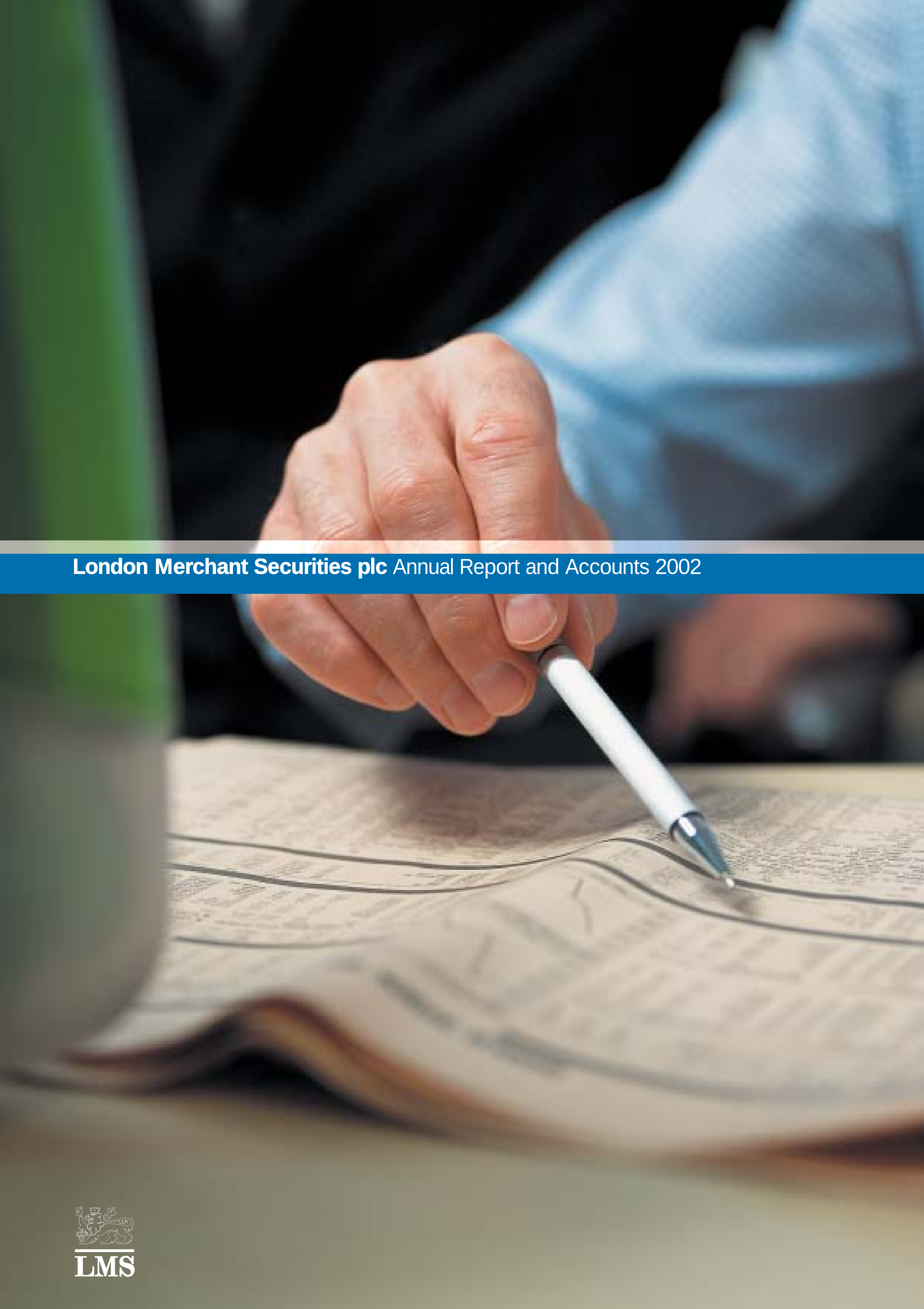
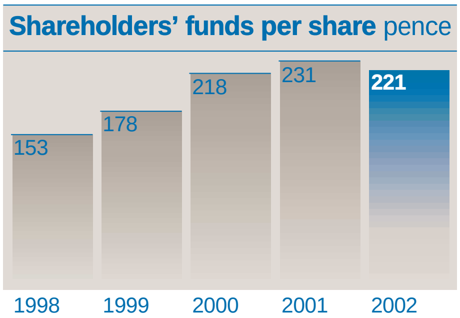


London Merchant Securities plc Annual Report and Accounts 2002

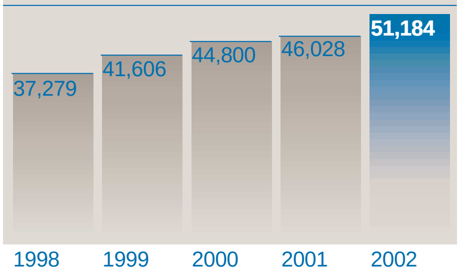
LMS



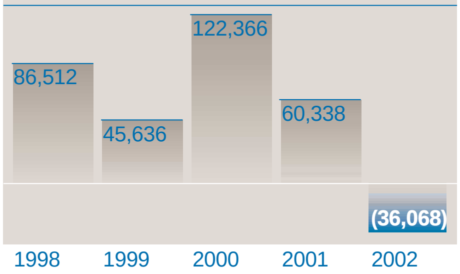
Highlights

- Net rental income up 11.2% to £51.2 million (2001 – £46.0 million)
- Gross rent roll of £57.3 million (2001 – £53.6 million) with good continuing and reversionary rental potential in the investment portfolio
- Property investment portfolio's capital value up 2.8% on a like-for-like basis to £809.2 million (2001 – £736.9 million)
- Total property portfolio return of 9.9%
- Total value of the property portfolio, including trading property, increased by £78.7 million, or 10%, to £834.8 million (2001 – £756.1 million)
- Strong development programme in Central and Greater London area and Glasgow
- Shareholders' funds 221p per share at £720.6 million (2001 – 231p per share)
- Venture Capital holdings consolidated, book value of £170.4 million, directors' value £190.2 million
- Venture Capital ten year realised IRR 34.2%
- Profit of £21.6 million before provision of £57.7 million against the Venture Capital portfolio
- Balance sheet strong – gearing of 23% and £107.5 million cash
- Total proposed dividend for the year increased to 6.2p (2001 – 6.1p)

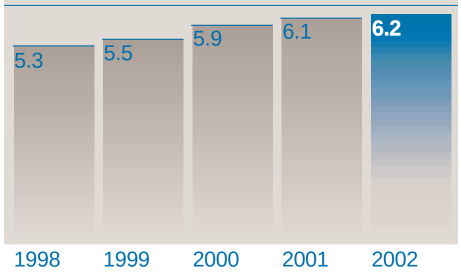
Net rental income £000



Profit/(Loss) before tax £000



Dividend per share pence



London Merchant Securities

LMS's objective is the long-term enhancement of shareholder value through dividends and capital appreciation. This is achieved through property development and investment and venture capital in the UK and US.

The Chairman's Review

The Group is committed to the strategy of delivering long-term enhancement of shareholder returns through dividends and capital appreciation.

The year to 31st March 2002 produced a strong performance from our property portfolio which ameliorated the effect of the decline in investment values of the Venture Capital portfolio. This underlines the benefits of a diversified and complementary asset base, comprising well let investment property and venture capital investments. The continuing cash flows from the property holdings have enabled us to recommend an increased dividend for the 27th year in succession.

In the period, the total value of the property portfolio including trading property, increased by £78.7 million to £834.8 million from £756.1 million last year. For the year the Group has made a provision of £57.7 million against the venture capital portfolio. The net result has been a decline in shareholder funds to £720.6 million (221p per share) from £753.7 million (231p per share).

The Group's balance sheet remains strong, with year end cash of £107.5 million. Our gearing at 23% is low when compared to pure property portfolio companies. Our distinctive combination of property and venture capital investments enables the Group to pay dividends from the property income while achieving higher than normal returns from its venture capital investments; which have produced a realised IRR of some 34% over the last ten years.

Property portfolio

On a like-for-like basis the portfolio's capital value rose by 2.8%.

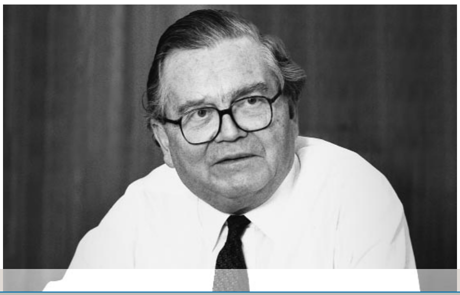
Net rental income from properties was £51.2 million, an increase of 11.2% against last year's £46.0 million, producing a total return of 9.9%.

Venture Capital portfolio

At the half-year we made a £41.7 million provision against the investment portfolio which we believed was adequate, provided there was no further deterioration in the markets. In the second half of the year the markets were decidedly mixed with a recovery in the oilfield service sector, which now represents 16.6% of the portfolio, but a decline in the technology and communications sectors, which represent 59.5% of the portfolio. The overall impact prompted a further provision of £16 million, resulting in a book value for the investments at year-end of £170.4 million.

Dividend

We remain committed to our long-term strategy of maintaining a diversified and complementary asset base. While venture capital provides opportunities for above-average capital growth and liquidity over the longer term, our property



development and investment provides secure long-term income flows to sustain a consistent dividend policy. Our proposed final dividend of 4.2p per Ordinary share makes a total for the year of 6.2p, compared with 6.1p in the previous year.

Board and management

Walter Millsom will step down as a director of the Company on the 25th July after 44 years with the Company. With the Group's President, Lord Rayne, he helped create the core assets on which this Company has been built and from which it expects to prosper in the future. We greatly value his contribution and are delighted that he has agreed to remain as a consultant to the Company. Lord Remnant retires at the Annual General Meeting after eight years as a non-executive director of the Company and 38 years as a director of Westpool Investment Trust plc, now a wholly owned subsidiary. We thank him for his valued contribution.

In May we welcomed June de Moller as a non-executive director. She was formerly Managing Director of Carlton Communications and is a non-executive director of Sainsbury's and Cookson Group.

On the executive side we are delighted that Martin Pexton has joined the Group as Director of Corporate Development. He was until recently the director responsible for human resources at the law firm Allen & Overy. Nicholas Groves has been appointed as Group Property Manager.

Three long-serving executives retire this year. Michael Waldron, a director and former Company Secretary, is taking early retirement after some 32 years with the Company. Malcolm Newman, who was Group Property Manager, retires in November after 35 years of dedicated service. Derek Smith retired after 25 years service as Office and Insurance Manager. They played key roles while the Company's asset base was being built and we thank them for their loyalty, friendship and contribution over the years.

It is with great sadness that we report the death of David Lindsay-Rea, Secretary to The Rayne Foundation for 19 years and whose selfless dedication benefited many thousands of recipients during his term of office.

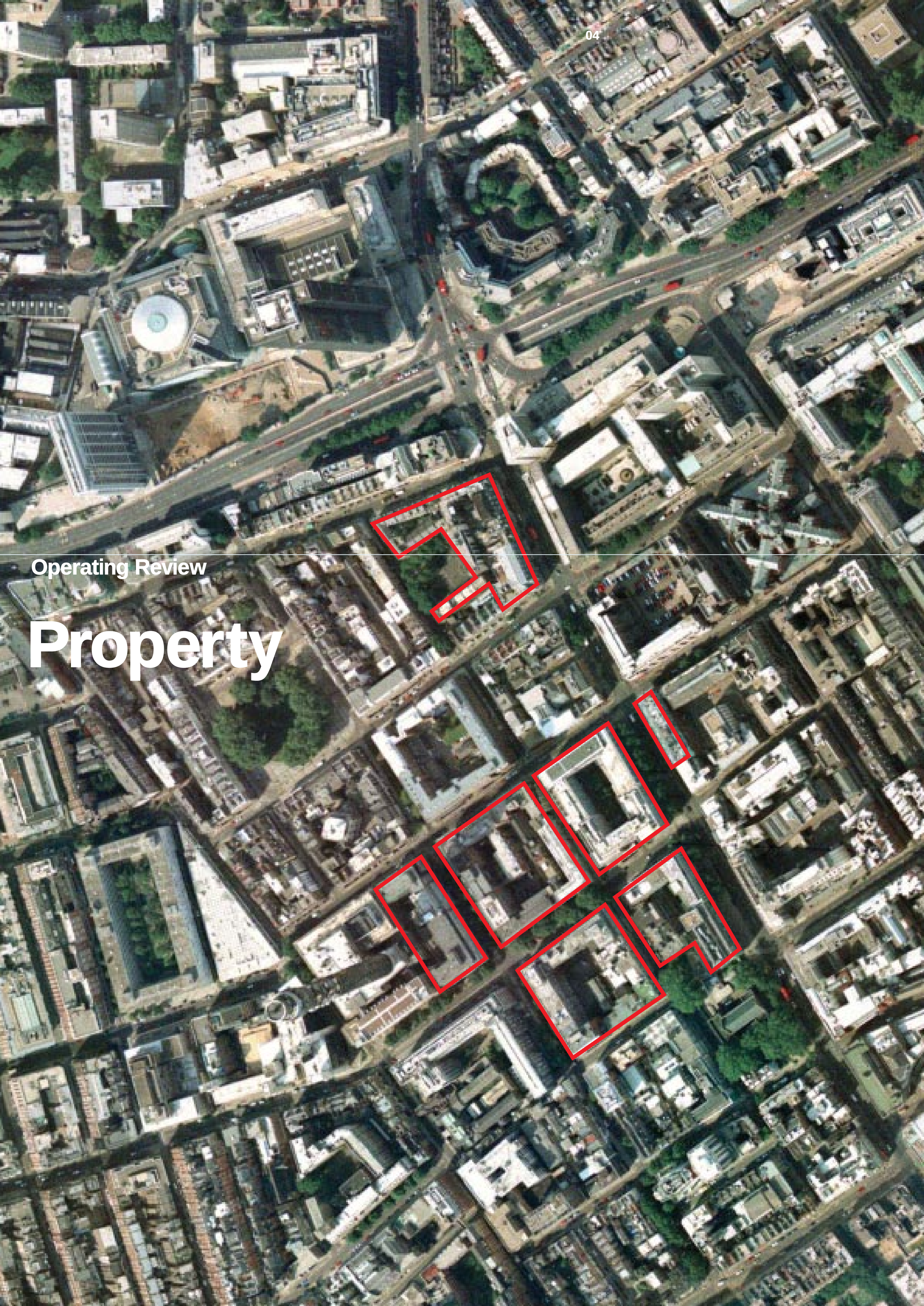
Outlook

We believe the Group is well positioned to grow both divisions, organically and potentially through acquisitions. For the next three years there is clear visibility for our property and venture capital activities.

Graham Greene Chairman
18th June 2002

Operating Review

Property



The Group owns £835 million of investment properties, property trading stock and land.
We will continue to focus on the expansion and recreation of our core holdings.

N G E Driver Managing Director

Capital value by location	%	Value £m	Like-for-like value change %
London, West End	41.1	329.7	2.2
Islington and Clerkenwell	16.4	130.7	4.2
Remainder of Central London	6.3	50.4	5.2
Scotland	7.0	57.2	5.7
Remainder of UK	23.8	191.3	6.1
US	5.4*	49.9	–13.9*
Total	100.0	809.2	2.8*

* Excludes $9 million reverse premium.

Capital value by use	%	Value £m	Like-for-like value change %
Office	58.7	475.4	0.8*
Retail	29.0	235.0	4.6
Leisure	9.4	75.1	9.6
Residential/Misc.	2.9	23.7	7.0
Total	100.0	809.2	2.8*

* Excludes $9 million reverse premium.

Operating Review: Principal Properties

Value in excess of £30 million

The Angel Centre St. John Street, London EC1
15,080 sq m (162,330 sq ft) O

80 Charlotte Street and 23 Howland Street London W1
12,372 sq m (133,180 sq ft) O

Strathkelvin Retail Park Bishopbriggs, Glasgow
17,400 sq m (187,300 sq ft) R

36 Howland Street and 13-17 Fitzroy Street London W1
8,454sq m (91,000 sq ft) **Redevelopment** O

Myddelton Place 88 Rosebery Avenue, London EC1
9,323 sq m (100,350 sq ft) O

19-35 Baker Street London W1
8,626 sq m (92,850 sq ft) LH M P

105 Tottenham Court Road London W1
8,539 sq m (91,920 sq ft) **Held for redevelopment** O R

The Rotunda Kingston Surrey
15,056 sq m (162,000 sq ft) **Development** L

Value in excess of £15 million

Greenwich Reach Greenwich, London
7.75 acre site with consent for 600,000 sq ft **Development** M

120-134 Tottenham Court Road London W1
324 bed hotel and 2,500 sq m (26,920 sq ft) retail R L

275 Sacramento Street San Francisco, California
6,772 sq m (77,200 sq ft) O R

80-85 Tottenham Court Road London W1
4,357 sq m (46,900 sq ft) O R

2-4 and 6-10 Fitzroy Street London
5,167 sq m (55,400 sq ft) **Redevelopment** O

60 Whitfield Street London W1
3,363 sq m (36,200 sq ft) O

63 St James's Street London SW1
2,115 sq m (22,770 sq ft) LH O K

Lion & Lamb Yard Farnham, Surrey
6,605 sq m (71,104 sq ft) O R P

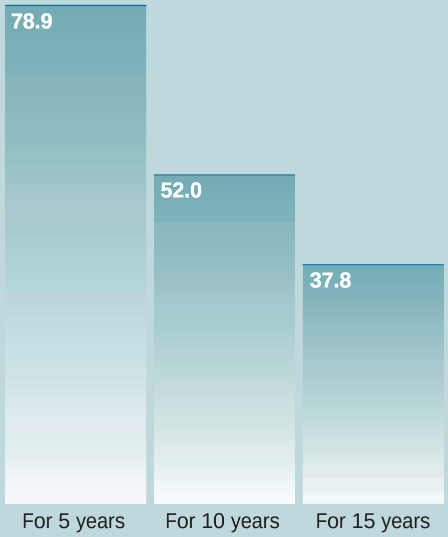
The Arcadia Centre Ealing
5,695 sq m (61,300 sq ft) R U

18-24 Howland Street and 9-18 Maple Place London W1
5,295 sq m (57,000 sq ft) **Redevelopment** O

LH Leasehold
O Office
R Retail
RD Residential
L Leisure
M Mixed

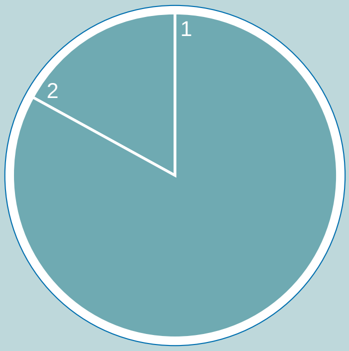
Joint Venture Company
P Portman Investments, 55% owned
K Kensington Commercial Properties, 60% owned
U Urbanfirst, 80% owned

Security of gross annual rate of rent* %



* Excludes Urbanfirst

Value of portfolio by tenure %



1 Freehold	83%
2 Long Leasehold†	17%

† All exceed 80 years

Value in excess of £10 million

163/170 Tottenham Court Road London W1
3,344 sq m (36,000 sq ft) LH M K

The Triangle Shopping Centre Bishopbriggs, Glasgow
6,969 sq m (75,000 sq ft) O R

160-166 Brompton Road London SW3
2,332 sq m (25,100 sq ft) LH M K

The Graftons Altrincham, Manchester
6,936 sq m (74,650 sq ft) O R U

Value in excess of £7.5 million

17-39 George Street London W1
1,973 sq m (21,235 sq ft) LH M P

1149 South Main Street Walnut Creek, San Francisco, California 2,694 sq m (29,000 sq ft) R

Bush House, South West Wing London WC2
9,618 sq m (103,530 sq ft) O

5/8 Hardwick Street and 161 Rosebery Avenue London EC1
3,180 sq m (34,230 sq ft) O

City House 420/430 London Road, Croydon, Surrey
13,052 sq m (140,500 sq ft) O

The Bargate Centre Southampton
5,624 sq m (60,455 sq ft) R

340 Pine Street San Francisco, California
4,989 sq m (53,705 sq ft) O

151 Rosebery Avenue London EC1
2,251 sq m (24,230 sq ft) O

The Royal Arcade Maidstone, Kent
3,641 sq m (39,190 sq ft) R U

Value in excess of £5 million

24-40 Gloucester Place London W1
2,202 sq m (23,705 sq ft) LH O RD P

88-110 George Street London W1
2,345 sq m (25,235 sq ft) LH O R RD

2-12 Pentonville Road London N1
2,443 sq m (26,300 sq ft) O

67-69 Whitfield Street and 8-15 Chitty Street London W1 2,478 sq m (26,675 sq ft) O

3706 Geary Boulevard San Francisco, California
2,787 sq m (30,000 sq ft) R

The Quadrant Arcade Bournemouth
2,153 sq m (23,180 sq ft) R U

Dukes Lane Brighton 2,278 sq m (24,523 sq ft) R U

96 Bishops Bridge Road London W2
790 sq m (8,505 sq ft) L

St. Martin's Square Leicester 3,437 sq m (37,000 sq ft) R U

22-66 Myddelton Square London EC1 RD

26-28 Dorset Square London NW1
1,983 sq m (21,350 sq ft) LH O K

The Quadrant Arcade Romford
6,413 sq m (69,035 sq ft) R U

The Arcade Walsall 3,622 sq m (38,990 sq ft) R U

High Street/Duke Street Arcades Cardiff
3,534 sq m (38,051 sq ft) R U

14 Pentonville Road London N1
1,734 sq m (18,670 sq ft) O

Artists Impression: 105 Tottenham Court Road

New acquisition in Bath

Operating Review: Property

Performance

Capital value

The independent valuation of our property investment portfolio at the year end was £809.2 million, a like-for-like increase of 2.8%. In addition to this, the value of the trading stock at the year end was £25.6 million.

Income

Net rental income for the year was £51.2 million, an increase of 11.2%. The aggregate gross annual rate of rent reserved under all leases rose by 6.9% to £57.3 million over the year.

Including properties held for development and completed since the year end, voids in the entire UK portfolio amounted to 6.0%.

Total return

The total return for the year from the portfolio was 9.9%.

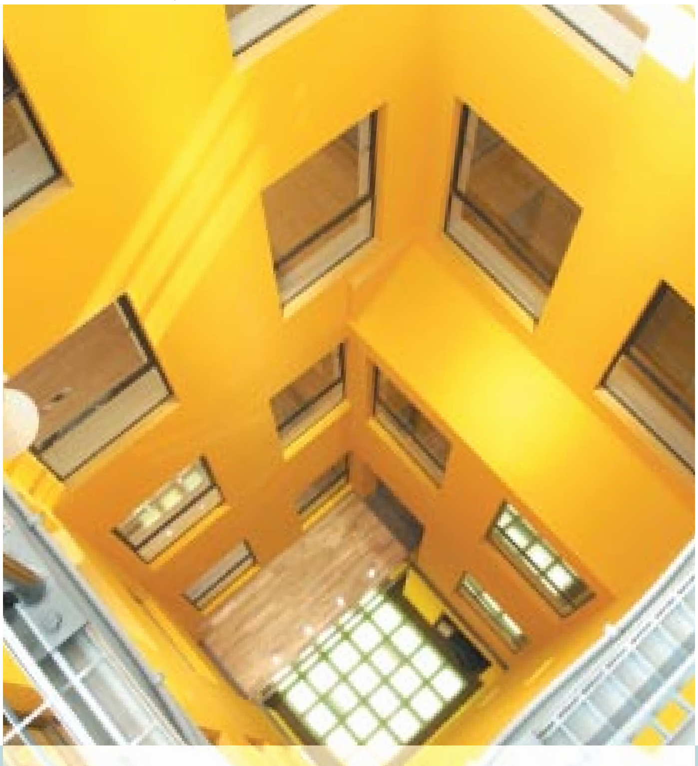
Business review

The downturn in Central London office demand over the past year has had little impact on rents in the areas where our core holdings are concentrated. Rent reviews have maintained the increases set over the past 18 months, producing an increase of just over £2 million a year; an 88.0% increase over the rents previously passing. At 88 Rosebery Avenue in Islington the September 2001 review produced a rent of £32 per sq ft; an increase of over 175%.

In London's West End, the 3,363 sq m (36,200 sq ft) office development at 60 Whitfield Street was completed in mid-April 2002. Although the marketing campaign has only just begun, we have received serious interest from several

The Rotunda, Kingston

60 Whitfield Street, London W1



potential tenants both for the entire accommodation and for letting in parts.

In San Francisco, the market has suffered significantly from the downturn in the e-commerce and IT sectors. Our tenant of 275 Sacramento Street, 12 Entrepreneuring Inc, decided to cease its operations and since the year end we have agreed to accept a surrender of its lease on payment of $9 million. We are currently seeking a new tenant.

Development programme

Fitzrovia Project, London W1
Construction of the first phase of this 18,920 sq m (204,000 sq ft) office project is proceeding satisfactorily towards completion in April 2003. The final phase is due for completion at the end of 2005 and the entire project is pre-let to Arup. The current rent of £5.0 million a year continues to be payable throughout the construction period, increasing as each phase is completed to £8.6 million pa. We are working in close collaboration with Arup, which is providing the engineering and cost control services as well as being the eventual tenant.

105 Tottenham Court Road, London W1
We have submitted a planning application for the major reconstruction and enlargement of the office content of this building, to produce 8,826 sq m (95,000 sq ft) of offices, 1,029 sq m (11,000 sq ft) of retail and a separate block of six residential flats. If permission is granted, construction could start by the early part of 2003 for completion at the end of 2004.

The Rotunda, Kingston
Construction work on this 15,056 sq m (162,000 sq ft) leisure complex is proceeding well and remains on course for completion in August. The opening of the centre is planned for October, following completion of the tenants' fit-out. Pre-lettings are now in place for some 85% of the space and there is very active interest in the remainder. Tenants include Odeon Cinemas, David Lloyd Leisure, Megabowl, Scottish & Newcastle and the SFI Group.

Greenwich Reach, Greenwich
We are currently considering changes to the use mix for which planning permission was originally granted to enhance the commercial potential of the development. We are also in negotiation to introduce a partner.

Artists Impression: Strathkelvin Retail Park

Operating review: Property

Strathkelvin Retail Park, Glasgow
We have applied for planning consent to extend the existing 17,400 sq m (187,000 sq ft) retail park by building a new 9,290 sq m (100,000 sq ft) unit for lease to B&Q. Provided permission is granted, work should start by the beginning of 2003 for completion by early 2004. In addition, work will be carried out to upgrade and improve the existing retail park and bring its facilities into line with current customer requirements.

Acquisitions and disposals

Acquisitions
Urbanfirst, in which we have an 80% interest, made retail acquisitions in Northampton and Romford for a total of £5 million. Both properties currently yield over 10% and have potential for reconfiguration, improvement of tenant mix and other opportunities for adding value and improving net revenue. Urbanfirst acquired a 65% interest in the Bargate Centre, Southampton, a 14,400 sq m (155,000 sq ft) leisure orientated shopping centre. Urbanfirst's property trading subsidiary also acquired retail properties in Leicester and Doncaster.

In Bath we acquired a leisure investment for £3.5 million. Tenants include ASK Restaurants, the SFI Group and Forte UK.

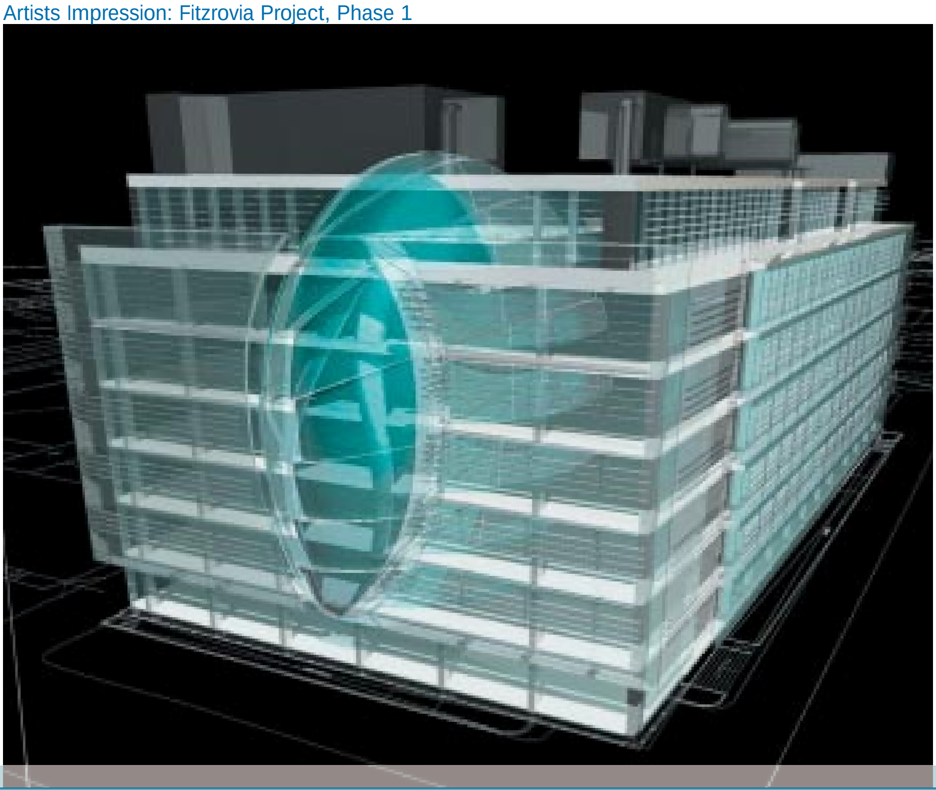
As part of a revitalisation of its operations, our Scottish subsidiary, Caledonian Property Investments, has acquired an office building in Bath Street, Glasgow. It will vacate its existing office in Bishopbriggs later this year, occupy part of the Bath Street building and let the surplus space.

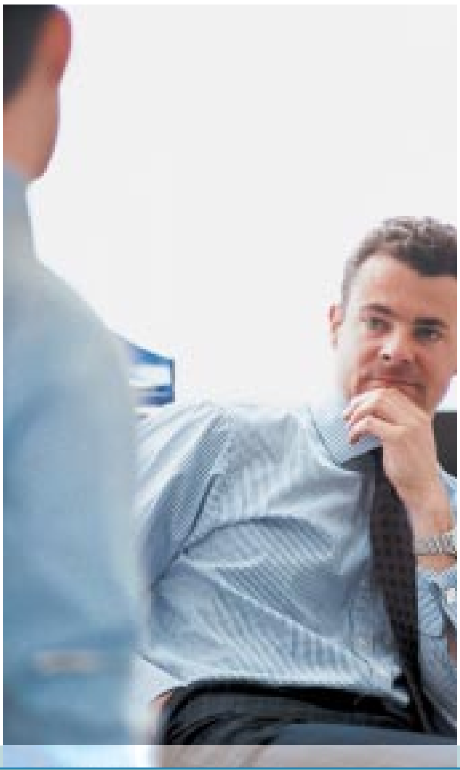
Disposals
In line with our continuing policy of improving the quality of the portfolio and eliminating holdings with poor growth prospects, we sold retail investments in Blyth, Ruislip and Scarborough for a total of £1.8 million.

Outlook

The Group's core London holdings continue to perform well and the perceived fall off in demand has not had any damaging impact on our rental levels. Our new building at 60 Whitfield Street has recently entered the market and has received strong interest, reinforcing the growing sentiment that market conditions in the West End are now beginning to improve.

Artists Impression: Fitzrovia Project, Phase 1





Our plans for the major reconstruction and extension of 105 Tottenham Court Road to create 8,826 sq m (95,000 sq ft) of air-conditioned offices are well advanced. A planning decision is expected in the autumn and subject to that, construction could start by the spring of next year, bringing the total under development in our core West End holdings to approximately 28,810 sq m (310,000 sq ft) including the Fitzrovia Project which is pre-let to Arup.

We will continue our current focus on the expansion and recreation of our holdings in Central London and Scotland.

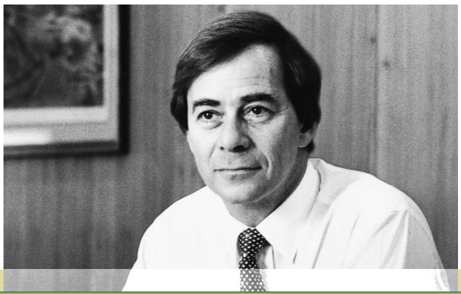
In recent years we have sought to create property assets generating long-term revenue from leisure orientated activities which now represent 9.4% of the property portfolio. Selective additions in this asset sector will continue, maintaining it at about 10% of the total property value.

Urbanfirst continues to show strong returns and the possible restructuring of the business to broaden its equity base as a platform for future growth remains under active consideration. This is likely to combine an element of selective property disposals of some of the smaller centres, with the creation of new strategic partnerships related to specific projects, and the relaunching of the business based on the core assets then remaining.

N G E Driver Managing Director

Operating Review

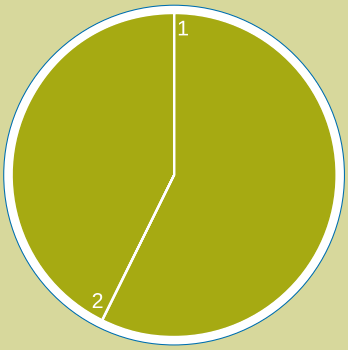
Venture Capital



LMS continues to be an active investor in high growth venture capital opportunities predominantly in the communications, e-commerce, software, health and oil field service sectors.

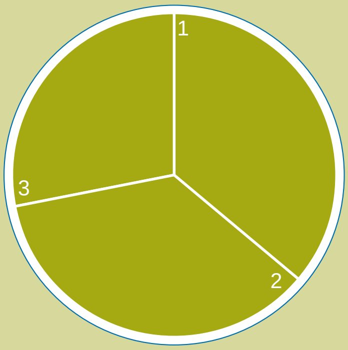
The Hon R A Rayne Chief Executive

Directors' value by location %



1 US	**57.3%**
2 UK	**42.7%**

Directors' value by class %



1 Quoted	**36.1%**
2 Unquoted	**35.8%**
3 Funds	**28.1%**

Operating Review: Principal Venture Capital Investment

Largest investments: UK (quoted)

Company	Activity	Number of shares 000	Book value £000	Directors'/ Market valuation £000
Crown Sports plc	Health and fitness clubs	50,000	7,000	7,125
DMATEK Limited	Security tagging technology	2,676	1,075	2,515
NMT Group plc	Medical safety devices	54,346	2,425	2,310
Offshore Tool and Energy Corporation	Oilfield services	60,712	3,186	1,821
Bloomsbury Publishing plc	Book and information publisher	199	1,366	1,608
Bond International Software plc	Recruitment/HR software	1,683	993	1,170
Dunedin Enterprise Investment Trust plc	Investment trust	214	623	531
Whittard of Chelsea plc	Tea and coffee retailer	962	582	524
Civilian Content plc	Television and film production	2,143	491	471
jazzfm plc	Jazz radio station and record label	162	22	223

Largest investments: US (quoted)

Company	Activity	Number of shares 000	Book value £000	Directors'/ Market valuation £000
Weatherford International Inc	Oilfield services	546	4,565	18,246
Grant Prideco Inc	Oil and gas exploration products	1,200	7,286	11,528
Commerce One Inc	e-commerce solutions	2,578	1,857	2,824
Chordiant Software Inc	Multi-channel CRM Software	538	878	2,746
Aclara Biosciences Inc	Drug discovery technology	848	1,090	1,990
Digital Generation Systems Inc	Media delivery network	1,875	3,413	1,501
AXS-One Inc	Enterprise software	1,385	717	1,070
Convergys Corporation	Global billing services	51	157	1,058
Chyron Corporation	Broadcast media technology	3,715	1,542	913
Pegasus Communications Corporation	Digital broadcast satellite service	361	799	764

Average age of investments by location Years*

UK	2.8
US	4.9
Overall	3.5

* Age relates to the date of first investment of the top 50 investments.

Average age of investments by sector Years*

Communications	3.4
e-commerce	2.8
Health	3.7
Energy/Industrial	7.5
Media/Leisure/Retail	2.3
Software	2.3
Other technology	5.9

Largest investments: UK and US (unquoted)

Company	Activity	Country	Book value £000
7 Global Limited	Technology outsourcing	UK	9,996
Strakan Group Limited	Speciality pharmaceuticals	UK	9,260
Wesupply Limited	Supply chain management software	UK	6,000
Elateral Holdings Limited	Marketing e-commerce services	UK	5,573
Ridgeway Systems and Software Inc	Internet infrastructure software	US	3,978
Entuity Limited	Network Management software	UK	3,931
First Index Group Limited	e-sourcing service	UK	3,216
AssetHouse Technology Limited	Content services infrastructure software	UK	3,116
netdecisions Holdings Limited	e-commerce services	UK	2,993
Cityspace Limited	Urban information networks	UK	2,508
TradePower Inc	Construction estimation software	US	2,110
AirFiber Inc	Wireless telecommunications infrastructure	US	2,091
GoBeam Inc	Business communication services	US	1,413
Quiver Inc	Enterprise management software	US	1,158
CopperEye Limited	Database indexing software	UK	1,020
Genient Limited	Application integration software	UK	1,000
Vio Worldwide Limited	Workflow management software	UK	1,000

Crown Sports: Golf Club

COPPEREYE

Operating Review: Venture Capital

Venture capital report

The Group ended the financial year with a venture capital book value of £170.4 million, split as £80.7 million in the UK and £89.7 million in the US. The directors' valuation was £190.2 million (UK: £81.2 million and US: £109.0 million). In the year we made a provision of £57.7 million against these investments, primarily reflecting a devaluation of the technology sector and the quoted markets.

The buoyant market conditions of 1999 and 2000 allowed us to obtain partial liquidity from many of our US venture investments some two to three years earlier than expected, resulting in exceptional gains during that period. This turned out to be only a temporary liquidity cycle – with the result that the following three years are expected to be cash consumptive.

Over the past two years we have therefore redirected our focus towards UK early-stage companies and reduced the proportion of investment in the US, where we have directed a higher percentage of funds under management into quoted securities and partner investment funds. The result is still a relatively young portfolio with an average investment age of 3.5 years, which we forecast will mature over the next three to five years. Over that period we expect the liquidity cycle to even out, replicating our long term pattern of five to seven year maturation periods.

The past year was characterised by a number of events that exacerbated the risks associated with early-stage companies. Technology companies were particularly badly hit as corporate customers sharply reversed their IT and telecommunications spending.

Strakan management team

The impact on the Group's technology holdings was to some extent ameliorated by our broadly based investment strategy and a strong recovery in the oilfield service sector.

The results for 2002 include £9.9 million of realised losses from the complete write-off of the investments in Oakgrove (a US software company), Power X (a UK microchip manufacturer), Promptu (a US internet sales management company) and Riodata (a German DSL company). These companies were unable to raise additional finance and ceased trading.

However, a disappointing year should not mask the long term picture. Despite this year's results, our venture capital business has a realised IRR of 34.2% over the past ten years and 52.1% over the past five years.

Against this background we have continued to apply the following strategy:

- Focus our financial and management resources on those companies within the portfolio that demonstrate a sustainable business model with long term competitive advantage.
- Be proactive in refinancing and restructuring the balance sheets of portfolio companies to secure their futures.
- Maintain a high degree of operational involvement with investee companies.
- Continue to make selective new investments, backing experienced entrepreneurs whose companies, products and ideas exhibit long term sustainable competitive advantage.

The major activity in the past year has been in follow-up rounds of funding for existing portfolio companies, with appropriate adjustment to the valuations in the light of current market conditions. We believe these companies have, for the most part, passed their point of peak cash consumption and are now growing sales consistently and moving towards cash flow breakeven.

In the UK we have a portfolio of 15 early-stage unquoted technology companies with high quality and committed management teams. In the US the comparable portfolio comprises ten such companies.

Vio meets customers at IPEX exhibition

Operating Review: Venture Capital

During the year we made three significant new investments:

CopperEye Limited

CopperEye has developed a revolutionary new database indexing technology called Adaptive Addressing. This delivers quantum performance improvements over the indexing technology embedded in existing products, without the addition of new hardware.

Vio Worldwide Limited

Vio offers the publishing, printing and graphic arts community a transmission and workflow management solution for large digital media files. Its customers include the Financial Times and Reed Publishing. It was established in 1998 as a joint venture between British Telecom plc and Scitex Corporation, a world leader in graphic arts technology.
In July 2001 the company was acquired by a management team led by former Trinity Mirror executive Richard Horwood. We acquired a significant holding in February 2002.

GoBeam Inc

GoBeam has developed a voice-over-internet switchboard substitute for the small to mid-size business market. Its solution is a web-based dashboard which allows users to make calls from their computers, integrate Outlook and Palm contact lists, save voicemails as sound files and forward all or specific calls to any location or wireless device.

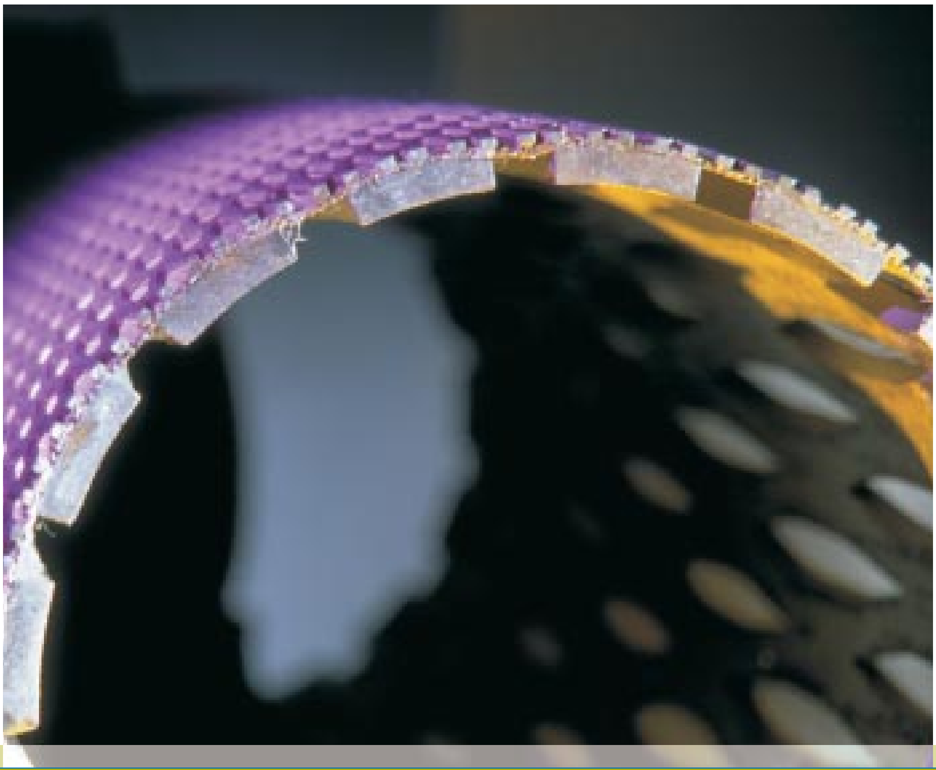
Since the year end we have made the following significant investment:

Rave Reviews Cinema, LLC

Rave Reviews is a cinema company focused on building high quality, 14-16 screen stadium theatres in underprovided areas of the United States.

Rave was formed in November 1999 and currently has six theatres operating and it plans to open three to four new theatres per annum in the next several years.

Expandable sand control system, part of Weatherford's revolutionary down hole process



Weatherford

Outlook

After several years of high market valuations we are now taking advantage of the current economic circumstances to consolidate our position as valuations fall and capital regains its value. We believe our actions in restructuring our portfolio companies are establishing an attractive platform for future growth. The venture capital business remains one of risk management, and our track record is a sound one. Our experience over the past 30 years – with BSkyB, Commerce One, First Leisure, Interwoven, Weatherford and many other investments – demonstrates that the successes more than compensate for the risks and that the long term rates of return have been consistently attractive.

The Hon R A Rayne Chief Executive

Financial Review

Equity shareholders' returns

Equity shareholders' funds at 31st March 2002 amounted to £720.6 million, compared with £753.7 million last year. The proposed final dividend payable to Ordinary shareholders is 4.2p per Ordinary share, giving a total dividend for the year of 6.2p (2001 – 6.1p).

The Deferred Ordinary shares which comprise approximately 25% of the shares issued, do not attract a dividend payment until the financial year ending March 2005. They will be converted to an equal number of Ordinary shares after the AGM in 2004.

The loss before taxation of £36.1 million (2001 – £60.3 million profit) is after a write down on venture capital investments of £57.7 million and a net profit on disposal of property and other investments of £1.3 million. In 2001 we made a write down of £21.1 million and realised net profits of £49.3 million on investments.

The reported loss for the year has resulted in a negative return on shareholders' equity of 2.3% compared to a positive return last year of 14.2%. The Group's return on shareholders' equity over the past five years has averaged over 17%.

Equity shareholders' funds shown in the balance sheet can be adjusted to reflect the variation between the market value of assets and liabilities and the values at which they are included in the financial statements as follows:

	£m	Pence per share
Adjusted equity shareholders' funds		
Equity shareholders' funds	720.6	220.9
Excess of market value of equity investments over book value	19.8	6.0
Group share of excess of market value of trading stock over book value, net of taxation	10.3	3.2
	750.7	230.1
Contingent tax liability on disposal of investment properties at accounts values	(25.5)	(7.8)
Group share of marking to market of long-term borrowings (see the table on page 45)	(20.3)	(6.2)
Adjusted equity shareholders' funds	704.9	216.1

Profit and loss account

Group net rental income was £51.2 million compared with £46.0 million last year. The 11.2% increase in rents arose from rent reviews during the year and a full year's rent from new lettings in San Francisco. The gross rent roll at 31st March 2002 was £57.3 million and includes rents committed for the development at Kingston, which is due for completion later this year.

52% of our rental income is secured for the next 10 years and 38% for the next 15 years, assuming all tenants vacate at the earliest opportunity.

The £3.9 million rise in administrative expenses to £15.7 million reflects increases in staff costs and costs arising from the administration of the investment funds. The figure includes two years' bonus payments as a result of a switch to accounting on an accruals basis rather than a cash basis. The fund managers' reduced investment activity has directly impacted the running costs associated with the venture capital investment funds: in active markets, fees earned by the managers reduce the operational costs borne by investors. The pension costs again reflected the additional contributions being paid to reduce the deficit on the scheme over the next two to three years.

Net profits on disposal of investments derive mainly from realisations of venture capital investments. These reduced significantly to £1.3 million, reflecting the reduction in activity in the current market conditions. The £57.7 million write down made on venture capital investments arises from our policy of including these investments at cost less provision for impairment of value. These provisions are not available for tax relief until they are realised.

The segmental analysis of the revenue performance of the property and venture capital divisions is presented as note 8 on page 38.

Net finance costs are £16.0 million compared with £2.8 million in 2001 and include exchange movements on the Group's US dollar balances. In March 2001 the Group issued a £100 million 6.5% Secured Bond 2026 to finance the ongoing property development programme. Standard & Poor's gave the Bond a credit rating of A+ and rated the Group as A–. In 2001 the Group benefited from an exchange gain of £5.4 million; in 2002 there is a loss of £0.2 million. Net interest payable was covered 3.2 times by net rental income.

Last year we reported the incorporation of a new venture capital subsidiary in Bermuda. Medium to long-term investments are being directed through this company and at the year end £82 million had been invested, an increase of £35 million. It will take some time before the benefit of holding these investments in Bermuda is seen in the Group accounts. Meanwhile, losses and costs incurred in Bermuda are not available for tax relief in the UK. The Bermuda operation is constantly under review in order to keep the running costs to a minimum.

The tax charge for the year is £8.4 million, of which £6.3 million represents tax actually payable. This gives an effective rate of corporation tax on profits, excluding the venture capital provisions, of 29.2%. The Group does not expect to pay tax on capital allowances when the properties are sold and reversal of the deferred tax asset, set up last year in respect of realised capital losses on investments, does not result in a payment of tax. The unused capital losses will be available for use against capital gains in future years.

Balance sheet

The investment properties were valued at £809.2 million by external valuers as at 31st March 2002. The surplus on revaluation amounted to £28.1 million, of which £28.3 million is attributable to the Group and a deficit of £0.2 million to minority interests. For the first time, all investment properties, including development properties, have been revalued at the year end. Trading properties are included in the balance sheet at a cost of £10.9 million and were valued at £25.6 million at the same date.

Our policy on venture capital investments is to include them in the balance sheet at cost. We make provisions against individual investments where we consider that there is an impairment in value.

The market conditions and the decline in the technology sector have had an impact on our equity investments, which are currently included at £170.4 million. In addition to the provision of £21.1 million made in 2001 we have made new provisions of £57.7 million. The directors' valuation of these investments was £190.2 million.

The Group has an equity interest of more than 20% in certain companies, which are held as investments, as part of the venture capital portfolio. This accounting treatment has been adopted to give a true and fair value on realisation of these investments, and is in accordance with FRS 9 'Associates and Joint Ventures'.

Cash flow and finance

The Group's cash balance at the year end was £107.5 million compared with £190.0 million in 2001. The reduction reflected net spending by both the property and venture capital divisions of £45.4 million and £34.3 million respectively. The amount held as US dollar balances reduced from $42.5 million to $23.1 million.

At 31st March 2002, the Group had borrowings of £289.3 million. The increase in borrowings arises from the additional loans taken out in Urbanfirst (80% subsidiary) to finance property additions. The Group's weighted average interest rate on its fixed rate borrowings reduced from 8.3% to 8.2%, while the average period for which those interest liabilities are fixed reduced from 18.8 years to 17.4 years. The net debt/equity ratio increased from 10.6% to 23.3% and the net debt/property ratio increased from 11.3% to 21.8%.

The Group's capital commitments are £116.5 million, of which £52.0 million relates to property development expenditure. The contracted commitments of the venture capital division amounting to £64.5 million relate to continuing participation in venture capital partnerships in the UK and US. Such commitments, which are usually called down over a three to four year period, are generally funded from proceeds of realised investments from these partnerships and direct investments, although not necessarily in the same accounting period.

We continue to manage our cash deposits and borrowings so as to minimise financial risk; to ensure that sufficient liquidity is available to meet budgeted development and investment plans and commitments, both in sterling and in US dollars; and to ensure that the Group's funds are invested at beneficial rates with a range of banks and institutions. No derivatives have been used to hedge currency or interest rate risk.

The Group operates in two principal currencies: sterling and US dollars. Balance sheet exposure to exchange rate movements is limited where possible by making US dollar venture capital investments out of dollar funds specifically retained for that purpose.

FRS 13 'Derivatives and Other Financial Instruments' requires companies to disclose the fair value of their financial instruments as at the balance sheet date. The venture capital investments of £170.4 million were valued at the year end at £190.2 million, giving rise to an excess of £19.8 million on a pre and post tax basis.

With the exception of £2.4 million the Group's long term borrowings are at fixed rates of interest. The upward adjustment to fair value required of the Group's long term liabilities amounts to £22.2 million on a post tax basis compared with an accounts value of £281.5 million, of which £21.6 million relates to sterling liabilities and £0.6 million to US dollar borrowings. Of this total amount, £1.9 million relates to minority shareholders.

Financial reporting

We have implemented FRS 19 'Deferred Taxation' and restated the comparative figures accordingly. FRS 19 requires us to provide in full for deferred taxation on all timing differences (except as otherwise required by FRS 19) that are not permanent and, as regards the Group, arise principally from capital allowances. The effect of FRS 19 is to increase the Group's taxation charge for the current year and prior year by £0.4 million and £0.6 million respectively. The balance sheets reflect the creation of provisions for deferred tax, mainly in respect of capital allowances, amounting to £6.9 million at 31st March 2002 and £6.5 million at 31st March 2001, including £0.7 million and £0.6 million respectively in respect of minorities. Shareholders' funds per share (including diluted) show a 2p per share reduction resulting from the introduction of these provisions.
In practice, the Group does not normally pay tax on these items when properties are sold.

We have adopted the transitional arrangements permitted under FRS 17 'Retirement Benefits' and UITF 28 'Operating Lease Incentives' which requires us to treat lease incentives such as rent free periods as revenue costs. These have had no material effect on Group results. The disclosure required under FRS 17 is set out in note 6 on page 37.

The Hon R A Rayne Chief Executive

Directors and Management

Life President

The Lord Rayne

Directors

Chairman G C Greene CBE*,
Mr Greene is aged 66 and was appointed a director in 1996 and Chairman in July 2000. He is a member of the Remuneration and Audit Committees. He is also a director of Greene King plc and former Chairman of the Trustees of The British Museum.

Deputy Chairman P J Grant CBE*
Mr Grant is aged 72 and has been a director since 1984 and was appointed Deputy Chairman of the Company in 1994. He is Chairman of the Remuneration Committee and a member of the Audit Committee. He was formerly Chairman of Sun Life Corporation plc and Deputy Chairman of Lazard Brothers & Co., Limited.

Chief Executive The Hon R A Rayne
The Hon R A Rayne is aged 53 and joined the Company in 1975. He was appointed Investment Director in 1983, Joint Managing Director in 1998 and Chief Executive on 17th May 2001.

Managing Director N G E Driver
Mr Driver is aged 58 and joined the Company in 1970. He was appointed Property Director in 1989, Joint Managing Director in 1998 and sole Managing Director on 17th May 2001.

Mrs J F de Moller*
Mrs de Moller is aged 54 and was appointed a director on 16th May 2002. She is a non-executive director of J Sainsbury plc, Cookson Group plc and Archant Limited. Mrs de Moller is a former Managing Director of Carlton Communications Plc.

W Millsom
Mr Millsom is aged 75 and has been a director since 1983 and is due to retire at the forthcoming Annual General Meeting. A Chartered Surveyor, he joined the Company in 1958. He is also a director of Stewart and Wight PLC.

D Newell*
Mr Newell is aged 59 and was appointed a director in 1998. He is a member of the Remuneration and Audit Committees. A Chartered Surveyor, he was Senior Partner of Hillier Parker May & Rowden until 1998. He was Co-Chairman of the Europe, Middle East and Africa division of CB Richard Ellis Services, Inc until December 2000. He is a past President of the British Council of Offices.

Lord Remnant CVO*
Lord Remnant is aged 71 and was appointed a director in 1994 and is due to retire at the forthcoming Annual General Meeting. He is Chairman of the Audit Committee and a member of the Remuneration Committee. A Chartered Accountant, he was formerly a director of Bank of Scotland and Chairman of National Provident Institution.

M Waldron
Mr Waldron resigned as a director of the Company on 16th May 2002 after 32 years with the Group and four years as a director.

The Hon J M Wilson*
The Hon J M Wilson is aged 49 and was appointed a director on 1st April 2001. A founding partner and Managing Director of Boston Ventures, a leading US media and communications private equity firm, he is also director of Jobson Publishing LLC, PartMiner Inc., CAMP Systems Corp, TradePower Inc., Marshall & Swift, Northstar Travel Media and World Publications.

Company Secretary S C Mitchley ACIS

Group Accountant J M Townley BA ACA

Group Property Manager N T J Groves BA ARICS

* Non-executive director

Report of the Directors

The directors submit their report and the financial statements of the Group for the year ended 31st March 2002.

Results and dividends

The Consolidated Profit and Loss Account for the year is set out on page 32.

An interim dividend of 2.0p per share was paid on the Ordinary shares on 4th January 2002. The directors recommend a final dividend of 4.2p per share making 6.2p (2001 – 6.1p) per share for the year. If the final dividend is approved, it will be paid on 26th July 2002 to the holders of the issued Ordinary shares on the register at the close of business on 28th June 2002.

Principal activities and business review

The principal subsidiary undertakings of the Group and their activities are shown in note 15 on page 42. Further details of these activities are given in the Operating Review on pages 4 to 19 and the Financial Review on pages 20 and 21.

Property

The Group's investment properties were valued at 31st March 2002 on the basis explained in note 12 on page 41. The resultant surplus is shown in the note.

Corporate governance

A report on the Company's policy on corporate governance is shown on pages 26 and 27.

Environmental policy

A statement of the Group's environmental policy is shown on page 25.

Health and safety policy

A statement of the Company's Health and Safety policy is shown on page 25.

Directors

The directors of the Company, including those who held office during the year are those listed on page 22. Mrs de Moller was appointed a director on 16th May 2002. In accordance with the Company's Articles of Association Mrs de Moller retires from the Board and offers herself for reappointment.

Mr W Millsom and Lord Remnant will retire at the forthcoming Annual General Meeting and will not seek re-election. The Company's Articles of Association stipulate that one-third of the directors are to retire by rotation at each Annual General Meeting. The directors to retire by rotation are to include (so far as necessary to obtain the number required) any director who is due to retire at the meeting by reason of age or who wishes to retire and not to offer himself/herself for re-election. The directors retiring at the forthcoming Annual General Meeting fulfil these requirements.

The directors will be seeking shareholders' approval at the forthcoming Annual General Meeting to amend the Company's Articles of Association to require all directors to retire by rotation every three years. Details of the proposal is given in the notice of the Annual General Meeting on pages 51 and 52.

None of the retiring directors have service contracts with the Company or its subsidiaries.

Mr M Waldron resigned as a director of the Company on 16th May 2002.

Directors' interests

These are disclosed in the Remuneration Report of the Directors, shown on pages 28 to 30.

Share capital

Details of changes in the issued share capital during the year ended 31st March 2002 are given in note 24 on page 46.

Capital reserves

The directors seek approval to amend the Company's Articles of Association at the forthcoming Annual General Meeting to allow the Company to carry out the practice established among other property companies to make distributions out of capital reserves. Details of the proposal is given in the notice of the Annual General Meeting on pages 51 and 52.

Directors' authority to allot shares

The purpose of special resolution 5 is to renew the power of the directors to allot up to 12,179,000 Ordinary shares of $27\frac{19}{41}$p each and/or 4,129,000 Deferred Ordinary shares of $27\frac{19}{41}$p each for cash as if the statutory pre-emption rights did not apply to such allotment. This represents approximately 5% of the issued share capital at 1st June 2002. The power is to expire after 15 months or at the end of the next Annual General Meeting of the Company, whichever first occurs.

Share schemes

The shareholders approved the introduction of a Share Incentive Plan (formerly known as the All-Employee Share Ownership Plan) to replace the existing Employee Share Scheme. The final allocation of shares to the Trustees of The London Merchant Securities Employee Share Scheme was made in July 2001.

Report of the Directors

Payment of suppliers
The Group does not have a formal policy for the payment of suppliers. However, most invoices are paid within 28 days of receipt. The amounts owed by the Company to suppliers at 31st March 2002 represented some 25 days' purchases.

Auditors
A resolution concerning the reappointment of KPMG Audit Plc as auditors and their remuneration will be submitted to the Annual General Meeting.

Political and charitable donations
It is the Group's policy not to make donations to the funds of political parties. The Group's main contribution is through its support to The Rayne Foundation, which makes donations to charities independently of the Group. During the year the Group made charitable donations of £10,395.

Substantial shareholdings
The Company has been notified of the following material interests of 3% or more of its share capital at 1st June 2002.

	Ordinary shares	%	Deferred Ordinary shares	%
The Lord Rayne	37,750,597	15.50	30,174,655	36.53
CGNU plc	17,725,307	7.28	–	–
Landsdowne Partners LP	–	–	2,857,000	3.46
Trustees of The Rayne Foundation*	14,817,277	6.08	–	–

* Non-beneficial.

The Company has not been notified of any non-material interests of 10% or more of its share capital at 1st June 2002.

By order of the Board

S C Mitchley Company Secretary
18th June 2002

Environmental Statement

We, the Board and employees of London Merchant Securities plc understand that our various activities can have an impact on the natural environment, and on the people who live and work in the areas in which we operate. Impacts can arise from the development of land, from the operation of buildings which we own and from the activities of companies in which we invest.

We also understand that the way in which we conduct these activities can make a substantial difference to the extent of the environmental impact: sensitive building design and management can minimise ecological impacts, transport use, the use of energy, and of water; waste minimisation and recycling can be facilitated, and resource inputs minimised and controlled. Where we invest in other companies, by asking the right questions we can have an influence on the environmental performance of our investees.

We are aware that we are working within a society which is becoming increasingly concerned about environmental issues, and we wish to assure all those who have an interest in our environmental performance – our investors, industry regulators, local communities, and society at large – that we appreciate their views, and are committed to addressing these issues within our business operations.

In particular, having considered the scope and nature of our activities and, our current approach to environmental issues, we believe that there are certain key areas on which we should initially concentrate our efforts. Therefore, we are currently committed to the following:

- To continue to ensure that environmental issues are considered for property development projects.
- To consider environmental impact of property management procedures to identify opportunities to improve the environmental standards of building use.
- Periodically to revisit our risk assessment and management processes and our due diligence process for acquisitions, divestment and venture capital investment to ensure that due account is taken of environmental issues.
- To make associated organisations and tenants, where possible, aware of our environmental requirements and review external communication.
- Furthermore, we also commit to report our progress in these initiatives in due course, and to review the policy as appropriate.

Health and Safety Statement

The Group's Health and Safety policy has been actively managed through the year not only with a view to minimising and controlling risks but also as a means of improving efficiencies. Staff involvement has been encouraged and various strategies for compliance with current legislation, which have been developed, are under constant review in order to achieve continuous improvement in Health & Safety performance. A Health and Safety team has been formed which meets quarterly and reports to the Board.

Our statement of general policy is:

- To provide adequate control of the health and safety risks arising from our work activities.
- To consult with our employees on matters affecting their health and safety.
- To provide and maintain safe plant and equipment.
- To ensure safe handling and use of substances.
- To provide information, instruction and supervision for employees.
- To ensure all employees are competent to do their tasks, and to give them adequate training.
- To prevent accidents and cases of work-related ill health.
- To maintain safe and healthy working conditions.
- To review and revise this policy as necessary at regular intervals.
- To ensure the safety of visitors to the building; and
- To undertake our responsibilities as landlords for communal areas under our control in buildings forming part of the Group's property portfolio.

Corporate Governance

The Company has complied with the Principles and Provisions of the Combined Code throughout the year ended 31st March 2002, with the exceptions explained below.

The Board

The Board has nine directors, three executive and six non-executive and their details and experience are set out on page 22. All the non-executive directors are considered by the Board to be independent as they neither represent a major shareholder group nor have any significant involvement in the day to day management of the Group.

The Board holds regular meetings and has a number of matters reserved for its approval, including major investment expenditure, financing matters and dividend policy. The Board and its committees are provided with full and timely information to enable them to discharge their responsibilities. All directors have access to the advice of the Company Secretary and independent professional advice is available to directors in appropriate circumstances at the Company's expense.

The Company has an Audit Committee and a Remuneration Committee each with clear terms of reference, with membership consisting of non-executive directors of the Company chaired by Lord Remnant and Mr P J Grant respectively.

The Board ensures that all new directors are sufficiently apprised of the Company's business and their duties as directors.

Mr G C Greene was appointed non-executive Chairman in July 2000. Mr P J Grant is considered to be the senior independent director on the Board.

The directors have not constituted a separate Nomination Committee, as required by provision A.5.1 of the Combined Code, as they consider it is preferable to continue with the established practice, under which nominations to the Board are a matter for the Board as a whole.

Non-executive directors are not appointed for specified periods, as required by provision A.6.1 of the Combined Code, as it is considered that the process whereby they are re-elected by shareholders every three years is a satisfactory control over their appointment.

Relations with shareholders

The Company has regular meetings with its institutional shareholders and the Annual General Meeting gives private shareholders the opportunity to put questions to the Board.

The balance of proxy votes cast for or against each resolution are indicated after it has been dealt with under a show of hands. All substantial issues including adopting the report and accounts are proposed at the Annual General Meeting as separate resolutions.

The Company complies with the Combined Code to give at least 20 working days' notice of the Annual General Meeting.

Going concern

After making enquiries, the directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Accountability and audit

The Audit Committee meets at least twice a year. The Audit Committee's purpose is to ensure the financial and accounting systems provide accurate and up-to-date information on the Company's financial position to the Board, the Company's published financial statements represent a true and fair view and that a proper system of internal control is in operation.

The Audit Committee is satisfied that the Company's auditors, KPMG Audit Plc, are objective and independent of the Company. The auditors do perform non-audit services for the Company in respect of tax advice but the Audit Committee is satisfied that their objectivity is not impaired by such work.

Directors' responsibility statement

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 Group and of the profit or loss for that period. In preparing those financial statements, the directors are required to

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Internal control

The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectiveness and can only provide reasonable and not absolute assurance against misstatement or loss.

The Board confirm that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, that has been in place for the year under review and up to the date of approval of the annual report and accounts and, that this process is regularly reviewed by the Board and accords with the Turnbull guidance *Internal Control: Guidance for Directors on the Combined Code*.

The Board have reviewed the effectiveness of the system of internal control. In particular, it has reviewed the process for identifying and evaluating the significant risks affecting the business and the policies and procedures by which these risks are managed. There are supporting Group policies and employee procedures for the reporting and resolution of suspected fraudulent activities.

Management are responsible for the identification and evaluation of significant risks applicable to their areas of business together with the design and operation of suitable internal controls. These risks are assessed on a continual basis and may be associated with a variety of internal or external sources including control breakdowns, disruption of information systems, competition, natural catastrophe and regulatory requirements.

A process of control, self assessment and hierarchical reporting has been established which provides for a documented and auditable trail of accountability. These procedures are relevant across Group operations and provide for successive assurances to be given at increasingly higher levels of management and, finally to the Board. The Company does not have an internal audit function but the need for one is under review.

Management report regularly on their review of risks and how they are managed to both the Board and Audit Committee, whose main role is to review the key risks inherent in the business and the system of control necessary to manage such risks. The Audit Committee reviews the assurance procedures, ensuring that an appropriate mix of techniques is used to obtain the level of assurance required by the Board. The Audit Committee present their findings to the Board as appropriate. Management also reports to the Board on significant changes in the business and the external environment which affect significant risks. The Board is provided with regular financial information, which includes key performance and risk indicators. Where areas for improvement in the system are identified, the Board considers the recommendations made by management and the Audit Committee.

The directors believe it is not appropriate to establish a separate Risk Committee as risk is properly the responsibility of the full Board.

The Board reviews insurance, environmental, health & safety and legal compliance. It also reviews the risk management and control process and considers the

- authority, resources and co-ordination of those involved in the identification, assessment and management of significant risks faced by the Group;
- response to the significant risks which have been identified by management and others;
- monitoring of the reports from Group management;
- maintenance of a control environment directed towards the proper management of risk; and
- annual reporting procedures.

Additionally, management keeps abreast of all changes made to the system and follows up on areas which require improvement. It reports to the Board whenever necessary.

Remuneration Report of the Directors

Composition of the Remuneration Committee
The Remuneration Committee are:

Mr P J Grant, Chairman
Mr G C Greene
Mr D Newell
Lord Remnant

The Hon R A Rayne attends the meetings, and absents himself when his own affairs are discussed.

The Committee members have no personal financial interest, other than as shareholders, in the matters to be decided.

Compliance
The Board is satisfied that the Company has complied with the principles of the Combined Code in framing its remuneration policy and in the operation of the Committee.

Non-executive directors
The remuneration of non-executive directors is determined by the Board, within the limits set out in the Articles of Association. Non-executive directors are not eligible to receive annual bonus payments.

Policy on remuneration of executive directors
The Remuneration Committee's aim is to support the management in providing remuneration packages which are competitive and designed to attract, retain and motivate executive directors of the appropriate calibre, on which it takes independent professional advice.

Remuneration package
The main elements of the remuneration package for executive directors are as follows:

Basic salary
The Remuneration Committee, taking into account information from independent sources on the rates of salary in a selected group of comparable companies, determines basic salary for each executive director.

Annual bonuses
Annual bonuses motivate and reward the achievement of the annual financial and tactical goals of London Merchant Securities plc and its businesses. An executive director's annual bonus is determined at the discretion of the Remuneration Committee, based upon the performance of the businesses for which the individual is responsible and the performance of the individual.

A maximum bonus of up to 50% of base salary can be earned for outstanding performance (100% of base salary for the Chief Executive).

LMS Carried Interest Plan
The Company has established carried interest arrangements for executives who have responsibility for the investments made by the venture capital division. The Plan is only open to executives of the Group (including executive directors of the Company) and persons providing consultancy services to the Group, who in both cases have responsibility for investment decisions in the venture capital division, as selected by the Remuneration Committee.

The carried interest is up to 20% of the pre-tax net gains realised on the investments made by the fund, over and above the return of capital (taking into account for the purposes of the 20% any existing carried interest entitlements). This applies to all direct venture capital investments realised including existing investments. Only participants involved in the investment and/or realisation of the existing venture capital portfolio will be able to participate in the gains on that portfolio.

The Remuneration Committee will normally set a cost of capital, over the return of capital to be applied in calculating the gain. The current cost of capital will be 6.5%. The limit of the Plan is that the percentage of realised gains which may be allocated to all participants may not exceed 20% over and above the cost of capital. The percentage of realised gains that may be allocated to one individual may not exceed 7%. To date no payments from the Plan have been made to directors.

Share options
The Company believes that share ownership by executive directors and senior executives strengthens the link between their personal interests and those of the shareholders.

Shareholders approved in 2001 a number of changes to the Company's Executive Share Option Scheme. These changes allow options to be granted to executive directors and all other employees up to one times remuneration per annum. Options may only be exercised if the growth in shareholders' funds over the three-year period following the grant of options exceeds the increase in RPI plus 9%.

Options granted under the Company's Savings Related Share Option Scheme are given in note 24 on page 46.

Share Incentive Plan
Shareholders approved in 2001 the introduction of a Share Incentive Plan (formerly known as an All Employee Share Ownership Plan). The Plan will be introduced in August 2002 and it is intended that the Company will offer employees free shares linked to salary and allow employees the opportunity to purchase the maximum number of partnership shares allowable, which will be matched by the Company.

Pensions

The LMS (1973) Pension Scheme is an Inland Revenue approved contributory defined benefits scheme insured with the Sun Alliance and London Assurance Company Limited. The main features of the Scheme as applied to the executive directors are:

- a normal pension age of 60;
- pension at normal pension age of two-thirds of final base pensionable salary;
- life assurance cover of four times pensionable salary in respect of death in service; and
- spouse's pension on death.

Part of the pension payable at retirement may be commuted for cash, subject to Inland Revenue limits. The Scheme also provides for dependants' pensions of two-thirds of the member's pension.

Pensionable salary is related to the member's basic salary only.

Directors' remuneration

	Basic salary £000	Fees £000	Bonus	Benefits £000	Employee share scheme £000	Total excluding pensions 2002 £000	Total excluding pensions 2001[2] £000	Share option gains 2002 £000	Share option gains 2001 £000
Executive									
Lord Rayne	–	–	–	–	–	–	26	–	–
N G E Driver	367	–	184	14	8	573	462	–	–
W Millsom[1]	–	170	–	3	–	173	162	–	–
The Hon R A Rayne	462	–	370	19	–	851	903	579	–
M Waldron	184	–	50	15	8	257	198	–	–
Non-executive									
P J Grant	–	60	–	–	–	60	50	–	–
G C Greene	–	125	–	–	–	125	34	–	–
D Newell	–	30	–	–	–	30	25	–	–
Lord Remnant	–	30	–	–	–	30	25	–	–
The Hon J M Wilson	–	30	–	–	–	30	–	–	–
J N Butterwick	–	–	–	–	–	–	6	–	–
Total	1,013	445	604	51	16	2,129	1,891	579	–

Notes
(1) Includes a fee which Mr W Millsom received under a consultancy agreement with a subsidiary company which expires on 31st August 2002.
(2) The comparatives in respect of Mr N G E Driver and The Hon R A Rayne have been increased by £38,000 and £390,000 respectively to reflect a change of accounting for bonuses from a paid basis to an accruals basis.

The following executive directors are members of the Group's contributory pension scheme and the value of their benefits is as follows:

	Age	Years of service	Accrued pension entitlement p.a. at age 60 as at 31/3/02 (see note 1) £000	Accrued pension entitlement p.a. at age 60 as at 31/3/01 £000	Increase in accrued pension entitlement for the year £000	Transfer value of the increase in entitlement for the year (see note 2) £000
Executive						
N G E Driver	58	32	220	143	77	1,381
The Hon R A Rayne	53	27	234	131	103	1,459
M Waldron	55	32	99	87	12	192

Notes
(1) The pension entitlement shown is that which would be paid annually on retirement based on service to the end of the year.
(2) Transfer values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11.
(3) Additional Voluntary Contributions have not been included in the above table.

Payments made to former directors in the year amount to £101,000 (2001 – £66,000).

Employee share scheme

The London Merchant Securities Employee Share Scheme is an Inland Revenue approved scheme, which made its final appropriation in July 2001. The directors of the Company agreed that an amount representing 7.5% of the qualifying employees' salaries be set aside from the Group's profits to be allocated to the Scheme. Mr N G E Driver and Mr M Waldron each received the maximum £8,000 allowed under Inland Revenue rules.

Remuneration Report of the Directors

Directors' share interests

At 31st March 2002 the share interests of the directors and their families, as defined by the Companies Act 1985, in London Merchant Securities plc were as follows:

	At 31st March 2002 Ordinary	At 31st March 2002 Deferred Ordinary	At 31st March 2001 Ordinary	At 31st March 2001 Deferred Ordinary
Beneficial				
N G E Driver	209,443	477,930	204,056	477,930
P J Grant	944	303	944	303
G C Greene	–	16,400	–	16,400
M Millsom	382,127	274,121	382,127	243,666
D Newell	10,000	–	10,000	–
The Hon R A Rayne	2,190,326	1,439,467	2,180,326	924,467
Lord Remnant	–	10,842	–	10,842
M Waldron	36,441	606,262	36,441	617,047
The Hon J M Wilson	–	360,000	–	–
Non-Beneficial (As Trustees)				
P J Grant	6,537,078	2,197,730	6,535,505	2,187,562
G C Greene	13,880,725	2,197,730	13,771,885	1,993,530
D Newell	6,537,078	2,197,730	–	–
The Hon R A Rayne	15,511,544	–	15,511,544	–
Lord Remnant	6,537,078	2,197,730	6,535,505	2,187,562

By reason of common interests some shares are included against the names of more than one director and after eliminating such duplications the total number of shares in which the directors are interested as Trustees are shown below:

	At 31st March 2002 Ordinary	At 31st March 2002 Deferred Ordinary	At 31st March 2001 Ordinary	At 31st March 2001 Deferred Ordinary
Directors Non-Beneficial Interests as Trustees	29,392,269	2,197,730	29,390,696	2,187,562

Lord Remmant did not have any non-beneficial interests in the Company at 1st June 2002. The interests of the remaining directors were unchanged at 1st June 2002.

Executive directors' share options

	Option price (p)	Balance at 31st March 2002 Ordinary	Balance at 31st March 2002 Deferred Ordinary	Balance at 31st March 2001 Ordinary	Balance at 31st March 2001 Deferred Ordinary
N G E Driver					
Executive	32¼	–	575,000	–	575,000
Executive	131½	–	961,656	–	961,656
SAYE	40½	–	19,259	–	19,259
SAYE	65¼	–	17,931	–	17,931
SAYE	104½	–	3,708	–	–
The Hon R A Rayne					
Executive	32¼	–	–	–	575,000
Executive	131½	–	1,235,420	–	1,235,420
M Waldron					
Executive	32¼	–	510,000	–	510,000
Executive	131½	–	266,171	–	266,171
SAYE	40½	–	19,259	–	19,259
SAYE	65¼	–	17,931	–	17,931

(1) The Hon R A Rayne exercised options for 575,000 Deferred Ordinary shares on 28th September 2001. The grant price of the options was 32.25p and the middle market price on the day of the exercise was 133p.
(2) Options were granted to Mr N G E Driver on 27th July 2001. The grant price was 104.5p. The options are exercisable from 1st September 2004 to 1st March 2005.
(3) The Share option schemes are described in note 24 on page 46.
(4) Each option was granted for a total consideration of £1.
(5) The market price of an Ordinary share at 28th March 2002 was 157p (2001 – 158.5p) and the range during the year was 132p to 175.5p. The market price of a Deferred Ordinary share at 28th March 2002 was 140p (2001 – 129.5p) and the range during the year was 115.5p to 148p.

None of the directors has a material interest in any contract with the Company or its subsidiaries.

P J Grant Chairman of Remuneration Committee
18th June 2002

Independent Auditors' Report
to the members of London Merchant Securities plc

We have audited the financial statements on pages 32 to 48. We have also examined the amounts disclosed relating to emoluments, share options and pension entitlements of the directors which form part of the Remuneration Report of the Directors on pages 28 to 30.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report. As described on page 26 this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Report of the Directors 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 or the Listing Rules regarding directors' remuneration and transactions with the Group is not disclosed.

We review whether the statement on pages 26 and 27 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, 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 other information contained in the annual report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st March 2002, and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
18th June 2002
London

Consolidated Profit and Loss Account
year ended 31st March 2002

	Notes	2002 £000	2001 (restated)* £000
Net rental income from investment properties	2	51,184	46,028
Profit from property trading	3	705	452
Administrative expenses		(15,656)	(11,737)
Operating profit – Group	4	36,233	34,743
Other investment income		155	277
Profit on disposal of other investments and investment properties	7	1,269	49,281
Amounts written off other investments		(57,715)	(21,132)
(Loss)/profit on ordinary activities before finance costs	8	(20,058)	63,169
Net finance costs	9	(16,010)	(2,831)
(Loss)/profit on ordinary activities before taxation		(36,068)	60,338
Tax on (loss)/profit on ordinary activities	10	(8,387)	(21,849)
(Loss)/profit on ordinary activities after taxation		(44,455)	38,489
Equity minority interests		(2,463)	(2,393)
(Loss)/profit for the year		(46,918)	36,096
Appropriations			
Transfer (to)/from capital reserve	27	(550)	256
Equity dividends			
– Interim paid 2.0p (2001 – 2.0p)		(4,871)	(4,875)
– Final proposed 4.2p (2001 – 4.1p)		(10,233)	(9,986)
Retained (loss)/profit for the year	28	(62,572)	21,491
Earnings/(loss) per Ordinary share	11		
– Before capital items		4.80p	8.76p
– Applicable to capital items		(24.06p)	6.69p
– Including capital items		(19.26p)	15.45p
– Diluted		(14.34p)	11.05p

*See note 22 on page 45.

All operations are continuing in both current and previous year.

Balance Sheets
at 31st March 2002

	Notes	Group 2002 £000	Group (restated)* 2001 £000	Company 2002 £000	Company (restated)* 2001 £000
Fixed assets					
Investment properties	12	809,153	736,884	19,755	19,191
Other tangible assets	13	542	655	–	–
Investments					
– Subsidiary undertakings	14	–	–	377,219	337,961
– Other investments	16	170,450	192,719	–	–
		980,145	930,258	396,974	357,152
Current assets					
Stocks – properties	17	10,885	9,187	–	–
Debtors	18	16,991	17,185	572,606	649,760
Cash at bank and in hand	19	107,532	190,015	–	1
		135,408	216,387	572,606	649,761
Creditors: amounts falling due within one year	20	(48,250)	(52,884)	(53,459)	(42,504)
Net current assets		87,158	163,503	519,147	607,257
Total assets less current liabilities		1,067,303	1,093,761	916,121	964,409
Creditors: amounts falling due after more than one year	21	(281,479)	(274,783)	(195,871)	(195,772)
Provision for liabilities and charges	22	(6,893)	(6,455)	(53)	(51)
Net assets		778,931	812,523	720,197	768,586
Capital and reserves					
Called up share capital	24	89,516	89,334	89,516	89,334
Share premium account	25	18,970	18,900	18,970	18,900
Capital reduction account		2,868	2,868	2,868	2,868
Revaluation reserve	26	315,246	287,037	212,383	255,898
Capital reserve	27	215,806	213,834	308,429	308,487
Profit and loss account	28	78,220	141,720	88,031	93,099
Equity shareholders' funds		720,626	753,693	720,197	768,586
Equity minority interests		58,305	58,830	–	–
Capital employed		778,931	812,523	720,197	768,586
Shareholders' funds per share		221p	231p		

*See note 22 on page 45.

The accounts on pages 32 to 48 were approved by the Board of directors on 18th June 2002 and were signed on its behalf by

G C Greene Director
The Hon R A Rayne Director

Consolidated Cash Flow Statement

year ended 31st March 2002

	2002 £000	2002 £000	2001 £000	2001 £000
Net cash inflow from operating activities (see note 29 (1))		34,973		35,095
Returns on investments and servicing of finance				
Interest received	7,903		7,181	
Interest paid	(23,078)		(11,373)	
Dividends received	155		357	
Dividends paid – minority shareholders	(2,489)		(2,716)	
Net cash outflow from returns on investments and servicing of finance		(17,509)		(6,551)
Taxation paid		(18,054)		(41,174)
Capital expenditure and financial investment				
Property developments and acquisitions	(48,052)		(36,055)	
Sales of investment property	2,653		5,225	
Acquisition of other fixed assets	(242)		(228)	
Disposal of other fixed assets	37		28	
Purchase of other investments	(52,948)		(91,740)	
Sale and redemption of other investments	18,619		55,872	
Net cash outflow from capital expenditure and financial investment		(79,933)		(66,898)
Equity dividends paid		(14,857)		(16,132)
Cash outflow before use of liquid resources and financing		(95,380)		(95,660)
Management of liquid resources				
– Decrease/(increase) in short-term deposits		82,300		(12,974)
Financing				
Issue of share capital	252		227	
Debt due after more than one year:				
– Issue of 6.5% Secured Bond 2026	–		98,895	
– Repayment of mortgages	–		(6,659)	
– Repayment of Convertible Loan Stock	–		(24)	
– New mortgages	6,560		13,860	
Debt due within one year:				
– New bank loans	5,184		–	
Net cash inflow from financing		11,996		106,299
Decrease in cash in the year		(1,084)		(2,335)

Other Primary Statements

Consolidated Statement of Total Recognised Gains and Losses

year ended 31st March 2002

	2002 £000	2001 (restated)* £000
(Loss)/profit for the year	(46,918)	36,096
Unrealised surplus on revaluation of investment properties	28,253	55,998
Foreign exchange and other	450	390
Total recognised gains and losses relating to the financial year	(18,215)	92,484
Prior year adjustment (as explained in note 22 on page 45)	(5,855)	
Total gains and losses recognised since last annual report	(24,070)	

Note of Consolidated Historical Cost Profits and Losses

year ended 31st March 2002

	2002 £000	2001 (restated)* £000
(Loss)/profit on ordinary activities before taxation	(36,068)	60,338
Realised profit on disposal of former associate undertaking	–	7,873
Realisation of revaluation (deficits)/surpluses of previous years	(56)	748
Historical cost (loss)/profit on ordinary activities before taxation	(36,124)	68,959
Historical cost (loss)/profit for the year retained after taxation, minority interests, transfer to capital reserve and dividends	(62,572)	21,491

Reconciliation of Movements in Shareholders' Funds

year ended 31st March 2002

	Group 2002 £000	Group (restated)* 2001 £000	Company 2002 £000	Company (restated)* 2001 £000
(Loss)/profit for the year	(46,918)	36,096	10,036	33,016
Ordinary dividends	(15,104)	(14,861)	(15,104)	(14,861)
Retained (loss)/profit for the year	(62,022)	21,235	(5,068)	18,155
Other recognised gains and losses	28,703	56,388	(43,573)	66,740
Issue of shares	252	22,580	252	22,580
Net (reduction from)/addition to shareholders' funds	(33,067)	100,203	(48,389)	107,475
Shareholders' funds at beginning of year as reported	759,548	658,824	768,637	661,159
Prior year adjustment (as explained in note 22 on page 45)	(5,855)	(5,334)	(51)	(48)
Shareholders' funds at beginning of year as restated	753,693	653,490	768,586	661,111
Shareholders' funds at end of year	720,626	753,693	720,197	768,586

*See note 22 on page 45.

Notes on the Accounts

1 Accounting policies

Accounting convention

The accounts have been prepared under the historical cost convention, modified to include the revaluation of investment properties and subsidiary undertakings, and in accordance with applicable accounting standards and, except as noted below, (under Investment properties and Other investments) with the Companies Act 1985. The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's accounts, except for the change in accounting policy on adoption of FRS 19 'Deferred Taxation' (see note 22 on page 45). The Group has also implemented UITF 28 'Operating Lease Incentives' and the transitional provisions of FRS 17 'Retirement Benefits'.

Basis of consolidation

The consolidated accounts incorporate the results of the Company and its subsidiaries made up to 31st March. Subsidiary undertakings acquired during the year are accounted for using the acquisition method of accounting unless the criteria for merger accounting are met. In accordance with Section 230 of the Companies Act 1985 a separate profit and loss account for the Company is not presented with these accounts.

Investment properties

In accordance with SSAP 19, investment properties are revalued annually at open market value determined in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors. Revaluation surpluses and deficits which are not permanent are included in the revaluation reserve, permanent deficits being taken through the profit and loss account.

No depreciation or amortisation is provided in respect of freehold investment properties and leasehold investment properties with over 50 years to run. This treatment, as regards certain of the Company's investment properties, may be a departure from the requirements of the Companies Act concerning depreciation of fixed assets. However, these properties are not held for consumption but for investment and the directors consider that systematic annual depreciation would be inappropriate. The accounting policy adopted is therefore necessary for the accounts to give a true and fair view. Depreciation or amortisation is only one of the many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

Interest and other outgoings on property developments are treated as revenue expenditure and written off as incurred.

Other investments

Other investments are stated at cost or cost less provision where there has been impairment in value.

Those venture capital investments that are associated undertakings are carried at cost in accordance with the Group's normal policy and are not equity accounted as required by the Companies Act 1985. The directors consider that as these investments are held as part of the Group's portfolio with a view to the ultimate realisation of capital gains, equity accounting would not give a true and fair view of the Group's interest in these investments. The effect of this departure (which is in accordance with FRS 9 'Associates and Joint Ventures') is to increase fixed asset investments by £35.7 million. The profit effect is not material.

Capital reserve

The Company's Articles of Association provide that realised gains resulting from the sale of capital assets are not available for distribution so any such gains or losses are transferred to capital reserve.

Repairs and renewals

No provision is made for future repairs and renewals of tangible assets, all such items being written off as incurred.

Stocks

Trading properties held for or in course of development are valued at the lower of cost and estimated net realisable value. Cost excludes interest.

Foreign currencies

Assets and liabilities in foreign currencies, together with the profits and losses of overseas subsidiaries, are translated into sterling at the rates ruling at the Group's balance sheet date. Exchange differences from trading activities are included in the profit and loss account and other exchange differences are taken to capital reserve.

Pensions

Contributions to the Group's pension and life assurance schemes are charged to profit and loss account so as to spread the cost of pensions over employees' working lives with the Group.

Deferred taxation

Deferred taxation is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19. This is a change of accounting policy and prior year figures have been restated accordingly.

2 Rental income

	2002 £000	2001 £000
Group gross rental income	55,635	48,723
Property outgoings	(4,451)	(2,695)
Net rental income from properties	51,184	46,028

The turnover of the Group is attributable to one activity, that of property investment and development principally in the United Kingdom.

3 Trading turnover

	2002 £000	2001 £000
Property trading	2,895	3,235
Cost of sales	(2,190)	(2,783)
Profit from property trading	705	452

4 Operating profit

	2002 £000	2001 £000
Operating profit is stated after charging		
– Amortisation and depreciation of fixed assets	261	441
– Auditors' remuneration – as auditors (Company £99,000 (2001 – £105,000))	112	121
– Other fees paid to KPMG Audit Plc and their associates	215	172

5 Employees, including executive directors

	2002 £000	2001 £000
Staff costs		
– Wages and salaries	6,155	4,303
– Social security costs	633	562
– Pension contributions	2,645	2,696
	9,433	7,561

The average number of employees of the Group was 109 (2001 – 103). The areas of the Group's operations in which they are employed were: property management 78 (2001 – 74), venture capital 9 (2001 – 7) and administration 22 (2001 – 22).

6 Pension costs

The assets of the pension schemes are held separately from those of the Group companies, being invested with a major life office. The Group operates a defined benefit scheme which is contributory for members, provides benefits based on final pensionable salary and contributions are invested in a Unitised with Profit Policy with Sun Alliance and London Insurance Company Limited plus annuity policies held in the name of the Trustees. With effect from 6th April 2001 the Company introduced a plan to pay contributions to personal pensions established with a specific provider. New employees to service are eligible to join this arrangement; the defined benefit scheme is closed to new entrants.

The pension charge for the Group was £2.6 million (2001: £2.7 million). The pension charge for the defined benefit scheme is assessed in accordance with the advice of a qualified actuary. The most important assumptions made in connection with the establishment of this charge were that interest will be earned on the fund at the rate of 5.95% per annum and that salaries will be increased at 4.45% per annum. The market value of the assets of the scheme at 31st March 2001 was £15.4 million and the actuarial value of those assets on an ongoing basis represented 83% of the benefit that had accrued to members after allowing for expected future increases in earnings. The employer will pay an enhanced contribution designed to eliminate the underfunding by 1st November 2005.

The Company has applied the phased transitional rules under FRS 17 'Retirement Benefits'. The additional disclosures required by FRS 17 have been based on the most recent actuarial valuation as 1st November 2001 and use the following financial assumptions as at 31st March 2002.

	% per annum
Future salary growth	4.45%
Discount rate	5.95%
Rate of increase in pension payments	5%

6 Pension costs continued

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	Long-term rate of return expected % per annum	Value £m
Assets		
– Unitised with profit policy	6.8	15.4
Total market value of assets		15.4
Present value of scheme liabilities		(18.7)
Deficit in scheme		(3.3)
Related deferred tax asset		1.0
Net pension liability		(2.3)

Equity shareholders' funds	720.6
Net pension liability	(2.3)
Equity shareholders' funds including net pension liability	718.3

Reserves	
Profit and loss account excluding net pension liability	78.2
Net pension liability	(2.3)
Profit and loss account including net pension liability	75.9

7 Profit on disposal of other investments and investment properties

	2002 £000	2001 £000
Net profit		
– Other investments	1,206	51,485
– Less investment commissions	–	(4,139)
	1,206	47,346
– Investment properties	63	1,935
	1,269	49,281

8 Segmental analysis of (loss)/profit before finance costs

	2002 Property division £000	2002 Venture capital division £000	2002 Total £000	2001 Property division £000	2001 Venture capital division £000	2001 Total £000
Net rental income from investment properties	51,184	–	51,184	46,028	–	46,028
Profit from property trading	705	–	705	452	–	452
Limited partnership costs	–	(2,043)	(2,043)	–	(753)	(753)
Other administrative expenses	(8,184)	(5,429)	(13,613)	(7,516)	(3,468)	(10,984)
Operating profit – Group	43,705	(7,472)	36,233	38,964	(4,221)	34,743
Other investment income	–	155	155	–	277	277
Profit on disposal of investments	63	1,206	1,269	1,935	47,346	49,281
Amounts written off other investments	–	(57,715)	(57,715)	–	(21,132)	(21,132)
(Loss)/profit on ordinary activities before finance costs	43,768	(63,826)	(20,058)	40,899	22,270	63,169

9 Net finance costs

	2002 £000	2001 £000
Interest payable		
– Bank loans and bank overdrafts	148	25
– Other loans	22,957	16,279
	23,105	16,304
Interest receivable	(7,309)	(8,084)
Exchange losses/(gains)	214	(5,389)
	16,010	2,831

10 Tax on (loss)/profit on ordinary activities

	2002 £000	2001 (restated) £000
Analysis of charge for year		
UK corporation tax on (loss)/profit for the year	5,844	10,024
UK taxation on disposal of fixed assets	17	14,101
Adjustments relating to prior years	(168)	(778)
	5,693	23,347
Foreign tax	465	176
Total current tax	6,158	23,523
Deferred tax		
Origination and reversal of capital allowances and other timing differences	438	592
Deferred tax movement on investment provisions	2,266	(2,266)
Deferred tax asset on US lease surrender payment	(475)	–
Total deferred tax	2,229	(1,674)
Tax on (loss)/profit on ordinary activities	8,387	21,849

Factors affecting the tax charge for the year

The tax assessed for the year is higher than that at the standard rate of corporation tax for the year. The differences are explained below:

	2002 £000	2001 £000
(Loss)/profit on ordinary activities before taxation	(36,068)	60,338
(Loss)/profit on ordinary activities multiplied by the standard UK rate of corporation tax at 30%	(10,820)	18,101
Investment provisions, not available for tax relief	17,315	4,783
Capital allowances for year in excess of depreciation	(438)	(592)
Taxable profit in excess of accounting profit arising on disposal of former associate	–	1,719
Subsidiary losses not available for group relief	–	241
Adjustments to tax charge in respect of prior years	(168)	(778)
Tax charge arising on transfer of a trading property to investment properties	143	–
Other items	126	49
Corporation tax charge for the year	6,158	23,523

Notes on the Accounts

11 Earnings/(loss) per Ordinary share

	2002 '000	2001 (restated) '000
Calculations are based on the following		
Basic – weighted average Ordinary shares in issue	243,556	233,663

	2002 £000	2001 £000
Capital items		
– Profit, losses and provisions on fixed asset investments	(56,446)	28,149
– Taxation attributable to above	(2,250)	(12,012)
– Taxation adjustment in respect of prior years	87	(486)
– Minority interests	(10)	(31)
Capital (loss)/profit after tax and minorities	(58,619)	15,620
Revenue profit after tax and minorities	11,701	20,476
(Loss)/profit for the year	(46,918)	36,096

The Group has disclosed both the capital and revenue elements of earnings per share to highlight the (loss)/profit available after capital items.

	2002 '000	2001 '000
Diluted		
– Weighted average Ordinary shares in issue	243,556	233,663
– Weighted average Deferred Ordinary shares in issue	82,315	78,067
– Adjustment for shares issuable on conversion of Convertible Loan Stock		
– Ordinary shares	–	10,881
– Deferred Ordinary shares	–	3,914
– Adjustment in respect of shares issuable under share option schemes	1,920	1,326
– Adjustment in respect of shares held as trustees by LMS QUEST Trustee Limited on which no dividends are payable	(607)	(885)
– Weighted average number of shares in issue – diluted	327,184	326,966

	2002 £000	2001 £000
Earnings/(loss) (adjusted in 2001 for interest payable on the Convertible Unsecured Loan Stock)	(46,918)	36,126

12 Investment properties

	Group Freehold £000	Group Leasehold Unexpired term over 50 years £000	Group Leasehold Unexpired term of 50 years or less £000	Group Total £000	Company Freehold investment properties £000
At 31st March 2001					
Cost or valuation	597,193	139,574	117	736,884	19,191
Exchange difference	(83)	–	–	(83)	–
Additions at cost	46,862	71	–	46,933	–
Disposals	(2,591)	–	–	(2,591)	(12)
Amortisation for the year	–	–	(68)	(68)	–
Surplus on revaluation	32,415	(4,369)	66	28,112	576
Valuation at 31st March 2002	673,796	135,276	115	809,187	19,755
Amount included in prepayments under UITF28	(34)	–	–	(34)	–
At 31st March 2002	673,762	135,276	115	809,153	19,755

The historical cost of Group investment properties at 31st March 2002 was £341.6 million (2001 – £297.0 million). The historical cost of the Company's investment properties at 31st March 2002 was £3.7 million (2001 – £3.7 million).

Included in Group Freehold above are properties with a value of £43.5 million located in the US (2001 – £51.2 million).

All investment properties have been valued at 31st March 2002 on the basis of 'Open Market Value' in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors. The valuation of the US freehold properties includes a special assumption relating to a $9.0 million lease termination payment received since the year end.

80.6% of these properties have been valued by Cluttons, Chartered Surveyors and 13.2% valued by Colliers Conrad Ritblat Erdman, Chartered Surveyors. Properties in the US (6.2%) have been valued by Jones Lang LaSalle Global Consulting, San Francisco.

13 Other tangible assets

	Group Other assets £000
At 31st March 2001	
Cost	1,936
Depreciation	(1,281)
	655
Additions at cost	242
Disposals	(162)
Depreciation charge for the year	(193)
At 31st March 2002	542
At cost	1,674
Depreciation	(1,132)
Net book value	542

Other tangible assets comprise of computers, office equipment and motor vehicles.

Notes on the Accounts

14 Investment in subsidiary undertakings (unlisted)

	Company £000
At 31st March 2001	
Valuation	337,960
Cost	1
	337,961
Additions	83,339
Disposals	(1)
Deficit on revaluation	(44,080)
At 31st March 2002	377,219
Valuations	377,218
Cost	1

Valuations are at net asset value. The deficit on revaluation reflects investment losses offset by increases in underlying property valuations.

15 Principal Subsidiary Undertakings

	% held by Group
Property investment companies	
340 Pine Street, Inc. – USA*	100
Urbanfirst Limited	80
British Commercial Property Investment Trust Limited	100
Caledonian Property Investments Limited*	100
Central London Commercial Estates Limited*	100
Greenwich Reach 2000 Limited	100
Kensington Commercial Property Investments Limited*	60
LMS Leisure Investments Limited	100
LMS Properties Limited	100
LMS Shops Limited*	100
Palaville Limited*	60
Portman Investments (Baker Street) Limited*	55
Portman Investments (Farnham) Limited*	55
St. James' Real Estate Company Limited*	60
The New River Company Limited*	100
West London & Suburban Property Investments Limited*	100
Property trading companies	
Caledonian Properties Limited*	100
Corinium Estates Limited*	100
Urbanthirst Limited*	80
Venture capital companies	
LMS Capital Limited	100
LMS Capital (Bermuda) Limited – Bermuda*	100
LMS Investments Limited*	100
Lion Investments Limited*	100
Westpool Investment Trust plc*	100
Other subsidiary companies	
LMS Industrial Finance Limited *Group financing*	100
LMS Services Limited *Group services*	100
London Merchant Securities, Inc. – USA*	100

*Indicates subsidiary undertakings held indirectly.

Only the details of subsidiary undertakings principally affecting the profit or loss or the amount of assets of the Group are given. A full list of Group companies will be included in the Company's annual return. All subsidiaries have an accounting year ended 31st March and unless stated otherwise, are all incorporated in the United Kingdom.

16 Other investments

	Group Listed £000	Group Unlisted £000	Group Total £000
At 31st March 2001 at cost less provisions	35,800	156,919	192,719
Additions at cost	5,987	46,991	52,978
Amounts written off	(14,880)	(42,835)	(57,715)
Disposals	(2,122)	(15,410)	(17,532)
At 31st March 2002	24,785	145,665	170,450
Analysis of listed investments			
– On London Stock Exchange	11,061		
– On other stock exchanges	13,724		
	24,785		
Market or directors' valuations			
At 31st March 2002	44,432	145,762	190,194
At 31st March 2001	56,190	169,580	225,770

To arrive at market or directors' valuations, quoted investments are valued at market value. Unquoted investments and investments within partnerships in the UK and US are valued at cost less any provisions for impairment in value.

17 Stocks

	Group 2002 £000	Group 2001 £000
Trading property	10,878	9,179
Maintenance materials	7	8
	10,885	9,187

At 31st March 2002 the trading property has been valued at £25.6 million (2001 – £19.2 million).

72.4% of these properties have been valued by the directors (2001 – 100.0%) and 27.6% have been externally valued by Cluttons, Chartered Surveyors.

18 Debtors

	Group 2002 £000	Group 2001 £000	Company 2002 £000	Company 2001 £000
Rents and service charges receivable	5,502	3,760	315	287
Amounts owed by subsidiary undertakings	–	–	569,971	649,467
Other debtors	7,344	4,289	4	1
Pension prepayment	987	534	–	–
Other prepayments and accrued income	2,683	3,195	191	5
Corporation tax	–	3,141	2,125	–
Deferred tax asset	475	2,266	–	–
	16,991	17,185	572,606	649,760

All Group debtors fall due within one year.

All Company debtors fall due within one year with the exception of an amount of £10.0 million (2001 – £10.1 million) due from subsidiary undertakings.

19 Cash at bank and in hand

	Group 2002 £000	Group 2001 £000	Company 2002 £000	Company 2001 £000
Short-term deposits	106,042	188,556	–	–
Bank and cash balances	1,490	1,459	–	1
	107,532	190,015	–	1

Notes on the Accounts

20 Creditors: amounts falling due within one year

	Group 2002 £000	Group 2001 £000	Company 2002 £000	Company 2001 £000
Bank overdrafts	2,116	1,001	19	–
Bank loans	5,734	550	–	–
Rents received in advance	11,435	10,628	296	296
Amounts owed to subsidiary undertakings	–	–	37,389	25,653
Corporation tax	2,816	15,586	–	927
Other taxes and social security	994	1,253	92	78
Proposed final dividend	10,233	9,986	10,233	9,986
Other creditors	7,794	8,071	181	279
Accruals	7,128	5,809	5,249	5,285
	48,250	52,884	53,459	42,504

Bank loans are secured on investment properties.

21 Creditors: amounts falling due after more than one year

	Group 2002 £000	Group 2001 £000	Company 2002 £000	Company 2001 £000
6.5% Secured Bond 2026	98,926	98,895	98,926	98,895
10% First Mortgage Debenture Stock 2018	96,945	96,877	96,945	96,877
7.21% Mortgage 2010-2015	31,500	31,500	–	–
9.695% Mortgage 2018	20,000	20,000	–	–
7.295% Mortgage 2010-2015	10,500	10,500	–	–
7.22% Mortgage 2010-2015	5,068	5,068	–	–
6.675% Mortgage 2010-2015	5,110	5,110	–	–
6.68% Mortgage 2010-2015	3,682	3,682	–	–
8.25% Mortgage 2020	3,076	3,151	–	–
Floating rate Mortgage 2003	2,400	–	–	–
6.7% Mortgage 2014	2,384	–	–	–
6.57% Mortgage 2010-2015	1,888	–	–	–
	281,479	274,783	195,871	195,772

	Group 2002 £000	Group 2001 £000	Company 2002 £000	Company 2001 £000
Borrowings				
– Repayable after more than five years	279,079	274,783	195,871	195,772
– Repayable between one and two years	2,400	–	–	–
	281,479	274,783	195,871	195,772
– Repayable within one year (note 20)	7,850	1,551	19	–
	289,329	276,334	195,890	195,772

The discount on issue in January 1992 at a price of 91.284% on £40 million of the £100 million First Mortgage Debenture Stock 2018 is being amortised over the period to April 2018. The effective finance cost, taking into account redemption at par in 2018, is 11% per annum. The unamortised amount of discount at 31st March 2002 was £3.1 million (2001 – £3.1 million).

The discount and issue costs in March 2002 at a price of 99.792% of the £100 million Secured Bond 2026 is being amortised over the period to March 2026. The effective finance cost, taking into account redemption at par in 2026, is 6.6% per annum. The unamortised amount of discount at 31st March 2002 was £1.1 million (2001 – £1.1 million).

The Secured Bond and the Mortgage Debenture Stock, both of nominal value £100 million, together with the Mortgages are secured on investment properties.

The Floating rate Mortgage 2003 has an interest rate of LIBOR plus a margin of 2.25%.

22 Provisions for liabilities and charges

	Group 2002 £'000	Group 2001 (restated) £'000	Company 2002 £'000	Company 2001 (restated) £'000
Provision for deferred taxation				
At 31st March 2001	6,455	5,863	51	48
Provided during the year	438	592	2	3
At 31st March 2002	6,893	6,455	53	51

The Group has implemented FRS 19 'Deferred Taxation' and has restated the comparative figures accordingly. FRS 19 requires the Group to provide in full for deferred taxation on all timing differences (except as otherwise required by FRS 19) that are not permanent and arise principally from capital allowances.

The effect of FRS 19 is to increase the Group's taxation charge for the current year and prior year by £0.4 million and £0.6 million respectively. The balance sheet reflects the creation of provisions for deferred tax, in respect of capital allowances amounting to £6.9 million at 31st March 2002 (2001 – £6.5 million), of which £0.7 million (2001 – £0.6 million) relates to minorities.

23 Financial instruments

FRS 13 disclosures relating to the Group's long-term financial assets and liabilities

	£ sterling £m	US dollars £m	Total £m
Other investments			
At market or directors' valuations	81.2	109.0	190.2
At cost	80.7	89.7	170.4
Surplus	0.5	19.3	19.8
Less: taxation	–	–	–
	0.5	19.3	19.8
Long-term borrowings			
Denomination of long-term borrowings	278.4	3.1	281.5
Weighted average interest rate of fixed rate financial liabilities	8.2%	8.2%	8.2%
Weighted average period for which interest rates on the fixed rate financial liabilities are fixed	17.2 yrs	18.3 yrs	17.4 yrs

Mark to market of long-term borrowing adjustment

	Accounts value £m	Fair value £m	Excess over accounts value £m
6.5% Secured Bond 2026	98.9	92.8	(6.1)
10% First Mortgage Debenture Stock 2018	96.9	125.0	28.1
7.21% Mortgage 2010-2015	31.5	32.6	1.1
9.695% Mortgage 2018	20.0	25.1	5.1
7.295% Mortgage 2010-2015	10.5	10.9	0.4
7.22% Mortgage 2010-2015	5.1	5.4	0.3
6.675% Mortgage 2010-2015	5.1	5.1	–
6.68% Mortgage 2010-2015	3.7	3.8	0.1
8.25% Mortgage 2020	3.1	4.0	0.9
Floating rate Mortgage 2003	2.4	2.4	–
6.7% Mortgage 2014	2.4	2.4	–
6.57% Mortgage 2010-2015	1.9	1.9	–
	281.5	311.4	29.9
Less: taxation			(7.7)
Less: minority share			(1.9)
Group share of fair value adjustment (net of taxation)			20.3

Note
Fair value has been calculated at the year end by taking market value, where available, or using discounted cash flows. However, the Group is under no obligation to redeem borrowings until maturity at which time they will be repaid at their nominal value.

The Group has not included short-term debtors and creditors on the disclosures relating to FRS 13. Cash deposits held by the Group are denominated £90.6 million sterling, £15.5 million in US dollars.

Notes on the Accounts

24 Called up share capital

	Authorised $27\frac{18}{41}$p Ordinary	Authorised $27\frac{18}{41}$p Deferred Ordinary	Authorised $27\frac{18}{41}$p Unclassified	Allotted, called up and fully paid $27\frac{18}{41}$p Ordinary	Allotted, called up and fully paid $27\frac{18}{41}$p Deferred Ordinary
At 31st March 2001	272,850,398	82,079,203	9,514,843	243,550,411	82,023,100
Issued during the year	–	575,000	(575,000)	86,560	577,360
At 31st March 2002	272,850,398	82,654,203	8,939,843	243,636,971	82,600,460
Nominal value at 31st March 2002	£74,867,487	£22,679,507	£2,453,006	£66,851,608	£22,664,760
			£100,000,000		£89,516,368

The Ordinary shares and the Deferred Ordinary shares constitute a single class of share ranking pari passu in all respects, except that the Deferred Ordinary shares do not entitle their holders to receive any dividend before the conclusion of the Annual General Meeting in 2004, at which time the Deferred Ordinary shares will be automatically converted into the same number of Ordinary shares.

Options to subscribe for shares under the Company's share option schemes are as listed below.

Executive Share Option Scheme

Number	Class	Exercise price	Date from which exercisable	Expiry date
1,330,000	Deferred Ordinary	32¼p	29th September 1995	29th September 2002
792,553	Deferred Ordinary	178½p	27th July 2003	27th July 2010
2,497,572	Deferred Ordinary	131½p	4th January 2004	4th January 2011

The Rules of the LMS Executive Share Option Scheme have a performance criterion for any future options based on the growth in shareholders' funds of RPI plus 9% over the first three years from the grant of options.

Savings-Related Share Option Scheme

Number	Class	Exercise price	Date from which exercisable	Expiry date
187,770	Deferred Ordinary	40½p	1st April 2003	30th September 2003
58,686	Deferred Ordinary	65¼p	1st April 2003	30th September 2003
265,973	Deferred Ordinary	65¼p	1st April 2005	30th September 2005
632	Ordinary	122½p	1st September 2004	31st March 2005
8,265	Ordinary	122½p	1st September 2006	31st March 2007
29,293	Deferred Ordinary	104½p	1st September 2004	31st March 2005
89,776	Deferred Ordinary	104½p	1st September 2006	31st March 2007
111,473	Deferred Ordinary	104½p	1st September 2008	31st March 2009

In March 1998, the Company established a qualifying employee share ownership trust (QUEST) to acquire Ordinary and Deferred Ordinary shares of the Company for supply to employees exercising options under the LMS Savings-Related Share Option Scheme. The Trustee of the QUEST is LMS QUEST Trustee Limited, which is a wholly-owned subsidiary of the Company. Shares acquired by the QUEST are included in other investments in note 16 on page 43 of these accounts.
All employees of the Company, including executive directors of the Company (except Mr W Millsom and The Hon R A Rayne), are potential beneficiaries under the QUEST.

25 Share premium account

	Group and Company £000
At 31st March 2001	18,900
Premium on issue of shares during the year	70
At 31st March 2002	18,970

26 Revaluation reserve

	Group £000	Company £000
At 31st March 2001	287,037	255,898
Surplus/(deficit) on revaluation		
– Subsidiary undertakings	–	(44,080)
– Investment properties – Group share	28,253	576
Realisation of revaluation surpluses of previous years	(44)	(11)
At 31st March 2002	315,246	212,383

The amount of tax on capital gains which would become payable if the investment properties were sold at the values at which they are included in the accounts is £32.4 million (2001 – £30.6 million). The deferred taxation relating to capital allowances which would be released in such circumstances, assuming that no balancing charge would be incurred, is £6.9 million (2001 – £6.5 million).

27 Capital reserve

	Group £000	Company £000
At 31st March 2001	213,834	308,487
Transfer from revaluation reserve	44	11
Appropriation from profit and loss account	550	–
Exchange difference	450	–
Reserve transfer on disposal of subsidiaries	928	(69)
At 31st March 2002	215,806	308,429

The cumulative amount of goodwill written off in prior years is not material to the Group.

28 Profit and loss account

	Group £000	Company £000
At 31st March 2001	141,720	93,099
Retained loss for the year	(62,572)	(5,068)
Reserve transfer on disposal of subsidiaries	(928)	–
At 31st March 2002	78,220	88,031

The Company's profit for the year amounted to £10.0 million.

Notes on the Accounts

29 Notes to consolidated cash flow statement

	2002 £000	2001 £000
(1)Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	36,233	34,743
Depreciation and amortisation charges	402	502
Other non-cash movements	(30)	(256)
(Increase)/decrease in stocks	(2,620)	1,260
(Increase) in debtors	(3,351)	(961)
Increase/(decrease) in creditors	4,339	(193)
Net cash inflow from operating activities	34,973	35,095

	At 31st March 2001 £000	Cash flow £000	Other non-cash changes £000	Exchange movements £000	At 31st March 2002 £000
(2) Analysis of movement in net debt					
Bank and cash balances	1,459	31	–	–	1,490
Bank overdrafts	(1,001)	(1,115)	–	–	(2,116)
		(1,084)			
Debt due within one year	(550)	(5,184)	–	–	(5,734)
Debt due after more than one year	(274,783)	(6,560)	(141)	5	(281,479)
		(11,744)			
Short-term deposits*	188,556	(82,300)	–	(214)	106,042
	(86,319)	(95,128)	(141)	(209)	(181,797)

	2002 £000	2001 £000
(3) Reconciliation of net cash flow to movement in net debt		
(Decrease) in cash in the year	(1,084)	(2,335)
Cash (inflow) from increase in debt financing	(11,744)	(106,624)
Cash inflow/(outflow) from increase/(decrease) in liquid resources	(82,300)	12,974
Change in net debt resulting from cash flows	(95,128)	(95,985)
Translation differences	(209)	5,026
Other non-cash changes	(141)	22,292
Movement in net debt in the year	(95,478)	(68,667)
Net debt at 31st March 2001	(86,319)	(17,652)
Net debt at 31st March 2002	(181,797)	(86,319)

30 Capital commitments

	Group 2002 £000	Group 2001 £000
Property division	51,987	72,973
Venture capital division	64,494	65,175
Total	116,481	138,148

The Company had no capital commitments (2001 – nil).

31 Contingent liabilities

Guarantees have been given in respect of warranties on the sale of certain subsidiaries and other liabilities in the ordinary course of business. The Company has no guarantees (2001 – nil) relating to the borrowings of subsidiaries.

Five Year Summary

	2002 £000	2001 £000	2000 £000	1999 £000	1998 £000
Group balance sheet					
Investment properties	809,153	736,884	632,690	567,815	485,792
Other tangible assets	542	655	722	845	593
Venture capital investments	170,450	192,719	148,316	113,356	112,781
Cash at bank and in hand	107,532	190,015	173,543	67,684	62,645
Other net liabilities	(20,374)	(26,512)	(52,322)	(17,688)	(10,170)
Long-term loans	(281,479)	(274,783)	(190,638)	(150,261)	(151,822)
Provision for liabilities and charges	(6,893)	(6,455)	(5,862)	(5,708)	(5,206)
Net assets	778,931	812,523	706,449	576,043	494,613
Equity minority interests	(58,305)	(58,830)	(52,966)	(47,077)	(41,705)
Equity shareholders' funds	720,626	753,693	653,483	528,966	452,908
Represented by					
Called up share capital	89,516	89,334	82,331	81,713	81,467
Reserves	631,110	664,359	571,152	447,253	371,441
	720,626	753,693	653,483	528,966	452,908
Group profit and loss account					
Net rental income	51,184	46,028	44,800	41,606	37,279
(Loss)/profit before taxation	(36,068)	60,338	122,366	45,636	86,512
(Loss)/profit for the year	(46,918)	36,096	81,392	30,956	74,096
(Loss)/earnings per Ordinary share	(19.26p)	15.45p	36.28p	13.84p	33.16p
Dividends per Ordinary share	6.2p	6.1p	5.9p	5.5p	5.3p*
Shareholders' funds per share	221p	231p	218p	178p	153p
Diluted shareholders' funds per share	220p	231p	206p	170p	148p
Market price at 31st March					
Ordinary shares	157p	158.5p	196.5p	100p	136p
Deferred Ordinary shares	140p	129.5p	166.5p	72p	91.5p

Notes
(1) The figures for the years ended 1998–2001 have been restated to incorporate the implementation of FRS 19, which requires the Group to provide in full for deferred taxation.
(2) The dividend for 1998 excludes the special dividend of 10.5p per share which was paid to the holders of both Ordinary and Deferred Ordinary Shares in August 1997.

Directors of Principal Property Subsidiary Undertakings

Urbanfirst Limited
N G E Driver BSC FRICS
R J Pearson ARICS
The Hon R A Rayne
E P M F Smith BA ARICS

British Commercial Property Investment Trust Limited
N G E Driver BSC FRICS
N T J Groves BA ARICS
M Newman FRICS
The Hon R A Rayne
R J Wood BSC ARICS

Caledonian Property Investments Limited
N G E Driver BSC FRICS
S Dykes BSC ARICS
N T J Groves BA ARICS
The Hon R A Rayne
G Wright*

*Non-executive.

Advisors

Auditors
KPMG Audit Plc, London

Bankers
Barclays Bank plc

Brokers
Cazenove

Solicitors
Clifford Chance

Michael Conn Goldsobel

S J Berwin

Valuers
Cluttons

Colliers Conrad Ritblat Erdman

Jones Lang LaSalle Global Consulting, San Francisco

Notice of Meeting

Notice is hereby given that the one hundred and thirtieth Annual General Meeting of London Merchant Securities plc will be held at The Wallace Collection, Hertford House, Manchester Square, London W1U 3BN on Thursday, 25th July 2002 at 12 noon for the following purposes:

Ordinary business

Resolution 1

To receive and adopt the report and accounts for the year ended 31st March 2002 and the auditors' report thereon.

Resolution 2

That upon the recommendation of the directors a final dividend in respect of the year ended 31st March 2002 of 4.2p per share be and is hereby declared payable on the issued Ordinary shares of $27\frac{18}{41}$p each in the capital of the Company to those shareholders on the register at the close of business on 28th June 2002.

Resolution 3

To reappoint Mrs June de Moller as a director of the Company.

Resolution 4

To reappoint KPMG Audit Plc as auditors of the Company and to authorise the directors to determine their remuneration.

Special business

Resolution 5

To consider and, if thought fit, pass the following resolution as a special resolution.

That the directors be and are hereby empowered to allot equity securities (within the meaning of Section 94(2) of the Companies Act 1985 (the 'Act') of the Company pursuant to the authority conferred by ordinary resolution of the Company passed on 26th July 2001 as if Section 89(1) of the Act did not apply to such allotment provided that this power

(a) shall expire 15 months after the passing of this resolution or on the conclusion of the first Annual General Meeting of the Company following the passing of this resolution, whichever first occurs, save that the Company may prior to such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities pursuant to any such offer or agreement; and

(b) shall be limited to

  (a) any allotment of equity securities in connection with a rights issue to holders of equity securities in proportion (as nearly as may be) to their then holdings subject only to the directors having a right to make such arrangements in connection with such rights issue as they deem necessary or expedient

    (i) to deal with equity securities representing fractional entitlements; and

    (ii) to deal with equity securities which the directors consider it necessary or expedient to exclude from the offer on account of either legal problems under the laws of any territory or the requirements of any recognised regulatory body or any other stock exchange;

  (b) any other allotments of Ordinary shares for cash up to a maximum nominal amount of £3,342,000; and

  (c) any other allotments of Deferred Ordinary shares for cash up to a maximum nominal amount of £1,133,000.

Notice of Meeting

Resolution 6
To consider and, if thought fit, pass the following resolution as a special resolution

"THAT the Articles of Association of the Company be altered as follows:

(a) by substituting for the existing article 94 the following article; and

94. (a) At each Annual General Meeting one-third of the directors who are subject to retirement by rotation or, if their number is not a multiple of three, the number nearest to but not exceeding one-third shall retire from office; but if there is only one director who is subject to retirement by rotation he shall retire.

(b) If any one or more directors were last appointed or reappointed three years or more prior to the meeting or were last appointed or reappointed at the third Annual General Meeting preceding the current Annual General Meeting, he or they shall retire from office and shall be counted in obtaining the number required to retire at the meeting, provided that the number of directors required to retire under paragraph (a) above shall be increased to the extent necessary to comply with this paragraph.

(c) The directors to retire by rotation shall include (so far as necessary to obtain the number required) any director who is due to retire at the meeting by reason of age or who wishes to retire and not to offer himself for re-election. Any further directors to retire by rotation shall be those of the other directors subject to retirement by rotation who have been longest in office since their last appointment or reappointment and so that as between persons who became or were last reappointed directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot.

(d) No person is incapable of being appointed a director by reason of his having reached the age of 70 or another age. Special notice is not required in connection with the appointment or the approval of the appointment of such person. No director is required to vacate his office because he has reached the age of 70 or another age and Section 293 of the Act does not apply to the Company. Where a general meeting is convened at which, to the knowledge of the directors, a director is to be proposed for appointment or reappointment who is at the date of the meeting 70 or more, the directors shall give notice of his age in the notice convening the meeting or in a document accompanying the notice, but the accidental omission to do so does not invalidate proceedings or an appointment or reappointment of that director at that meeting.

(b) by substituting for the existing article 155 the following article:

155. Subject to the provisions of the Act, the dividends, interest and bonuses and any other benefits and advantages in the nature of income receivable in respect of the Company's investments and other assets including appreciations of capital assets and realised profits resulting on a sale of capital assets, any commissions, trusteeship, agency, transfer and other fees and current receipts of the Company on revenue account shall, subject to the payment thereout of the expenses of management, interest upon borrowed money and other expenses which in the opinion of the directors are of a revenue nature, constitute the profits of the Company available for dividend and in ascertaining the profits available for dividend it shall not be necessary to make good any losses or depreciation in value of any capital assets."

by order of the Board

S C Mitchley Company Secretary

Carlton House
33 Robert Adam Street
London W1U 3HR
18th June 2002

Notes
Only holders of Ordinary and/or Deferred Ordinary shares are entitled to attend and vote at the meeting. These accounts are sent to the holders of the First Mortgage Debenture Stock for information only. A member of the Company entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend and vote instead of him.
A proxy need not be a member of the Company. A member who has appointed a proxy is still entitled to attend and vote at the meeting.

A summary of transactions since 31st March 2001 of the directors and their family interests in the share capital of the Company will be available for inspection at the Registered Office during normal business hours from the date of this notice until 25th July 2002 and at the place of the meeting from 15 minutes prior to and during the meeting. There are no service contracts between any director and the Company or its subsidiaries.

Shareholder Information

Registered office
Carlton House
33 Robert Adam Street
London W1U 3HR

Telephone 020 7935 3555
Facsimile 020 7935 3737
Website www.lms-plc.com
Email co.secretary@lms-plc.com

Registered in England and Wales
No. 7064

Registrars and transfer office
Capita IRG Plc
Bourne House
34 Beckenham Road
Beckenham
Kent BR3 4TU
www.capita-irg.com

Shareholder enquiries
Telephone 0870 1623100
Email ssd@capita-irg.com

Trustee for 10% First Mortgage Debenture Stock 2018 and 6.5% Secured Bonds 2026
The Law Debenture
Trust Corporation p.l.c.
London

Low cost share dealing service
A low cost execution only share dealing service is available through Cazenove for buying and selling the Company's shares.

LMS Single Company ISA
A Single Company ISA is available to shareholders through Abbey National plc. An application form can be obtained from the Company at the Registered Office. If you have any other queries relating to the Single Company ISA please contact the Abbey National ISA Helpline on 0845 6000181.

Financial Calendar

Ex-dividend date 26th June 2002

Record date 28th June 2002

AGM 25th July 2002

Dividend payment date 26th July 2002

Interim results November 2002

Glossary of Terms

CRM: Customer Relationship Management.

DSL: Digital Subscriber Line.

Earnings per share: Profit after taxation divided by the average number of shares in issue during the year.

FRS: Financial Reporting Standard.

Gross annual rate of rent: Contracted rent roll.

HR: Human Resource.

Interest cover: Net rental income divided by net interest expense.

M&A: Mergers and Acquisitions.

Pre-let: A lease signed with a tenant prior to completion of a development.

Realised IRR: Internal Rate of Return in respect of cash invested in venture capital investments and cash returned on exit within the period.

Return on shareholders' equity: Profit for the year together with valuation changes and exchange translation movements expressed as a percentage of shareholders' funds at the beginning of the year.

Total return: Net rental income and capital growth expressed as a percentage of opening book value of property adjusted for capital expenditure during the year.

UITF: Urgent Issues Task Force.

Designed and produced by Radley Yeldar (London)

London Merchant Securities plc
Carlton House
33 Robert Adam Street
London W1U 3HR
Telephone 020 7935 3555
www.lms-plc.com