



## DIRECTORS' STATEMENT

### Profit and Dividend

The operating profit on ordinary activities before taxation and goodwill amortisation was £57.8 million compared with £39.6 million last year, an increase of 46 per cent. The earnings per share before goodwill amortisation was 27.7p compared with 19.3p, up 44 per cent.

After deducting a charge for goodwill amortisation of £4.4 million (2003 - £3.4 million), the operating profit on ordinary activities before taxation was £53.4 million (2003 - £36.2 million), up 48 per cent. Earnings per share also increased by 46 per cent. to 24.6p (2003 - 16.9p).

The directors have declared an interim dividend of 9.0p per share, the same level as last year. This is payable on 14th April, 2004 to shareholders on the register at the close of business on 12th March, 2004.

### Overall Business Review

The results demonstrate the continued steady organic growth of our banking activity and the improved fortunes of our investment banking activity since the end of the long bear market.

Our **Banking** profits increased by 10 per cent. compared to the same period last year. During the last twelve months our loan book grew by 11 per cent. and the bad debt charge, expressed as a percentage of the average loan book, reduced somewhat to 1.3 per cent.

**Investment Banking** profits more than doubled compared to the first half last year. All three divisions showed good growth. *Asset Management* has begun to pick up and the recent Nelson acquisition did well. *Corporate Finance* built upon the improved result in the last months of last year and *Market-Making* moved forward on the back of continued buoyancy in the stock market.

The table below sets out our divisional analysis:

£million	Operating income		Profit before taxation	
	First half 2003	<b>First half 2004</b>	First half 2003	<b>First half 2004</b>
Investment Banking				
<i>Asset Management</i>	31.2	<b>38.3</b>	4.0	<b>7.2</b>
<i>Corporate Finance</i>	12.3	<b>16.9</b>	1.4	<b>4.5</b>
<i>Market-Making</i>	26.6	<b>53.0</b>	9.3	<b>19.9</b>
	<u>70.1</u>	<u><b>108.2</b></u>	<u>14.7</u>	<u><b>31.6</b></u>
Banking	76.7	<b>85.5</b>	31.4	<b>34.4</b>
Group	1.2	<b>0.8</b>	(6.5)	<b>(8.2)</b>
Total	<u>148.0</u>	<u><b>194.5</b></u>	<u>39.6</u>	<u><b>57.8</b></u>
Goodwill amortisation			(3.4)	<b>(4.4)</b>
Total			<u>36.2</u>	<u><b>53.4</b></u>

The divisional net assets have not changed materially during the first half year.

## DIRECTORS' STATEMENT

### Divisional Business Review

#### Banking

The steady growth of our banking division continued. This activity utilised some 48 per cent. of our capital and contributed 52 per cent. of our operating profits before group central costs.

Profits increased by nearly 10 per cent. over the same period last year on a loan book growing to £1.7 billion. Bad debts were well contained at 1.3 per cent. of our average loan book (2003 - 1.5 per cent.).

We continue to specialise in asset backed finance and the analysis of our loan book at the half year once again indicates fairly level growth across the asset sectors, none of which dominates our business:

	31st January, 2003	31st January, 2004
Insurance premiums	27%	29%
Cars	19%	20%
Printing machinery	18%	16%
Transport and engineering	13%	12%
Healthcare, armed services and other	9%	10%
Property	9%	8%
Debt factoring	5%	5%
	<u>100%</u>	<u>100%</u>

Close Premium Finance had another successful period and again achieved a record half year profit. We have observed a slowing in the pace of commercial insurance premium increases but our volume of loan applications continues to grow. Close Motor Finance also had a fine period of trading, producing another record result. Close Asset Finance, which deals mainly with commercial assets, produced an improved result. Its printing market shows signs of re-awakening and businesses in the healthcare and contractors' plant markets grew.

Close Property Finance produced solid results, in a market that remains buoyant but in which we continue to be prudent. Our Credit Management businesses also made progress as did our Mortgage Broking operation. In addition the central Treasury benefited from the movement in interest rates, after a fairly flat period. We continue to have substantial undrawn committed facilities to fund future growth.

Overall the outlook for our banking activity remains good.

#### Investment Banking

##### *Asset Management*

Following the low point reached last year, the profits of our asset management division have improved. This was achieved on the back of rising stock markets and a further increase in funds under management, to £5.0 billion as follows:

Funds under management	£bn
At 31st July, 2003	3.7
New funds (net)	0.3
Acquired funds	0.9
Market movement	0.1
<b>At 31st January, 2004</b>	<u>5.0</u>

Our private client businesses onshore and offshore both made progress. Offshore we completed the infrastructure reorganisation and now have in place new management, new premises and new systems in the Channel Islands. The challenge is to focus our product and service offerings and strengthen our business development efforts. Onshore the key development was our acquisition of Nelson and we are well ahead with our plans to integrate this with Close Wealth Management, where the administrative centre will be located in the North West.

Our funds businesses also made progress. The two businesses specialising in unquoted investments - tax sheltered products, including property investments, and private equity - both continued to do well. Our other businesses, concentrating mainly on quoted investments, did better and we are actively seeking ways for them to strengthen their distribution.

The present stock market outlook means that the prospects for this business are improving.

## DIRECTORS' STATEMENT

### *Corporate Finance*

Towards the end of our last financial year the business of Close Brothers Corporate Finance recovered from its low point when the bear market was at its most severe. The latest half year started with higher levels of enquiry flow and ended with a satisfactory number of deals being completed. Activity has continued in the restructuring arena and is improving in M&A. Our forward pipeline is in reasonable shape but whilst there has been some pick up in our German and Spanish operations, for our French operation the market remains flat.

We are cautiously optimistic for the future.

### *Market-Making*

After some three years of a bear phase, the UK stock market has been in a more bullish phase for the past eleven months. The much improved activity for our business in the last part of our previous financial year continued into the early months of our first half. The market finished calendar 2003 on a strong note and has held its own since then. Our activity levels have been healthy and private clients appear to be regaining confidence.

These conditions enabled our market-making business to generate rapidly rising profits which more than doubled over the same period last year.

### **Outlook**

The UK economy continues to show growth and the stock market has emerged from the doldrums. These more favourable conditions for us have been reflected in the results of our investment banking activity, where the outlook is much improved. The outlook for our banking activity continues to be good.

1st March, 2004

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Six months ended 31st January, <b>2004</b> <b>(Unaudited)</b> <b>£'000</b>	2003 (Unaudited) (Restated) £'000	Year ended 31st July, 2003 (Audited) (Restated) £'000
Interest receivable	<b>116,243</b>	109,931	219,948
Interest payable	<b>(50,828)</b>	(47,747)	(93,464)
Net interest income	<b>65,415</b>	62,184	126,484
Fees and commissions receivable	<b>86,568</b>	65,760	152,536
Fees and commissions payable	<b>(13,675)</b>	(10,652)	(25,505)
Net dealing income - market-making	<b>54,683</b>	28,014	66,711
Other operating income	<b>1,529</b>	2,709	3,113
Other income	<b>129,105</b>	85,831	196,855
Operating income	<b>194,520</b>	148,015	323,339
Administrative expenses	<b>121,961</b>	93,830	207,639
Depreciation	<b>4,387</b>	3,958	8,471
Provisions for bad and doubtful debts	<b>10,365</b>	10,669	21,962
Amortisation of goodwill	<b>4,451</b>	3,389	7,469
Total operating expenses	<b>141,164</b>	111,846	245,541
<b>Operating profit on ordinary activities before taxation</b>	<b>53,356</b>	36,169	77,798
Taxation on profit on ordinary activities	<b>16,794</b>	11,377	25,332
Profit on ordinary activities after taxation	<b>36,562</b>	24,792	52,466
Minority interests – equity	<b>1,092</b>	665	1,514
Profit attributable to shareholders	<b>35,470</b>	24,127	50,952
Interim dividend	<b>12,875</b>	12,839	37,321
Retained profit	<b>22,595</b>	11,288	13,631
Dividend per share	<b>9.0p</b>	9.0p	26.0p
Earnings per share before amortisation of goodwill	<b>27.7p</b>	19.3p	41.0p
Earnings per share on profit attributable to shareholders	<b>24.6p</b>	16.9p	35.7p
Diluted earnings per share	<b>24.5p</b>	16.9p	35.5p

All income and profits are in respect of continuing operations. The comparative figures for both the six months ended 31st January, 2003 and the year ended 31st July, 2003 have been restated as a result of the group adopting Urgent Issues Task Force (“UITF”) Abstract 38 on Accounting for ESOP trusts.

CONSOLIDATED BALANCE SHEET

	31st January, <b>2004</b> <b>(Unaudited)</b>  £'000	2003 <b>(Unaudited)</b> <b>(Restated)</b>  £'000	31st July, 2003 <b>(Audited)</b> <b>(Restated)</b>  £'000
<b>Assets</b>			
Cash and balances at central banks	970	759	878
Loans and advances to banks	631,192	679,307	746,586
Loans and advances to customers	1,684,206	1,520,476	1,615,614
Non-recourse borrowings	(225,000)	(175,000)	(175,000)
	<b>1,459,206</b>	1,345,476	1,440,614
Debt securities – long positions	50,297	53,643	60,744
Debt securities – other	790,760	521,750	543,826
Settlement accounts	437,675	238,166	391,684
Equity shares – long positions	41,338	30,419	24,385
Loans to money brokers against stock advanced	106,175	87,054	102,424
Equity shares – investments	24,585	22,705	25,763
Intangible fixed assets – goodwill	104,413	109,707	106,003
Tangible fixed assets	32,607	24,031	23,853
Share of gross assets of joint ventures	21,637	18,208	20,636
Share of gross liabilities of joint ventures	(21,079)	(18,000)	(20,182)
	558	208	454
Other assets	68,146	59,405	61,791
Deferred taxation	12,813	9,514	12,443
Prepayments and accrued income	32,072	25,071	27,213
<b>Total assets</b>	<b>3,792,807</b>	3,207,215	3,568,661
<b>Liabilities</b>			
Deposits by banks	116,894	87,269	107,872
Customer accounts	1,527,004	1,317,314	1,401,482
Bank loans and overdrafts	621,275	585,802	617,559
Debt securities – loan notes issued	100,000	100,000	100,000
Debt securities – short positions	47,930	46,144	54,113
Settlement accounts	354,680	188,261	317,857
Equity shares – short positions	10,307	7,378	19,371
Loans from money brokers against stock advanced	136,746	85,679	110,125
Other liabilities	176,772	145,008	163,935
Accruals and deferred income	93,226	62,807	91,487
Subordinated loan capital	96,937	96,937	96,937
Minority interests – equity	6,704	5,881	6,124
<b>Total liabilities</b>	<b>3,288,475</b>	2,728,480	3,086,862
<b>Shareholders' funds</b>			
Called up share capital	36,033	35,971	36,003
Share premium account	249,935	249,148	249,527
ESOP trust reserve	(4,116)	(4,734)	(4,734)
Profit and loss account	222,480	198,350	201,003
<b>Total equity shareholders' funds</b>	<b>504,332</b>	478,735	481,799
<b>Total liabilities and shareholders' funds</b>	<b>3,792,807</b>	3,207,215	3,568,661
<b>Memorandum items</b>			
Contingent liabilities – guarantees	3,083	2,892	2,330
Commitments – other	190,229	160,481	179,654

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Six months ended 31st January, <b>2004</b> <b>(Unaudited)</b>  <b>£'000</b>	2003 (Unaudited) (Restated)  £'000	Year ended 31st July, 2003 (Audited) (Restated)  £'000
Profit attributable to shareholders	<b>35,470</b>	24,127	50,952
Exchange adjustment	<b>(1,488)</b>	(609)	(299)
Total recognised gains and losses	<b>33,982</b>	23,518	50,653

The comparative figures for both the six months ended 31st January, 2003 and the year ended 31st July, 2003 have been restated as a result of the group adopting Urgent Issues Task Force ("UITF") Abstract 38 on Accounting for ESOP trusts.

CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 31st January, <b>2004</b> <b>(Unaudited)</b>  <b>£'000</b>	2003 (Unaudited)  £'000	Year ended 31st July, 2003 (Audited)  £'000
Net cash inflow/(outflow) from operating activities (Note 1(a))	<b>180,985</b>	41,729	51,275
Returns on investments and servicing of finance:			
Interest paid on subordinated loan capital	<b>(3,917)</b>	(3,945)	(7,825)
Dividends paid to minorities	<b>(743)</b>	(170)	(280)
	<b>(4,660)</b>	(4,115)	(8,105)
Taxation:			
Taxation paid	<b>(12,063)</b>	(9,039)	(21,080)
Capital expenditure and financial investment:			
Purchase of tangible fixed assets	<b>(5,253)</b>	(3,608)	(8,318)
Sale of tangible fixed assets	<b>223</b>	248	756
Purchase of equity shares held for investment	<b>(763)</b>	(2,475)	(7,921)
Sale of equity shares held for investment	<b>2,377</b>	5,253	7,090
	<b>(3,416)</b>	(582)	(8,393)
Acquisitions and disposals:			
Minority interests acquired for cash	<b>(36)</b>	(1,467)	(1,734)
Purchase of subsidiaries (Note 1(b))	<b>(7,956)</b>	(1,775)	(3,547)
	<b>(7,992)</b>	(3,242)	(5,281)
Equity dividends paid	<b>(24,482)</b>	(24,214)	(37,053)
Net cash inflow/(outflow) before financing	<b>128,372</b>	537	(28,637)
Financing:			
Issue of ordinary share capital including premium	<b>438</b>	743	1,154
Increase/(decrease) in cash	<b>128,810</b>	1,280	(27,483)

In the directors' view, cash is an integral part of the operating activities of the group, since it is a bank's stock in trade. Nevertheless, as required by Financial Reporting Standard No. 1 (Revised), cash is not treated as cash flow from operating activities but is required to be shown separately in accordance with the format above.

THE NOTES

1. Consolidated cash flow statement

	Six months ended 31st January, <b>2004</b> (Unaudited) £'000	2003 (Unaudited) (Restated) £'000	Year ended 31st July, 2003 (Audited) (Restated) £'000
<b>(a) Reconciliation of operating profit on ordinary activities before taxation to net cash inflow from operating activities</b>			
Operating profit on ordinary activities before taxation	53,356	36,169	77,798
(Increase)/decrease in:			
Interest receivable and prepaid expenses	(4,859)	(2,115)	(4,257)
Net settlement accounts	(9,168)	(5,792)	(29,714)
Net equity shares held for trading	(26,017)	(14,659)	3,368
Net debt securities held for trading	4,264	4,622	5,490
(Decrease)/increase in interest payable and accrued expenses	(3,423)	(14,298)	14,382
Depreciation and amortisation	8,838	7,347	15,940
Net cash inflow from trading activities	22,991	11,274	83,007
(Increase)/decrease in:			
Debt securities held for liquidity	(246,934)	190,630	168,555
Loans and advances to customers	(68,592)	(109,478)	(204,616)
Loans and advances to banks not repayable on demand	244,112	(234,940)	(331,101)
Other assets less other liabilities	41,148	5,213	19,872
Increase in:			
Deposits by banks	9,022	4,110	24,713
Customer accounts	125,522	94,773	178,941
Bank loans and overdrafts	3,716	80,147	111,904
Non-recourse borrowings	50,000	-	-
Net cash inflow from operating activities	180,985	41,729	51,275
<b>(b) Analysis of net cash outflow in respect of purchase of subsidiaries</b>			
Cash consideration in respect of current year purchases	(9,565)	-	-
Loan stock redemptions and deferred consideration paid in respect of prior year purchases	(4,990)	(1,775)	(3,547)
Net movement in cash balances	6,599	-	-
	(7,956)	(1,775)	(3,547)
<b>(c) Analysis of changes in financing</b>			
Share capital (including premium) and subordinated loan capital:			
Opening balance	382,467	381,313	381,313
Shares issued for cash	438	743	1,154
Closing balance	382,905	382,056	382,467
<b>(d) Analysis of cash balances</b>			
	<b>Movement in the period £'000</b>		
Cash and balances at central banks	92	970	759
Loans and advances to banks repayable on demand	128,718	259,046	159,210
	128,810	260,016	159,969
			131,206

## THE NOTES

### 2. Basis of preparation

The interim accounts, which are unaudited, have been prepared on the basis of the accounting policies set out in the 2003 group accounts, except with regard to Close Brothers Group plc equity shares held by the employee benefit trust. Previously the group's policy was to hold these at cost with realised surpluses and deficits taken to the profit and loss account. In accordance with UITF Abstract 38 Accounting for ESOP trusts, equity shares held by the employee benefit trust are now deducted in arriving at shareholders' funds. Realised surpluses and deficits are not taken to the profit and loss account. Prior year adjustments are described in note 4 below.

The figures shown for the full year ended 31st July, 2003 represent an abridged version of the full accounts of Close Brothers Group plc for that year, which have been filed with the Registrar of Companies and on which the auditors have given an unqualified report. The financial information contained in this interim report does not constitute the group's statutory accounts within the meaning of Section 240 of the Companies Act 1985.

---

### 3. Earnings per share

The calculation of earnings per share on profit attributable to shareholders is based on profit after taxation and minority interests of £35,470,000 (2003 – £24,127,000) and on 144,272,000 (2003 – 142,516,000) ordinary shares, being the weighted average number of shares and contingently issuable shares in issue during the period excluding those held by the employee benefit trust.

The diluted earnings per share is based on the same profit after taxation and minority interests disclosed above, and on 144,856,000 (2003 – 143,114,000) ordinary shares, being the weighted average number of shares disclosed above, plus the weighted dilutive potential on ordinary shares of exercisable employee share options in issue during the period.

---

### 4. Prior year adjustment

As a result of the adoption of UITF Abstract 38 both the profit and loss account and balance sheet prior year comparatives have been restated.

**Profit and loss account** – the retained profit for the six months ended 31st January, 2003 and the year ended 31st July, 2003 have both decreased by £124,000.

**Balance sheet** – shareholders' funds as at 31st January, 2003 and 31st July, 2003 have both decreased by £4,734,000.

---

## INDEPENDENT REVIEW REPORT

### **Independent Review Report to Close Brothers Group plc**

#### **Introduction**

We have been instructed by the company to review the financial information for the six months ended 31st January, 2004 which comprises the profit and loss account, the statement of total recognised gains and losses, the balance sheet, the cash flow statement and related notes 1 to 4. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with Bulletin 1999/4 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to them in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

#### **Directors' responsibilities**

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

#### **Review work performed**

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

#### **Review conclusion**

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 31st January, 2004.

***Deloitte & Touche LLP***

Chartered Accountants

London

1st March, 2004

---