Close Brothers

Annual Report 2004

Close Brothers

PROFILE

Close Brothers Group plc is an independent merchant banking group founded in the City of London over 125 years ago. The group's activities comprise asset management, corporate finance and market-making, together investment banking, and banking. Close Brothers is amongst the 200 largest companies by market capitalisation listed on the London Stock Exchange and employs over 2,200 people.

Close Brothers' strategy is to provide a diverse range of specialist financial services adding value to our clients as a result of our particular expertise. We are dedicated to developing continuity in our relationships with clients through excellent service, objective advice and uncompromising professionalism. Our aim is to deliver to our shareholders, over time, a consistent and increasing stream of profits and dividends.

The group's major shareholders are large financial investors including investment groups, insurance companies and pension funds. The group's directors, management and staff also have holdings directly, in share ownership schemes and option schemes, and through minority interests in certain subsidiaries. In addition, nearly 3,000 private individuals hold shares directly in the group.

HIGHLIGHTS

	2004	2003
Profit before taxation and goodwill amortisation	**£118.9m**	£85.3m
Earnings per share before goodwill amortisation	**57.3p**	41.0p
Profit before taxation	**£101.3m**	£77.8m
Earnings per share	**45.1p**	35.7p
Dividends per share	**27.0p**	26.0p
Shareholders' funds	**£509m**	£482m
Total assets	**£3.9bn**	£3.6bn

Board Members' Biographies

+ executive director
* management board member
# non-executive director

Sir David Scholey, C.B.E. (69) #
Chairman
Previously chairman of the SG Warburg Group and is a senior adviser to UBS AG. Other directorships, which are unchanged from last year, include Anglo American plc, Vodafone Group plc and The Chubb Corporation. Appointed a director in March 1999 and chairman in October 1999. Chairman of the Nomination and Governance Committee.

C.D. Keogh, M.B.A., Barrister, A.T.I.I. (51) + *
Chief Executive
Joined Close Brothers in October 1985 having previously been employed by Saudi International Bank and Arthur Andersen. Appointed a director in August 1995 and chief executive in November 2002.

M.J. Barley, A.C.I.B. (47) *
Chief executive of the asset finance division. Joined Close Brothers in June 1999 having previously been chief executive of Wagon Finance and an executive manager at Abbey National. Appointed to the management board in August 2003.

P.N. Buckley, C.A. (62) #
Chairman of Caledonia Investments plc. Other directorships include Offshore Logistics Inc. and Kerzner International Hotels Limited. Appointed a director in November 1995. His alternate is Michael Wyatt (67), a non-executive director of Caledonia Investments plc.

A.H. Farley, Solicitor (58) #
A founding partner of City solicitors, Watson, Farley and Williams, to whom he is now senior adviser. Non-executive director of Opus Trust Limited and Opus Portfolio Limited. Appointed a director in September 1993. Chairman of the Audit and Compliance Committees.

R.S. Grainger, A.C.A. (44) *
Chief executive of the corporate finance division. Joined Close Brothers in May 1996 on its acquisition of Hill Samuel corporate finance, which he joined in April 1987 after qualifying with Price Waterhouse. Appointed to the management board in August 2003.

M.A. Hines, M.S.I. (55) + *
Joined Close Brothers in April 1993 on the acquisition of Winterflood Securities, of which he is now chief executive. Appointed a director in March 2002. Previously with Bisgood Bishop.

S.R. Hodges, Barrister (50) + *
Joined Close Brothers in August 1985 having previously been employed by Hambros. Appointed a director in August 1995 with responsibility for the banking division. Appointed joint managing director in November 2002.

R.D. Kent, M.B.A., M.S.I. (57) #
Joined Close Brothers in 1974 and led the management buy-out in 1979. Managing director from August 1984 until October 2002 when he became a non-executive director and consultant. Non-executive chairman of Grosvenor Limited and Bradford & Bingley Group plc and non-executive director of Whitbread plc.

P.S.S. Macpherson, M.B.A. (56) #
Formerly a director of Flemings and executive deputy chairman of Misys. Other directorships include AXA UK PLC and Kleinwort Benson Private Bank Limited. Appointed a director in March 2003 and senior independent director in September 2004.

M.G.A. McLintock (43) #
Chief executive of M&G and a director of Prudential plc. Previously worked for Barings and Morgan Grenfell. Appointed a director in May 2001. Chairman of the Remuneration and Appointments Committee.

D.G.J. Paterson, F.C.A. (60) #
Formerly a senior partner in the banking and capital markets division of PricewaterhouseCoopers. Non-executive director of Goldman Sachs International Bank. Appointed a director in July 2004.

D.C. Pusinelli, A.C.A. (48) + *
Having previously qualified with Coopers and Lybrand he joined the corporate finance division of Close Brothers in July 1986. Appointed a director in September 2002 with responsibility for corporate development.

J.S. Sieff (38) *
Chief executive of the asset management division. Joined Close Brothers in May 2003 having previously been employed by Old Mutual and HSBC. Appointed a management board member in July 2004.

J.P. Williams (54) #
With Baring Asset Management until retirement in 2002. Chairman of Royal London Growth and Income Trust, non-executive director of J P Morgan Fleming America Investment Trust plc and The Pan Asian Special Opportunities Fund. Appointed a director in July 2004.

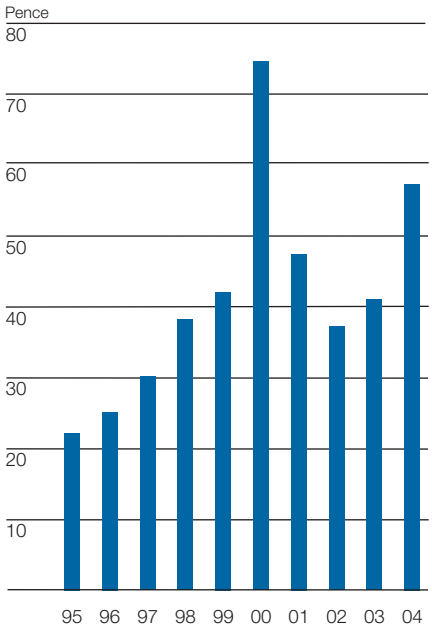
P.S. Wilmot-Sitwell (69) #
Formerly senior partner of Rowe and Pitman and chairman of SG Warburg Securities. Chairman of Mercury World Mining Trust plc. Appointed a director in November 1995.

P.L. Winkworth, F.C.A., A.T.I.I., M.S.I. (56) + *
Employed by KPMG and Barings, before joining Close Brothers in 1977. Partner in the management buy-out of Close Brothers in 1979 and was appointed a director in August 1984 with responsibility for finance. Appointed joint managing director in November 2002.

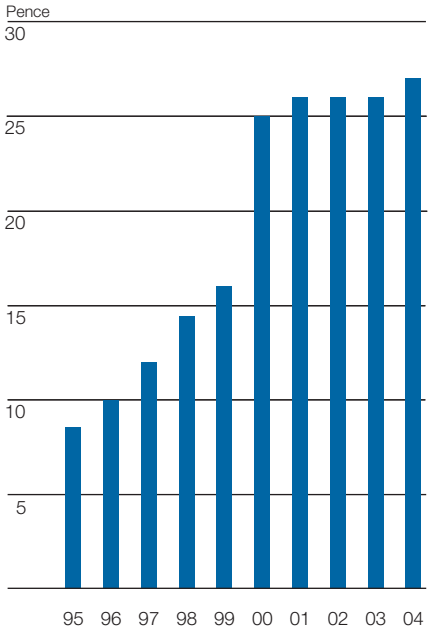
Secretary

R.D. Sellers, A.C.A.

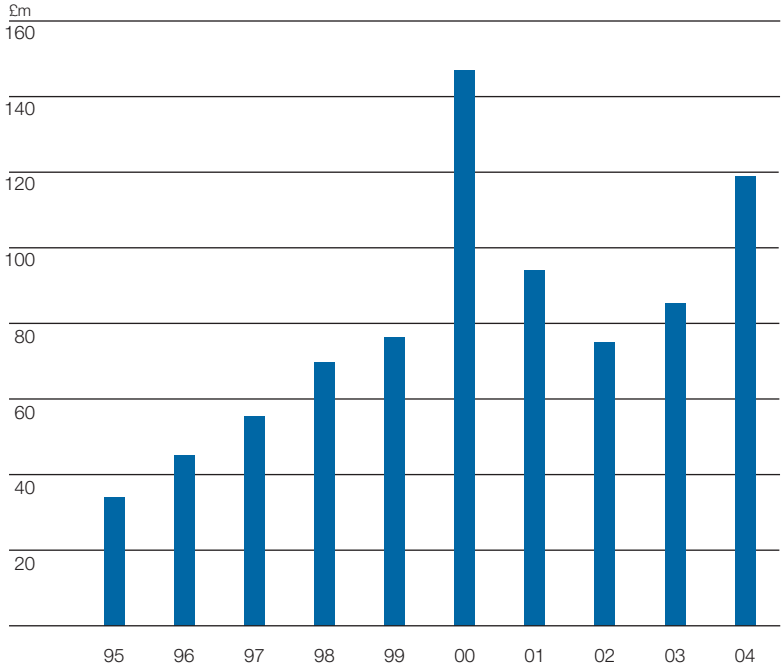
HISTORICAL TRENDS



Earnings per share before goodwill amortisation



Dividends per share



Profit before goodwill amortisation and taxation

RESULTS

The operating profit on ordinary activities before taxation and goodwill amortisation was £118.9 million, compared to £85.3 million last year, an increase of 39 per cent., producing earnings per share of 57.3p compared to 41.0p, an increase of 40 per cent.

After deducting a charge for goodwill amortisation of £17.6 million (2003 — £7.5 million), the operating profit on ordinary activities before taxation was £101.3 million (2003 — £77.8 million) and earnings per share were 45.1p (2003 — 35.7p).

The board recommends a final dividend of 18p per share which, together with the interim dividend, makes a total dividend for the year of 27p per share (2003 — 26p) with pre-goodwill cover of 2.1 times (2003 — 1.6 times). This resumes our dividend growth whilst continuing to rebuild dividend cover.

OVERVIEW

The results for the year ended 31st July, 2004 showed a marked improvement over last year. In particular, the results from each of the three divisions of our investment bank rebounded significantly with an overall increase of more than 75 per cent. Our wide range of banking activities continued their steady growth pattern with profits rising 11 per cent.

The overall profit before tax and goodwill amortisation represented 30 per cent. of group income (2003 — 26 per cent.) and a return of 25 per cent. on opening shareholders' funds (2003 — 18 per cent.), with an expenses/income ratio of 62.0 per cent. (2003 — 64.2 per cent.).

Our acquisition activity in the past year has been modest and we have resisted any temptation to overbid for assets. However we took some useful steps to augment existing activities with the acquisition of Nelson Money Managers, now being integrated with Close Wealth Management, and the start-up of a debt factoring business in Germany.

Our long term strategy to build a significant asset management business is gaining momentum. The year saw a step change in profit levels and funds under management grew some 50 per cent. to £5.5 billion.

Our market-making business produced a performance which was strong in the first half but somewhat lower in the second half.

The pick-up in our corporate finance division referred to in our last two trading statements has continued, and we have got off to a good start in Italy with our new partner.

On the banking side, our property lending and insurance premium financing businesses performed strongly and there was some improvement in our credit management activities. However the market in new print machinery remained weak, masking an otherwise good performance from our asset finance division.

The diversity of our income streams continued to serve us well and the table below illustrates the overall balance of our businesses:

Analysis of Operating Profit (before central costs)

	2003 %	2004 %
Asset Management	8	13
Corporate Finance	5	7
Market-Making	24	28
Investment Banking	37	48
Banking	63	52
	100	100

TRADING

Investment Banking

Asset Management

Pre-tax profit of £17.4 million is more than double that of last year. This excellent result stemmed from a continuing increase in our funds under management, up from £3.7 billion to £5.5 billion. Of the £1.8 billion increase, approximately £0.8 billion came from net new money, an encouraging performance in competitive markets, £0.9 billion arose from the acquisition of Nelson and £0.1 billion from market movement.

Our private client business continued to expand and now manages funds of £2.2 billion. Our offshore British Isles businesses have been brought together under one structure and a younger management team. New products have been developed and services to our investment management clients, depositors and trust clients have been more carefully targeted. Onshore, our most significant move has been the Nelson acquisition. The integration with Close Wealth Management has started and in early 2005 all of the 20,000 or so clients will be on one system. Our London based private client fund management business is also progressing well.

Our fund management business in unquoted investments prospered. Our seventh institutional private equity fund raised £360 million and we achieved some rewarding disposals of investments made earlier. Our tax sheltered and property businesses continued to grow strongly.

In our specialist and institutional business we successfully launched the £70 million Close Man Hedge Fund. Other existing funds also continued to attract new money.

Corporate Finance

We enjoyed another year of significant improvement with profits almost doubling to £9.8 million. In the UK mid-market we handled a growing number of M&A transactions in a variety of business sectors. Our restructuring unit continued to prosper as did our debt advisory service.

In Europe our fortunes were mixed with France in particular going through a difficult phase. However, our businesses in Germany and Spain recovered and our new association in Italy got off to a good start.

We commence the new year with a healthy pipeline similar to last year.

Market-Making

WINS greatly improved its profit, from £23.5 million to £37.9 million, albeit in a year of two distinct parts. The first eight months saw the continuation of the buoyant trading which commenced in spring 2003. Contrastingly, the last four months saw quieter conditions, with lower levels of private client activity and market indices faltering.

We continued to expand our product offering and our electronic connectivity, and again improved our market share in the UK principal to agent retail market.

The recent dull summer months and increasing economic uncertainty justify a somewhat cautious stance.

Banking

Once again our banking activity showed good organic growth. Profits increased by 11 per cent. to £69.7 million and the loan book, including securitised receivables, grew by 9 per cent. The bad debt charge at 1.4 per cent. of average loans was again contained with no deterioration in credit quality.

Insurance premium financing had another good year, benefiting from premium increases in the previous financial year. As predicted, the market for commercial insurance premiums in 2004 has softened significantly.

Motor finance had another record year but in the next few months will have to grapple with new regulatory issues, particularly in the area of insurance and the Consumer Credit Act. These issues will also affect some of our commercial asset lending businesses, as will mortgage regulation for Mortgage Intelligence.

Our commercial asset finance businesses had a good year, with the exception of the new print sector, which remained difficult and showed no sign of recovery. Additionally, successive defence cuts and a more competitive insurance market have caused us to make a prudent write-down in the goodwill of our military financial services business.

Our treasury, credit management and property lending businesses all did well, the latter in a market where price froth is beginning to subside.

DIRECTORS AND MANAGEMENT

At the end of our Annual General Meeting we shall bid farewell to two independent non-executive directors who have served us long and well. Alastair Farley joined our board in 1993. As a City solicitor of many years' standing his advice and experience have been valuable to us, as has his chairmanship of our audit committees for the past four years. Peter Wilmot-Sitwell has been a director since 1995, following a distinguished career as senior partner of stockbrokers Rowe & Pitman and chairman of S.G.Warburg Securities. We shall miss their lively interest and shrewd counsel.

In their places we appointed on 29th July, 2004 two new independent non-executive directors. Douglas Paterson, 60, recently retired from the accountancy firm PricewaterhouseCoopers, where he was a senior partner in the banking and capital markets division. He has agreed to assume the chairmanship of our audit committees on the retirement of Alastair Farley. James Williams, 54, recently retired after a long career as a director of Baring Asset Management where he was head of investment strategy with considerable involvement in overseas markets. He will join our audit committees.

Leslie Bland, one of our most senior and successful executives, has retired after 20 years with the group, during which he virtually started and energetically built our receivables financing business, a consistent contributor to our banking profits. We are pleased that he will continue to help us on a part-time basis in the UK and with our new debt factoring business in Germany.

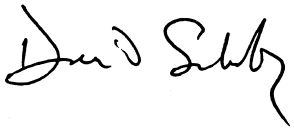
OUTLOOK

In the year ahead we expect a gradual slow down in the growth of the UK economy as the recent interest rate rises take effect. This outlook is being reflected in uncertain stock market performance and retail investor activity, and faltering demand for consumer credit.

In our banking activity all our specialist lending businesses have plans to grow their loan books. In the near term, however, such growth will be tempered by difficult market conditions in some areas and increasing costs in others resulting from regulatory change particularly in our asset finance division.

In our investment banking activity, market-making has got off to a slow start and would need a noticeable fillip in stock market activity for it to match the trading level of 2004. Our corporate finance business has an encouraging pipeline and our asset management businesses have the foundations and momentum to make further progress.

Looking forward, in the short term our inclination is towards caution. However, our confidence in the long term potential of our well diversified and fundamentally strong businesses is undimmed.



Sir David Scholey
Chairman

FINANCIAL REVIEW

Overview

The spread of the group's operating income reflects the diversification of its activities. All divisions showed notable advances compared to last year. Net dealing income increased as a proportion of the mix reflecting the improved trading conditions for our market-making division, particularly in the first eight months of the year.

	2003	2004
	%	%
Net interest income	39	33
Net fee income	39	40
Net dealing income	21	25
Other income	1	2

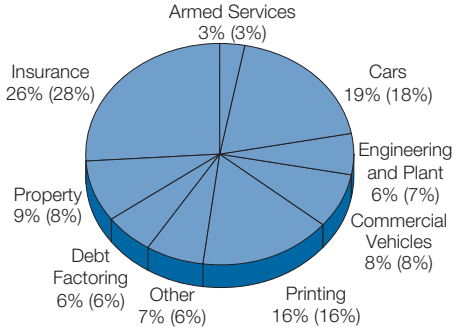
Expenses continue to be tightly controlled and our overall expenses/income ratio improved during the year. In particular, our investment in management, systems and infrastructure in the asset management division in 2003 is now bearing fruit.

	2003	2004
Operating income	£323m	£401m
Administrative expenses	£208m	£249m
Administrative expenses as % of operating income	64.2%	62.0%
Number of staff at year end	1,943	2,252

Staff numbers increased by some 16 per cent., mainly because of growth in our asset management division.

Our customer deposits and loan book, including securitised receivables, increased during the period by 20 per cent. and 9 per cent. respectively. Our loan book remains well spread, both by type of asset over which we take security and by number of loans.

Analysis of Group Loan Portfolio
(2003 figures in brackets)



The loan book represented some 405,000 separate advances, only three of which exceeded £5 million, the largest being £8.7 million.

The group remains well capitalised and soundly financed. The consolidated risk asset ratio at 21 per cent. (2003 — 23 per cent.) remained comfortably high.

Risk Management

Risk management is the process of identifying the principal business risks facing the group, establishing appropriate controls to manage those risks and ensuring that appropriate monitoring and reporting processes are in place. The group's process is consistent with the prudent management required of a large financial organisation but also balances cost against risk within the constraints of the group's risk appetite.

The group is exposed to a wide range of risks. These can be categorised as reputational, financial, operational and compliance risks and are inherent in many of our businesses. Since each of our main operations is managed separately and there is little or no integration of systems, management or customers, risk management is carried out by local management of each business. This is overseen on a regular basis by senior group management supported by group control and reviewed by the audit committees.

The board considers reputational risk to be the most significant risk in a business operating in the financial services sector. Awareness of the importance of the group's reputation underpins our control culture. This risk could crystallise as a result of a failure in our financial, operational or compliance controls.

Financial risk is mitigated by the group having a well established reporting structure for agreeing strategy, risk appetite, planning and budgets. Detailed monthly group management accounts are produced and variances and trends are closely monitored. Divisional heads report to the group board each month on the performance of, and key issues affecting, their division. Detailed budgets and three-year plans, which are reviewed in the light of group strategy and financial plans, are flexed to take account of potential adverse conditions and are subject to rigorous testing at divisional and board level.

Operational risk includes credit, market and liquidity risks as well as other risks specific to each of our businesses. There are clear reporting lines and defined areas of responsibility at board, divisional and business level. This structure is designed to ensure, amongst other things, that key issues and developments are escalated on a timely basis.

Credit risk is controlled by a number of local credit committees within centrally set limits of authority. For transactions above such limits, there is a group credit committee. As a general principle, the group avoids the risk of multiple exposure to one counterparty — for example, we do not normally lend to a corporate finance advisory client, nor does one lending subsidiary seek to lend to customers of another lending subsidiary. Our loan book is also generally well spread, short term, secured and with a low average loan size.

Market risk mainly relates to Winterflood Securities Limited ("WINS"), our market-making subsidiary. We maintain real-time controls on the size and risk profile of the overall trading book and of individual books within this. There are also controls, supplemented by cash limits, on individual large and slow moving equities and fixed income positions. The senior management of WINS is closely involved in this risk management process, which is also regularly monitored at group level. The group's exposure to market price risk resulting from trading activities of WINS are shown in note 28.

Each of our operations is responsible for its own liquidity within specified guidelines. Each is properly capitalised for its own business (normally comfortably above the regulatory minimum) and, where necessary, has formal facilities from the group, the bank or external lenders. The liquidity of each division is reviewed at its monthly board meeting and the overall position is regularly reviewed by the group board, assisted by treasury.

Our asset management division has a range of controls to support the quality of the investment process, including asset allocation and investment committees, in which its senior central management participates where appropriate. These are backed up by rigorous controls to safeguard clients' stock and money and regular reviews of investment performance.

Our corporate finance division is exposed to reputational and underwriting risks. These are controlled and monitored by the risk committee in which senior management of both corporate finance and group participate. Underwriting risk is decided upon and monitored by a specific committee of our banking subsidiary, which includes group directors who are not directly involved in corporate finance.

Our treasury operations do not actively trade in money market instruments since these are normally held to maturity. Nor do we trade speculatively in derivatives as a principal. Counterparties with whom we place deposits are monitored by the treasury committee which establishes specific limits. Interest rate mismatch policy is established by the treasury committee with mismatches being monitored daily.

Our customer loans and advances remain able to be financed by capital and reserves, longer term deposits and committed facilities. Our committed facilities amounted to over £1.7 billion, of which £1.0 billion was drawn at the year end. We continued our long established policy of broadly matching interest rate liabilities whereby we swap variable rate financing into fixed rate, particularly in regard to our asset finance book. The group's funding position is reported to the board each month.

Returns from the group's capital and reserves are necessarily subject to interest rate fluctuations and as a matter of policy these are not hedged, as reflected in the interest rate repricing table shown in note 24. The capital position of each division is compared to regulatory capital requirements and reported to the board monthly.

We have minimal currency exposure, since most of our business is transacted in sterling. Non-sterling financing is funded by liabilities in the relevant currency or swapped into sterling to hedge currency exposure. Most of the group's activities are located in the British Isles. Since currency exposure resulting from our investment in overseas subsidiaries is currently relatively small, the extent to which the group's consolidated balance sheet is affected by movements in exchange rates is minimal.

We have a central control unit which comprises internal audit and compliance, as well as financial control and compliance functions at subsidiary level. Our central control unit oversees and periodically examines the quality of the operational procedures of our separate businesses. The frequency of examination depends upon the perceived risk and quality within each operation. Our central control unit reports to the appropriate audit committees.

A working party is assessing the impact of International Financial Reporting Standards which will require the group to make changes to its accounting policies commencing 1st August, 2005.

OPERATIONAL REVIEW

Investment Banking

Our investment banking activity had an excellent year with profits from each of our three divisions rebounding sharply, from £36.9 million to £65.2 million, an overall increase of 77 per cent. Asset management, where momentum is building, and corporate finance both approximately doubled their profits and market-making had an excellent year, particularly in the first eight months.

Asset Management

This year has seen a strong recovery in profitability. The first half of the year saw a revival in the fortunes of global stock markets. However, the second half has seen a sideways drift with markets marking time, trying to gauge the impact of political and economic factors.

We capitalised on resurgent investor interest with a range of innovative product launches. We ended the year with a record £5.5 billion of funds under management, up some 50 per cent. on last year and with a more balanced mix in our three key sectors, private clients now being the largest. Of the £1.8 billion increase, £0.9 billion came from organic growth of our existing businesses and market movement, and £0.9 billion came with the acquisition of Nelson.

Overall movements were as follows:

Funds Under Management

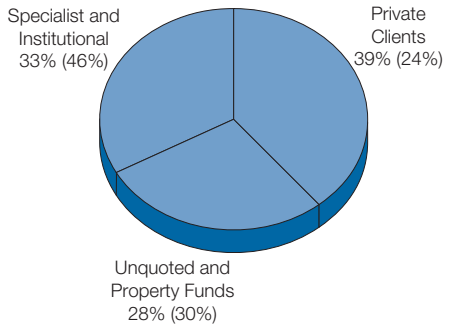
	2003	2004
	£bn	£bn
New funds raised	0.7	1.5
Withdrawals	(0.2)	(0.7)
Net new funds	0.5	0.8
Market effect	0.1	0.1
Acquisition	—	0.9
Total at start of year	3.1	3.7
Total at end of year	3.7	5.5

Private Clients (£2.2 billion)

Our private clients funds have exceeded £2 billion for the first time. We are particularly pleased with the high quality of the Nelson acquisition. The integration of this with our existing business is progressing well and should be completed in the second half of our new financial year. The new integrated business will be based in the North West. Our bespoke business continues to progress and added a team based in Birmingham. Overall our onshore private client businesses are now establishing the scale necessary for the achievement of strong organic growth.

Offshore, our British Isles businesses experienced significant profit growth with earlier infrastructure expenditure proving to be of benefit. Now under one structure and a younger management team, the offering of these businesses is being rebranded and refined to provide an even more effective platform for growth in future profits. In the Channel Islands, winning a contract to manage an existing range of funds and the launch of our All Weather multi-manager range of funds provided a boost. Our operations in Geneva and the Cayman Islands, which was temporarily affected by the recent hurricane, also continued to develop organically.

Funds Under Management
(2003 figures in brackets)



Unquoted and Property Funds (£1.5 billion)

Our private equity business performed strongly this year. We closed the Close Brothers Private Equity Fund VII raising £360m from a wide range of investors, both from the UK and worldwide. Market conditions have been such that we have been cautious in our new investments but we have achieved some excellent realisations for our earlier funds.

Our retail, unquoted investment funds business continued to expand and benefited from strong investor interest in property (both commercial and residential) as an alternative asset class. Expected changes to the UK tax regime for Venture Capital Trusts should enable us to build on our reputation for this type of fund in the coming year.

Specialist and Institutional (£1.8 billion)

Our structured products business had an excellent year. Not only did it continue to raise fresh funds for its existing range of products and new variations but it also formed a joint venture with Man Group and successfully launched its first UK guaranteed multi-strategy hedge fund. More products are planned in this area.

Our other specialist and institutional operations performed better and reached record levels of funds under management. OLIM capitalised on

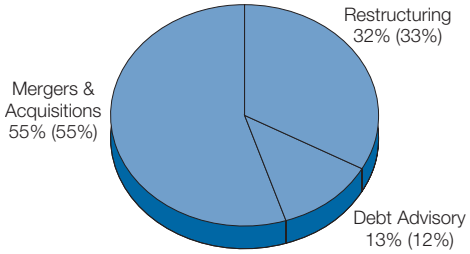
the market turnaround with record profits. The Close Finsbury business had a busy year and won the What Investments? "Investment Trust Management Group of the Year" award.

Corporate Finance

Our corporate finance division continued to perform well with operating income of £36 million, up by 8 per cent. from last year, and profit of £9.8 million which is 84 per cent. more than last year.

This performance reflects our broad mix of advisory business, similar to the levels of the previous year, as shown below:

Corporate Finance Practice Areas
(2003 figures in brackets)



Our M&A team remained busy despite a generally low level of activity in the UK market. It advised on more than 75 deals in the UK during the year, including Hunting's acquisition of a stake in Gibson Energy (from Chevron Texaco), the sale of Early Learning Centre to Eagle Retail Investments and the sale of Peterhouse to Babcock International.

Our restructuring practice continued its development as a leading European independent restructuring adviser. In the last 12 months we advised on transactions involving $30 billion in debt restructured. The team won the "Restructuring Deal of the Year" award for its debt restructuring of the Drax power station and is currently advising on the high profile European situations, Parmalat and British Energy.

Our debt advisory business made another significant contribution and completed seven deals, which involved refinancing or raising over £2 billion of debt. Notable work included the renegotiation of senior debt facilities for Ashtead Group, the refinancing of Paragon Healthcare Group and the raising of new finance for Enterprise Inns.

During the year we further extended our reach in Europe by acquiring a 10 per cent. shareholding in Eidos Partners, independent corporate finance advisers based in Milan. Our other European businesses had mixed fortunes. Market conditions in France (Dôme Close Brothers) were difficult. Freyberg Close Brothers (Germany) reported record results and Atlas Capital Close Brothers (Spain) made good progress. These three companies show a good pipeline of business for the new financial year.

Our worldwide network of associate partners was further strengthened by the addition of Danske Bank in Scandinavia and Rand Merchant Bank in South Africa.

The pipeline of new business for the forthcoming financial year is strong and provides a sound basis for continuing growth in markets that may be quite difficult.

Market-Making

Financial year 2004 was a good year for WINS and built upon the progress of the latter months of 2003 when retail trading picked up after the long bear market. Profits increased by over 60 per cent. to £37.9 million from £23.5 million in 2003, which itself was up 40 per cent. on the previous year. However, our year consisted of two distinct parts, with the last four months seeing lower levels of activity in a lacklustre market.

During the past financial year there has been exceptional growth in the AIM market, with some 265 companies joining the market and raising around £2 billion of new capital. There are now around 900 companies on AIM. As a result of this growth, WINS has increased its trading team in this area.

During the last few years we have enhanced our operation through the introduction of new business lines and the expansion of our electronic connection ("WINNER") to a wide array of clients. We have developed from a pure smaller-cap market-maker into the dominant service provider for the UK retail market, in terms of both market share (principal to agent) and market coverage. The building blocks on which this growth has been based includes UK SETS and SEAQ trading and coverage of the US and European equity markets as well as investment trusts, gilts and UK and international bonds. The introduction of SETSmm in November 2003 has resulted in increased coverage of the FTSE-250 sector albeit with some reduction in margin. All of this development has enabled us to diversify our revenue streams.

Our strategic development has continued in the past year by:

- Market-making in all OFEX stocks following the launch of the new OFEX competing market-makers trading platform;
- Expansion into exchange traded funds covering the i-Shares trading of the FTSE-100, S&P 500, Eurotop 100 and the Sterling Corporate Bond Fund;

- Increased product offering to include unit trusts and OEICs through an arrangement with Cofunds, the independent UK fundmarket; and
- Launching a new internet trading service to our clients.

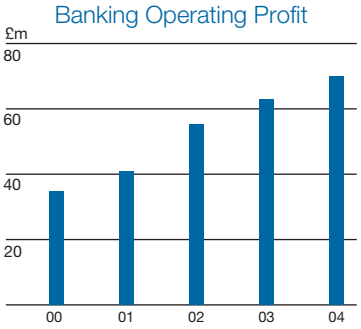
As a result of all these developments and the increased connectivity of WINNER, some 85 per cent. of our client UK equity trading business was conducted electronically.

In the first weeks of the new financial year markets have been more subdued than last year. As a result of our quiet start, we would need a noticeable fillip in activity to match the trading level of last year.

Banking

Our banking activity consists of specialist financing and asset financing businesses as well as our central treasury. Together they produced another year of solid organic growth. Profits grew by 11 per cent. to £69.7 million and the loan book, including securitised receivables, rose to a new high of £1.76 billion, up 9 per cent. It was also an excellent year for growth in customer deposits, which totalled £1.68 billion at the year end, an increase of some 20 per cent. on 31st July, 2003.

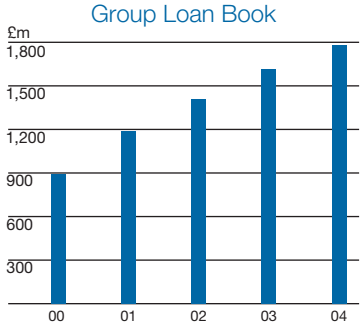
Asset quality remained high during the year, and net provisions as a percentage of the average loan book fell from 1.5 per cent. to 1.4 per cent. The pre-tax return on operating income and opening net assets were 40 per cent. and 33 per cent. respectively.



Specialist Financing

Close Property Finance ended the year with a loan book of £150 million. Given the much publicised growth of prices in the housing market, we have seen significant turnover of customer loans during the year, as our residential developer borrowers were able to sell finished units more quickly than anticipated. There are signs that the increase in interest rates is now slowing this process, and we will be looking cautiously at the market for evidence of illiquidity or price falls. Nevertheless we remain positive about this part of our business and as yet see no reduction in credit quality.

Close Premium Finance produced another year of strong profits growth, with the benefit of the previous year's growth in the loan book feeding through. The year end loan book was up by only 2 per cent. on the previous year, as the mix of our business changed somewhat and the rate of inflation in insurance premiums declined. Indeed, in some categories of cover the cost of insurance has fallen. The case count however increased from 454,000 to 479,000. With tighter control of expenses and an improvement in our credit control procedures (which resulted in a reduction in the bad debt charge) profitability improved significantly. Whilst the recent rapid growth rate in this business is unlikely to continue in the short term, our strong market share will stand us in good stead in a more challenging environment.



Both of our credit management companies had a good year. Close Credit Management produced further growth as its specialist Close Assistance product made deeper inroads into the motor market. During the year we signed new contracts which should provide good income for the medium term and we plan to move to new offices within Sheffield which will allow room for growth.

Close Invoice Finance saw continued profits growth and its loan book reached £99 million. Our northern operation in Manchester continued to make good progress, and we merged our Haywards Heath and Brighton offices, which will generate operational efficiencies in the new financial year. We have seen particular growth in invoice discounting, a finer margin product than factoring albeit, typically, to better covenant borrowers. Our start-up in Germany has gone well but not yet achieved critical mass. Leslie Bland retired as chief executive, a position he has held for 20 years. He leaves with our best wishes, having grown Close Invoice into one of the UK's leading independent debt factoring companies.

Mortgage Intelligence had an exciting year. Profits grew substantially as the network arranged some 57,000 mortgages (2003 — 35,000) with a market value of £7.1 billion (2003 — £4.0 billion). At the same time we have announced proposals to become a network provider, when mortgage regulation by the FSA commences in the next few months.

Asset Financing

Our asset financing division generally performed well and the loan book grew strongly to nearly £1 billion. It contributed 40 per cent. of our banking profits and represented 56 per cent. of the total loan book, broadly as last year. Our main activities remained commercial asset finance, consumer finance, services to the military and our domestic Channel Islands business. Whilst trading has generally been good during the year, preparations for forthcoming regulatory changes have been significant. Within the next two years most of our businesses will need to comply with new FSA regulations relating to the sale of general insurance products and with significant changes to the Consumer Credit Act, as well as with new International Accounting Standards. Whilst we are on track to meet each of these requirements they will add to the administrative burden and costs.

Close Asset Finance had another mixed year. Progress was good in the financing of light aircraft, commercial vehicles, engineering, construction and healthcare with improving new business levels at satisfactory margins. The market for financing new print equipment has remained difficult. However, the market for used printing equipment was less affected and indeed enjoyed profitable growth during the year.

Close Motor Finance had another record year with the loan book growing by 19 per cent. The markets for financing used cars, motorcycles and light commercial vehicles were buoyant during the first half of the year. During the second half, increasing interest rates had some impact although we still achieved budgeted levels of new business at healthy margins. However the new year has got off to a quiet start.

Close Brothers Military Services made further good progress, building share in the officer market. The lending areas of this business performed well and the loan book grew by 13 per cent. However, successive defence cuts and, in particular, the forthcoming cuts in manning levels for the armed forces announced by the Government in July lead us to have a more cautious view of the future for this business, and we have reassessed the goodwill relating to this investment.

Close Finance (CI), operating in the domestic markets in Jersey and Guernsey, enjoyed another successful year. The loan book grew by 11 per cent. and our return on investment was once again outstanding. Whilst growth in a localised developed market is always challenging, this business was able to conclude new sales and marketing agreements during the year that will stand it in good stead for the future.

Treasury

Our treasury operations had an excellent year. Our nationwide team of business developers achieved a record number of new customer depositors, attracted by our service offering and competitive rates. During the year we continued to raise new committed facilities to fund our loan book and we enter the new year with total funding available from this source of £1.7 billion. Just after the year end we were pleased to obtain a new credit rating from Moody's to sit alongside our existing rating from Fitch. This will enable us to attract financing from new sources and to continue to diversify our funding base.

Summary

The group showed further growth during the year with profits substantially increased.

C.D. Keogh
Chief Executive

The directors present their report and the audited financial statements for the year ended 31st July, 2004.

Principal Activities

Close Brothers Group plc is the parent company of a group of companies engaged in merchant banking operations. The principal subsidiary undertakings as at 31st July, 2004 and their principal activities are listed in note 29 to these financial statements. A detailed review of current and future developments is presented in the reports by the Chairman and Chief Executive.

Results and Dividends

The consolidated results for the year are shown on page 27. The directors recommend a final dividend for 2004 of 18.0p (2003 — 17.0p) on each ordinary share which, together with the interim dividend of 9.0p (2003 — 9.0p), makes a total distribution for the year of 27.0p (2003 — 26.0p) per share.

Statement of Responsibilities

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the group as at the end of the financial year and of the profit or loss of the company and the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether all applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and of the group and which enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control and for safeguarding the assets of the company and of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Share Capital

Details of changes in the company's ordinary share capital during the year are given in note 20 to these financial statements.

Substantial Interests

At 15th September, 2004 the following had notified the company that they were interested in 3 per cent. or more of the issued share capital of the company:

	Ordinary shares	%
Caledonia Investments plc	18,000,000	12.48
Prudential plc	14,922,094	10.34
Lloyds TSB Group plc	7,910,759	5.48
Barclays plc	4,906,388	3.40
Legal and General plc	4,702,459	3.26

Directors and Interests

(a) The present directors of the company, all of whom served throughout the year except Messrs. D.G.J. Paterson and J.P. Williams who were both appointed on 29th July, 2004, are set out on page 2.

(b) The directors' interests in the share capital of the company are shown below:

	Ordinary shares	
	31st July, 2004	1st August, 2003*
P.N. Buckley**	—	—
A.H. Farley	9,800	9,800
M.A. Hines	20,177	20,177
S.R. Hodges	402,260	402,260
R.D. Kent	224,770	224,770
C.D. Keogh	318,751	319,460
P.S.S. Macpherson	—	—
M.G.A. McLintock***	4,440	4,440
D.G.J. Paterson	—	—
D.C. Pusinelli	227,391	227,391
Sir David Scholey	10,000	10,000
J.P. Williams	7,000	7,000
P.S. Wilmot-Sitwell	10,000	10,000
P.L. Winkworth	629,765	629,765
M.G. Wyatt** (alternate)	—	—

*or at date of appointment if later.

**Mr. P.N. Buckley and his alternate Mr. M.G. Wyatt are respectively the chairman and a non-executive director of Caledonia Investments plc, which had an interest in 18,000,000 ordinary shares of the company at 31st July, 2004 (1st August, 2003 — 25,400,000).

***Mr. M.G.A. McLintock is a director of Prudential plc, which has an interest in 14,890,839 ordinary shares of the company at 31st July, 2004 (1st August, 2003 — 14,421,751).

Details of the options to subscribe for shares held by the directors under the company's sharesave and executive share option schemes are given in the report of the board on directors' remuneration on pages 19 to 25. The beneficial interests of the directors in the share capital of the company have remained unchanged since 31st July, 2004.

(c) Mr. M.A. Hines is a director and minority shareholder in Winterflood Securities Limited. At 31st July, 2004 he and his spouse were beneficially interested in 1,250 ordinary shares of that company (1st August, 2003 — 1,250).

(d) In accordance with the provisions of the Articles of Association, Messrs. A.H. Farley (appointed September 1993), D.C. Pusinelli (appointed September 2002) and P.S. Wilmot-Sitwell (appointed November 1995) and Sir David Scholey (appointed March 1999) retire by rotation. Mr. D.C. Pusinelli and Sir David Scholey, being eligible, offer themselves for re-election. Mr. D.C. Pusinelli has a service contract which can be terminated upon twelve months' notice. Sir David Scholey is non-executive chairman and as such does not have a service contract. Biographical details of these directors are given on page 2. Messrs. A.H. Farley and P.S. Wilmot-Sitwell will retire from the board at the forthcoming Annual General Meeting and therefore do not offer themselves for re-election.

Messrs. D.G.J. Paterson and J.P. Williams, having been elected since the last Annual General Meeting, retire in accordance with the Articles of Association and being eligible offer themselves for re-election. They are non-executive directors and as such do not have service contracts. The board recommends their re-election given their independence and wealth of relevant experience.

(e) The company has established an employee benefit trust in which all employees of the group, including executive directors, are potential beneficiaries. The trust currently owns 1,031,180 shares in the company, 470,113 of which are conditionally earmarked for deferred bonuses. This trust acquired these shares at an average cost of 384p per share compared to a market value of 667p per share at 31st July, 2004. Dividends have been waived on these shares.

Full details of directors' shareholdings and options to subscribe are open to inspection in the Register of Directors' Interests at the company's registered office.

Corporate Social Responsibility

(a) The Environment

The group's environmental policy is available on the group website. The chief executive is responsible for implementing this policy, supported by a management system with clear roles and responsibilities. The group has collected data on its significant environmental impacts in order to set targets which will be regularly monitored. The group has implemented processes to manage environmental risks so as to lower its greenhouse gas emissions and reduce, reuse and recycle, wherever possible, waste materials. Dialogue with, and support from, Business in the Environment, to whom the group subscribes, has assisted the group in improving its environmental performance, which is a key aim of the policy.

(b) Community Support and Charitable Donations

The company continues to support BOOST, which is a Government backed project which has as one of its objectives generating employment in the most deprived areas of East London.

Charitable donations made during the year amounted to £46,000 (2003 — £71,000).

(c) Health and Safety

A group objective is to maintain working conditions for employees and visitors which are safe and healthy. Group companies have established procedures appropriate to their particular activities to monitor, maintain and improve their health and safety standards. Health and safety committees are established, with staff representatives, to provide training and improve the working environment.

(d) Staff

Group companies are encouraged to develop their own consultative policies. These include regular meetings held between local management and employees to allow a free flow of information and ideas and to discuss decisions likely to affect their interests. Employees participate directly in the success of the business through the group's savings related share option scheme.

It is the group's policy to give appropriate consideration to applications for employment from disabled persons. For the purposes of training, career development and promotion, disabled staff, including any who become disabled in the course of their employment, are treated on equal terms with other employees.

(e) Suppliers' Payments Policy

All banking, market-making and investment transactions are settled in accordance with applicable terms and conditions of business agreed with the counterparty. Average creditor days for all other approved expenses is 24 (2003 — 24).

Special Business at the Annual General Meeting

(a) Authority to purchase own shares

At the last Annual General Meeting the company was given authority to make market purchases of up to approximately 15 per cent. of its issued share capital. This authority, which will expire at the conclusion of the Annual General Meeting, has not been used by the directors.

Nevertheless the board considers it would be appropriate to renew the authority. Share purchases would only be made where the directors believed that they were in the best interests of the company and would enhance earnings per share, taking into account other available investment opportunities and the

overall financial position of the group. Accordingly, a special resolution will be proposed at the Annual General Meeting to authorise the company to purchase not more than 21,639,000 of its 25p ordinary shares, being approximately 15 per cent. of the issued share capital of the company.

The maximum price which may be paid will not be more than 5 per cent. above the average of the middle market quotations for the ordinary shares as derived from the London Stock Exchange Daily Official List for the five business days before the purchase is made. The minimum price will be the par value. The directors would only begin to purchase shares after considering the criteria referred to above.

The authority will expire on whichever date is the earlier of the date eighteen months from the date the special resolution is passed and the date of the 2005 Annual General Meeting. Details of shares purchased pursuant to the authority will be notified to the London Stock Exchange and to the Registrar of Companies and will be disclosed in the 2005 Annual Report.

(b) Directors' authority to allot shares

A resolution will be proposed at the Annual General Meeting to grant the directors authority to allot unissued shares of the company up to a nominal amount of £12,021,000, which represents approximately one third of the issued share capital. Other than in respect of options in issue, the directors do not have any present intention to allot unissued shares pursuant to this authority. The authority, if granted, will last for a period of five years from the date of passing of the resolution.

(c) Waiver of pre-emption rights

It is proposed to renew, until the next Annual General Meeting, the directors' flexibility to issue shares for cash other than strictly pro rata to existing shareholders. This authority will be limited to a nominal amount of £2,704,000 which represents approximately 7½ per cent. of the issued share capital. The directors intend to comply with the guidelines of the investment committees of the Association of British Insurers and the National Association of Pension Funds to the effect that no more than 7½ per cent. of the issued share capital should be allotted for cash on a non pre-emptive basis in any rolling three year period.

(d) Introduction of a Long Term Incentive Plan ("2004 LTIP")

A resolution will be proposed at the Annual General Meeting to approve the introduction of the Close Brothers Group plc 2004 LTIP. A summary of the principal terms of the 2004 LTIP is set out in a letter from the chairman to shareholders accompanying the Notice of the Annual General Meeting. A copy of the draft rules of the 2004 LTIP will be available for inspection from the date of this Notice until the close of the Annual General Meeting at the company's registered office during normal business hours on any working day and at the place of the Annual General Meeting for at least 15 minutes prior to and during the Annual General Meeting.

Auditors

A resolution to re-appoint Deloitte & Touche LLP as the company's auditors will be proposed at the forthcoming Annual General Meeting.

By order of the board

R.D. Sellers
Secretary

27th September, 2004

The board of the company ("the board") has reviewed its Corporate Governance practices and, together with relevant information contained in the Report of the Board on Directors' Remuneration on pages 19 to 25 and the Report of the Directors on pages 13 to 15, this statement explains how the company has applied the principles of good governance contained in Section 1 of the Combined Code on Corporate Governance published in July 2003 by the Financial Reporting Council for the year ended 31st July, 2004.

Board Responsibilities

The board currently comprises five executive directors and nine non-executive directors, including the chairman. The senior independent director is Mr. P.S.S. Macpherson who was appointed to this role on 23rd September, 2004. Mr. P.S. Wilmot-Sitwell was the senior independent director prior to this date.

The board is supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties and meets regularly throughout the year (normally monthly) to deal with important aspects of the group's affairs, including setting and monitoring strategy, reviewing performance, ensuring adequate financial resources and reporting to shareholders. The chairman is responsible for the running of the board and the chief executive is responsible for the running of the company's business which ensures a clear division of responsibility at the head of the company. The management board, comprising solely senior executives of the group, assists the chief executive both in developing strategy and business objectives, and with the day to day management of the group. All directors have direct access to the advice and services of the company secretary and outside professional advisers as necessary, at the company's expense.

The board has appointed the following committees, whose members are all non-executive directors, with the following terms of reference, details of which are available on the company's website:

Bank Audit and Compliance Committee (Messrs. A.H. Farley (chairman), P.N. Buckley, P.S.S. Macpherson, D.G.J. Paterson (who will succeed Mr. A.H. Farley as chairman upon his retirement), P.S. Wilmot-Sitwell and J.P. Williams).

In respect of Close Brothers Limited and its subsidiaries ("the Bank Activities"), to review the scope and findings of the internal and external auditors, to commission any additional investigation work, to review the adequacy of controls and procedures including reputational, financial, operational and compliance controls and risk management and to consider the form and content of published announcements and statutory accounts.

Non-Bank Audit and Compliance Committee (Messrs. A.H. Farley (chairman), P.N. Buckley, P.S.S. Macpherson, D.G.J. Paterson (who will succeed Mr. A.H. Farley as chairman upon his retirement) and J.P. Williams).

In respect of all activities of the group other than the Bank Activities, to review the scope and findings of the internal and external auditors, to commission any additional investigation work, to review the adequacy of controls and procedures including reputational, financial, operational and compliance controls and risk management and to consider the form and content of published announcements and statutory accounts.

Remuneration and Appointments Committee (Messrs. M.G.A. McLintock (chairman), P.N. Buckley, P.S.S. Macpherson and P.S. Wilmot-Sitwell).

To determine the appointment, promotion and remuneration of the executive directors and the senior executives of the group.

Nomination and Governance Committee (Sir David Scholey (chairman) and Messrs. P.N. Buckley, R.D. Kent, M.G.A. McLintock and P.S. Wilmot-Sitwell).

To consider the appointment or retirement of directors, to review proposed nominations and governance procedures and to make recommendations thereon to the board. Before an appointment is made the skills, knowledge and experience required for a particular appointment are evaluated and external advisors are used to facilitate the search for suitable candidates. Other duties of the committee include regular reviews of the structure, size and composition of the board, consideration of the leadership needs of the group and succession planning, and assessments of the contribution of non-executive directors.

Attendance at Meetings

The following table identifies the number of board and committee meetings held in the year to 31st July, 2004 and the attendance record of their members:

	Scheduled Board Meetings	Bank Audit and Compliance Committee	Non-Bank Audit and Compliance Committee	Remuneration and Appointments Committee	Nomination and Governance Committee
Number of meetings in the year	11	4	5	4	2
Executive:					
M.A. Hines	11	—	—	—	—
S.R. Hodges	10	—	—	—	—
C.D. Keogh	10	—	—	—	—
D.C. Pusinelli	11	—	—	—	—
P.L. Winkworth	10	—	—	—	—
Non-executive:					
P.N. Buckley	9	3	5	3	2
A.H. Farley	9	4	5	—	—
R.D. Kent	11	—	—	—	—[6]
P.S.S. Macpherson	11	3	4	—[4]	—
M.G.A. McLintock	11	—	5[3]	4	—[6]
D.G.J. Paterson	0[1]	—	—[2]	—	—
Sir David Scholey	11	—	—	4[5]	2
J.P. Williams	1[1]	—[2]	—[2]	—	—
P.S. Wilmot-Sitwell	8	3	—	2	2
M.G. Wyatt (alt.)	—	—	—	—	—

1 Messrs. D.G.J. Paterson and J.P. Williams were appointed directors on 29th July, 2004 and therefore could have only attended one board meeting during the year.
2 Messrs. D.G.J. Paterson and J.P. Williams were appointed members of the Audit and Compliance Committees on 23rd September, 2004 and therefore did not attend committee meetings during the year.
3 Mr. M.G.A. McLintock stood down as a member of the Non-Bank Audit and Compliance Committee on 31st July, 2004.
4 Mr. P.S.S. Macpherson was appointed a member of the Remuneration and Appointments Committee on 23rd September, 2004 and therefore did not attend committee meetings during the year.
5 Sir David Scholey stood down as a member of the Remuneration and Appointments Committee on 31st July, 2004.
6 Messrs. R.D. Kent and M.G.A. McLintock were appointed members of the Nomination and Governance Committee on 23rd September, 2004 and therefore did not attend committee meetings during the year.

Board evaluation

The board conducts a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors. The non-executive directors meet once a year in the company of the chief executive and the chairman leads a formal review and discussion of the performance of the board and its committees. The performance of individual executive directors is formally assessed annually by the chief executive and reviewed with the non-executive directors. Non-executive directors' performance is assessed by the chairman, the senior independent director and the chief executive. The chairman's performance is reviewed by the non-executive directors, led by the senior independent director, having consulted with the executive directors.

Independence of Non-executive Directors

The board is of the opinion that each non-executive director, other than Mr. R.D. Kent who was an executive director until 31st October, 2002, is independent. This opinion was determined by considering for each non-executive director; whether he is independent in character and judgement; how he conducts himself in board meetings; whether he has any relationships or whether there are any circumstances which are likely to affect, or could appear to affect, his judgement; and whether he acts in the best interests of the company and all its shareholders at all times. Furthermore, in determining that Messrs. P.N. Buckley and M.G.A. McLintock are independent notwithstanding their directorships of Caledonia Investments plc (which owns approximately 12 per cent. of the company) and Prudential plc (which has an interest in approximately 10 per cent. of the company held across a range of its investment and managed funds) respectively, the board took into account that neither of them attends board meetings as appointee of those companies.

Internal Control

The board has overall responsibility for the group's system of internal control and for reviewing its effectiveness. The system of internal control is designed to ensure that the reputational, financial, operational and compliance risks taken by the company and its subsidiaries in the conduct of their business are identified and evaluated so that appropriate controls are put in place to manage those risks. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The system of internal control is supported by a well established organisational structure within the group, with clear levels of responsibility and delegation of authority and a strong control culture embedded in the day to day management of each operating company. Each operating company in the group regularly undertakes a review of, and reports to its board on, these controls and procedures, having due regard to its key risks. Where necessary, steps are taken to improve internal control and risk management further, following these reviews.

The Financial Review Statement on pages 7 and 8 details these key risks and explains how such risks are controlled.

Group Control, which is the central internal audit and compliance unit, regularly reviews the effectiveness of controls and procedures established in each company to manage key risks. The head of Group Control reports through the audit and compliance committees to the board, to which he has unrestricted access through the chairman.

The company has complied with the Turnbull Committee's guidance for directors. Identifying, evaluating and managing the group's significant risks is an ongoing process which is regularly reviewed by the board, and which has been in place for the year ended 31st July, 2004 and up to the date of the approval of these financial statements.

Auditors' Independence

The group employs two firms of auditors. Ernst & Young LLP are the auditors of Close Brothers Limited, the banking subsidiary, and its subsidiaries. Deloitte & Touche LLP are the auditors of the company and the remainder of the group.

In addition to their statutory audit responsibilities, the group will typically use the auditors for other work that they are well placed to undertake because of that role. This includes formalities relating to borrowings, shareholder and other circulars; regulatory, pension scheme and other ancillary audit work; work in respect of acquisitions and disposals; and tax compliance.

Several firms are considered for other work, including the auditors in some instances. In such cases due consideration is given to the impact of the assignment on the independence of the auditors and to their qualifications to carry out the role, including competitive tenders for larger assignments.

Having given consideration to the extra work undertaken by the auditors, and after review with the responsible partners in the two firms and the executive directors, the audit committees are satisfied as to the independence of the statutory auditors.

Relations with Shareholders

The group has a programme of communication with shareholders through the interim and annual reports, the Annual General Meeting and regular webcasts. Shareholders are given the opportunity to participate by asking questions at the Annual General Meeting, or by submitting written questions in advance. The group's website at www.closebrothers.co.uk contains information on the group, including up to date relevant shareholder information, as well as information on the products and services it offers. Communication with the group's largest institutional shareholders is undertaken by a programme of visits and presentations. Feedback from this programme is reported to the board on a regular basis to ensure it develops an understanding of the views of the major shareholders of the company.

Going Concern

The financial statements are prepared on a going concern basis as the directors are satisfied that, at the time of approving the financial statements, the group has the resources to continue in business for the foreseeable future.

Compliance with the Combined Code

The company has complied with Section 1 of the Combined Code throughout the year ended 31st July, 2004.

Introduction

The Directors' Remuneration Report is presented to shareholders by the board and contains, inter alia, the following information:

- a description of the constitution and role of the Remuneration and Appointments Committee ("the Committee");
- the group's policy on senior executive remuneration;
- details of the remuneration of each director and their service contracts; and
- details of directors' share option entitlements.

This report has been approved by the board and complies with the Directors' Remuneration Report Regulations 2002 ("the Regulations"). The group has complied with the provisions of the Combined Code relating to directors' remuneration throughout the year.

The report will be put to an advisory vote of the company's shareholders at the Annual General Meeting ("AGM") on 28th October, 2004. In addition, adoption of the Close Brothers Group plc Long Term Incentive Plan ("2004 LTIP"), details of which are set out below, will be put to a shareholder vote at that meeting.

The Committee

The Committee determines the remuneration and other terms and conditions of employment of the executive directors and senior executives of the group.

The Committee consists of non-executive directors. The chairman is Mr. M.G.A. McLintock (appointed chairman on 22nd April, 2004). Other members are Messrs. P.N. Buckley, P.S.S. Macpherson (appointed to the Committee on 23rd September, 2004) and P.S. Wilmot-Sitwell (who resigned as chairman on 22nd April, 2004 and will retire as a director at the forthcoming AGM). The group chairman, Sir David Scholey, stood down as a member of the Committee on 31st July, 2004 since when he attends meetings by invitation. The group chief executive, Mr. C.D. Keogh, also attends meetings by invitation, save that he is absent when his own remuneration is under consideration.

The board regards all members of the Committee as independent as explained in the Corporate Governance Report on pages 16 to 18. Details of the number of meetings and each member's attendance are set out in the table on page 17.

When considered appropriate, advice is taken from external consultants on a range of matters, including comparative data and other matters relevant to the remuneration of senior executives. During the year the Committee consulted New Bridge Street Consultants LLP, a leading firm of executive remuneration consultants, on external market remuneration levels and practices and, specifically, on the formulation of the 2004 LTIP. New Bridge Street Consultants LLP do not advise the company on any other matters.

The Terms of Reference of the Committee comply with the Combined Code and are available on the company's website. Mr. R.D. Sellers, the company secretary, is the secretary of the Committee.

Remuneration Policy

The Committee aims to ensure that the senior executive remuneration arrangements are fair, competitive and motivating within the context of the financial sector. With this objective in mind, the remuneration policy (which is essentially unchanged from the policy in 2003) is based on a remuneration structure which:

- motivates executives in the short term whilst also linking remuneration to the long term performance of the group;
- aligns the interests of executive directors with those of shareholders through performance related awards reflecting the performance of the group and, depending on amount, a proportion of such awards being deferred and satisfied in shares. The 2004 LTIP will be an important component of this structure;
- is appropriate in the light of remuneration arrangements amongst competitors and for senior group employees who are not directors; and
- reflects group profit levels and rewards profit growth, with a significant element of performance related remuneration.

In determining directors' remuneration, consideration is given to matters specific to the company such as returns to shareholders, profit and earnings performance both in absolute terms and

measured against budget. The quality of profit performance is also considered (i.e. in the context of market conditions and whether broadly based across all divisions or derived more narrowly) as well as the application of risk controls across the business. Other considerations are comparable market remuneration data, the experience and performance of individual directors, their areas of responsibility and remuneration levels throughout the group. Finally, consideration is taken of the proportion of profits accounted for by total executive directors' remuneration.

Components of Remuneration

Basic salary and benefits

The policy is to provide basic salaries which, when taken with potential performance related awards and pension contributions, are competitive relative to comparable companies. The majority of executive directors' remuneration is performance related and following realignments in the current year, basic salaries will, as a general principle, only normally be reviewed every several years other than as circumstances require e.g. in the case of a promotion or change in responsibility. The company also provides senior executives with healthcare, prolonged disability and life assurance cover, and a company car or payment in lieu.

Annual discretionary performance related awards

Annual performance related awards are at the discretion of the Committee, are not pensionable and are determined in the light of the factors set out above.

The Committee does not consider it appropriate to set an upper limit on these awards, because of the culture and remuneration practices within the group and in similar financial services businesses. The majority of any such award is set as a direct reflection of the financial performance of the group.

In line with the Committee's general principles, a proportion of a director's performance related award may be deferred and satisfied in ordinary shares of the company ("shares"). The Committee's policy in respect of performance related awards is that up to 100 per cent. of salary will be paid in cash without deferral. Any amount in excess of 100 per cent. of salary will be paid as to half in cash without deferral and as to half in shares on a deferred basis (the "Deferred Element") which vests after two years. The Deferred Element will be forfeited if the executive leaves employment in certain circumstances or is dismissed for cause before the relevant vesting date. The number of shares comprised in the Deferred Element will be determined by reference to the market value of a share shortly following the announcement of the company's results for the relevant financial year. Following vesting, these shares may be called for at any time up to the seventh anniversary of grant. When the shares are called for, the executive is entitled to the value of dividends in respect of the shares under the Deferred Element accumulated over the period of deferral.

In the case of Mr Hines, chief executive of Winterflood Securities Limited ("WINS"), his performance related award is paid from a formula-based profit sharing pool for WINS and is thus directly linked to the performance of that business. Any deferred element is decided on a discretionary basis from year to year, is payable in cash and is deferred until September 2008.

Details of the performance related awards in respect of the year ended 31st July, 2004 are set out on page 23.

Long-term incentives

The group has for many years operated long-term performance related incentive arrangements. These include the 1995 Executive Share Option Scheme, approved by shareholders in 1995 ("the 1995 Scheme"), under which grants of options have been made annually, and the Inland Revenue approved Savings Related Share Option Scheme ("the SAYE Scheme").

Under the 1995 Scheme, options have been granted each year. 50 per cent. of each grant has been subject to a performance condition requiring average earnings per share ("EPS") growth of Retail Price Index ("RPI") +4 per cent. per annum over any three-year period during the ten-year life of the option. The remaining 50 per cent. has been subject to the achievement of a performance condition requiring the company's EPS growth over any five-year period during the life of the option to be in the top 25 per cent. of FTSE-100 companies.

Executive directors are also entitled to participate in the SAYE Scheme on the same terms as other employees, under the terms of which options are granted for a fixed contract period of three or five years, usually at a discount of 20 per cent. to the mid-market price.

The 1995 Scheme is coming to the end of its life and it is intended that one final grant of options will be made in October 2004. Executive directors will not be included in this grant as it is intended that they will be granted awards under the 2004 LTIP if approved at the AGM.

However, if the 2004 LTIP is not approved at the AGM then executive directors will be granted options under the 1995 Scheme.

It will be proposed at the AGM that the company introduces the 2004 LTIP in which executive directors and other senior executives will be eligible to participate at the discretion of the Committee. The shareholder circular accompanying the Annual Report 2004 provides full details of the 2004 LTIP, which will be the sole long-term incentive for executive directors going forwards (other than outstanding grants of options). The 2004 LTIP is based on a conditional award of free shares subject to demanding performance conditions and to a maximum of twice an individual's basic salary in any one year.

Performance conditions for each award will be determined by the Committee at the time of each grant. Performance will be measured over a single period of three years; there will be no re-testing. The performance conditions attaching to the first awards under the 2004 LTIP (expected to be made shortly following the AGM) will be a range of EPS growth targets for two thirds of an award and relative Total Shareholder Return ("TSR") targets for the remaining one third. The Committee considers that this mix of targets provides an appropriate balance between rewarding improvements in the company's financial performance, while also rewarding relative stock market performance. Performance criteria will be independently calculated and verified by the Committee.

For the EPS part of the award, no award will vest if EPS growth is less than an average of RPI +5 per cent. per annum over the period. 25 per cent. of this part of the award then vests at the RPI +5 per cent. threshold, increasing on a straight line basis up to 100 per cent. of this part of the award, which vests when the average EPS growth is RPI +10 per cent. The EPS figure used will be earnings per share before exceptional items and write-off of goodwill.

For the TSR element, performance will be measured against a group of 25 companies drawn from the FTSE-350 Speciality and Other Financial Index and the FTSE-350 Banks Index (the shareholder circular accompanying the Annual Report 2004 contains a full list of the comparator companies). No part of this award will vest if the company's TSR performance is below the median of the comparator group. 25 per cent. of this part of the award then vests for median TSR performance, increasing on a straight line basis up to 100 per cent. of this part of the award, which vests when the company's TSR performance is at the 20th percentile (ie. top fifth) of the comparator group.

Pensions

Messrs. M.A. Hines and P.L. Winkworth participate in defined contribution pension schemes. Details of company contributions for these directors are set out in the table of directors' remuneration for the year ended 31st July, 2004 on page 23.

Messrs. S.R. Hodges, C.D. Keogh and D.C. Pusinelli participate in the group's defined benefits scheme and in a group defined contribution scheme. Under the defined benefits scheme, which was closed to new entrants in August 1996, the normal pensionable age is 65, the pension at normal pensionable age is two-thirds of final pensionable salary subject to completion of 30 years' service and there is a 50 per cent. widow's pension on death. Pensionable salary has been set at their salary at 1st August, 2001 plus increases to reflect RPI to a maximum of 2 per cent. per annum. from 1st August, 2002.

The following table summarises pension benefits for the directors who participated in the group's defined benefits scheme. The accrued pension is that which would be paid annually on retirement based on service to the end of the year. The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11 less directors' contributions. Participants in the defined benefits scheme have the option of paying additional voluntary contributions; neither such contributions nor the resulting benefits are included in the table below:

	Transfer value of accrued pension				Accrued pension	
	At 31st July, 2003 £'000	Director's contributions £'000	Change during the year £'000	At 31st July, 2004 £'000	Increase during the year £'000	At 31st July, 2004 £'000
S.R Hodges	737	15	150	902	8	107
C.D. Keogh	748	15	153	916	8	107
D.C. Pusinelli	528	12	110	650	7	81

The transfer values disclosed above represent potential liabilities of the pension scheme and do not necessarily represent a sum paid or payable to the individual director.

Directors' Service Contracts

Executive directors' service contracts are terminable on twelve months' notice. No director has a service contract containing a liquidated damages clause on termination. In the event of the termination of a contract it is the current policy to seek appropriate mitigation of loss by the director concerned and to ensure that any payment made is commensurate with the company's legal obligations. The company may at its discretion terminate the contract by making a payment in lieu of notice equal to the salary and benefits which the director would have received during his notice period. Executive directors' service contracts were entered into on the following dates:

	Date
M.A. Hines	27th August, 1999
S.R. Hodges	22nd January, 2001
C.D. Keogh	22nd January, 2001
D.C. Pusinelli	26th September, 2002
P.L. Winkworth	2nd August, 1984

Non-executive Directors

Non-executive directors do not have service contracts but are engaged under a letter of appointment for terms not exceeding three years, which are renewable by mutual agreement and terminable without notice. In respect of the services of Mr. P.N. Buckley as a non-executive director for the year ended 31st July, 2004, Caledonia Investments plc was paid £40,000, as disclosed in the remuneration table on page 23.

Remuneration of the chairman and all non-executive directors are set by the board in accordance with the Articles of Association (without the participation of the chairman and non-executive directors themselves) and from 1st August, 2004, were £160,000 per annum for the chairman and £40,000 per annum for the non-executive directors. In addition the chairman of each of the Audit and Compliance Committees, the Nomination and Governance Committee and the Remuneration and Appointments Committee receives an additional £5,000 per annum.

External Appointments

Any external appointments require board approval. No fees were earned from such appointments by any executive director. If they were, they would be taken into account in determining their remuneration.

Retired Executive Directors' Remuneration

Mr. D.G. Hardisty, who retired as a director on 31st July, 2003, is retained by Close Asset Finance Limited, a subsidiary of the company, as a consultant for an annual fee of £125,000. Mr. Hardisty was chief executive of Close Asset Finance Limited until his retirement. The agreement is dated 31st July, 2003 and the initial period is four years after which it can be terminated by either party giving not less than six months' notice. Under the terms of this arrangement Mr. Hardisty will make himself available to provide advice and assistance in connection with reviewing potential business opportunities, particularly in Europe, as well as other matters for up to thirty five working days per year.

Mr. R.D. Kent, a non-executive director, who retired as an executive director on 31st October, 2002, is retained by the company as a consultant for an annual fee of £100,000. The agreement is dated 31st October, 2002 and can be terminated by either party giving to the other not less than six months' notice. Under the terms of this arrangement Mr. Kent will make himself available to provide advice and assistance in connection with reviewing potential acquisitions as well as other matters for up to twenty five working days per year.

Mr. D. J. Macnamara, who ceased to be an alternate director on 31st July, 2003 and who retired as Joint Chief Executive of WINS during the year, received a salary of £198,000, benefits of £2,000 and pension contributions of £50,000 from that company in respect of the year ended 31st July, 2004. In addition, his performance related awards, also from WINS, were a current bonus of £300,000 and a deferred bonus of £200,000, payable on 15th July, 2005 subject to him complying with the non-compete provisions of his service contract up to that date.

Mr. B.M. Winterflood, who retired as a director on 31st January, 2002, is non-executive chairman of WINS for which he receives an annual fee of £75,000 and benefits of £24,000. Mr. Winterflood's contract is reviewable on 31st January, 2005.

Audit

The sections regarding directors' remuneration, pensions and directors' share option entitlements are required to be, and have been, audited by the company's auditors, Deloitte & Touche LLP.

Directors' Remuneration

The following table shows the remuneration of each director for the year ended 31st July, 2004 (with a prior year comparative total):

	Salaries and fees	Benefits	Performance related awards in respect of the current year		Total		Company pension contributions	
			Current	Deferred[5]	2004	2003	2004	2003
Executive:	£'000	£'000	£'000	£'000	£'000	£'000	£000	£'000
M.A. Hines	188	22	1,119	200	1,529	926	77	76
S.R. Hodges	340	17	670	330	1,357	1,087	85	80
C.D. Keogh	375	25	813	437	1,650	1,229	94	86
D.C. Pusinelli[1]	275	13	463	187	938	535	69	56
P.L. Winkworth	350	21	675	325	1,371	1,120	88	88
Non-executive:								
P.N. Buckley	40	—	—	—	40	35	—	—
A.H. Farley	50	—	—	—	50	35	—	—
R.D. Kent[2]	140	—	—	—	140	204	—	23
P.S.S Macpherson[1]	40	—	—	—	40	17	—	—
M.G.A. McLintock	41	—	—	—	41	35	—	—
D.G.J. Paterson[3]	—	—	—	—	—	—	—	—
Sir David Scholey	165	—	—	—	165	152	—	—
J.P. Williams[3]	—	—	—	—	—	—	—	—
P.S. Wilmot-Sitwell	44	—	—	—	44	35	—	—
M.G. Wyatt (alt.)	—	—	—	—	—	—	—	—
Former directors:[4]								
D.G.Hardisty	—	—	—	—	—	532	—	69
D.J. Macnamara (alt.)	—	—	—	—	—	719	—	48
	2,048	98	3,740	1,479	7,365	6,661	413	526

1 Messrs. D.C. Pusinelli and P.S.S. Macpherson were appointed to the board on 26th September, 2002 and 3rd March, 2003 respectively. Their 2003 remuneration represents earnings from these dates until 31st July, 2003.
2 Mr. R.D. Kent retired as an executive director on 31st October, 2002 when he became a non-executive director and consultant. His 2003 remuneration therefore comprises £103,000 earned as an executive director and £101,000 earned as a non-executive director and consultant. His 2004 remuneration relates entirely to his role as a non-executive director and consultant.
3 Messrs. D.G.J. Paterson and J.P. Williams were appointed to the board on 29th July, 2004.
4 Messrs. D.G. Hardisty and D.J. Macnamara retired from the board on 31st July, 2003.
5 Deferred performance related awards will be satisfied in shares at a future date as detailed in the table below, except for the award to Mr. M.A. Hines, which is payable in cash in September 2008 together with accrued notional interest (at base rate) thereon; this entitlement will lapse if he leaves employment in certain circumstances prior to September 2008.

Deferred Share Awards

Grant year	Held at 1st August, 2003	Number of shares[1] Granted[2]	Called	Held at 31st July, 2004	Earliest vesting date
S.R. Hodges					
2000	21,887	—	—	21,887	Aug 2002
2001	13,576	—	—	13,576	Aug 2003
2003	40,000	—	—	40,000	Sep 2004[4]
2004	—	46,841	—	46,841	Sep 2006
Total	75,463	46,841	—	122,304	
C.D. Keogh					
2000	21,887	—	—	21,887	Aug 2002
2003	52,000	—	—	52,000	Sep 2004[4]
2004	—	62,100	—	62,100	Sep 2006
Total	73,887	62,100	—	135,987	
D.C. Pusinelli					
2000	4,864	—	—	4,864	Aug 2002
2004	—	26,614	—	26,614	Sep 2006
Total	4,864	26,614	—	31,478	
P.L. Winkworth					
2000	40,000	—	40,000[3]	—	—
2003	40,000	—	—	40,000	Sep 2004[4]
2004	—	46,132	—	46,132	Sep 2006
Total	80,000	46,132	40,000	86,132	

1 The deferred share award forms part of the annual performance related award and consists of the right for an executive to call for shares in the company from the employee benefit trust, at nil cost, together with a cash amount representing accrued notional dividends thereon. If the executive leaves employment in certain circumstances prior to 1st August immediately preceding the earliest vesting date those entitlements will lapse.
2 The value of the share award at the grant date is charged to the group's profit and loss account in the year to which the award relates.
3 The market price upon call was 760p per share.
4 50 per cent. of the grant vests on the earliest vesting date and the balance one year later.

Directors' share option entitlements

Unexercised options over ordinary shares held by directors under the 1995 Scheme and SAYE Scheme were as follows:

Grant year		Held at 1st August, 2003	Number of options granted/(exercised)	Held at 31st July, 2004	Exercise price	Earliest exercise date	Expiry date
M.A. Hines							
1999	SAYE	2,860	—	2,860	590.0p	1st Dec 04	31st May 05
1999		17,500	—	17,500	779.5p	3rd Nov 02	2nd Nov 09
1999		17,500	—	17,500	779.5p	3rd Nov 04	2nd Nov 09
2000		22,200	—	22,200	1125.0p	23rd Oct 03	22nd Oct 10
2000		22,200	—	22,200	1125.0p	23rd Oct 05	22nd Oct 10
2001		12,500	—	12,500	560.0p	26th Sep 04	25th Sep 11
2001		12,500	—	12,500	560.0p	26th Sep 06	25th Sep 11
2002		7,500	—	7,500	450.0p	8th Oct 05	7th Oct 12
2002		7,500	—	7,500	450.0p	8th Oct 07	7th Oct 12
2003		—	25,000	25,000	732.5p	7th Oct 06	6th Oct 13
2003		—	25,000	25,000	732.5p	7th Oct 08	6th Oct 13
Total		122,260	50,000	172,260			
S.R. Hodges							
1996		50,000	—	50,000	330.0p	6th Nov 01	5th Nov 06
1997		22,500	—	22,500	482.5p	30th Oct 00	29th Oct 07
1997		22,500	—	22,500	482.5p	30th Oct 02	29th Oct 07
1998		42,500	—	42,500	417.5p	7th Oct 01	6th Oct 08
1998		42,500	—	42,500	417.5p	7th Oct 03	6th Oct 08
1999		37,500	—	37,500	779.5p	3rd Nov 02	2nd Nov 09
1999		37,500	—	37,500	779.5p	3rd Nov 04	2nd Nov 09
2000		26,665	—	26,665	1125.0p	23rd Oct 03	22nd Oct 10
2000		26,665	—	26,665	1125.0p	23rd Oct 05	22nd Oct 10
2001		35,000	—	35,000	560.0p	26th Sep 04	25th Sep 11
2001		35,000	—	35,000	560.0p	26th Sep 06	25th Sep 11
2002		45,000	—	45,000	450.0p	8th Oct 05	7th Oct 12
2002		45,000	—	45,000	450.0p	8th Oct 07	7th Oct 12
2002	SAYE	2,416	—	2,416	391.0p	1st Dec 05	31st May 06
2003		—	55,000	55,000	732.5p	7th Oct 06	6th Oct 13
2003		—	55,000	55,000	732.5p	7th Oct 08	6th Oct 13
Total		470,746	110,000	580,746			
R.D. Kent							
1997		75,000	—	75,000	482.5p	30th Oct 02	29th Oct 07
1998		55,000	—	55,000	417.5p	7th Oct 01	6th Oct 08
1998		55,000	—	55,000	417.5p	7th Oct 03	6th Oct 08
1999		50,000	—	50,000	779.5p	3rd Nov 02	2nd Nov 09
1999		50,000	—	50,000	779.5p	3rd Nov 04	2nd Nov 09
2000		33,330	—	33,330	1125.0p	23rd Oct 03	22nd Oct 10
2000		33,330	—	33,330	1125.0p	23rd Oct 05	22nd Oct 10
2001		37,500	—	37,500	560.0p	26th Sep 04	25th Sep 11
2001		37,500	—	37,500	560.0p	26th Sep 06	25th Sep 11
2002	SAYE	2,416	—	2,416	391.0p	1st Dec 05	31st May 06
Total		429,076	—	429,076			
C.D. Keogh							
1996		35,000	—	35,000	330.0p	6th Nov 99	5th Nov 06
1996		35,000	—	35,000	330.0p	6th Nov 01	5th Nov 06
1997		17,500	—	17,500	482.5p	30th Oct 00	29th Oct 07
1997		17,500	—	17,500	482.5p	30th Oct 02	29th Oct 07
1998		42,500	—	42,500	417.5p	7th Oct 01	6th Oct 08
1998		42,500	—	42,500	417.5p	7th Oct 03	6th Oct 08
1998	SAYE	892	(892)[1]	—	378.0p	1st Dec 03	31st May 04
1999		37,500	—	37,500	779.5p	3rd Nov 02	2nd Nov 09
1999		37,500	—	37,500	779.5p	3rd Nov 04	2nd Nov 09
2000		26,665	—	26,665	1125.0p	23rd Oct 03	22nd Oct 10
2000		26,665	—	26,665	1125.0p	23rd Oct 05	22nd Oct 10
2001		35,000	—	35,000	560.0p	26th Sep 04	25th Sep 11
2001		35,000	—	35,000	560.0p	26th Sep 06	25th Sep 11
2002		56,250	—	56,250	450.0p	8th Oct 05	7th Oct 12
2002		56,250	—	56,250	450.0p	8th Oct 07	7th Oct 12
2002	SAYE	3,360	—	3,360	391.0p	1st Dec 07	31st May 08
2003		—	60,000	60,000	732.5p	7th Oct 06	6th Oct 13
2003		—	60,000	60,000	732.5p	7th Oct 08	6th Oct 13
2003	SAYE	—	540	540	586.0p	1st Dec 08	31st May 09
Total		505,082	119,648	624,730			

1 The market price upon exercise was 695p per share.

Directors' share option entitlements *continued*

Grant year		Held at 1st August, 2003	Number of options granted/(exercised)	**Held at 31st July, 2004**	Exercise price	Earliest exercise date	Expiry date
D.C. Pusinelli							
1996		20,000	—	**20,000**	330.0p	6th Nov 99	5th Nov 06
1996		20,000	—	**20,000**	330.0p	6th Nov 01	5th Nov 06
1997		12,500	—	**12,500**	482.5p	30th Oct 00	29th Oct 07
1997		12,500	—	**12,500**	482.5p	30th Oct 02	29th Oct 07
1998		15,000	—	**15,000**	417.5p	7th Oct 01	6th Oct 08
1998		15,000	—	**15,000**	417.5p	7th Oct 03	6th Oct 08
1999		30,000	—	**30,000**	779.5p	3rd Nov 02	2nd Nov 09
1999		30,000	—	**30,000**	779.5p	3rd Nov 04	2nd Nov 09
2000		15,550	—	**15,550**	1125.0p	23rd Oct 03	22nd Oct 10
2000		15,550	—	**15,550**	1125.0p	23rd Oct 05	22nd Oct 10
2001		15,000	—	**15,000**	560.0p	26th Sep 04	25th Sep 11
2001		15,000	—	**15,000**	560.0p	26th Sep 06	25th Sep 11
2002		22,500	—	**22,500**	450.0p	8th Oct 05	7th Oct 12
2002		22,500	—	**22,500**	450.0p	8th Oct 07	7th Oct 12
2002	SAYE	4,200	—	**4,200**	391.0p	1st Dec 07	31st May 08
2003		—	42,500	**42,500**	732.5p	7th Oct 06	6th Oct 13
2003		—	42,500	**42,500**	732.5p	7th Oct 08	6th Oct 13
Total		265,300	85,000	**350,300**			
P.L. Winkworth							
1997		70,000	—	**70,000**	482.5p	30th Oct 00	29th Oct 07
1997		70,000	—	**70,000**	482.5p	30th Oct 02	29th Oct 07
1998		50,000	—	**50,000**	417.5p	7th Oct 01	6th Oct 08
1998		50,000	—	**50,000**	417.5p	7th Oct 03	6th Oct 08
1999		45,000	—	**45,000**	779.5p	3rd Nov 02	2nd Nov 09
1999		45,000	—	**45,000**	779.5p	3rd Nov 04	2nd Nov 09
2000		30,000	—	**30,000**	1125.0p	23rd Oct 03	22nd Oct 10
2000		30,000	—	**30,000**	1125.0p	23rd Oct 05	22nd Oct 10
2001		37,500	—	**37,500**	560.0p	26th Sep 04	25th Sep 11
2001		37,500	—	**37,500**	560.0p	26th Sep 06	25th Sep 11
2002		45,000	—	**45,000**	450.0p	8th Oct 05	7th Oct 12
2002		45,000	—	**45,000**	450.0p	8th Oct 07	7th Oct 12
2002	SAYE	2,416	—	**2,416**	391.0p	1st Dec 05	31st May 06
2003		—	55,000	**55,000**	732.5p	7th Oct 06	6th Oct 13
2003		—	55,000	**55,000**	732.5p	7th Oct 08	6th Oct 13
Total		557,416	110,000	**667,416**			

All of the non-SAYE options are subject to EPS performance criteria as outlined in the section of this report headed "Long-term incentives".

The mid-market price of the company's shares on 31st July, 2004 was 667p and the range during the year was 656.5p to 888.5p.

Total Shareholder Return

The graph below shows a comparison of TSR for the company's shares for the five years ended 31st July, 2004 against the TSR for the companies comprising the FTSE-250 Index. TSR has been calculated assuming that all dividends are reinvested on their ex-dividend date. The index has been selected because the company has been a constituent of the index throughout the period.

Source: Thomson Datastream

On behalf of the board

M.G.A. McLintock
Chairman of the Committee

27th September, 2004

Independent Auditors' Report to the Members of Close Brothers Group plc

We have audited the financial statements of Close Brothers Group plc for the year ended 31st July, 2004 which comprise the profit and loss account, the balance sheets, the cash flow statement, the statement of total recognised gains and losses and the related notes 1 to 40. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the directors' remuneration report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' 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 described in the statement of responsibilities in the directors' report, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report including the directors' remuneration report. Our responsibility is to audit the financial statements and the part of the directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We review whether the corporate governance statement reflects the company's compliance with the seven provisions of the Combined Code specified for our review by The Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the directors' report and the other information contained in the annual report for the above year including the unaudited part of the directors' remuneration report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the company and of the group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the directors' remuneration report described as having been audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the directors' remuneration report described as having been audited.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31st July, 2004 and of the profit of the group for the year then ended and the financial statements and that part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants
and Registered Auditors
London

27th September, 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT

		For the year ended 31st July, 2004			Year ended 31st July, 2003 (Restated)
		Ordinary activities before goodwill amortisation	Goodwill amortisation	Total ordinary activities	
	Note	£'000	£'000	£'000	£'000
Interest receivable	5	240,348	—	240,348	219,948
Interest payable		106,757	—	106,757	93,464
Net interest income		133,591	—	133,591	126,484
Fees and commissions receivable		194,453	—	194,453	152,536
Fees and commissions payable		(34,072)	—	(34,072)	(25,505)
Net dealing income — market-making		99,983	—	99,983	66,711
Other operating income		7,227	—	7,227	3,113
Other income		267,591	—	267,591	196,855
Operating income		401,182	—	401,182	323,339
Administrative expenses	2	248,622	—	248,622	207,639
Depreciation	12	10,833	—	10,833	8,471
Provisions for bad and doubtful debts	9	22,781	—	22,781	21,962
Amortisation of goodwill	30	—	17,603	17,603	7,469
Total operating expenses		282,236	17,603	299,839	245,541
Operating profit on ordinary activities before taxation	5	118,946	(17,603)	101,343	77,798
Taxation on profit on ordinary activities	6	33,925	—	33,925	25,332
Profit on ordinary activities after taxation		85,021	(17,603)	67,418	52,466
Minority interests — equity		2,209	—	2,209	1,514
Profit attributable to shareholders		82,812	(17,603)	65,209	50,952
Dividends:					
Interim dividend 9.0p per share (2003 — 9.0p)				12,875	12,839
Proposed final dividend 18.0p per share (2003 — 17.0p)				25,604	24,482
Total dividends 27.0p per share (2003 — 26.0p)				38,479	37,321
Retained profit for the year	21			26,730	13,631
Earnings per share before amortisation of goodwill	37			57.3p	41.0p
Earnings per share on profit attributable to shareholders	37			45.1p	35.7p
Diluted earnings per share	37			45.0p	35.5p

All income and profits are in respect of continuing operations. The restatement of the comparative figures is described in note 35.

CONSOLIDATED BALANCE SHEET

At 31st July, 2004	Note	2004	2003
		£'000	£'000 (Restated)
Assets			
Cash and balances at central banks		844	878
Loans and advances to banks	7	733,029	746,586
Loans and advances to customers		1,757,074	1,615,614
Non-recourse borrowings	8	(250,000)	(175,000)
	8	1,507,074	1,440,614
Debt securities — long positions	10	54,521	60,744
Debt securities — other	10	777,509	543,826
Settlement accounts		366,213	391,684
Equity shares — long positions	11	34,714	24,385
Equity shares — investments	11	26,770	25,763
Intangible fixed assets — goodwill	30	98,628	106,003
Tangible fixed assets	12	32,855	23,853
Share of gross assets of joint ventures		21,855	20,636
Share of gross liabilities of joint ventures		(21,358)	(20,182)
	31	497	454
Other assets	17	197,824	164,215
Deferred taxation	18	14,377	12,443
Prepayments and accrued income		35,589	27,213
Total assets		3,880,444	3,568,661
Liabilities			
Deposits by banks	13	79,188	107,872
Customer accounts	14	1,681,152	1,401,482
Bank loans and overdrafts	15	621,360	617,559
Debt securities — loan notes issued	16	100,000	100,000
Debt securities — short positions		52,842	54,113
Settlement accounts		301,159	317,857
Equity shares — short positions		14,406	19,371
Other liabilities	17	313,254	274,060
Accruals and deferred income		106,208	91,487
Subordinated loan capital	19	96,937	96,937
Minority interests — equity		4,674	6,124
		3,371,180	3,086,862
Shareholders' funds			
Called up share capital	20	36,066	36,003
Share premium account	21	250,430	249,527
ESOP trust reserve	21	(3,962)	(4,734)
Profit and loss account	21	226,730	201,003
Total equity shareholders' funds		509,264	481,799
Total liabilities and shareholders' funds		3,880,444	3,568,661
Memorandum items			
Contingent liabilities — guarantees	22	5,889	2,330
Commitments — other	23	194,284	179,654

The restatement of the comparative figures is described in note 35.

Approved by the Board of Directors on 27th September, 2004 and signed on its behalf by:

Sir David Scholey
C.D. Keogh
P.L. Winkworth
Directors

At 31st July, 2004	Note	2004	2003
		£'000	£'000 (Restated)
Fixed assets			
Tangible fixed assets	12	3,610	3,597
Investments in subsidiaries	29	324,115	324,115
Equity shares	11	145	182
		327,870	327,894
Current assets: Debtors	32	114,247	100,512
Creditors: Amounts falling due within one year	33	62,210	59,028
Net current assets		52,037	41,484
Total assets less current liabilities		379,907	369,378
Creditors: Amounts falling due after more than one year	34	27,072	27,072
Net assets		352,835	342,306
Capital and reserves			
Share capital	20	36,066	36,003
Share premium account	21	250,430	249,527
ESOP trust reserve	21	(3,962)	(4,734)
Profit and loss account	21	70,301	61,510
Total equity shareholders' funds		352,835	342,306

The restatement of the comparative figures is described in note 35.

Approved by the Board of Directors on 27th September, 2004 and signed on its behalf by:

Sir David Scholey
C.D. Keogh
P.L. Winkworth
} *Directors*

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31st July, 2004	2004	2003
	£'000	£'000 (Restated)
Profit attributable to shareholders	65,209	50,952
Exchange adjustment	(1,554)	(299)
	63,655	50,653

The restatement of the comparative figures is described in note 35.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st July, 2004	Note	2004	2003
		£'000	£'000
Net cash inflow from operating activities	38(a)	113,868	51,275
Returns on investments and servicing of finance:			
Interest paid on subordinated loan capital		(7,834)	(7,825)
Dividends paid to minority interests		(1,419)	(280)
		(9,253)	(8,105)
Taxation:			
Taxation paid		(32,184)	(21,080)
Capital expenditure and financial investment:			
Purchase of tangible fixed assets		(18,613)	(8,318)
Sale of tangible fixed assets		630	756
Purchase of equity shares held for investment		(2,839)	(7,921)
Sale of equity shares held for investment		5,677	7,090
		(15,145)	(8,393)
Acquisitions and disposals:			
Minority interests acquired for cash		(2,950)	(1,734)
Purchase of subsidiaries	38(b)	(11,772)	(3,547)
		(14,722)	(5,281)
Equity dividends paid		(37,357)	(37,053)
Net cash inflow/(outflow) before financing		5,207	(28,637)
Financing:			
Issue of ordinary share capital including premium	38(c)	966	1,154
Increase/(decrease) in cash	38(d)	6,173	(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.

1. Accounting policies

(a) Format of financial statements

The group financial statements are prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to banking groups and those of the company in accordance with Section 226 of, and Schedule 4 to, the Companies Act 1985. The financial statements are prepared in accordance with applicable accounting standards and with Statements of Recommended Practice issued by the British Bankers' Association and the Finance and Leasing Association.

(b) Accounting convention

The financial statements have been prepared under the historical cost convention, modified by the revaluation of equity shares and debt securities.

(c) Fees and commissions receivable

Fees in respect of services are recognised as the right to consideration accrues through performance of services for clients. To the extent that fees and commissions are recognised in advance of the client being billed they are included as accrued income.

(d) Net dealing income

Net dealing income includes the net profit arising from both buying and selling securities and from positions held in securities.

(e) Loans and advances

Loans and advances are stated net of provisions against doubtful debts which are made on the basis of regular review by management. The provision raised is an estimate of the amount needed to reduce the carrying value of the asset to its expected net realisable value and takes into account management's assessment of a combination of factors including each portfolio structure, characteristics of individual cases, past and expected credit losses and business and economic conditions.

(f) Finance leases, operating leases and instalment finance

Finance leases are recognised as loans and are valued at the minimum lease payments receivable less finance charges.

Finance charges on both hire purchase obligations and leases are taken to income in proportion to the net funds invested after deducting, where applicable, a fixed percentage in respect of set-up costs. Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the period of the leases.

(g) Equity shares and debt securities

The long and short positions in equity shares and debt securities held for trading purposes represent the aggregate of trading positions in individual securities arising respectively from a net bought and net sold position. They are valued at the dealers' bid and offer prices respectively at the close of business on the balance sheet date.

Debt securities held for liquidity and investment purposes are included in the balance sheet at cost, net of provision for any material decline in market value. Equity shares held for investment purposes are included in the balance sheet at middle market values if listed and at directors' valuation if unlisted. In accordance with UITF Abstract 38 on 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. Previously the group's policy was to hold these shares at cost with realised surpluses and deficits taken to the profit and loss account. The restatement of the comparative figures as at 31st July, 2003 is described in note 35.

(h) Investments in subsidiaries

Investments in subsidiaries are stated at cost less provision for impairment in value.

(i) Depreciation

Tangible fixed assets, including freehold investment properties held for long term investment, are held at cost. The provision for depreciation on tangible fixed assets is calculated to write off their cost over their estimated useful lives by equal annual instalments as follows:

Fixtures, fittings and equipment	10% — 33%
Motor vehicles	25%
Freehold and long leasehold property	2.5%
Short leasehold property	over the length of the lease

No depreciation is provided in respect of freehold land, which is stated at cost.

(j) Foreign currencies

Foreign currency deposits and advances are translated into sterling at the rates of exchange ruling at the balance sheet date. Foreign currency income and expenses are translated into sterling at the average rates of exchange over the year and translation differences are taken to the profit and loss account. Exchange differences arising from the translation of the balance sheets of subsidiaries denominated in foreign currencies are taken to reserves through the statement of total recognised gains and losses.

(k) Deferred taxation

Deferred taxation is provided in full on material timing differences, at the rates of taxation expected to apply when these differences crystallise, arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

(l) Goodwill

Before 1st August, 1998, goodwill arising on the acquisition of business assets, representing the excess of the purchase consideration over the fair value ascribed to the net tangible assets, was written off to reserves. From 1st August, 1998, as required by Financial Reporting Standard No. 10, such goodwill arising has been capitalised in intangible assets and is amortised, in equal annual instalments, unless there is impairment, over its estimated useful life of up to 20 years.

(m) Pensions

The cost of providing pensions is charged to the profit and loss account so as to spread the cost for those employees in the defined benefits scheme over their expected service lives. Contributions within defined contribution schemes are charged to the profit and loss account as they become payable in accordance with the rules of the schemes.

2. Administrative expenses

	2004	2003
	£'000	£'000
Staff costs:		
Wages and salaries	141,118	111,145
Social security costs	16,922	12,674
Other pension costs	7,591	8,286
	165,631	132,105
Other administrative expenses	82,991	75,534
	248,622	207,639

3. Information regarding directors

	2004	2003
	£'000	£'000
Directors' emoluments:		
Salaries	1,814	2,220
Fees	234	177
Other benefits	98	134
Performance related awards in respect of the current year		
— Current	3,740	3,105
— Deferred	1,479	1,025
	7,365	6,661
Gains upon exercise of options	3	3
Company pension contributions	413	526
	7,781	7,190

The remuneration of individual directors is shown in the report of the board on directors' remuneration on pages 19 to 25.

4. Segmental analysis

	Operating income		Profit before goodwill and taxation		Net assets		Average number of persons employed	
	2004	2003	2004	2003	2004	2003	2004	2003
	£'000	£'000	£'000	£'000	£'000	£'000	No.	No.
Asset Management	92,874	65,563	17,413	8,064	136,257	136,896	698	522
Corporate Finance	35,855	33,343	9,839	5,337	11,022	11,533	135	132
Market-Making	96,716	64,733	37,922	23,539	51,324	51,321	146	137
Investment Banking	225,445	163,639	65,174	36,940	198,603	199,750	979	791
Banking	174,410	157,567	69,666	62,945	228,466	209,724	1,129	1,068
Group	1,327	2,133	(15,894)	(14,618)	82,195	72,325	63	58
	401,182	323,339	118,946	85,267	509,264	481,799	2,171	1,917

Substantially all of the group's activities are located within the British Isles.

5. Operating profit on ordinary activities before taxation

	2004	2003
	£'000	£'000
Interest receivable comprises:		
Interest receivable and similar income arising from debt securities and other fixed income securities	21,269	20,261
Other interest receivable and similar income	219,079	199,687
	240,348	219,948
Profit on ordinary activities before taxation is stated after charging:		
Audit fees:		
To Deloitte & Touche LLP	566	528
To Ernst & Young LLP	463	419
	1,029	947
Other fees paid to the auditors in respect of:		
Taxation and VAT compliance and advice	599	458
Regulatory and pension audit work	68	133
Due diligence reviews	8	60
Other advisory work	267	380
	942	1,031

Operating lease rentals payable, of which none relate to plant and machinery, amounted to £8,403,000 (£7,826,000). Aggregate rentals received in respect of finance leases and hire purchase contracts amounted to £460,184,000 (2003 — £416,555,000). Aggregate rentals received in respect of operating leases amounted to £1,058,000 (2003 — £Nil).

6. Taxation on profit on ordinary activities

	2004	2003
	£'000	£'000
Taxation on profit on ordinary activities comprises:		
UK corporation taxation	36,796	26,011
Overseas taxation	1,311	1,169
Current year taxation charge	38,107	27,180
Deferred taxation (note 18)	(1,934)	(2,098)
Prior year corporation taxation (over)/under provision	(2,248)	250
	33,925	25,332
Reconciliation to current year taxation charge:		
Operating profit on ordinary activities before taxation	101,343	77,798
Taxation at 30% (2003 — 30%) on:		
Above operating profit	30,403	23,339
Goodwill amortisation disallowed	5,281	2,241
Disallowable expenses and other permanent differences	2,423	1,600
	38,107	27,180

7. Loans and advances to banks

	2004	2003
	£'000	£'000
Repayable:		
On demand	136,535	130,328
Within three months	588,156	603,370
Between three months and one year	7,599	11,670
Between one and two years	739	1,218
	733,029	746,586

8. Loans and advances to customers

	2004	2003
	£'000	£'000
Loans and advances (net of provisions and non-recourse borrowings) comprise:		
Hire purchase agreement receivables	697,649	615,665
Finance lease receivables	299,959	292,066
Other loans and advances	509,466	532,883
	1,507,074	1,440,614

The aggregate cost of assets acquired for the purpose of letting under finance leases and hire purchase agreements was £1,645 million (2003 — £1,565 million).

	2004	2003
	£'000	£'000
Loans and advances are repayable:		
On demand or at short notice	61,149	64,462
Within three months	387,889	349,283
Between three months and one year	406,241	416,865
Between one and two years	306,217	275,768
Between two and five years	368,236	347,087
After more than five years	20,402	23,855
Provisions	(43,060)	(36,706)
	1,507,074	1,440,614
Non-performing loans and advances:		
Before provisions	60,722	46,579
After provisions	31,933	22,965

Receivables securitised by non-recourse borrowings

Close Brothers Limited ("CBL"), a wholly owned subsidiary, has securitised £260 million (2003 — £182 million) of its insurance premium finance receivables with Cruise Limited ("Cruise") in return for non-refundable finance of £250 million (2003 — £175 million). If the receipts from the finance receivables exceed interest and principal loan liabilities due to Cruise, the surplus is due to CBL. Should there be a shortfall, neither the company nor CBL is obliged to, and does not intend to, support any losses and the providers of the funding have agreed to this. CBL has the option to replace these securitised loans as they are repaid. At 31st July, 2004 the balance sheet of Cruise comprised principally insurance premium finance receivables of £260 million (2003 — £182 million) and borrowings of £250 million (2003 — £175 million). The profit and loss account, other recognised gains and losses and cashflows of Cruise are negligible.

9. Provisions for bad and doubtful debts

	2004			2003		
	Specific	General	Total	Specific	General	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At 1st August, 2003	31,781	4,925	36,706	30,708	3,655	34,363
Charge for the year	19,627	3,154	22,781	20,692	1,270	21,962
Amounts written off net of recoveries	(16,427)	—	(16,427)	(19,619)	—	(19,619)
At 31st July, 2004	34,981	8,079	43,060	31,781	4,925	36,706

10. Debt securities

The long and short positions on debt securities comprise those held for trading purposes by Winterflood Securities Limited of which £3,677,000 (2003 — £3,965,000) and £2,726,000 (2003 — £1,063,000) were due to mature within one year respectively.

	2004	2003
	£'000	£'000
Other debt securities (all issued by banks and building societies):		
Certificates of deposit (held for liquidity purposes at cost)	762,510	533,842
Floating rate notes (held for investment purposes at cost)	14,999	9,984
	777,509	543,826

At both 31st July, 2004 and 31st July, 2003 the certificates of deposit were unlisted and due to mature within one year. The floating rate notes, of which £999,000 (2003 — £996,000) mature within one year, were listed and are intended to be held until maturity. The movement on the floating rate notes comprises:

	£'000
At 1st August, 2003	9,984
Additions	7,014
Disposals	(1,999)
At 31st July, 2004	14,999

11. Equity shares

All trading shares are listed, held by Winterflood Securities Limited and form that company's long and short positions. These positions were £34,714,000 (2003 — £24,385,000) and £14,406,000 (2003 — £19,371,000) respectively.

The net book value and historical cost of equity shares held for investment purposes is as follows:

	Group		Company	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
Net book value				
Listed	1,875	1,856	—	—
Unlisted	24,895	23,907	145	182
	26,770	25,763	145	182
Historical cost				
Listed	2,138	4,081	—	—
Unlisted	22,556	24,893	145	182
	24,694	28,974	145	182

The movement on equity shares held for investment purposes is as follows:

	Group	Company
	£'000	£'000
At 1st August, 2003	25,763	182
Additions	2,839	—
Disposals	(5,555)	(37)
Unrealised surplus on revaluation	3,723	—
At 31st July, 2004	26,770	145

12. Tangible fixed assets

	Land and buildings	Fixtures, fittings and equipment	Motor vehicles	Total
Group	£'000	£'000	£'000	£'000
Cost or valuation				
At 1st August, 2003	8,274	42,102	3,616	53,992
Additions	423	17,047	1,143	18,613
Acquisition of subsidiary	2,485	800	33	3,318
Disposals	—	(6,863)	(1,392)	(8,255)
At 31st July, 2004	**11,182**	**53,086**	**3,400**	**67,668**
Depreciation				
At 1st August, 2003	1,868	26,700	1,571	30,139
Charge for the year	770	9,234	829	10,833
Acquisition of subsidiary	643	595	13	1,251
Disposals	—	(6,475)	(935)	(7,410)
At 31st July, 2004	**3,281**	**30,054**	**1,478**	**34,813**
Net book value at 31st July, 2004	**7,901**	**23,032**	**1,922**	**32,855**
Net book value at 31st July, 2003	6,406	15,402	2,045	23,853
Company				
Cost or valuation				
At 1st August, 2003	3,735	1,627	194	5,556
Additions	247	303	22	572
Disposals	—	(10)	(52)	(62)
At 31st July, 2004	**3,982**	**1,920**	**164**	**6,066**
Depreciation				
At 1st August, 2003	846	999	114	1,959
Charge for the year	250	263	42	555
Disposals	—	(6)	(52)	(58)
At 31st July, 2004	**1,096**	**1,256**	**104**	**2,456**
Net book value at 31st July, 2004	**2,886**	**664**	**60**	**3,610**
Net book value at 31st July, 2003	2,889	628	80	3,597

Included within fixtures, fittings and equipment are assets let under operating leases to customers with a cost of £8,620,000 (2003 — £Nil). The accumulated depreciation thereon is £725,000 (2003 — £Nil).

The net book value of land and buildings comprises:

	Group		Company	
	2004	2003	**2004**	2003
	£'000	£'000	**£'000**	£'000
Freehold	**2,093**	1,957	**—**	—
Long leasehold	**2,330**	924	**—**	—
Short leasehold	**3,478**	3,525	**2,886**	2,889
	7,901	6,406	**2,886**	2,889

13. Deposits by banks

	2004	2003
	£'000	£'000
Repayable:		
On demand or at short notice	43,500	37,742
Within three months	35,188	63,630
Between three months and one year	500	6,500
	79,188	107,872

14. Customer accounts

	2004	2003
	£'000	£'000
Repayable:		
On demand or at short notice	400,204	357,502
Within three months	1,176,032	953,265
Between three months and one year	99,279	84,068
Between one and two years	5,637	3,218
Between two and five years	—	3,429
	1,681,152	1,401,482

15. Bank loans and overdrafts

	2004	2003
	£'000	£'000
Repayable:		
On demand or at short notice	23,589	24,867
Within three months	—	7,512
Between three months and one year	163,771	21,275
Between one and two years	140,000	179,384
Between two and five years	294,000	384,521
	621,360	617,559

16. Debt securities – loan notes issued

	2004	2003
	£'000	£'000
Floating rate notes repayable on 28th December, 2004	100,000	100,000

17. Other assets and liabilities

	2004	2003
	£'000	£'000
Other assets		
Loans to money brokers against stock advanced	113,116	102,424
Amounts due from investment funds	35,302	23,829
Trade debtors	30,672	23,083
Other	18,734	14,879
	197,824	164,215
Other liabilities		
Loans from money brokers against stock advanced	105,639	110,125
Creditors	105,767	84,342
Amounts due to investment funds	37,559	24,123
Proposed dividend	25,604	24,482
Current corporation taxation	18,093	14,589
Other	20,592	16,399
	313,254	274,060

18. Deferred taxation

	Group		Company	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
Group				
Capital allowances	5,926	5,479	(582)	(582)
Short term and other timing differences	9,608	6,964	1,620	1,329
Unrealised capital gains	(1,157)	—	—	—
Total deferred taxation asset	14,377	12,443	1,038	747

Movement in the year:	Group	Company
	£'000	£'000
Asset at 1st August, 2003	12,443	747
Credit for the year	1,934	291
Asset at 31st July, 2004	14,377	1,038

19. Subordinated loan capital

Final maturity date	Prepayment date	Initial interest rate	2004 £'000	2003 £'000
2010	2005	10.07%	21,937	21,937
2020	2015	7.39%	30,000	30,000
2026	2021	7.42%	15,000	15,000
2026	2021	7.62%	30,000	30,000
			96,937	96,937

All the subordinated loan capital has been issued by Close Brothers Limited ("CBL") and is guaranteed by the company.

The 2010 subordinated loan capital is initially denominated in sterling and converts to US dollars in 2005. If CBL opts not to prepay in 2005, the interest rate is reset to a margin over the 5 year US Treasury rate, payable in US dollars.

The subordinated loan capital 2020 and 2026 is denominated in sterling. If CBL opts not to prepay at the prepayment date, the interest rate is reset to a margin over the yield on 5 year UK Treasury securities.

20. Share capital

	2004		2003	
	No.'000	£'000	No.'000	£'000
Authorised				
Ordinary shares of 25p each	200,000	50,000	200,000	50,000
Allotted, issued and fully paid				
At 1st August, 2003	144,012	36,003	143,678	35,920
Exercise of options	252	63	334	83
At 31st July, 2004	144,264	36,066	144,012	36,003

Throughout the year a total of 252,000 ordinary shares were allotted and issued for cash consideration of £966,000 as a result of the exercise of options.

The following options to subscribe for ordinary shares have been granted under the sharesave and executive share option schemes to 706 (2003 — 672) employees:

Year of grant	Exercise period	Exercise price per share	2004 Number	2003 Number
1994	4th November, 1999 to 3rd November, 2004	231.68p	—	8,150
1995	3rd November, 1998 to 2nd November, 2005	316.00p	—	4,000
1995	3rd November, 2000 to 2nd November, 2005	316.00p	20,000	40,000
1996	6th November, 1999 to 5th November, 2006	330.00p	129,090	133,635
1996	6th November, 2001 to 5th November, 2006	330.00p	262,930	306,385
1997	30th October, 2000 to 29th October, 2007	482.50p	271,151	288,759
1997	30th October, 2002 to 29th October, 2007	482.50p	508,750	544,000
1998	7th October, 2001 to 6th October, 2008	417.50p	505,125	567,217
1998	7th October, 2003 to 6th October, 2008	417.50p	637,125	676,625
1998	9th November, 2001 to 8th November, 2008	552.50p	6,000	6,000
1998	9th November, 2003 to 8th November, 2008	552.50p	6,000	6,000
1998	1st December, 2003 to 31st May, 2004	378.00p	—	58,942
1999	3rd November, 2002 to 2nd November, 2009	779.50p	629,000	660,750
1999	3rd November, 2004 to 2nd November, 2009	779.50p	620,250	637,750
1999	1st December, 2004 to 31st May, 2005	590.00p	31,055	36,660
2000	23rd October, 2003 to 22nd October, 2010	1125.00p	499,590	520,223
2000	23rd October, 2005 to 22nd October, 2010	1125.00p	493,390	509,955
2000	1st December, 2003 to 31st May, 2004	958.00p	—	1,693
2000	1st December, 2005 to 31st May, 2006	958.00p	2,183	2,535
2001	26th September, 2004 to 25th September, 2011	560.00p	620,500	637,718
2001	26th September, 2006 to 25th September, 2011	560.00p	613,000	637,718
2001	1st December, 2004 to 31st May, 2005	438.00p	221,089	245,660
2001	1st December, 2006 to 31st May, 2007	438.00p	207,523	226,335
2002	8th October, 2005 to 7th October, 2012	450.00p	653,250	684,333
2002	8th October, 2007 to 7th October, 2012	450.00p	653,250	684,333
2002	1st December, 2005 to 31st May, 2006	391.00p	346,936	403,321
2002	1st December, 2007 to 31st May, 2008	391.00p	337,596	369,096
2003	7th October, 2006 to 6th October, 2013	732.50p	698,750	—
2003	7th October, 2008 to 6th October, 2013	732.50p	698,750	—
2003	1st December, 2006 to 31st May, 2007	586.00p	117,252	—
2003	1st December, 2008 to 31st May, 2009	586.00p	69,957	—
			9,859,492	8,897,793

21. Reserves

	Share premium account	ESOP trust reserve
	£'000	£'000
Group and company		
At 1st August, 2003	249,527	(4,734)
Shares released at cost	—	772
Shares issued net of expenses	903	—
At 31st July, 2004	**250,430**	**(3,962)**

	Group	Company
	£'000	£'000
Profit and loss account		
At 1st August, 2003	201,003	61,510
Retained profit for the year	26,730	8,240
ESOP trust profit	551	551
Exchange adjustment	(1,554)	—
At 31st July, 2004	**226,730**	**70,301**

Reconciliation of movements in shareholders' funds	2004	2003
	£'000	£'000
Group		(Restated)
Retained profit for the year	26,730	13,631
Exchange adjustment	(1,554)	(299)
Shares issued net of expenses — capital	63	83
— premium	903	1,071
Shares released at cost	772	53
ESOP trust profit	551	124
Net addition to shareholders' funds	27,465	14,663
Opening shareholders' funds	481,799	471,923
Adjustment to 2003 opening shareholders' funds for ESOP trust reserve	—	(4,787)
Closing shareholders' funds	**509,264**	481,799

ESOP trust reserve
The ESOP trust reserve comprises the company's ordinary shares held by the employee benefit trust. It is accounted for on the basis outlined in note 1(g).

22. Contingent liabilities

Memorandum items:
There are group contingent liabilities in respect of guarantees arising in the normal course of business amounting to £5,889,000 (2003 — £2,330,000).

Other contingent liabilities:
The company has given guarantees in respect of amounts drawn under subsidiaries' bank facilities amounting to £598,899,000 (2003 — £593,793,000). In addition, the company has given guarantees in respect of subordinated loan capital amounting to £96,937,000 (2003 — £96,937,000).

The 2003 accounts referred to a claim against a subsidiary, Close Brothers Corporate Finance Limited ("CBCF"). The claim is in respect of the takeover of Partco Group plc ("Partco") by UGC Limited ("Unipart"); the takeover valued the issued share capital of Partco at £179 million and was declared wholly unconditional on 22nd June, 1999. The claim has been brought by Partco (now called GP2002 Limited), which was advised by CBCF, and Unipart. The claim continues to be vigorously resisted and, having taken legal advice and received the opinion of leading counsel, the directors consider that it will not have a material effect on the group's financial position.

23. Commitments

	2004	2003
	£'000	£'000
Memorandum items:		
Undrawn facilities, credit lines and other commitments to lend		
— Within one year	190,198	178,533
— After more than one year	4,086	1,121
	194,284	179,654

Other commitments:
The group is committed to purchase minority interests in certain subsidiaries at agreed fair valuations at varying dates in the period to 31st July, 2013. Subsidiaries had contracted capital commitments relating to capital expenditure of £141,000 (2003 — £1,517,000) and contracted commitments to invest in private equity funds managed by the group of £33,766,000 (2003 — £9,090,000).

Annual commitments under non-cancellable operating leases at 31st July, 2004:

	Premises £'000	Other £'000
Expiring:		
Within one year	885	364
Within two to five years	2,109	515
After more than five years	5,920	—
	8,914	879

24. Interest rate exposure

The group's interest rate exposure is summarised below in the form of an interest rate repricing table. The table reflects the repricing profile of the group's non trading assets, liabilities and net interest rate hedge contracts as at the year end. The trading book exposures of Winterflood Securities Limited are different in nature and so are excluded here and instead analysed in note 28. The table shows the sensitivity of non trading net assets to interest rate movements. The cumulative gap of interest bearing net assets of £440,442,000 (2003 — £386,972,000) broadly equates to the group's non trading share capital and reserves, which as a matter of policy are not hedged. The table therefore demonstrates the group's policy of broadly matching interest rate exposure.

At 31st July, 2004

	Within three months £'000	Between three and six months £'000	Between six months and one year £'000	Between one and five years £'000	After more than five years £'000	Non-interest bearing £'000	Total £'000
Non trading assets							
Cash and balances at central banks	—	—	—	—	—	844	844
Loans and advances to banks	724,548	7,133	466	739	—	143	733,029
Loans and advances to customers	492,321	157,976	182,356	654,478	19,943	—	1,507,074
Debt securities and equity shares	664,070	59,964	39,475	14,000	—	27,267	804,776
Settlement accounts	—	—	—	—	—	366,213	366,213
Other assets	113,116	—	—	—	4,067	262,090	379,273
	1,994,055	225,073	222,297	669,217	24,010	656,557	3,791,209
Non trading liabilities							
Deposits by banks	78,688	500	—	—	—	—	79,188
Customer accounts	1,575,466	55,704	40,598	5,637	—	3,747	1,681,152
Bank loans and overdrafts	472,601	148,759	—	—	—	—	621,360
Debt securities — loan notes issued	100,000	—	—	—	—	—	100,000
Settlement accounts	—	—	—	—	—	301,159	301,159
Other liabilities	119,320	—	—	—	—	300,142	419,462
Subordinated loan capital	—	—	21,937	—	75,000	—	96,937
Minority interests and shareholders' funds	—	—	—	—	—	513,938	513,938
	2,346,075	204,963	62,535	5,637	75,000	1,118,986	3,813,196
Non trading net (liabilities)/assets	(352,020)	20,110	159,762	663,580	(50,990)	(462,429)	(21,987)
Net interest rate hedges							
Floating rate	616,360	138,750	47,500	—	—		802,610
Fixed rate	(157,500)	(130,000)	(332,505)	(182,605)	—		(802,610)
	458,860	8,750	(285,005)	(182,605)	—		—
Interest rate sensitivity gap	106,840	28,860	(125,243)	480,975	(50,990)		
Cumulative gap	**106,840**	**135,700**	**10,457**	**491,432**	**440,442**		

24. Interest rate exposure *continued*

At 31st July, 2003

	Within three months £'000	Between three and six months £'000	Between six months and one year £'000	Between one and five years £'000	After more than five years £'000	Non-interest bearing £'000	Total £'000
Non trading assets							
Cash and balances at central banks	—	—	—	—	—	878	878
Loans and advances to banks	733,699	9,676	1,993	1,218	—	—	746,586
Loans and advances to customers	479,802	167,457	173,212	596,680	23,463	—	1,440,614
Debt securities and equity shares	482,451	54,781	6,594	—	—	26,217	570,043
Settlement accounts	—	—	—	—	—	391,684	391,684
Other assets	102,424	—	—	—	4,067	227,236	333,727
	1,798,376	231,914	181,799	597,898	27,530	646,015	3,483,532
Non trading liabilities							
Deposits by banks	101,372	6,500	—	—	—	—	107,872
Customer accounts	1,327,457	60,754	5,695	6,647	—	929	1,401,482
Bank loans and overdrafts	443,013	174,121	425	—	—	—	617,559
Debt securities — loan notes issued	100,000	—	—	—	—	—	100,000
Settlement accounts	—	—	—	—	—	317,857	317,857
Other liabilities	127,624	—	—	—	—	237,923	365,547
Subordinated loan capital	—	—	—	21,937	75,000	—	96,937
Minority interests and shareholders' funds	—	—	—	—	—	487,923	487,923
	2,099,466	241,375	6,120	28,584	75,000	1,044,632	3,495,177
Non trading net (liabilities)/assets	(301,090)	(9,461)	175,679	569,314	(47,470)	(398,617)	(11,645)
Net interest rate hedges							
Floating rate	316,309	165,000	5,000	—	—		486,309
Fixed rate	(35,000)	(103,000)	(157,809)	(190,500)	—		(486,309)
	281,309	62,000	(152,809)	(190,500)	—		—
Interest rate sensitivity gap	(19,781)	52,539	22,870	378,814	(47,470)		
Cumulative gap	(19,781)	32,758	55,628	434,442	386,972		

25. Interest rate and exchange rate contracts

	2004	2003
	£'000	£'000
Interest rate contracts:		
Contract amount	816,790	499,309
Credit risk weighted amount	863	259
Exchange rate contracts:		
Contract amount	7,121	2,426
Credit risk weighted amount	26	11

Interest rate and exchange rate contracts are entered into with a number of financial institutions and only for hedging purposes. The credit risk weighted amounts have been prepared in accordance with guidelines laid down by the Financial Services Authority and are intended to give an indication of credit risk. Contract amounts of interest rate contracts totalling £192,395,000 have a residual maturity of more than one year. The remaining interest rate contracts and all exchange rate contracts have a residual maturity of less than one year.

26. Assets and liabilities in foreign currencies

The aggregate amounts of monetary assets and liabilities denominated in foreign currencies, mainly US dollars, were as follows:

	2004	2003
	£'000	£'000
Assets	341,844	359,124
Liabilities	338,558	352,373

The group's exposure to foreign exchange risk is considered by the directors to be minimal.

27. Fair values of financial instruments and unrecognised gains and losses on hedges

The fair values of the group's trading financial assets and liabilities are dealt with in note 28. The tables below highlight the unrecognised gains and losses, attributable to the group's derivative financial instruments and non trading financial assets and liabilities, for which liquid and active markets exist. Certificates of deposit and derivative financial instruments are normally held to maturity and are purchased for liquidity and hedging purposes respectively. The fair values of the financial instruments have been obtained from independent, open market sources or using discounted cash flow techniques based on prevailing market rates.

	2004		2003	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
Primary financial assets:				
Debt securities	777,509	777,904	543,826	544,211
Listed investments — equity shares	1,875	1,985	1,856	1,851
	779,384	779,889	545,682	546,062
Primary financial liabilities:				
Floating rate notes	100,000	100,150	100,000	99,870

The directors deem that the fair value of the group's other non trading financial assets and liabilities materially equate to their book value.

	2004		2003	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
Derivative financial instruments held to manage the interest rate and currency exposure:				
Interest rate hedges	—	1,734	—	(3,341)
Forward foreign currency contracts	—	26	—	—
	—	1,760	—	(3,341)

In order to minimise the impact of interest rate and currency rate changes to the group's financial assets and liabilities, derivative financial instruments are purchased to hedge exposures. The table below summarises the unrecognised gains and losses on these derivative financial instruments:

	Gains £'000	Losses £'000	Total net gains/ (losses) £'000
At 1st August, 2003	294	3,635	(3,341)
Gains and losses on hedges arising in previous years that were recognised in the current year	47	3,468	(3,421)
Gains and losses on hedges arising in previous years that were not recognised in the current year	247	167	80
Gains and losses on hedges arising in the current year that have not yet been recognised	2,867	1,187	1,680
At 31st July, 2004	3,114	1,354	1,760
Of which:			
Gains and losses on hedges expected to be recognised next year	2,671	1,338	1,333
Gains and losses on hedges expected to be recognised later than next year	443	16	427

28. Trading book exposure

The group's trading activities relate to Winterflood Securities Limited. The following table shows the group's trading book exposure to market price risk for the year ended **31st July, 2004:**

		Highest exposure £'000	Lowest exposure £'000	Average exposure £'000	**Exposure at 31st July £'000**
Equities	— Long	50,548	26,666	39,675	**34,714**
	— Short	29,670	12,471	16,681	**14,406**
				22,994	**20,308**
Debt securities	— Long	110,627	52,746	64,733	**54,521**
	— Short	110,765	48,657	61,418	**52,842**
				3,315	**1,679**

The following table shows the group's trading book exposure to market price risk for the year ended 31st July, 2003:

		Highest exposure £'000	Lowest exposure £'000	Average exposure £'000	Exposure at 31st July £'000
Equities	— Long	38,508	13,618	24,185	24,385
	— Short	23,475	6,052	12,343	19,371
				11,842	5,014
Debt securities	— Long	92,467	53,674	63,953	60,744
	— Short	73,690	43,203	52,568	54,113
				11,385	6,631

The average exposure has been calculated on a daily basis. The highest and lowest exposures occurred on different dates and therefore a net position of these exposures does not reflect a spread of the trading book. The basis on which the trading book is valued each day is given in the accounting policies in note 1(g).

Based upon the trading book exposure at 31st July, 2004 given above, a 10 per cent. hypothetical fall in market prices would result in a £2,031,000 (2003 — £501,000) decrease in the group's income and net assets on the equity trading book and a £168,000 (2003 — £663,000) decrease on the debt securities trading book. However, the group's trading activity is a jobbing business where positions are managed throughout the day on a continuous basis. Accordingly the result shown above is purely hypothetical.

Summarised below are the gains for the year on financial assets and liabilities held for trading:

	2004	2003
	£'000	£'000
Net dealing income — equities	**93,295**	59,584
— debt securities	**6,688**	7,127
	99,983	66,711

29. Investments in subsidiaries

The group's principal subsidiaries at 31st July, 2004 were:

Name of subsidiary	Principal activity	Percentage of equity held by group	Country of registration and operation
Braemar Finance Limited	Commercial asset financing	87	England
Close Asset Finance Limited	Commercial asset financing	100	England
Close Asset Management Holdings Limited	Asset management holding company	100	England
Close Asset Management Jersey Limited	Offshore investment management	100	Jersey
Close Bank (Cayman) Limited	Offshore banking	100	Cayman
Close Bank Guernsey Limited	Offshore banking	100	Guernsey
Close Bank (Isle of Man) Limited	Offshore banking	100	Isle of Man
Close Brothers (Cayman) Limited	Trust and company administration	85	Cayman
Close Brothers Corporate Finance Limited	Corporate finance	100	England
Close Brothers Finance plc	Finance company	100	England
Close Brothers Growth Capital Limited	Integrated debt and equity investment	88[1]	England
Close Brothers Investment Limited	Tax based personal investment products	98[2]	England
Close Brothers Limited	Banking, treasury, property financing, insurance premium financing and holding company	100	England
Close Brothers Military Services Limited	Financial services for the Armed Forces	80	England
Close Brothers Private Equity LLP	Private equity fund management	—[3]	England
Close Credit Management Limited	Credit management and debt collection	99	England
Close Finance (CI) Limited	Commercial and consumer asset financing	91	Jersey
Close Finance GmbH	Debt factoring	87	Germany
Close Finsbury Asset Management Limited	Investment trust and funds management	100	England
Close Fund Management Limited	Specialist investment and unit trust management	90	England
Close Fund Services Limited	Offshore fund administration	100	Guernsey
Close International Custody Services Limited	Custodial services	100	Guernsey
Close Investment Limited	AIM fund management	97	England
Close Investment Management (Isle of Man) Limited	Offshore investment management	100	Isle of Man
Close Invoice Finance Limited	Debt factoring and invoice discounting	100	England
Close Motor Finance Limited	Motor financing	100	England
Close Portfolio Management Limited	Investment company	100	England
Close Private Asset Management Limited	Private client discretionary fund management	100	England
Close Trust Company Jersey Limited	Trust and company administration	100	Jersey
Close Trustees Guernsey Limited	Trust and company administration	100	Guernsey
Close Trustees (Isle of Man) Limited	Trust and company administration	100	Isle of Man
Close Trustees (Switzerland) S.A.	Trust and company administration	70	Switzerland
Close Venture Management Limited	Venture capital fund management	98[2]	England
Close Wealth Management Limited	Private client discretionary fund management	100	England
Commercial Finance Credit Limited	Commercial asset financing	100	England
Dôme Close Brothers S.A.	Corporate finance	50	France
Freyberg Close Brothers GmbH	Corporate finance	50	Germany
Mortgage Intelligence Limited	Mortgage broking	95	England
Nelson Money Managers plc	Private client discretionary fund management	100	England
OLIM Limited	Institutional fund management	80	England
Reabourne Technology Investment Management Limited	Technology and biotechnology fund management	100	England
Surrey Asset Finance Limited	Commercial asset financing	100	England
Winterflood Securities Limited	Market-making	100	England

1 The group holds 3 per cent. of the share capital of Close Brothers Growth Capital Limited and has a 94 per cent. holding in Close Holdings Limited which itself holds a further 90 per cent.

2 In respect of Close Brothers Investment Limited ("CBIL"), the group holds 7 per cent. of its share capital and has a 99 per cent. holding in CBPE Holdings Limited which itself holds a further 92 per cent. CBIL itself holds 100 per cent. of the share capital of Close Venture Management Limited.

3 Close Brothers Private Equity LLP is a limited partnership registered under the Limited Liability Partnerships Act 2000.

As at 31st July, 2004 and 31st July, 2003 the company's investment in subsidiaries was £324,115,000.

29. Investments in subsidiaries *continued*

The group purchased Nelson Money Managers plc on 23rd October, 2003. It has been consolidated using acquisition accounting. The book value of the net assets of this acquisition is shown below:

	£'000
Loans and advances to banks	6,599
Tangible fixed assets	2,067
Other assets	2,413
	11,079
Accruals and deferred income	(5,162)
Other liabilities	(336)
Net assets acquired	5,581
Cash consideration for purchase of shares from shareholders	9,563
Goodwill arising	3,982

30. Intangible fixed assets — goodwill

	£'000
Original cost capitalised at 1st August, 2003	127,581
Amortisation in prior years	(21,578)
Net book value at 1st August, 2003	106,003
Amortisation for the year	(17,603)
Goodwill arising during the year from acquisition of subsidiary	3,982
Goodwill arising during the year from acquisitions of minority interests	6,246
Net book value at 31st July, 2004	98,628

Cumulative goodwill arising from acquisitions before 1st August, 1998, of £81,923,000 (2003 — £81,923,000), was written off directly to reserves. The relevant constituent of this goodwill would only be charged or credited to the profit and loss account should one of these acquisitions be sold. The amortisation for the year included £8,000,000 of write-down of goodwill.

31. Investments in associates and joint ventures

The group has five (2003 — six) associates. They have been accounted for using the net equity method. The group's share of the associates' net assets is £328,000 (2003 — £199,000) and related unamortised goodwill is £528,000 (2003 — £625,000). The group's share of operating profit was £278,000 (2003 — £42,000) and its share of taxation on profit was £139,000 (2003 — £1,000). These associates have no indebtedness to the group.

The group has investments in a number of joint ventures totalling £5,000 (2003 — £5,000). They have been accounted for using the gross equity method. The group's share of operating income and operating loss were £496,000 (2003 — £2,343,000) and £25,000 (2003 — profit £509,000) respectively and the group received no dividends (2003 — £400,000) from them. The group's share of their net assets is £497,000 (2003 — £454,000) and the group has amounts owed by them totalling £4,243,000 (2003 — £4,334,000).

The effect of these investments on the group's results have not been separately disclosed in the profit and loss account and balance sheet because of their immateriality.

32. Debtors

Company	2004 £'000	2003 £'000
Amounts falling due within one year:		
Amounts owed by subsidiaries	109,891	96,712
Corporation taxation receivable	2,291	2,243
Deferred taxation asset (note 18)	1,038	747
Other debtors	1,027	810
	114,247	100,512

33. Creditors: Amounts falling due within one year

Company	2004 £'000	2003 £'000
Amounts owed to subsidiaries	9,283	9,401
Accruals and deferred income	16,656	14,478
Proposed dividend	25,604	24,482
Other creditors	10,667	10,667
	62,210	59,028

34. Creditors: Amounts falling due after more than one year

Company	2004 £'000	2003 £'000
Loan from subsidiary	27,072	27,072

The loan is interest free and carries no fixed repayment date.

35. Prior year restatement

As a result of the adoption of UITF Abstract 38 on Accounting for ESOP Trusts, both the profit and loss account and balance sheet prior year comparatives for both the group and the company and the consolidated statement of total recognised gains and losses have been restated.

Profit and loss account and statement of total recognised gains and losses — the profit attributable to shareholders for the year ended 31st July, 2003 has decreased by £124,000.

Balance sheet — total equity shareholders' funds as at 31st July, 2003 have decreased by £4,734,000.

36. Profit of parent company

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these financial statements. The parent company's profit for the financial year, before dividends payable, amounted to £46,719,000 (2003 — £36,078,000).

37. Earnings per share

Earnings per share before amortisation of goodwill is based on profit of £82,812,000 (2003 — £58,421,000), being profit after taxation and minority interests but before goodwill amortisation, and on 144,459,000 (2003 — 142,613,000) ordinary shares, being the weighted average number of shares in issue and contingently issuable during the year excluding those held by the employee benefit trust. This earnings per share has been disclosed because, in the opinion of the directors, it reflects operational performance.

Earnings per share on profit attributable to shareholders is based on profit after taxation and minority interests of £65,209,000 (2003 — £50,952,000) and on the same number of shares as above.

Diluted earnings per share is based on this same profit after taxation and minority interests, but on 145,047,000 (2003 — 143,336,000) ordinary shares, being the weighted average number of shares in issue disclosed above, plus the weighted dilutive potential on ordinary shares of exercisable employee share options in issue during the year.

38. Consolidated cash flow statement

	2004	2003
	£'000	£'000
(a) Reconciliation of operating profit on ordinary activities before taxation to net cash inflow from operating activities		
Operating profit on ordinary activities before taxation	101,343	77,798
(Increase)/decrease in:		
Interest receivable and prepaid expenses	(8,376)	(4,257)
Net settlement accounts	8,773	(29,714)
Net equity shares held for trading	(15,294)	3,368
Net debt securities held for trading	4,952	5,490
Increase in interest payable and accrued expenses	9,559	14,382
Depreciation and amortisation	28,436	15,940
Net cash inflow from trading activities	129,393	83,007
(Increase)/decrease in:		
Debt securities held for liquidity	(233,683)	168,555
Loans and advances to customers	(141,460)	(204,616)
Loans and advances to banks not repayable on demand	19,764	(331,101)
Other assets less other liabilities	10,067	19,872
Increase/(decrease) in:		
Deposits by banks	(28,684)	24,713
Customer accounts	279,670	178,941
Bank loans and overdrafts	3,801	111,904
Non-recourse borrowings	75,000	—
Net cash inflow from operating activities	113,868	51,275
(b) Analysis of net cash outflow in respect of the purchase of subsidiaries		
Cash consideration in respect of current year purchases	(9,563)	—
Loan stock redemptions and deferred consideration paid in respect of prior year purchases	(8,808)	(3,547)
Net movement in cash balances	6,599	—
	(11,772)	(3,547)
(c) Analysis of changes in financing		
Share capital (including premium) and subordinated loan capital:		
Opening balance	382,467	381,313
Shares issued for cash	966	1,154
Closing balance	383,433	382,467

(d) Analysis of cash balances	Movement in the year		
	£'000		
Cash and balances at central banks	(34)	844	878
Loans and advances to banks repayable on demand	6,207	136,535	130,328
	6,173	137,379	131,206

39. Pensions

The group operates defined contribution pension schemes and a defined benefits pension scheme for eligible employees. Assets of all schemes are held separately from those of the group. The charge for the group pension schemes was £7,591,000 (2003 — £8,286,000).

Defined benefits pension scheme

The group operates only one defined benefits pension scheme ("the scheme") which was closed to new entrants in August 1996. At 31st July, 2004 this scheme had 35 (2003 — 43) active members, 74 (2003 — 68) deferred members and one (2003 — one) pensioner. The remainder of this note relates exclusively to the scheme.

In accordance with Statement of Standard Accounting Practice No. 24 on Accounting for Pension Costs, contributions to the scheme are determined by an independent qualified actuary based on triennial valuations using the attained age method. The most recent such valuation was at 31st July, 2003, when the market value of the assets of the scheme was £12,800,000 representing 82 per cent. of the benefits accrued to the then 112 members, allowing for future earnings increases. The agreed company contribution rate is 25 per cent. per annum of pensionable salaries together with an additional 7½ per cent. to contribute towards the underlying deficit at that date and special contributions as necessary. Future contributions to be made by the participating companies under actuarial advice should meet all pension obligations.

In addition, in accordance with the transitional requirements of Financial Reporting Standard No. 17 on Retirement Benefits ("FRS 17"), the valuation of the scheme as at 31st July, 2003 has been reviewed and updated as at 31st July, 2004 based upon the following annual financial assumptions:

	2004	2003	2002
	%	%	%
Inflation	2.90	2.70	2.50
Increase in:			
Salaries	2.00	4.20	4.00
Pension in payment	2.90	3.00	3.00
Discount rate for scheme liabilities	5.75	5.50	5.85
Expected return on:			
Equities	8.25	8.50	7.00
Bonds	5.75	5.55	5.85
Cash	4.50	3.50	5.00

The valuation method is prescribed by FRS 17 and these assumptions do not necessarily reflect those used in the full actuarial valuation at 31st July, 2003 which determines the company contribution rate for future years. Nonetheless FRS 17 requires the directors to disclose the assets and liabilities of the scheme using these FRS 17 assumptions.

The group's total accumulated profit and loss account reserve, which was £226,730,000 (2003 — £201,003,000), would have been £223,415,000 (2003 — £196,237,000) if the FRS 17 net deficit disclosed below had been accounted for as a liability of the group:

	2004	2003	2002
	£'000	£'000	£'000
Equities	9,364	7,838	7,513
Bonds	2,770	2,111	2,008
Cash	185	2,754	872
Total market value of scheme assets	12,319	12,703	10,393
Present value of scheme liabilities	(17,055)	(19,512)	(20,790)
Deficit	(4,736)	(6,809)	(10,397)
Related deferred taxation asset	1,421	2,043	3,119
Net deficit	(3,315)	(4,766)	(7,278)

39. Pensions *continued*

If the FRS 17 net deficit had been accounted for as a liability of the group, the effect on the statement of total recognised gains and losses would have been:

	2004	2003	2002
	£'000	£'000	£'000
Actual return less expected return on scheme assets	(552)	(356)	(3,365)
as a percentage of the market value of the scheme assets	*(4%)*	*(3%)*	*(32%)*
Experience gains/losses arising on scheme liabilities	436	4,096	(224)
as a percentage of the present value of scheme liabilities	*3%*	*31%*	*(1%)*
Changes in assumptions underlying the present value of the scheme liabilities	2,118	(1,682)	304
Total actuarial gain/(loss)	2,002	2,058	(3,285)
as a percentage of the present value of scheme liabilities	*12%*	*11%*	*(16%)*

And the charge to the group profit and loss account and the movement on the scheme deficit would have been:

	(Charge)/credit to the group profit and loss account	Pension scheme deficit
	£'000	£'000
Deficit at 1st August, 2003		(6,809)
Expected return on scheme assets	925	
Expected return on scheme liabilities	(1,076)	
Other finance costs	(151)	
Current service cost	(761)	
Theoretical FRS 17 charge	(912)	(912)
Contributions		983
Total actuarial gain from above		2,002
Deficit at 31st July, 2004		(4,736)

The theoretical FRS 17 charge to the profit and loss account of £912,000 shown above compares to the actual charge for this year of £2,087,000.

40. Related party transactions

Transactions with directors

Certain directors of the company maintained deposit accounts with Close Brothers Limited group during the course of the year on normal commercial terms.

Transactions with retired directors

At 31st July, 2003, Mr. D.G. Hardisty held £3,500,000 of unsecured loan notes issued by Close Brothers Limited on normal commercial terms. These were redeemed at par on 19th December, 2003.

Transactions with joint ventures

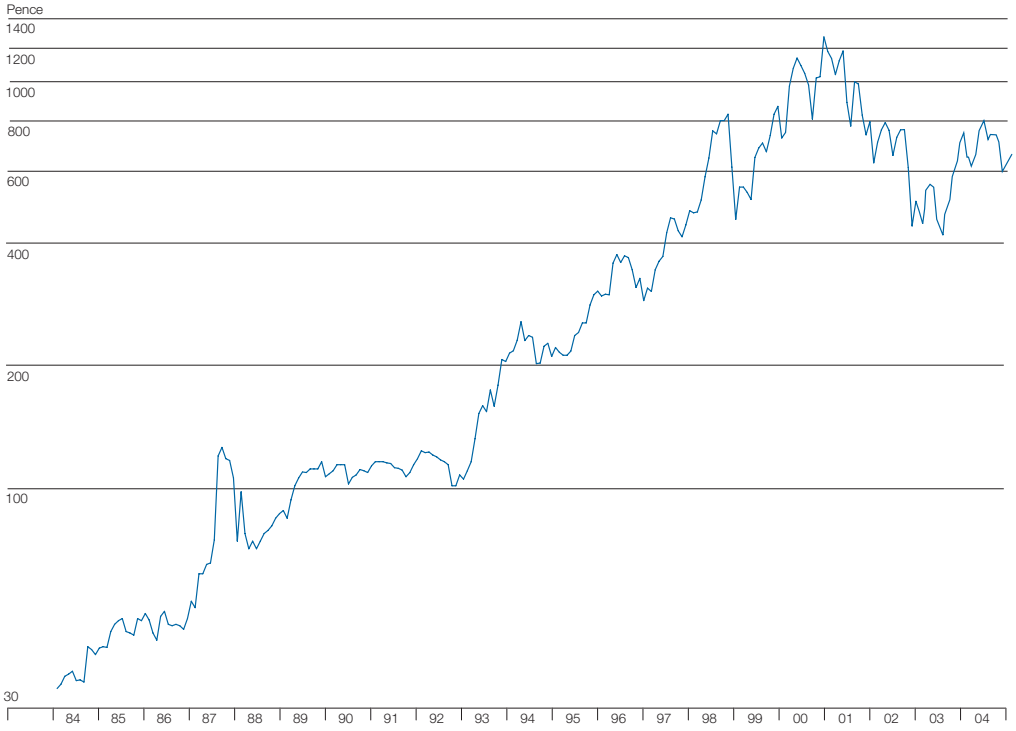
Close Asset Management Holdings Limited ("CAMHL") has an investment in a joint venture, Roselead Limited, a company engaged in property investment. CAMHL holds all of Roselead Limited's 10 per cent. debenture loan stock 2028. Interest on this loan stock is payable six monthly and the loan is secured on the assets of the company. At 31st July, 2004 the loan balance outstanding was £4,067,000 (2003 — £4,067,000).

Close Brothers Investment Limited has an investment in a joint venture, Astergold Limited, a company engaged in land investment. Close Portfolio Management Limited undertook a commitment to fund certain transactions entered into by Astergold Limited. At 31st July, 2004 the loan balance outstanding was £108,000 (2003 — £267,000)

Five Year Financial Summary

		2000	2001	2002	2003	**2004**
Operating income	£m	383.1	292.7	276.4	323.3	**401.2**
Profit before taxation and goodwill amortisation	£m	147.1	94.2	75.1	85.3	**118.9**
Earnings per share before goodwill amortisation	p	74.6	47.4	37.2	41.0	**57.3**
Profit before taxation	£m	144.8	89.5	68.4	77.8	**101.3**
Profit attributable to shareholders	£m	96.6	59.1	44.3	51.0	**65.2**
Earnings per share	p	72.9	44.0	32.3	35.7	**45.1**
Dividends per share	p	25.0	26.0	26.0	26.0	**27.0**
Shareholders' funds	£m	371	408	472	482	**509**
Total assets	£m	2,648	2,767	3,054	3,569	**3,880**
Number of employees		1,461	1,740	1,840	1,943	**2,252**

Share Price



Shareholder analysis

	Number of shareholders		Total shares held	
	2004	2003	2004	2003
Number of shares held				
Up to 500	1,767	1,862	492,244	517,863
501 — 1,000	1,243	1,254	988,229	1,007,516
1,001 — 2,000	891	866	1,345,873	1,310,325
2,001 — 5,000	673	669	2,203,616	2,196,313
5,001 — 10,000	238	253	1,700,356	1,829,939
10,001 — 50,000	310	324	7,147,555	7,455,787
Over 50,000	254	263	130,385,903	129,694,269
	5,376	5,491	144,263,776	144,012,012
Category of shareholders				
Investment groups	150	175	66,688,414	66,467,210
Insurance companies	15	20	40,500,637	42,697,902
Private shareholders	2,803	2,924	21,408,385	24,445,689
Pension funds	7	8	9,278,821	6,001,074
Nominee holders	2,401	2,364	6,387,519	4,400,137
Total	5,376	5,491	144,263,776	144,012,012

Calendar

Annual General Meeting	28th October, 2004
Payment of final dividend	2nd November, 2004
Announcement of interim results	Early March, 2005
Payment of interim dividend	Mid April, 2005
Announcement of final results	September, 2005

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Deloitte & Touche LLP.
Ernst & Young LLP (Close Brothers Limited group).

Solicitors

Freshfields Bruckhaus Deringer.

Stockbrokers

UBS Investment Banking.

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