55,837</b>   |          | 56,996   |
| Current assets                      |       |       |                 |          |          |
| Trade and other receivables         | 33    |       | <b>904</b>      | 1,263    |          |
| Cash and cash equivalents           | 34    |       | <b>252</b>      | 259      |          |
|                                     |       |       | <b>1,156</b>    | 1,522    |          |
| <b>Liabilities</b>                  |       |       |                 |          |          |
| Current liabilities                 |       |       |                 |          |          |
| Trade and other payables            | 35    |       | <b>(24,868)</b> | (27,731) |          |
| Borrowings                          | 36    |       | <b>(251)</b>    | (354)    |          |
| Current tax liabilities             |       |       | <b>(190)</b>    | (1)      |          |
|                                     |       |       | <b>(25,309)</b> | (28,086) |          |
| Net current liabilities             |       |       | <b>(24,153)</b> |          | (26,564) |
| Non-current liabilities             |       |       |                 |          |          |
| Trade and other payables            | 35    |       | —               | (900)    |          |
| Borrowings                          | 36    |       | —               | (15)     |          |
| Deferred tax liabilities            | 37    |       | —               | (44)     |          |
|                                     |       |       | —               |          | (959)    |
| Net assets                          |       |       | <b>31,684</b>   |          | 29,473   |
| <b>Shareholders' equity</b>         |       |       |                 |          |          |
| Ordinary shares                     | 23    |       | <b>11,265</b>   |          | 11,136   |
| Share premium                       | 23    |       | <b>2,491</b>    |          | 1,772    |
| Revaluation reserve                 |       |       | <b>161</b>      |          | 115      |
| Retained earnings                   |       |       | <b>17,767</b>   |          | 16,450   |
| Total equity                        |       |       | <b>31,684</b>   |          | 29,473   |

Approved by the Board on 7 June 2011

Sir David Howard

Peter Hurst

Directors

The notes on pages 87 to 92 form an integral part of these financial statements.

# PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

## YEAR ENDED 31 MARCH 2011

|   | Share capital<br>£'000 | Share premium<br>£'000 | Revaluation reserve<br>£'000 | Retained earnings<br>£'000 | Total<br>£'000 |
|---|------------------------|------------------------|------------------------------|----------------------------|----------------|
| 1 April 2009  | 11,035                 | 1,873                  | —                            | 18,083                     | 30,991         |
| Profit for the year                                     | —                      | —                      | —                            | 3,453                      | 3,453          |
| Other comprehensive income:                             |                        |                        |                              |                            |                |
| Gains and losses on available for sale financial assets | —                      | —                      | 159                          | 34                         | 193            |
| Deferred tax on available for sale financial assets     | —                      | —                      | (44)                         | —                          | (44)           |
| Total other comprehensive income for the year           | —                      | —                      | 115                          | 34                         | 149            |
| Total comprehensive income for the year                 | —                      | —                      | 115                          | 3,487                      | 3,602          |
| Dividends paid to equity shareholders                   | —                      | —                      | —                            | (5,162)                    | (5,162)        |
| Shares issued in lieu of dividends                      | 101                    | (101)                  | —                            | —                          | —              |
| Share options – value of employee services              | —                      | —                      | —                            | 42                         | 42             |
| <b>31 March 2010</b>                                    | <b>11,136</b>          | <b>1,772</b>           | <b>115</b>                   | <b>16,450</b>              | <b>29,473</b>  |
| Profit for the year                                     | —                      | —                      | —                            | 3,000                      | 3,000          |
| Other comprehensive income:                             |                        |                        |                              |                            |                |
| Gains and losses on available for sale financial assets | —                      | —                      | 58                           | —                          | 58             |
| Deferred tax on available for sale financial assets     | —                      | —                      | (12)                         | —                          | (12)           |
| Total other comprehensive income for the year           | —                      | —                      | 46                           | —                          | 46             |
| Total comprehensive income for the year                 | —                      | —                      | 46                           | 3,000                      | 3,046          |
| Dividends paid to equity shareholders                   | —                      | —                      | —                            | (1,729)                    | (1,729)        |
| Scrip dividend  | 43                     | (43)                   | —                            | —                          | —              |
| Share options – value of employee services              | —                      | —                      | —                            | 46                         | 46             |
| – issue of shares                                       | 77                     | 686                    | —                            | —                          | 763            |
| Conversion of loan notes                                | 9                      | 76                     | —                            | —                          | 85             |
| <b>31 March 2011</b>                                    | <b>11,265</b>          | <b>2,491</b>           | <b>161</b>                   | <b>17,767</b>              | <b>31,684</b>  |

The notes on pages 87 to 92 form an integral part of these financial statements.

# PARENT COMPANY STATEMENT OF CASH FLOWS

## YEAR ENDED 31 MARCH 2011

|   | Notes | 2011<br>£'000 | 2010<br>£'000 |
|---|-------|---------------|---------------|
| <b>Cash flow from operating activities</b>                |       |               |               |
| Cash generated from operations                            | 38    | 2,855         | 10,315        |
| Interest received   |       | 2             | 3             |
| Interest paid   |       | (9)           | (19)          |
| Tax received  |       | (1)           | 266           |
| Net cash from operating activities                        |       | 2,847         | 10,565        |
| <b>Cash flows from investing activities</b>               |       |               |               |
| Acquisition of subsidiaries and other businesses          |       | (845)         | (4,132)       |
| Purchase of intangible assets                             |       | (1,001)       | (972)         |
| Proceeds from sale of available for sale financial assets |       | 195           | 226           |
| Purchase of available for sale financial assets           | 31    | (230)         | (462)         |
| Dividends received  |       | 25            | 19            |
| Net cash used in investing activities                     |       | (1,856)       | (5,321)       |
| <b>Cash flows from financing activities</b>               |       |               |               |
| Net proceeds from issue of ordinary share capital         | 23    | 763           | —             |
| Cash outflow from change in debt and lease financing      |       | (32)          | (72)          |
| Dividends paid to shareholders                            | 12    | (1,729)       | (5,162)       |
| Net cash used in financing activities                     |       | (998)         | (5,234)       |
| <b>Net increase in cash and cash equivalents</b>          |       |               |               |
| Cash and cash equivalents at start of year                |       | 259           | 249           |
| Cash and cash equivalents at end of year                  | 34    | 252           | 259           |

The notes on pages 87 to 92 are an integral part of these financial statements.

# NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

## YEAR ENDED 31 MARCH 2011

### 30 INTANGIBLE ASSETS

|                                 | Goodwill<br>£'000 | Customer<br>relationships<br>£'000 | Brand<br>costs<br>£'000 | Total<br>£'000 |
|---------------------------------|-------------------|------------------------------------|-------------------------|----------------|
| Cost                            |                   |                                    |                         |                |
| 1 April 2009                    | 10,027            | 13,325                             | 183                     | 23,535         |
| Acquisitions                    | —                 | 493                                | —                       | 493            |
| Disposal                        | —                 | —                                  | (183)                   | (183)          |
| <b>31 March 2010</b>            | <b>10,027</b>     | <b>13,818</b>                      | <b>—</b>                | <b>23,845</b>  |
| <b>Acquisitions</b>             | <b>—</b>          | <b>439</b>                         | <b>—</b>                | <b>439</b>     |
| <b>31 March 2011</b>            | <b>10,027</b>     | <b>14,257</b>                      | <b>—</b>                | <b>24,284</b>  |
| Amortisation                    |                   |                                    |                         |                |
| 1 April 2009                    | —                 | 2,128                              | 183                     | 2,311          |
| Amortisation during year        | —                 | 1,711                              | —                       | 1,711          |
| Disposal                        | —                 | —                                  | (183)                   | (183)          |
| <b>31 March 2010</b>            | <b>—</b>          | <b>3,839</b>                       | <b>—</b>                | <b>3,839</b>   |
| <b>Amortisation during year</b> | <b>—</b>          | <b>1,742</b>                       | <b>—</b>                | <b>1,742</b>   |
| <b>31 March 2011</b>            | <b>—</b>          | <b>5,581</b>                       | <b>—</b>                | <b>5,581</b>   |
| <b>Net book value</b>           |                   |                                    |                         |                |
| <b>31 March 2011</b>            | <b>10,027</b>     | <b>8,676</b>                       | <b>—</b>                | <b>18,703</b>  |
| 31 March 2010                   | 10,027            | 9,979                              | —                       | 20,006         |
| 31 March 2009                   | 10,027            | 11,197                             | —                       | 21,224         |

## 31 AVAILABLE FOR SALE FINANCIAL ASSETS

|                            | Listed<br>investments<br>£'000 | Unlisted<br>investments<br>£'000 | Total<br>£'000 |
|----------------------------|--------------------------------|----------------------------------|----------------|
| <b>Fair value</b>          |                                |                                  |                |
| 1 April 2009               | 479                            | 29                               | 508            |
| Additions                  | 432                            | 30                               | 462            |
| Disposals                  | (205)                          | —                                | (205)          |
| Revaluation in year        | 193                            | —                                | 193            |
| <b>31 March 2010</b>       | <b>899</b>                     | <b>59</b>                        | <b>958</b>     |
| <b>Additions</b>           | <b>230</b>                     | <b>—</b>                         | <b>230</b>     |
| <b>Disposals</b>           | <b>(169)</b>                   | <b>—</b>                         | <b>(169)</b>   |
| <b>Revaluation in year</b> | <b>58</b>                      | <b>—</b>                         | <b>58</b>      |
| <b>31 March 2011</b>       | <b>1,018</b>                   | <b>59</b>                        | <b>1,077</b>   |

## 32 INVESTMENTS IN SUBSIDIARIES

|                                   | Total<br>£'000 |
|-----------------------------------|----------------|
| Cost                              |                |
| 1 April 2009                      | 55,265         |
| Strike off of subsidiary          | (6,534)        |
| <b>31 March 2010</b>              | <b>48,731</b>  |
| <b>Additions</b>                  | <b>45</b>      |
| <b>31 March 2011</b>              | <b>48,776</b>  |
| Impairment                        |                |
| 1 April 2009                      | 18,935         |
| Impairment during the year        | 46             |
| Strike off of subsidiary          | (6,282)        |
| <b>31 March 2010</b>              | <b>12,699</b>  |
| <b>Impairment during the year</b> | <b>94</b>      |
| <b>31 March 2011</b>              | <b>12,793</b>  |
| <b>Net book value</b>             |                |
| <b>31 March 2011</b>              | <b>35,983</b>  |
| 31 March 2010                     | 36,032         |
| 31 March 2009                     | 36,328         |

# NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

## YEAR ENDED 31 MARCH 2011

### 32 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

#### The percentage of issued capital of Group undertakings held is:

| Name of company  | Activity                    | Note    | Ordinary shares |
|--|-----------------------------|---------|-----------------|
| Gryphon Investments PLC  | Investment company          |         | 95%             |
| Charles Stanley & Co. Limited  | Stockbrokers                | (1) (2) | 100%            |
| Rock (Nominees) Limited  | Nominee company             | (3)     | 100%            |
| Exempt Nominees Limited  | Nominee company             | (3)     | 100%            |
| EBS Management PLC   | Pension Fund Administrator  | (2)     | 100%            |
| EBS Pensioneer Trustees Limited  | Pensioneer Trustee Services |         | 100%            |
| EBS Self-Administered Personal Pension<br>Plan Trustees Limited                              | Pensioneer Trustee Services |         | 100%            |
| Sutherlands Group Limited  | Holding company             | (6)     | 100%            |
| Sutherlands Research Limited   | Dormant                     | (4) (6) | 89%             |
| Alpha Trustees Limited   | Dormant                     |         | 100%            |
| Garrison Investment Analysis Limited   | Financial Intermediary      | (2)     | 100%            |
| CS Financial Solutions Limited (formerly<br>Griffiths & Armour (Financial Services) Limited) | Financial Intermediary      | (2)     | 100%            |
| CS (Trustees) Limited (formerly<br>Griffiths & Armour (Trustees) Limited)                    | Nominee company             | (5)     | 100%            |

#### Note

- 1 Member of The London Stock Exchange and the London International Financial Futures and Options Exchange.
- 2 Regulated by The Financial Services Authority.
- 3 Shares held by Charles Stanley & Co. Limited.
- 4 Shares held by Sutherlands Group Limited.
- 5 Shares held by Griffiths & Armour (Financial Services) Limited.
- 6 Incorporated in Scotland.

#### Impairment test

To determine whether impairment exists, the carrying value of the investment is compared with the investment's recoverable amount determined using fair value less cost to sell on an annual basis at the balance sheet date.

### 33 TRADE AND OTHER RECEIVABLES

|                                     | 2011<br>£'000 | 2010<br>£'000 |
|-------------------------------------|---------------|---------------|
| <b>Current</b>                      |               |               |
| Amounts due from Group undertakings | 200           | 1,263         |
| Other debtors                       | 704           | —             |
|                                     | <b>904</b>    | 1,263         |

### 34 CASH AND CASH EQUIVALENTS

|              |     |     |
|--------------|-----|-----|
| Cash at bank | 252 | 259 |
|--------------|-----|-----|

### 35 TRADE AND OTHER PAYABLES

|   | 2011<br>£'000 | 2010<br>£'000 |
|---|---------------|---------------|
| <b>Current</b>                          |               |               |
| Amounts owed to Group undertakings      | 23,385        | 26,070        |
| Other payables                          | 1,366         | 1,570         |
| Accruals and deferred income            | 117           | 91            |
|   | <b>24,868</b> | 27,731        |
| <b>Non current</b>                      |               |               |
| Other payables – deferred consideration | —             | 900           |

# NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

## YEAR ENDED 31 MARCH 2011

### 36 BORROWINGS

|   | 2011<br>£'000 | 2010<br>£'000 |
|---|---------------|---------------|
| <b>Current</b>                            |               |               |
| Bank of England base rate redeemable loan | 157           | 157           |
| 4.5% convertible redeemable loan note     | 80            | 173           |
| Finance lease liabilities                 | 14            | 24            |
|   | <b>251</b>    | 354           |
| <b>Non-current</b>                        |               |               |
| Finance lease liabilities                 | —             | 15            |

The Bank of England base rate redeemable loan note is redeemable on demand.

The 4.5% fixed rate convertible redeemable unsecured loan note 2011 is convertible into fully paid ordinary shares at £2.48 per share at the holders' discretion, or redeemable on expiry in 2011. There is no material equity component in the convertible loan note.

### 37 DEFERRED TAX (ASSETS)/LIABILITIES

|  | 2011<br>£'000 | 2010<br>£'000 |
|--|---------------|---------------|
| Revaluation  |               |               |
| 1 April 2010                                       | 44            | —             |
| Revaluation of available for sale financial assets | 12            | 44            |
| Other timing differences                           | (130)         | —             |
|  | <b>(74)</b>   | 44            |

The Emergency Budget announced a phased reduction in the main UK corporation tax rate from 28% to 24% with the first and second 1% reduction taking effect from 1 April 2011 and substantively enacted on 20 July 2010 and 29 March 2011 respectively.

In preparing these financial statements UK deferred tax assets and liabilities have been calculated at 26% where the temporary timing difference is expected to reverse after 1 April 2011.

No account has been taken of the expected further 2% reduction in tax rates until substantive enactment of these changes. If enacted this would result in a reduction to the deferred tax asset of approximately £6,000.

### 38 RECONCILIATION OF NET PROFIT TO NET CASH GENERATED FROM OPERATIONS

|   | 2011<br>£'000 | 2010<br>£'000 |
|---|---------------|---------------|
| Profit before tax   | 3,073         | 3,188         |
| Adjustments for   |               |               |
| Impairment of investment in subsidiaries                  | 94            | 46            |
| Amortisation of intangible assets                         | 1,740         | 1,712         |
| Deferred consideration written back                       | (454)         | —             |
| Share options value of employee services                  | 46            | 42            |
| Dividend income   | (25)          | (18)          |
| Interest income   | (3)           | (3)           |
| Interest expense  | 9             | 18            |
| Profit on disposal of available for sale financial assets | (26)          | (21)          |
| Changes in working capital                                |               |               |
| Decrease/(increase) in receivables                        | 359           | (411)         |
| (Decrease)/increase in payables                           | (1,958)       | 5,762         |
| Net cash inflow from operations                           | 2,855         | 10,315        |

## DIRECTORS OF CHARLES STANLEY GROUP PLC

Sir David Howard, Bt

Peter A Hurst

E Michael Clark

Michael R I Lilwall

## DIRECTORS OF CHARLES STANLEY & CO. LIMITED

| <b>Name</b>          | <b>Responsibility</b>   |
|----------------------|---|
| Stephen C King       | Head of Human Resources                                       |
| Martina M Murphy     | Financial Control   |
| Philip C Nathan, MBE | Dealing   |
| J Andrew Butcher     | Chief Operating Officer                                       |
| Macgregor Anderson   | Internal Audit  |
| Venetia J Malpas     | Compliance  |
| Gary Teper           | Legal Services, Human Resources and<br>Training & Development |
| Michael G Bennett    | Information and Communications<br>Technology                  |

together with the Directors of  
Charles Stanley Group PLC.

## FINANCIAL CALENDAR

|               |                                     |
|---------------|-------------------------------------|
| 7 June 2011   | Results announced                   |
| 15 June 2011  | Ex-dividend date for final dividend |
| 17 June 2011  | Record date for final dividend      |
| 29 July 2011  | Annual General Meeting              |
| 3 August 2011 | Final dividend paid                 |
| November 2011 | Interim results announced           |

# NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the 111th Annual General Meeting of Charles Stanley Group PLC will be held at 25 Luke Street, London EC2A 4AR on 29 July 2011 at 11.00am, for the following purposes:

## **Ordinary resolution**

### **Ordinary business**

1. To receive and adopt the Accounts for the year ended 31 March 2011 with the reports of the Directors and Auditors.
2. To declare a final dividend.
3. To approve the Directors' remuneration report as set out on pages 29 to 32 of the Annual Report and Accounts.
4. To re-elect Sir David Howard, Bt as a Director.
5. To re-elect Edward Michael Clark as a Director.
6. To re-elect Michael Raymond Ian Lilwall as a Director.
7. To ratify the appointment of KPMG Audit Plc as Auditors and to authorise the Directors to determine their remuneration.

### **Special business**

As special business to consider and, if thought fit, to pass the following resolutions, resolution 8 being proposed as an ordinary resolution and resolutions 9 and 10 as special resolutions.

#### **Resolution 8**

THAT pursuant to section 551 of the Companies Act 2006 ("the 2006 Act")

- (a) the Directors shall have general and unconditional authority to exercise for the purposes of section 551 all of the powers of the Company to allot, grant options over, grant rights to subscribe for, or convert securities into shares, or otherwise deal with or dispose of any relevant securities (as defined in section 551(7) of the 2006 Act) of the Company to such persons, at such times and generally on such terms and conditions as the Directors may determine

PROVIDED THAT:

- (i) the authority hereby conferred shall, subject to section 551 of the 2006 Act, be for a period expiring on the earlier of 15 months from the date of this resolution and the end of the 2012 Annual General Meeting of the Company unless renewed, varied or revoked by the Company in general meeting; and
  - (ii) the maximum nominal amount of relevant securities as aforesaid which may be allotted pursuant to such authority shall be £3,680,000.
- (b) the Directors shall be entitled under the authority conferred hereby, or under any renewal thereof, to make at any time prior to the expiry of such authority, any offer or agreement which would or might require relevant securities as aforesaid to be allotted after the expiry of such authority and to allot relevant securities accordingly; and
- (c) the authority given by this resolution shall supersede and revoke any earlier authority given in respect of relevant securities as aforesaid.

### **Special resolutions**

#### **Resolution 9**

THAT the Directors be and are hereby empowered pursuant to section 571 of the 2006 Act to allot equity securities (within the meaning of section 560 of the 2006 Act) pursuant to the authority conferred by resolution number 8 in the Notice of Meeting as if section 561(1) of the 2006 did not apply to any such allotment provided that this power shall be limited:

- (a) to the allotment (otherwise than pursuant to sub-paragraph (b) below) of equity securities, which are, or are to be, wholly paid up in cash up to an aggregate nominal amount of £552,000; and
- (b) to the allotment of equity securities for cash in connection with a rights or other issue, which:
  - (i) is open for a period fixed by the Directors;
  - (ii) is made to the holders of the ordinary shares and (if in accordance with their rights or the Directors so determine) other equity securities of any class on the register on a fixed record date;
  - (iii) is in proportion to their then holdings of ordinary shares or (as the case may be) other equity securities of the class concerned (but so that any offer to holders of other equity securities of any class shall be on the basis of their rights to receive such offer failing which as if their holdings had been converted into or they had subscribed for shares on the basis then applicable); and

# NOTICE OF MEETING

- (iv) save that the Directors may aggregate and sell for the benefit of the Company fractions arising on the apportionment of securities offered, is otherwise made subject to such exclusions or other arrangements as the Directors may deem expedient in relation to legal or practical problems under the laws of or the requirements of any recognised body or stock exchange in any territory,

and shall expire at the earlier of 15 months from the date of this resolution and the end of the 2012 Annual General Meeting of the Company, provided that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power hereby conferred had not expired.

## **Resolution 10**

THAT the Directors be and are hereby generally and unconditionally authorised for the purposes of section 693 of the 2006 Act to make market purchases (within the meaning of section 693(2) of the 2006 Act) of ordinary shares of 25p each in the capital of the Company provided that:

- (a) the maximum number of ordinary shares hereby authorised to be purchased is 4,505,874;
- (b) the minimum price which may be paid for such shares is 25p;
- (c) the maximum price (exclusive of expenses) which may be paid for any such share will not be more than 5% above the average of the middle market quotation for such shares as derived from the Daily Official List of the London Stock Exchange for the ten business days in respect of which the Daily Official List is published immediately preceding the day on which the share is to be purchased;
- (d) the authority hereby conferred shall expire at the earlier of 15 months from the date of this resolution and the end of the 2012 Annual General Meeting of the Company;
- (e) the Company may make a contract to purchase its own shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry date of such authority and may make purchases of its own shares in pursuance of any such contract as if the authority conferred hereby had not expired.

By Order of the Board  
Gary Teper  
Secretary

7 June 2011

## Notes

1. Members are entitled to appoint a proxy to exercise all or any of their rights and to attend and to speak and vote on their behalf at the Meeting. A shareholder may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice. If you do not have a proxy form and believe that you should have one, or if you require additional forms, please contact Gary Teper on 020 7739 8200.
2. To be valid any proxy form or other instrument appointing a proxy must be received by post or (during normal business hours only) by hand at 25 Luke Street, London, EC2A 4AR no later than 11.00am on Wednesday, 27 July. Submitting a completed form of proxy or other such instrument does not prevent a shareholder attending the meeting and voting in person.
3. Any person to whom this Notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights ("a Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.
4. The statement of the rights of shareholders in relation to the appointment of proxies in paragraphs 1 and 2 above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by the shareholders of the Company.
5. To be entitled to attend and vote at the Annual General Meeting (and for the purposes of the determination by the Company of the votes they may cast), shareholders must be registered in the Register of Members of the Company at 11.00am on Wednesday, 27 July 2011 (or, in the event of any adjournment, 11.00am on the date which is two days before the time of the adjourned meeting). Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.
6. As at 6 June 2011 (being the last business day prior to the publication of this Notice) the Company's issued share capital consists of 45,072,021 ordinary shares carrying one vote each. Therefore, the total voting rights in the Company as at 6 June 2011 are 45,072,021.
7. Copies of the Directors' service agreements and a statement of Directors' transactions in shares of the Company are available for inspection at the Company's Registered Office during usual business hours on any business day from today until the conclusion of the Annual General Meeting. Copies will also be available for inspection at the place of the Annual General Meeting for at least 15 minutes prior to and during the meeting.
8. Shareholders should note that it is possible that, pursuant to requests made by shareholders of the Company under section 527 of the Companies Act 2006, the Company may be required to publish on a website a statement setting out any matter relating to (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting; or (ii) any circumstances connected with an auditor of the Company ceasing to hold office since the previous Meeting at which annual accounts or reports were laid in accordance with section 437 of the Companies Act 2006. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on a website.
9. In order to facilitate voting by corporate representatives at the Meeting, arrangements will be put in place at the Meeting so that (i) if a corporate shareholder has appointed the Chairman of the Meeting as its corporate representative to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the Meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the Meeting but the corporate shareholder has not appointed the Chairman of the Meeting as its corporate representative, a designated corporate representative will be nominated from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives ([www.icsa.org.uk](http://www.icsa.org.uk)) for further details on this procedure. The guidance includes a sample form of appointment letter if the Chairman is being appointed as described in (i) above.

# NOTICE OF MEETING

10. At this year's Annual General Meeting, there are ten resolutions which the members are asked to approve. An explanation of these resolutions is given below.

## **Resolution 1**

The Directors will present the Report of the Directors, the Auditors' Report and the Accounts of the Company for the year ended 31 March 2011.

## **Resolution 2**

The Directors will propose a final dividend of 8.25p.

## **Resolution 3**

The Directors' remuneration report is included in the Annual Report and Accounts on pages 29 to 32.

## **Resolution 4**

In accordance with the Company's Articles of Association, Sir David Howard, Bt retires and is eligible for, and is seeking re-appointment as a Director. Short biographical details of Sir David Howard, Bt are set out on page 24 of the Annual Report and Accounts.

## **Resolution 5**

In accordance with the Company's Articles of Association, Mr Edward Michael Clark retires and is eligible for, and is seeking re-appointment as a Director. Short biographical details of Mr Clark are set out on page 24 of the Annual Report and Accounts.

## **Resolution 6**

In accordance with the Company's Articles of Association, Mr Michael Raymond Ian Lilwall retires and is eligible for, and is seeking re-appointment as a Director. Short biographical details of Mr Lilwall are set out on page 24 of the Annual Report and Accounts.

## **Resolution 7**

KPMG Audit Plc were appointed as the Group's Auditors following a review and tender process in October 2010. We ask that the shareholders ratify their appointment and to authorise the Directors to determine the auditors' remuneration.

## **Resolution 8 and 9**

At the Annual General Meeting last year, as in previous years, shareholders passed resolutions giving the Directors authorisation, subject to a cap, to allot shares for cash or otherwise and further for limited disapplication of section 561 of the Companies Act 2006, empowering them to allot shares for cash or otherwise in accordance with statutory pre-emption rights in certain limited circumstances.

The renewed powers will expire at the conclusion of next year's Annual General Meeting.

## **Resolution 10**

Resolution 10 seeks authority for the Company to make market purchases of its own ordinary shares, which would otherwise be prohibited by the Companies Act 2006. The Directors believe that there may be times when it would be desirable to manage the Company's capital by buying back shares. However, the Directors only intend to use the authority if they believe such purchases would be in the best interests of shareholders generally and would result in an increase in earnings per share. The resolution specifies the maximum number of shares that can be acquired (approximately 10% of the issued ordinary share capital of the Company as at 31 March 2011) and the minimum and maximum prices at which they may be bought. Any shares purchased under the authority granted by the resolution will either be cancelled or may be held as treasury shares.

# CHARLES STANLEY OUR OFFICES

## **BATH**

26 Queen Square  
Bath  
BA1 2HX  
01225 878999

## **BEDFORD**

11 Grove Place  
Bedford  
MK40 3JJ  
01234 718888

## **BIRMINGHAM**

Civic House  
156 Great Charles Street  
Birmingham  
B3 3HN  
0121 234 6700

## **BOURNEMOUTH**

2 Westover Road  
Bournemouth  
BH1 2BY  
01202 317788

## **BRIGHTON & HOVE**

24A Wilbury Grove  
Eaton Road  
Hove  
East Sussex  
BN3 3JQ  
01273 229880

## **BRISTOL**

58 Royal York Crescent  
Clifton  
Bristol  
BSS 4JP  
0117 974 6565

## **CAMBRIDGE**

Richmond House  
16-20 Regent Street  
Cambridge  
CB2 1DB  
01223 316726

## **CIRENCESTER**

14 The Wool Market  
Cirencester  
GL7 2PR  
01285 885311

## **DORCHESTER**

1 Colliton Walk  
Dorchester  
Dorset  
DT1 1TZ  
01305 251155

## **EASTBOURNE**

14 Hyde Gardens  
Eastbourne  
East Sussex  
BN21 4PR  
01323 437440

## **EDINBURGH**

2 Multrees Walk  
St Andrew Square  
Edinburgh  
EH1 3DQ  
0131 550 1200

## **EXETER**

Broadwalk House  
Southernhay West  
Exeter  
EX1 1TS  
01392 453600

## **GUILDFORD**

70-72 Chertsey Street  
Guildford  
Surrey  
GU1 4HL  
01483 230810

## **IPSWICH**

33 Lower Brook Street  
Ipswich  
IP4 1AQ  
01473 297700

## **ISLE OF WIGHT**

1 Langley Court  
Pyle Street  
Newport  
Isle of Wight  
PO30 1LA  
01983 520922

## **LEEDS**

14 King Street  
Leeds  
LS1 2HL  
0113 200 5230

## **LIVERPOOL**

20 Chapel Street  
Liverpool  
L3 9AG  
0151 255 2680

## **MANCHESTER**

2nd Floor  
Sunlight House  
Quay Street  
Manchester  
M3 3JZ  
0161 828 0200

## **MILTON KEYNES**

Witan Court  
305 Upper Fourth Street  
Central Milton Keynes  
MK9 1EH  
01908 691681

## **NEWBURY**

4 The Pentangle  
Park Street  
Newbury  
RG14 1EA  
01635 553700

## **NORWICH**

3 St Andrew's Hill  
Norwich  
NR2 1AD  
01603 665990

## **NOTTINGHAM**

Parliament House  
42-46 Upper Parliament Street  
Nottingham  
NG1 2AG  
0115 958 0200

## **OXFORD**

Abbey House  
121 St Aldates  
Oxford  
OX1 1EA  
01865 320000

## **PLYMOUTH**

1A The Crescent  
Plymouth  
Devon  
PL1 3AB  
01752 666661  
(Benefit Consultants)  
01752 502800

## **READING**

Dukesbridge Chambers  
1 Duke Street  
Reading  
RG1 4SA  
0118 902 2800

## **SOUTHAMPTON**

Latimer House  
5-7 Cumberland Place  
Southampton  
SO15 2BH  
023 8038 1800

## **SOUTHEND-ON-SEA**

Hamilton House  
12 Nelson Street  
Southend-on-Sea  
Essex  
SS1 1EF  
01702 221700

## **TRURO**

65 Lemon Street  
Truro  
Cornwall  
TR1 2PN  
01872 263131

## **TUNBRIDGE WELLS**

43 Dudley Road  
Tunbridge Wells  
Kent  
TN1 1LE  
01892 557100

## **WIMBORNE**

Crown Court  
6b The Square  
Dorset  
BH21 1JA  
01202 882 820

## **LONDON**

25 Luke Street  
London  
EC2A 4AR  
020 7739 8200

## **EBS Management PLC**

### **LONDON**

25 Luke Street  
London  
EC2A 4AR  
0207 149 6560

### **Garrison Investment Analysis Limited**

### **BEVERLEY**

5-7 Landress Lane  
Beverley  
Yorkshire  
HU17 8HA  
01482 861455

### **CS Financial Solutions Limited**

### **LIVERPOOL**

20 Chapel Street  
Liverpool  
L3 9AG  
0151 255 2662

### **WATFORD**

34 Clarendon Road  
Watford  
WD17 1JJ  
01923 804911

### **Jobson James Financial Services Limited - from 16 May 2011**

### **BIRMINGHAM**

1 The Apex  
55 Calthorpe Road  
Edgbaston  
Birmingham  
B15 1TH  
0121 452 3452

