LMS

LONDON MERCHANT SECURITIES PLC

Interim Report 2006

Highlights

£1,262.8 million

Portfolio valuation for the first half of the year increased on like-for-like basis by 11.1%

£145.0 million

Operating Profit for the half year increased by 51% (2005: £96.0 million)

£96.7 million

Profit After Tax on continuing operations increased by 55% (2005: £62.6 million)

222.1p

Adjusted Shareholders' funds per share for the first half of the year increased by 18%

1.6 million sq ft

Near-term development projects with estimated gross development value in excess of £900 million

LONDON MERCHANT SECURITIES PLC

LMS is an active property investment and development company dedicated to creating shareholder value.

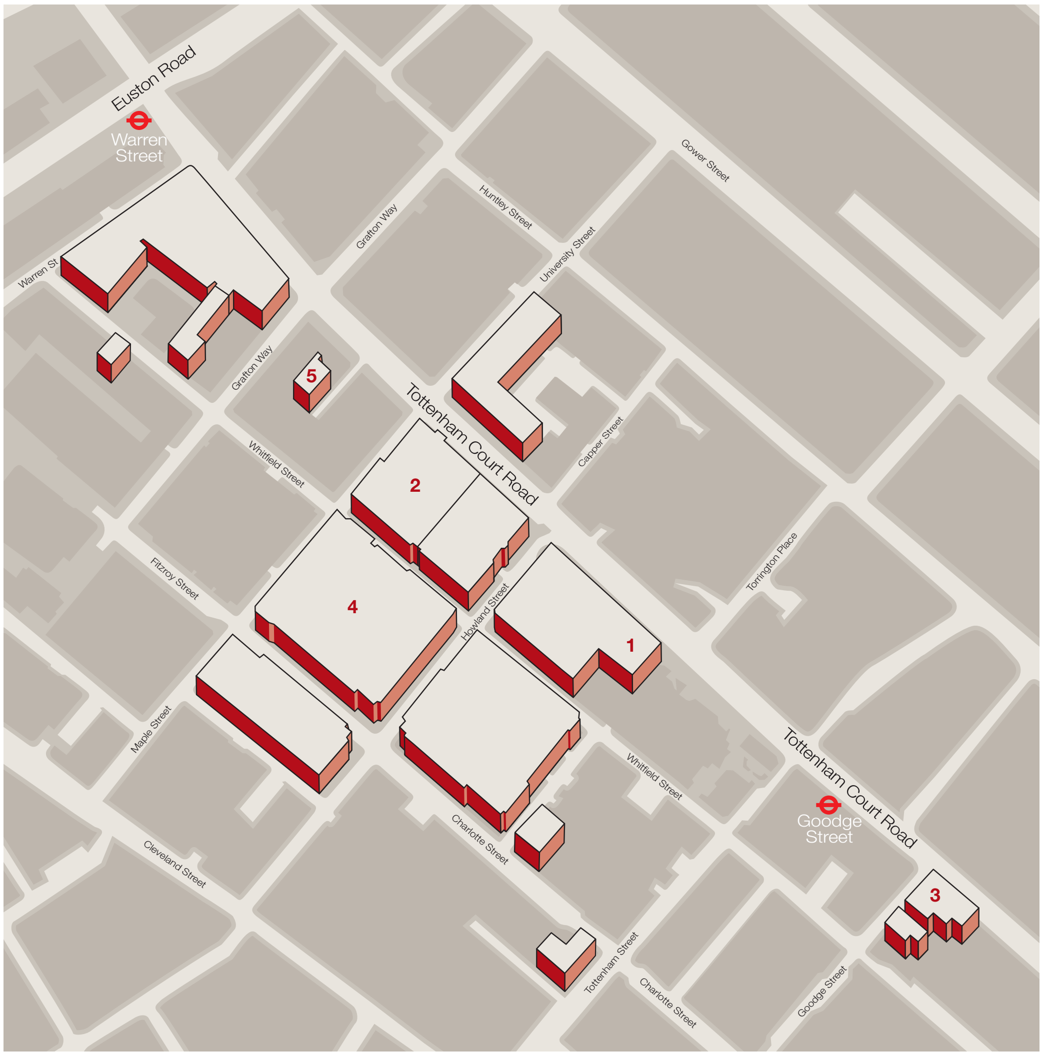
This is achieved by:

Upgrading and expanding our core holdings through a deep knowledge base, active asset management and a long-term perspective.

Pursuing an active development programme, both in core areas and in other locations where there is scope for renewal and reconfiguration.

Acquiring, developing and selling properties where value can be added on an opportunistic basis.

Building long-term partnerships with tenants, the communities in which the Group operates, key suppliers and other property owners.


Euston Road
Warren Street
Warren St
Grafton Way
Huntley Street
Gower Street
University Street
Grafton Way
5
Tottenham Court Road
Capper Street
Whitfield Street
2
Fitzroy Street
4
Howland Street
1
Torrington Place
Maple Street
Whitfield Street
Tottenham Court Road
Goodge Street
Charlotte Street
Cleveland Street
3
Tottenham Street
Charlotte Street
Goodge Street

1

2

Fitzrovia

1 85 Tottenham Court Road
2,666 sq m (28,726 sq ft) of vacant offices (above retail) were refurbished to Grade A specification during Q4 2005. Following completion of the £1 million refurbishment,the offices were let in July 2006 to MWB (serviced offices) for 20 years at a rent of £1.2 million pa (£43 psf).

2 Qube
Qube, 90 Whitfield Street, will be our new addition to Fitzrovia. Designed by architects EPR, the building will provide 9,290 sq m (100,000 sq ft) offices within a striking glass cube, with 1,672 sq m (18,000 sq ft) floor plates arranged around a spectacular atrium. In addition, the development will provide 771 sq m (8,300 sq ft) of flagship retail space fronting Tottenham Court Road and high quality residential accommodation. Costing £36 million, the development is due to complete mid 2007 and once let it will produce an annual rent roll of more than £5.5 million.

3 Tottenham Court Road/Goodge Street
This is a prominent retail site on the corner of Tottenham Court Road and Goodge Street and we are currently working on plans to refurbish and redevelop these buildings. This site has significant strategic importance as the scheme will provide 985 sq m (10,600 sq ft) of retail space with 14 apartments above at a prominent gateway location into the heart of Fitzrovia. The scheme will also benefit from proposed local infrastructure initiatives currently being promoted by Camden Council.

4 Arup
In partnership with global design and business consulting firm Arup, redevelopment of Phases 2 and 3 of their premises in Fitzroy Street and Howland Street has commenced to provide 13,239 sq m (142,500 sq ft) of Grade A offices. It follows completion of the 8,361 sq m (90,000 sq ft) Phase 1 at 13 Fitzroy Street in 2003 which produces an annual rent of approximately £4 million. The building, costing £43 million and which is designed by architects Sheppard Robson, is energy efficient and responds to the sustainability issues affecting the built environment. Phase 2 is expected to complete by the end of 2007 with Phase 3 following by Q3 2009. On completion, Arup will enter into a new 25 year lease with five yearly reviews at an initial rent of £6 million pa.

5 7–8 Midford Place
This period office building, retaining many of its original warehouse features, was acquired with vacant possession in February 2006 for £2 million. The 584 sq m (6,286 sq ft) property has been extensively refurbished, costing approximately £0.6 million. It has recently been let as whole to an advertising agency on a ten year lease at just under £0.2 million pa.

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4

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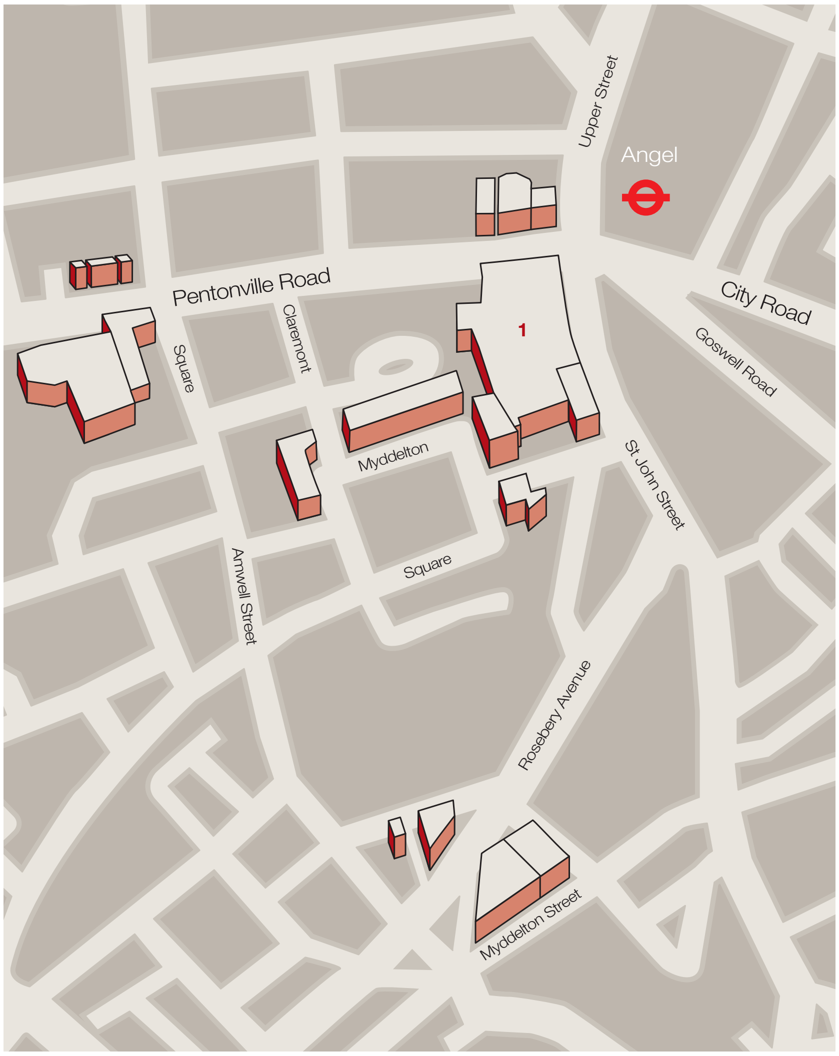

Islington and City

Islington

1 The Angel Centre, EC1 is opposite Angel underground station. The building totals 14,446 sq m (155,500 sq ft) of offices and there is potential for extensive office refurbishment. Initial studies suggest that a refurbishment could generate up to 15,979 sq m (172,000 sq ft) of high quality office space and 1,207 sq m (13,000 sq ft) of ground floor retail. Alternatively, new build studies indicate the potential for a mixed use scheme in the region of 27,870 sq m (300,000 sq ft). We are currently in discussions with the tenant to obtain vacant possession and a refurbishment scheme could commence in 2007.

City

2 In July, we purchased the freehold of 210 Old Street, EC1 for £10.4 million. The 2,053 sq m (22,100 sq ft) office building is adjacent to our City Road Estate and was comprehensively refurbished in 2002. It is currently let to the Government until August 2017 at a rent of £675,000 pa.

3 We submitted a planning application for our City Road Estate in the Summer. The application is for 250 residential apartments in a 44 storey tower and 11,148 sq m (120,000 sq ft) of offices with ground floor retail. We are now in detailed consultations with the Local Authority.

4 Monmouth House, City Road, EC1 was let in July on a new extended lease to Thomson Financial Limited. The new lease on this 3,857 sq m (41,500 sq ft) office building is for ten years at a rental of £1.2 million pa.

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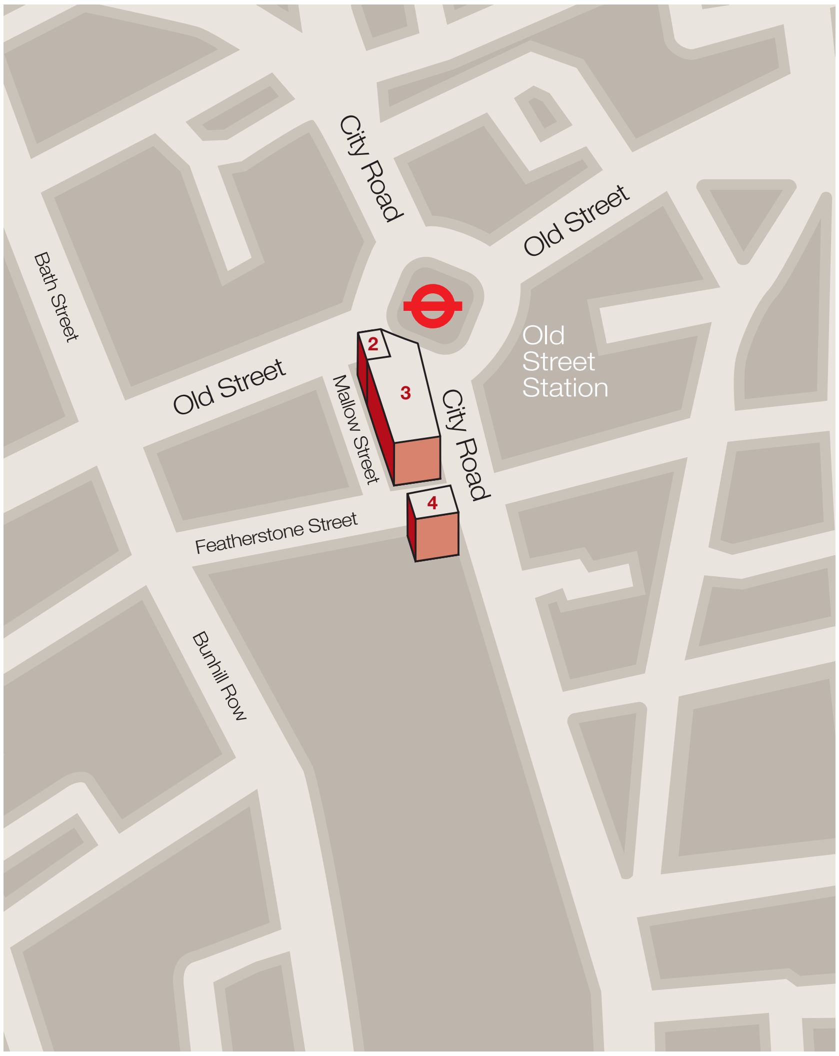

City Road
Old Street
Bath Street
Old Street
Old Street Station
Mallow Street
City Road
Featherstone Street
Bunhill Row
2
3
4

2

3


OLD STREET
Shoreditch
Whitechapel

Greenwich Reach, SE10

This is a unique eight acre Thames frontage site, 250m west of Cutty Sark Gardens and Greenwich town centre, with two Docklands Light Railway stations giving access to Canary Wharf in less than ten minutes. A resolution to grant detailed planning consent (subject to a S106 Agreement) was granted in February for 980 residential apartments (of which 35% will be affordable) and 6,970 sq m (75,000 sq ft) of ground floor commercial space including a prime foodstore. Negotiations should shortly be completed on the S106 Agreement and draft terms have been agreed with the foodstore operator and the Registered Social Landlord. Detailed negotiations will shortly commence with selected residential development partners.

Winchester Road, Swiss Cottage, NW3

This site is located at Swiss Cottage, adjacent to the Belsize Park conservation area and the new Farrell-designed 'Visage' residential scheme, new theatre library and leisure centre. The S106 Agreement was finalised in June and planning consent issued shortly after.
The scheme comprises 76 high quality apartments (32% of which are affordable) above an active retail frontage. The local residential market for high quality accommodation remains strong and we are advancing discussions with selected development partners for the private residential apartments. We are currently concluding negotiations with our selected Registered Social Landlord for the affordable residential elements.

1

1

2

London development pipeline

1 South Place, EC2
This site comprises two existing buildings, Coventry House and Spencer House, fronting South Place which is a key link between Moorgate and the Broadgate/Liverpool Street station complex. Our plans for the site have been worked up with our architect (Allies and Morrison), in negotiation with Islington Borough Council, and our preferred scheme is a striking contemporary new build design for 3,716 sq m (40,000 sq ft) of offices above 1,161 sq m (12,500 sq ft) of retail. The planning application will be submitted in early 2007.

2 160–166 Brompton Road, SW3
This is a prime residential development opportunity. We are in discussions with the Local Authority and our current proposal is to generate over 1,951 sq m (21,000 sq ft) of private residential apartments above 827 sq m (8,900 sq ft) of retail. We will be in a position to submit a planning application in early 2007.

3 68–74 Wigmore Street and 11–19 Marylebone Lane, W1
This site is located opposite the entrance to St Christopher's Place. The proposed scheme envisages the retention of the existing façade to create 1,951 sq m (21,000 sq ft) of offices and retail accommodation. We are working with our joint-venture partner, Howard de Walden Estates, and will be in a position to submit a planning application at the end of the first quarter of 2007.

3

Chairman's statement

For the six months ended 30 September 2006

Overview

There has been significant progress in the development of the Group since we reported to Shareholders in June. Particularly noteworthy are growth in adjusted Shareholders' funds per share during the first half of the year to 222.1p, an increase of 18%; and a like-for-like increase of 11.1% in the valuation of the property portfolio, which is now held at £1,262.8 million. The like-for-like increase in the property portfolio since September 2005 is 21.5%.

More than a third of the growth in value of the portfolio is attributable to active management, including:

- Completion of development and refurbishment projects;
- Significant letting activity;
- Considerable progress with the development pipeline.

At the beginning of October, LMS announced that it was in preliminary merger discussions, and on 14 November proposals for a share-for-share merger with Derwent Valley Holdings were announced. The new company will be called Derwent London plc and will have a property portfolio valued at more than £2.25 billion. We believe that the timing of the transaction, ahead of the introduction of REITs, and in a strong market, will deliver enhanced shareholder value.

The Group has performed well against its three Key Performance Indicators, which reflect returns in terms of both absolute performance and the Group's valuation by the stock market.

Total Property Return – this is a measure of like-for-like capital growth and net rental income from the property portfolio plus profit on disposals. In the six months to 30 September 2006 the Total Property Return was 13.8%, an increase of 27% on the corresponding figure for 2005 of 10.9%. The benchmark Investment Property Databank figure for the six months was 8.9%, reflecting significant outperformance by the Group.

Return on Equity – this is a measure of growth in undiluted, adjusted Shareholders' funds per share, adding back the value of the current year dividend. In the year to 30 September 2006 Return on Equity was 30.7%.

Total Shareholder Return (TSR) – this is a measure of total returns to Shareholders, adding together the movement in the market value of their shares between the beginning and the end of the financial year and the value of the dividend. In the year to 30 September 2006 LMS's TSR was 44.5%. The benchmark returns were 37.8% for the FTSE Real Estate Index and 28.8% for the FTSE 250.

Other key performance measures were as follows:

- Operating Profit for the half year, including revaluation gains, increased by 51% to £145.0 million (2005: £96.0 million);
- Profit Before Tax on continuing operations increased by 57% to £133.5 million (2005: £84.9 million);
- Profit After Tax on continuing operations increased by 55% to £96.7 million (2005: £62.6 million);
- Basic Earnings Per Share on continuing operations increased by 61% to 28.0p (2005: 17.4p);
- Net Assets at September 2006 were £657.3 million, an increase of 27% since September 2005 after adjusting for the impact of the demerger.

Property performance

Capital value

The value of the investment, trading and joint venture properties was £1,262.8 million, an increase of 13.4% on the valuation at March 2006 of £1,113.9 million, and an increase of 17.3% on the September 2005 figure of £1,076.8 million. The like-for-like growth was 11.1% for the six months and 21.5% over 12 months.

Income

Gross rental income for the six months to 30 September 2006 was £27.8 million (2005: £29.3 million), with net rental income of £25.8 million (2005: £26.9 million). The gross annual rental passing at September 2006 was £54.8 million (2005: £59.7 million). The reduction is principally due to property sales, especially in the US, and the movement of more properties into the development phase.

The initial yield on the portfolio, including developments, was 4.3%, compared to 4.9% in March 2006 and 5.5% in September 2005.

Voids at 30 September 2006, excluding properties under or held for development, were 3.1% (March 2006: 4.3%).

The weighted average unexpired lease term for commercial properties is 13.9 years (March 2006: 14.1 years). Taking lease breaks into account the weighted average unexpired term is 12.9 years (March 2006: 13.0 years). Assuming all these breaks are exercised and all properties are vacant on the expiry of their leases, 76.1% of the contracted rent roll is secured for five years; 54.5% for 10 years and 32.3% for 15 years.

Lettings

Good progress was made during the half year including the following significant lettings:

28 Dorset Square, London NW1, was let to Bacardi Global Brands Limited in August following the completion of the redevelopment in May on budget and on programme. Bacardi has committed to a 15 year lease on the 2,109 sq m (22,701 sq ft) office building at £1.1 million per annum, equating to a rental of £48.50 per sq ft overall (£52.45 per sq ft headline) and subject to a 15 month rent free period.

85 Tottenham Court Road, Fitzrovia, London W1, was let in July to serviced office operator, MWB Business Exchange Centres Limited. MWB has taken a new 20 year lease of the 2,666 sq m (28,726 sq ft) Grade A office building at £1.2 million per annum, equating to a rental of £41.80 per sq ft overall (£43 per sq ft headline), subject to a tenant break after 15 years and a rent free period of 18 months.

Monmouth House, City Road, London EC1, was let in July on a new extended lease to Thomson Financial Limited. The new lease on this 3,857 sq m (41,500 sq ft) office building is for ten years at a rental of £1.2 million per annum, equating to a rental of £29 per sq ft overall (£31 per sq ft headline), subject to a landlord-only break and rent review in line with RPI after five years.

Acquisitions and Disposals

Two properties were acquired adjacent to existing holdings and there were further disposals of non-core assets.

210 Old Street, London EC1, was acquired for £10.4 million in July. This 2,053 sq m (22,100 sq ft) office building is let to the Government until August 2017 at a rent of £675,000 per annum. The building is adjacent to the existing holding at City Road Estate island site for which LMS has recently submitted a planning application for a major mixed-use redevelopment.

139-143 Whitfield Street, Fitzrovia, London W1, was acquired in July for £1.0 million. This retail parade will enhance LMS's retail offer within the core Fitzrovia portfolio.

Scottish land sales continued with the disposal of a 9.5 acre site with planning permission for 70 homes to George Wimpey for £8.5 million. Other non-core land and property sales in the Glasgow estate during the period amounted to some £6.8 million. Further land sales are expected in the coming year.

Development

We are now experiencing the benefit of several years of driving the portfolio to the point of refurbishment and redevelopment. The Group has some 1.6 million sq ft of near-term development projects.

The following three schemes are under construction, with a total gross development value in excess of £250 million.

- **Qube, 90 Whitfield Street, Fitzrovia, London W1,** is due to complete in July 2007. It will provide 9,290 sq m (100,000 sq ft) of offices, 771 sq m (8,300 sq ft) of retail space and 7 residential flats. Significant occupational interest in the project has already been expressed.
- **Arup's HQ Phases 2 and 3, Fitzrovia, London W1,** is on budget with completion of Phase 2 targeted for November 2007 and Phase 3 for August 2009. This 13,239 sq m (142,500 sq ft) new Grade A office development is pre-let to Arup with an initial rent of £6 million per annum, equating to £42 per sq ft. The first rent review is in 2011.
- **Strathkelvin Retail Park Phase 2, Glasgow,** is near to completion. The new 4,180 sq m (45,000 sq ft) units bring the total size of the park to 27,405 sq m (295,000 sq ft) of retail warehousing. Discussions have commenced with the local planning authority to widen the existing bulky goods planning consent to a non-food consent.

The balance of the near-term development programme contains schemes with a total gross development value in excess of £650 million.

- **Winchester Road, Swiss Cottage, London NW3,** has now received a Section 106 Agreement and initial discussions are under way with development partners. The scheme totals 6,766 sq m (72,830 sq ft) net internal area with 76 residential units, including 25 affordable homes, and ancillary retail on the ground floor. Work could start in Q2 2007 with completion due in 2008.
- **Greenwich Reach, London SE10,** was granted planning permission early this year and negotiations for a Section 106 Agreement are progressing well. This scheme includes approximately 83,600 sq m gross (900,000 sq ft) of residential accommodation, providing 980 apartments, of which 35% will be social rented and key worker units. Significant interest has been received for the key commercial elements in the total 6,970 sq m (75,000 sq ft) of retail, restaurants, cafes and waterfront cultural uses. Initial discussions are under way with development partners for both the private and affordable residential elements of the scheme.

Planning applications are in progress for several schemes.

- **City Road Estate, London EC1,** is a 28,800 sq m gross (310,000 sq ft) mixed use development on a one acre site adjacent to Old Street roundabout. A planning application was submitted in summer 2006 and detailed discussions are taking place with the local authority. Subject to planning consent, work could start in 2008 with completion due by 2010.
- **Turnford, Hertfordshire,** is a 3 acre site for which a new residential planning application will be submitted in December 2006.
- **61-63 Tottenham Court Road/1-7 Goodge Street, London W1,** is a corner development totalling 2,361 sq m (20,400 sq ft) of retail and residential space. A revised planning application is to be submitted in early 2007.
- **3-4 South Place, London EC2,** is a redevelopment with potential for 4,877 sq m (52,500 sq ft) of new office and retail space. A planning application is due to be submitted early in 2007.
- **160-166 Brompton Road, London SW3,** is currently an office building with ground floor retail, which has potential for conversion of the upper floors to 13 luxury apartments. Detailed discussions are currently in progress with planning officers.
- **Wigmore Triangle, London W1,** is a 1,951 sq m (21,000 sq ft) office and retail scheme, in a joint venture with Howard de Walden. A planning application is scheduled to be submitted in Q2 2007.

Financing

There have been no significant changes to the Group's financing during the period. Gearing at 30 September 2006 was 69% (March 2006 adjusted for demerger: 70%).

Dividend

Following the demerger of Leo Capital plc earlier this year it was announced that the level of dividend would be reduced to reflect the new capital structure. This was explained in the demerger proposals approved by Shareholders. The directors have today declared an interim dividend of 1.2p (2005: 2.0p) per Ordinary share. The dividend will be paid on 16 January 2007 to the holders of the issued Ordinary shares on the register at the close of business on 1 December 2006.

Management

The strong performance of the Group owes much to the skill and dedication of its management and staff. The active management and development of the property portfolio has required significant commitment from all, and the corporate activity of the last year has placed considerable additional demands upon the team. On behalf of Shareholders I would like to record my thanks.

Outlook

The market is anticipating significant further increases in rental income and valuation. We expect the Group's core holdings in the West End and City borders to continue to experience substantial rental growth, with considerable tenant demand but limited availability, in particular of new Grade A office space. The development programme is expected to create additional value and we continue to look for new pipeline development opportunities.

The merger proposals announced on 14 November will create a leading force in the Central London property market focusing on the development, refurbishment and active management of properties. With conversion to a REIT becoming possible in 2007, the Derwent London Group will be well positioned to convert and become the leading dedicated Central London REIT.

Graham Greene Chairman
22 November 2006

Independent review report by KPMG Audit plc to London Merchant Securities plc

Introduction

We have been instructed by the Company to review the financial information for the six months ended 30 September 2006 which comprises the Group income statement, Group balance sheet, Group statement of cash flows, Group statement of recognised income and expense and notes to the accounts. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information. This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Listing Rules of the Financial Services Authority. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

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

Review work performed

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

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 September 2006.

KPMG Audit Plc
Chartered Accountants
London
22 November 2006

Consolidated income statement

For the six months ended 30 September 2006

	Notes	Six months ended 30 September 2006 (unaudited) Total £000	Six months ended 30 September 2005 (unaudited) Total £000	Year ended 31 March 2006 (audited) Total £000
Turnover	2	**36,271**	33,775	61,404
Cost of sales		**(2,041)**	(2,730)	(5,207)
Gross profit	2	**34,230**	31,045	56,197
Exceptional administrative expenses	3			
– in relation to demerger transaction costs		**–**	–	(9,347)
– in relation to change in share options on demerger		**(1,285)**	–	–
Share option costs and change in fair value		**(2,924)**	(154)	(327)
Other administrative expenses		**(5,045)**	(5,312)	(10,112)
Administrative costs		**(9,254)**	(5,466)	(19,786)
Operating profit before net profit on investments		**24,976**	25,579	36,411
Realised gains on disposal of investment properties		**50**	2,352	9,234
Unrealised gains on investments		**119,993**	68,117	149,963
Operating profit		**145,019**	96,048	195,608
Finance income		**2,305**	982	2,188
Finance costs on repurchase of debt		**–**	–	(3,355)
Changes in fair value of financial instruments		**–**	458	–
Other finance costs		**(13,644)**	(12,657)	(26,654)
Net finance costs		**(11,339)**	(11,217)	(27,821)
Share of (loss)/profit of joint venture after tax		**(173)**	20	2,548
Profit before tax on continuing operations		**133,507**	84,851	170,335
Income tax expense	4	**(36,760)**	(22,292)	(36,848)
Profit on continuing operations		**96,747**	62,559	133,487
Loss on discontinued operations		**(2,442)**	(31,332)	(6,890)
Profit for the period		**94,305**	31,227	126,597
Attributable to:				
– Equity holders of the parent		**89,749**	26,270	109,442
– Minority interest		**4,556**	4,957	17,155
		94,305	31,227	126,597
Basic earnings per share – continuing operations	5			
– Undiluted		**27.98p**	17.36p	37.38p
– Diluted		**27.80p**	17.29p	37.19p
Basic earnings per share – continuing and discontinued operations	5			
– Undiluted		**27.25p**	7.99p	33.28p
– Diluted		**27.08p**	7.95p	33.11p

Adjusted earnings per share are shown in note 5.

An interim dividend of 1.2p per share was declared on 22 November 2006 (2005 interim dividend: 2.0p per share).

Consolidated balance sheet

At 30 September 2006

	Notes	30 September 2006 (unaudited) £000	31 March 2006 (audited) Property £000	Investments £000	Total £000	30 September 2005 (unaudited) Property £000	Investments £000	Total £000
Non-current assets								
Intangible assets		**–**	–	33,645	33,645	–	62,646	62,646
Investment properties	6	**1,170,095**	1,023,565	–	1,023,565	1,002,500	–	1,002,500
Property, plant and equipment	7	**6,709**	53,139	6,925	60,064	39,839	10,401	50,240
Investment in joint ventures		**11,071**	7,870	269	8,139	4,128	151	4,279
Other investments	8	**5,706**	2,824	187,557	190,381	–	167,481	167,481
Pension scheme surplus		**883**	1,703	–	1,703	–	–	–
Deferred tax assets		**7,665**	5,916	69	5,985	11,361	5,733	17,094
Total non-current assets		**1,202,129**	1,095,017	228,465	1,323,482	1,057,828	246,412	1,304,240
Current assets								
Inventories		**–**	–	4,586	4,586	–	6,298	6,298
Trading properties	9	**48,014**	375	–	375	369	–	369
Trade and other receivables		**21,746**	20,866	24,987	45,853	25,648	37,660	63,308
Cash and cash equivalents	10	**14,417**	52,889	47,551	100,440	9,935	19,706	29,641
Total current assets		**84,177**	74,130	77,124	151,254	35,952	63,664	99,616
Total assets		**1,286,306**	1,169,147	305,589	1,474,736	1,093,780	310,076	1,403,856
Current liabilities								
Borrowings	11	**4,666**	4,696	8,152	12,848	4,707	11,236	15,943
Trade and other payables		**24,328**	36,907	20,860	57,767	23,545	35,833	59,378
Tax liabilities		**2,040**	4,730	857	5,587	1,888	757	2,645
Total current liabilities		**31,034**	46,333	29,869	76,202	30,140	47,826	77,966
Non-current liabilities								
Borrowings	11	**463,600**	404,573	5,477	410,050	405,886	39,325	445,211
Pension scheme deficit		**–**	–	–	–	7,234	–	7,234
Deferred tax provision	12	**128,335**	91,428	199	91,627	80,431	199	80,630
Other payables		**6,012**	2,414	581	2,995	5,441	723	6,164
Total non-current liabilities		**597,947**	498,415	6,257	504,672	498,992	40,247	539,239
Total liabilities		**628,981**	544,748	36,126	580,874	529,132	88,073	617,205
Net assets		**657,325**	624,399	269,463	893,862	564,648	222,003	786,651
Equity								
Issued share capital		**82,491**			90,275			90,256
Share premium		**21,774**			20,687			20,575
Revaluation reserve		**27,451**			26,897			13,640
Capital reduction reserve		**10,892**			2,868			2,868
Other reserves		**1,096**			2,235			(2,922)
Retained earnings		**460,241**			683,960			611,343
Equity attributable to equity shareholders of the parent		**603,945**			826,922			735,760
Minority interest		**53,380**			66,940			50,891
Total equity		**657,325**			893,862			786,651
Basic shareholders' funds per share	5							
– Undiluted		**183p**	175p	76p	251p	160p	64p	224p
– Diluted		**183p**	174p	76p	250p	159p	64p	223p
Adjusted shareholders' funds per share	5							
– Undiluted		**222p**	205p	76p	282p	190p	60p	250p
– Diluted		**222p**	204p	76p	279p	189p	60p	249p

Consolidated statement of cash flows

For the six months ended 30 September 2006

	Notes	Six months ended 30 September 2006 (unaudited) £000	Six months ended 30 September 2005 (unaudited) £000	Year ended 31 March 2006 (audited) £000
Cash flow from operating activities				
Profit for the period		**94,305**	31,227	126,597
Depreciation		**672**	2,333	2,679
Impairment of goodwill		**–**	–	2,667
Foreign exchange (gains)/losses		**(1,628)**	(78)	856
Share of operating (profit)/loss of joint venture		**173**	(20)	(2,548)
(Profit) on disposal of investment properties and other investments		**(2,305)**	(4,438)	(22,927)
(Gains)/losses on revaluation of properties and investments		**(119,993)**	(40,170)	(148,328)
Investment losses/(income)		**3,532**	(2,150)	(3,488)
Interest expense		**13,512**	14,058	34,796
Tax expense		**37,142**	24,848	46,794
Change in fair value of interest rate derivatives		**1,598**	(458)	–
Equity settled share-based payment expenses		**561**	154	327
Operating profit before changes in working capital and provisions		**27,569**	25,306	37,425
Decrease/(increase) in trade and other receivables		**(3,377)**	(16,696)	446
Decrease/(increase) in inventories		**(362)**	(15)	1,304
Increase/(decrease) in trade and other payables		**(10,550)**	6,650	9,175
Increase in provisions and employee benefits		**(2,819)**	–	34,727
Cash generated from operations		**10,461**	15,245	83,077
Interest paid		**(13,708)**	(13,554)	(34,119)
Tax paid		**(4,896)**	(1,519)	(2,414)
Net cash flow from operating activities		**(8,143)**	172	46,544
Cash flow from investing activities				
Acquisitions of investments		**(9,978)**	(23,402)	(62,536)
Acquisition of property, plant and equipment		**(2,773)**	(1,546)	(10,568)
Proceeds from sale of plant and equipment		**–**	–	7,007
Investment income received		**–**	189	3
Purchase of subsidiaries and joint venture (net of cash acquired)		**–**	–	(6,164)
Disposal of subsidiaries (net of cash disposed of)		**(538)**	–	38,216
Repayment of debt of subsidiaries disposed of		**–**	–	(20,652)
Interest received		**320**	2,043	1,674
Property developments and investment property acquisitions		**(36,501)**	(10,708)	(27,145)
Proceeds from sale of investment properties		**9,499**	2,318	91,186
Proceeds from sale of investments		**1,691**	14,257	9,109
Net cash from investing activities		**(38,280)**	(16,849)	20,130
Cash flows from financing activities				
Drawdown of new loans		**65,270**	22,654	229,852
Repayment of borrowings		**(4,877)**	(5,445)	(216,099)
Dividend paid – equity shareholders		**(15,113)**	(14,777)	(21,402)
Dividend paid – minority interests		**(15,730)**	–	–
Cash element of dividend in specie		**(65,000)**		
Proceeds from issue of share capital		**1,327**	–	399
Net cash from financing activities		**(34,123)**	2,432	(7,250)
Net increase/(decrease) in cash and cash equivalents		**(80,546)**	(14,245)	59,424
Cash and cash equivalents at 1 April		**94,963**	35,499	35,499
Effect of exchange rate fluctuations on cash held		**–**	42	40
Cash and cash equivalents at 30 September	10	**14,417**	21,296	94,963

Consolidated statement of recognised income and expense

For the six months ended 30 September 2006

	Six months ended 30 September 2006 (unaudited) £000	Six months ended 30 September 2005 (unaudited) £000	Year ended 31 March 2006 (audited) £000
Foreign exchange translation differences	**(1,672)**	38	2,942
Revaluation of owner-occupied property and assets under construction	**794**	1,309	14,566
Movement in deferred tax liability on revaluation of owner-occupied property and assets under construction	**(76)**	(154)	(4,060)
Effective portion of changes in fair value of interest rate cash flow hedges	**1,598**	(3,846)	(626)
Deferred tax on change in fair value of interest rate cash flow hedges	**(479)**	1,154	188
Actuarial gains on defined benefits pension scheme	**(1,827)**	(276)	(570)
Deferred tax on actuarial gains taken directly to equity	**548**	83	171
Net gain/(loss) recognised directly in equity	**(1,114)**	(1,692)	12,611
Profit for the period	**94,305**	31,227	126,597
Total recognised income and expense for the period	**93,191**	29,535	139,208
Attributable to:			
Equity holders of the parent	**88,635**	24,578	122,053
Minority interest	**4,556**	4,957	17,155
	93,191	29,535	139,208

Notes to the interim accounts

1 Accounting policies

Basis of preparation

London Merchant Securities plc ('the Company') is a company domiciled in the United Kingdom. The consolidated accounts of the Company for the six months ended 30 September 2006 comprise the Company and its subsidiaries (together referred to as 'the Group') and the Group's interest in joint ventures.

The consolidated interim accounts were authorised for issue by the directors on 22 November 2006. The accounts are unaudited but have been reviewed by KPMG Audit Plc.

The interim accounts have been prepared on the basis of the recognition and measurement requirements of International Financial Reporting Standards (IFRSs) as adopted for use in the EU ('adopted IFRS') and its interpretations as adopted by the International Accounting Standards Board (IASB), and comply with the requirements of the Listing Rules issued by the Financial Services Authority.

The interim accounts have been prepared on a consistent basis with the accounting policies adopted for the year ended 31 March 2006. These policies are set out in the Group's Annual Report and Accounts 2006.

The interim accounts do not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. The figures for the half years ended 30 September 2006 and 30 September 2005 are unaudited. The figures for the year ended 31 March 2006 have been derived from the Group's statutory accounts for the year ended 31 March 2006 upon which the auditors issued an unqualified opinion and which have been delivered to the Registrar of Companies.

No adjustments have been made for any changes in estimate made at the time of approval of the 2006 statutory accounts.

2 Turnover and gross profit

	Six months ended 30 September 2006 (unaudited) £000	Six months ended 30 September 2005 (unaudited) £000	Year ended 31 March 2006 (audited) £000
Analysis of turnover for the period			
Gross rental income	**27,771**	29,298	56,914
Property trading income	**8,500**	4,477	4,490
	36,271	33,775	61,404
Analysis of gross profit for the period			
Net rental income	**25,776**	26,867	52,039
Net property trading income	**8,454**	4,178	4,158
	34,230	31,045	56,197

3 Exceptional administrative expenses

The demerger of the Investment Division resulted in changes to the Group's share option plans. The accounting costs of which have been recognised as an exceptional item and represent:

– the cost of accelerating the amortisation of the fair value of the share options calculated at the grant date; and

– the incremental movement in fair value of the options due to the performance criteria being treated as fully satisfied at demerger.

The exceptional item in the year ended 31 March 2006 represents transaction costs associated with the demerger.

4 Income tax expense

	Six months ended 30 September 2006 (unaudited) £000	Six months ended 30 September 2005 (unaudited) £000	Year ended 31 March 2006 (audited) £000
Analysis of tax charge for the period			
UK Corporation tax on profit	**1,490**	3,720	1,383
Adjustments relating to prior years	**(43)**	(19)	(43)
US taxation on disposal of investments	**236**	105	–
Other overseas taxation	**–**	–	4,848
Current tax charge – continuing operations	**1,683**	3,806	6,188
Deferred tax – continuing operations	**35,077**	18,486	30,660
Tax on profit for the period	**36,760**	22,292	36,848

5 Earnings per share and shareholders' funds per share

Earnings and monetary amounts underlying the 'per share' performance calculations are summarised in the table below. The calculations are set out in notes (a) to (d).

	Six months ended 30 September 2006 (unaudited)		Six months ended 30 September 2005 (unaudited)		Year ended 31 March 2006 (audited)	
	Undiluted	Diluted	Undiluted	Diluted	Undiluted	Diluted
Earnings per share						
Weighted average shares in issue ('000s)	**329,329**	**331,459**	328,942	330,247	328,844	330,580
Earnings (see (c) below)						
Continuing operations						
– Basic	**27.98p**	**27.80p**	17.36p	17.29p	37.38p	37.19p
– Adjusted	**1.72p**	**1.70p**	2.83p	2.82p	2.26p	2.25p
Continuing and discontinued operations						
– Basic	**27.25p**	**27.08p**	7.99p	7.95p	33.28p	33.11p
– Adjusted	**1.64p**	**1.63p**	2.39p	2.38p	(2.81)p	(2.80)p
Shareholders' funds per share						
Shares in issue at period end ('000s) (see (b) below)	**329,846**	**335,515**	328,946	335,474	328,884	335,443
Shareholders' funds (see (d) below)						
Property						
– Basic	**183.10p**	**183.10p**	159.74p	159.03p	175.02p	173.94p
– Adjusted	**222.15p**	**221.55p**	189.76p	188.62p	205.11p	203.54p
Property and Investments						
– Basic			223.68p	222.68p	251.43p	249.87p
– Adjusted			249.99p	248.49p	281.52p	279.37p

5 Earnings per share and shareholders' funds per share continued

	Six months ended 30 September 2006 (unaudited) £000	Six months ended 30 September 2005 (unaudited) £000	Year ended 31 March 2006 (audited) £000
(a) Calculation of basic and diluted weighted average shares in issue			
Basic weighted average ordinary shares in issue	**329,329**	328,811	328,844
– Adjustment in respect of shares issuable under share option schemes	**2,130**	1,436	1,736
Diluted weighted average number of shares in issue	**331,459**	330,247	330,580
(b) Calculation of basic and diluted shares in issue			
Basic ordinary shares in issue	**329,846**	328,815	328,884
– Adjustment in respect of shares under option	**5,669**	6,659	6,559
Diluted ordinary shares in issue	**335,515**	335,474	335,443

	Six months ended 30 September 2006 (unaudited) £000	Six months ended 30 September 2005 (unaudited) £000	Year ended 31 March 2006 (audited) £000
(c) Calculation of earnings and adjusted earnings			
Profit for the period	**89,749**	26,270	109,442
– Unrealised revaluation (gains)/losses net of deferred tax	**(80,740)**	(18,173)	(103,925)
– Realised gains on disposals net of tax	**(8,175)**	–	(28,260)
– Impairment of goodwill	**–**	–	2,667
– Deferred tax on capital allowances	**491**	378	(870)
– Fair value movement on cash settled share options net of tax	**2,595**	–	–
– Cost of share options net of tax	**1,470**	–	–
– Finance costs on repurchase of debt net of tax	**–**	–	2,349
– Change in fair value of financial instruments net of tax	**–**	(321)	–
– Exceptional cost relating to demerger	**–**	–	9,347
Adjusted profit/(loss) for the period	**5,390**	8,154	(9,250)
– Continuing	**5,651**	9,606	7,434
– Discontinued	**(261)**	(1,452)	(16,684)
(d) Shareholders' funds and adjusted shareholders' funds			
Equity attributable to equity holders of the parent per balance sheet			
Basic shareholders' funds – undiluted	**603,945**	735,760	826,922
– Adjustments to cash settled share option liability net of tax	**2,344**	–	–
– Adjustment for proceeds from outstanding share options	**8,235**	11,252	11,252
Basic shareholders' funds – diluted	**614,524**	747,012	838,174
– Adjustment for deferred tax on capital allowances	**8,895**	9,652	8,404
– Adjustment for deferred tax on unrealised gains/(losses)	**114,819**	72,203	93,409
– Adjustment for other deferred tax balances excluding deferred tax relating to repurchase of debt	**(3,291)**	(6,481)	(13,550)
– Adjustment to trading properties to fair value net of tax	**9,080**	8,838	10,238
– Adjustment for changes in fair value of financial instruments net of tax	**(680)**	2,371	438
Adjusted shareholders' funds – diluted	**743,347**	833,595	937,113
– Adjustments to cash settled share option liability net of tax	**(2,344)**	–	–
– Adjustment for proceeds from outstanding share options	**(8,235)**	(11,252)	(11,252)
Adjusted shareholders' funds – undiluted	**732,768**	822,343	925,861
– Property	**732,768**	624,212	674,558
– Investments	**–**	198,131	251,303

At 30 September 2006, the fair value of financial liabilities attributable to LMS equity holders exceeded their book value by £22.4 million after tax, equivalent of 6.79p per share on a basic shareholders' funds per share basis and 6.68p per share on a diluted shareholders' funds per share basis.

6 Investment property

	2006 £000
Balance at 1 April 2006	**1,023,565**
Amount included in prepayments under SIC 15	**6,854**
	1,030,419
Acquisitions and capital expenditure	**33,089**
Disposals	**(7,244)**
Fair value adjustment	**121,315**
Open market value at 30 September 2006	**1,177,579**
Amount included in prepayments under SIC 15	**(7,484)**
Balance at 30 September 2006	**1,170,095**

Included within Investment property is Investment property under development of £145.3 million as at 30 September 2006 (31 March 2006: £113.6 million).

All UK investment properties, land and buildings held within property and plant and equipment have been valued at 30 September 2006 on the basis of 'market value' in accordance with the Approved Valuation Manual of the Royal Institution of Chartered Surveyors.

98% by value of the properties have been valued by CBRE. The Group's joint venture property asset, Swinton Shopping Centre, which is not included in the table above, has been valued by Colliers CRE, and residential holdings classified as trading stock have been valued by Montagu Evans and CKD Galbraith.

7 Property, plant and equipment

	Assets under construction £000	Owner occupied property £000	Total land and buildings £000	Plant and equipment £000	Total £000
Cost					
At 1 April 2006	47,000	5,110	52,110	14,589	**66,699**
Additions	–	–	–	2,773	**2,773**
Disposals	–	–	–	(14,034)	**(14,034)**
Reclassification	(47,000)	–	(47,000)	–	**(47,000)**
Revaluation	–	803	803	–	**803**
At 30 September 2006	**–**	**5,913**	**5,913**	**3,328**	**9,241**
Depreciation and impairment losses					
At 1 April 2006	–	210	210	6,425	**6,635**
Disposals	–	–	–	(4,775)	**(4,775)**
Depreciation charge for the period	–	53	53	619	**672**
At 30 September 2006	**–**	**263**	**263**	**2,269**	**2,532**
Net book value at 30 September 2006	**–**	**5,650**	**5,650**	**1,059**	**6,709**
Net book value at 31 March 2006	47,000	4,900	51,900	8,164	60,064

8 Other investments

The Group has a 16% share in Brockton Capital Fund I L.P., a property opportunity fund. The Group's investment is shown at fair value. The total cash investment at 30 September 2006 was £5.5 million. The Group's uncalled capital commitment to the fund was £17.0 million.

9 Trading properties

Trading properties comprises:

– Scottish Land – the remaining parcel of approximately 10 acres of land in Scotland for which residential consent has been obtained and which is under option to be sold.

– Greenwich – following obtaining detailed residential planning consent the Group has determined that its most likely strategy is to develop the site in joint venture with other developers and investors and, accordingly, the asset has been transferred to trading stock at its 31 March 2006 fair value which reflected the benefit of the planning consent.

– The fair value of the trading properties at 30 September 2006 is £12.9 million in excess of book cost.

10 Cash and cash equivalents

	At 30 September 2006 (unaudited) Total £000	At 31 March 2006 (audited) Total £000	At 30 September 2005 (unaudited) Total £000
Bank balances	**13,667**	66,893	7,105
Call deposits	**750**	33,547	22,536
Cash and cash equivalents	**14,417**	100,440	29,641
Bank overdrafts	**–**	(5,477)	(8,345)
Cash and cash equivalents in the statement of cash flows	**14,417**	94,963	21,296
	14,417	100,440	29,641
– Property	**14,417**	52,889	9,935
– Investment Division	**–**	47,551	19,706

11 Borrowings

	At 30 September 2006 (unaudited) Total £000	At 31 March 2006 (audited) Total £000	At 30 September 2005 (unaudited) Total £000
Non-current borrowings			
6.5% Secured Bond 2026	**173,205**	173,158	173,112
£140 million Revolving Bank Loan 2012	**–**	–	139,102
£60 million Revolving Bank Loan 2009	**–**	–	27,000
£375 million Revolving Bank Loan 2013	**265,598**	206,352	–
Mortgages	**23,515**	23,516	65,638
Unsecured loans	**1,282**	1,547	1,034
Other non-current borrowings (all secured):			
– Investment Division	**–**	5,477	39,325
	463,600	410,050	445,211
Current borrowings			
Bank overdraft:			
– Property	**41**	71	82
– Investment Division	**–**	5,406	8,263
	41	5,477	8,345
Bank loans:			
– Property	**4,625**	4,625	4,625
– Investment Division	**–**	2,746	2,973
	4,666	12,848	15,943
Total borrowings	**468,266**	422,898	461,154

12 Deferred tax

	Assets at 30 September 2006 (unaudited) £000	Liabilities at 30 September 2006 (unaudited) £000	Net at 30 September 2006 (unaudited) £000
Property, fixtures and fittings	**–**	**(8,895)**	**(8,895)**
Investment property	**–**	**(118,884)**	**(118,884)**
Capital losses	**3,291**	**–**	**3,291**
Interest rate swaps	**–**	**(291)**	**(291)**
Employee benefits	**–**	**(265)**	**(265)**
Share option costs	**789**	**–**	**789**
Other items	**1,119**	**–**	**1,119**
Tax value of revenue losses	**2,466**	**–**	**2,466**
Tax assets/(liabilities)	**7,665**	**(128,335)**	**(120,670)**

12 Deferred tax continued

Movement in deferred tax

	Balance at 1 April 2006 £000	Recognised in Income £000	Recognised in Equity £000	Balance at 30 September 2006 £000
Property, fixtures and fittings	(8,404)	(491)	–	**(8,895)**
Investment property	(96,441)	(22,366)	(77)	**(118,884)**
Capital losses	12,396	(9,105)	–	**3,291**
Interest rate swaps	188	–	(479)	**(291)**
Employee benefits	(511)	(302)	548	**(265)**
Share option costs	–	936	(147)	**789**
Other items	1,343	(224)	–	**1,119**
Tax value of revenue losses	5,916	(3,450)	–	**2,466**
	(85,513)	(35,002)	(155)	**(120,670)**
Discontinued operations	(129)	–	129	**–**
	(85,642)	(35,002)	(26)	**(120,670)**
Share of tax on joint venture investment property recognised in profit before tax		(75)		
		(35,077)		

The deferred tax liability on investment properties is calculated taking account of the benefit of indexation relief. The impact of this is to reduce the liability by £90.5 million at 30 September 2006.

13 Reconciliation of movement in equity

	Six months ended 30 September 2006 (unaudited) £000	Year ended 31 March 2006 (audited) £000	Six months ended 30 September 2005 (unaudited) £000
Opening shareholders' funds	**826,922**	725,912	725,912
Issue of shares	**1,327**	131	–
Charge in connection with employee share options	**561**	327	154
Deferred tax benefit on employee share options accounting charge	**(147)**	(99)	(46)
	828,663	726,271	726,020
Total recognised income and expense for the period	**88,635**	122,053	24,578
Dividends	**(15,115)**	(21,402)	(14,838)
Dividend in specie in connection with demerger of Investment Division	**(298,238)**	–	–
Closing shareholders' funds	**603,945**	826,922	735,760

The demerger of the Group's Investment Division was effected by the payment to the Leo Capital Group of a dividend "in specie", comprising the assets of the Investment Division.

Leo Capital's entitlement to the dividend arose as a consequence of a reorganisation of the Group's share capital pre demerger. The amount of the dividend, £298.2 million, includes the net assets of the Investment Division at 8 June 2006, the demerger date, plus net cash of £47 million.

Principal properties

At 30 September 2006

Values in excess of £75 million

Strathkelvin Retail Park
Bishopbriggs, Glasgow
27,405 sq m (295,000 sq ft)

13 Fitzroy Street, London W1
8,454 sq m (91,000 sq ft)

Values in excess of £60 million

Qube
90 Whitfield Street, London W1
Under Development 10,126 sq m (109,000 sq ft)

2-10 Fitzroy Street and
18-24 Howland Street, London W1
Arup's HQ Phases 2 & 3 Under Development
13,240 sq m (142,500 sq ft)

Values in excess of £50 million

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

The Rotunda, Kingston
15,607 sq m (168,000 sq ft)

Greenwich Reach
Greenwich, London
3.1 hectare site (consent for 980 residential units and
6,967 sq m (70,000 sq ft) commercial space)

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

Values in excess of £40 million

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

19-35 Baker Street, London W1
7,135 sq m (76,800 sq ft)

Values in excess of £30 million

Swinton Shopping Centre†
Swinton, Greater Manchester
16,862 sq m (181,500 sq ft)

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

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

Values in excess of £20 million

163-170 Tottenham Court Road
London WC1
3,344 sq m (36,000 sq ft)

Lion & Lamb Yard, Farnham
6,605 sq m (71,105 sq ft)

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

City Road Estate, London EC1
8,918 sq m (96,000 sq ft)

28 Dorset Square, London NW1
2,109 sq m (22,702 sq ft)

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

Values in excess of £15 million

58-64 City Road, London EC1
3,860 sq m (42,000 sq ft)

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

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

30 Gloucester Place, London W1
2,202 sq m (23,705 sq ft)

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

†Full value of jointly-owned investment property.

London, Fitzrovia
London, Other West End
London, Islington, and City
Scotland
Other

Office
Retail/Leisure
Other
Strategic sites

Values in excess of £10 million

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

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

210 Old Street, London EC1
2,053 sq m (22,100 sq ft)

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

The Quadrant Arcade, Romford
6,364 sq m (68,500 sq ft)

3-4 South Place, London EC2
3,344 sq m (36,000 sq ft)

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

The Quadrant Centre, Bournemouth
7,673 sq m (82,775 sq ft)

Values in excess of £7.5 million

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

2-20 Winchester Road and
157a-173 Fellows Road, London NW3
880 sq m (8,400 sq ft)

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

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

Values in excess of £5 million

The Bargate Centre, Southampton
7,525 sq m (81,000 sq ft)

14 Pentonville Road, London N1
1,733 sq m (18,654 sq ft)

21-23 and 25-31 South Street, Romford
1,126 sq m (12,125 sq ft)

60 Commercial Road, London E1
2,179 sq m (23,455 sq ft)

22-66 Myddelton Square, London EC1

76-78 Charlotte Street, London W1
1,002 sq m (10,787 sq ft)

16-20 Baker Street, London W1
1,178 sq m (12,685 sq ft)

83 Farringdon Street, London EC4
1,325 sq m (14,263 sq ft)

Burlington Arcade, Bournemouth
1,447 sq m (15,600 sq ft)

27-33 Robert Adam Street, London W1
785 sq m (8,450 sq ft)

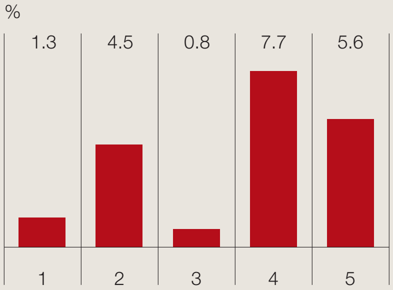
Portfolio breakdown

At 30 September 2006

	Values £m	Percentage of portfolio	Percentage like-for-like change	Gross rent roll £m pa	Initial yield %
London, Fitzrovia	**448.7**	**35.5**	**16.8**	**16.1**	**3.6**
Office	363.6	28.8	18.8	12.8	3.5
Retail and leisure	74.1	5.9	8.5	3.0	4.0
Other	11.0	0.8	13.7	0.3	2.7
London, Other West End	**202.0**	**16.0**	**14.4**	**7.9**	**3.9**
Office	130.4	10.3	16.1	5.6	4.3
Retail and leisure	33.3	2.6	8.9	1.7	5.1
Other	38.3	3.1	13.5	0.6	1.6
London, Islington and City	**246.9**	**19.6**	**7.9**	**15.3**	**6.2**
Office	226.2	17.9	8.6	14.5	6.4
Retail and leisure	5.9	0.5	5.3	0.2	3.4
Other	14.8	1.2	(0.4)	0.6	4.1
Scotland	**133.6**	**10.6**	**6.6**	**5.3**	**4.0**
Office	3.2	0.3	10.1	0.2	6.3
Retail and leisure	102.4	8.1	7.5	4.2	4.1
Other	1.2	0.1	4.1	0.1	8.3
Strategic sites	26.8	2.1	3.1	0.8	3.0
Other	**231.6**	**18.3**	**4.5**	**10.2**	**4.5**
Office	9.3	0.7	6.6	0.4	4.3
Retail and leisure	160.4	12.7	3.1	9.5	5.9
Other	4.5	0.4	8.5	0.3	6.7
Strategic sites	57.4	4.5	8.3	0.0	0.0
Total	**1,262.8**	**100.0**	**11.1**	**54.8**	**4.3**
Combined Fitzrovia and Other West End	**650.7**	**51.5**	**16.1**	**24.0**	**3.7**
Office	494.0	39.1	18.1	18.4	3.7
Retail and leisure	107.4	8.5	8.6	4.7	4.4
Other	49.3	3.9	13.6	0.9	1.8

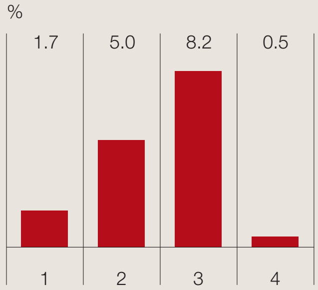
Summary use breakdown	Values £m	Percentage of portfolio	Percentage like for like change	Gross rent roll £m pa	Initial yield %
Office	732.7	58.0	14.8	33.5	4.6
Retail and leisure	376.1	29.8	5.8	18.6	4.9
Other	69.8	5.5	9.8	1.9	2.7
Strategic sites	84.2	6.7	6.6	0.8	1.0
	1,262.8	**100.0**	**11.1**	**54.8**	**4.3**

Void rate by location*
%



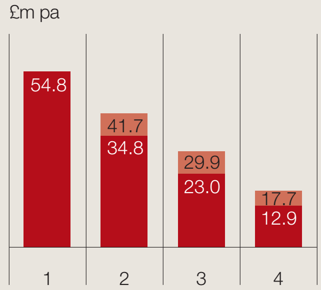
1 London, Fitzrovia
2 London, Other West End
3 London, Islington and City
4 Scotland
5 Other

Void rate by use*
%



1 Office
2 Retail and leisure
3 Other
4 Strategic sites

Security of income
£m pa



1 30 September 2006
2 Five years
3 Ten years
4 15 years

Gross rent roll
All contracted

*Excluding developments and properties held for development

Glossary

S106 Agreement

Section 106 of the Town and Country Planning Act 1990 allows a Local Authority to enter into a legally binding agreement with any person interested in land in their area for the purpose of restricting or regulating the development or use of the land, either permanently or during such period as may be prescribed by the agreement. Any such agreement may contain such incidental and consequential provisions (including financial ones) as appear to the Local Authority to be necessary or expedient for the purposes of the agreement.

Real Estate Investment Trust (REIT)

A REIT is a quoted company that owns and manages income-producing property, either commercial or residential. Most of its taxable income (at least 90%) is distributed to shareholders through dividends, in return for which the company is largely exempt from corporation tax.

REITs are designed to offer investors income and capital appreciation from rented property assets in a tax-efficient way, with a return more closely aligned with direct property investment. This is achieved by taking away the 'double taxation' (corporation tax plus the tax on dividends) of ordinary property investment.

For more information, visit www.reita.org

Important information

It is possible that this document could or may contain forward-looking statements that are based on current expectations or beliefs, as well as assumptions about future events. Undue reliance should not be placed on any such statements because by their very nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results, and LMS's plans and objectives, to differ materially from those expressed or implied in the forward-looking statements.

There are several factors which could cause actual results to differ materially from those expressed or implied in forward-looking statements. Among the factors that could cause actual results to differ materially from those described in the forward-looking statements are changes in political, economic, business, competitive, market and regulatory forces, future exchange and interest rates, changes in tax rates and future business combinations or dispositions.

LMS does not undertake any obligation (except as required by the rules of the UK Listing Authority and the London Stock Exchange) to revise or update any forward-looking statement contained in this document, regardless of whether those statements are affected as a result of new information, future events or otherwise.

This document does not constitute an offer to sell or invitation to purchase any securities or the solicitation of any vote or approval in any jurisdiction.

Shareholder information

Directors

G C Greene CBE*, Chairman
P J Grant CBE*, Deputy Chairman
The Hon R A Rayne, Chief Executive
N R Friedlos, Finance Director
M A Pexton, Corporate Development Director
B J Duroc-Danner*
D Newell*
Mrs J F de Moller*

*Non-executive directors

Secretary

S C Mitchley FCIS

Shareholder information

Financial calendar

Ex-dividend date	29 November 2006
Record date	1 December 2006
Final date for receipt of DRIP forms	18 December 2006
Interim dividend payment date	16 January 2007

Registered office

Carlton House
33 Robert Adam Street
London W1U 3HR
Telephone 020 7935 3555
Facsimile 020 7935 3737
www.lms-plc.com
Email co.secretary@lms-plc.com
Registered in England and Wales No. 7064

Registrars and transfer office

Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield HD8 0LA
www.capitaregistrars.com
Shareholder enquiries
Telephone 0870 162 3131
Email ssd@capitaregistrars.com

Trustee for 6.5% Secured Bonds 2026

The Law Debenture Trust Corporation p.l.c. London

Dividend payments directly into bank/building society accounts

Dividends for shareholders are paid through "BACS" and can be paid directly into a UK bank or building society account with the tax voucher sent direct to the shareholder's registered address. Please contact our Registrar for a dividend mandate form or contact the Company Secretary's department at the Company's Registered Office.

Low cost share dealing service

Through Stocktrade we offer our non-US resident shareholders an 'execution only' telephone share dealing service, which provides a way of buying or selling shares in the Company. The basic commission charge for this service is 0.5% of the total value of the sale or purchase amount, with a minimum charge of £15. If you are buying shares there will be an additional 0.5% stamp duty charge, with a PTM levy charge of £1 for single trades in excess of £10,000. To use this service, please telephone 0845 601 0995 between the hours of 8.30 a.m. and 4.30 p.m. quoting the reference Low Co 216. For details of the service available to US resident shareholders, please contact the Company Secretary's department at the Company's Registered Office.

ShareGift

Shareholders with a small number of shares, the value of which makes it uneconomic to sell them, may wish to consider donating them to charity through ShareGift, a registered charity administered by The Orr Mackintosh Foundation. The relevant share transfer form can be obtained from the Registrar. Further information about ShareGift is available at www.sharegift.org or by writing to: ShareGift, The Orr Mackintosh Foundation, 46 Grosvenor Street, London W1K 3HN.

Advisers

Auditor

KPMG Audit Plc, London

Banker

Barclays Bank plc

Broker

JPMorgan Cazenove

Solicitors

Clifford Chance
Berwin Leighton Paisner
CMS Cameron McKenna

Valuers

CB Richard Ellis Limited
Smiths Gore
Colliers CRE
Montagu Evans

UK taxation consequences resulting from the demerger of the Investment Division to Leo Capital plc

The comments set out below are intended only as a general guide to certain aspects of current UK law and the practice of HM Revenue and Customs applicable to LMS Ordinary shareholders resident or (in the case of individuals) ordinarily resident in the UK. The comments are of a general nature and concern only the position of LMS Ordinary shareholders who hold their shares as an investment and not as securities to be realised in the course of a trade. **Any LMS Ordinary shareholder who is in any doubt about their tax position or who may be subject to tax in a jurisdiction other than the UK should consult their independent professional tax advisers.**

Taxation of capital gains

(a) LMS Reorganisation of Capital

For the purpose of UK taxation of capital gains ('CGT') the LMS Reorganisation of Capital should not involve a disposal or part disposal by LMS Ordinary Shareholders but should be regarded as a reorganisation of the Company's share capital giving rise to no CGT.

(b) Scheme and Demerger

Leading tax counsel has advised that any capital gain on a LMS Ordinary shareholder's LMS Ordinary shares should be rolled over under the Scheme and the Demerger. This will mean that the Scheme and the Demerger will not themselves result in a disposal for CGT purposes for those LMS Ordinary Shareholders who (together with connected persons) hold 5% or less of any LMS Ordinary shares or debentures or class of debentures of LMS in issue and no chargeable gain or allowable loss will arise to them on the implementation of the Scheme or the Demerger. Thereafter their Leo Capital Ordinary shares will (subject to the apportionment of base cost discussed below) be treated as the same asset as their existing LMS Ordinary shares and as having been acquired as and when those existing holdings were acquired. The CGT base cost of their LMS Ordinary shares will be dividend between their LMS Ordinary shares and their Leo Capital Ordinary shares in proportion to the respective market values of those shares at the close of business on the first day of trading in the Leo Capital Ordinary shares on AIM.

Leading tax counsel has advised that although no tax clearances have been applied for by the Company, the CGT treatment of LMS Ordinary Shareholders who hold more than 5% of any LMS Ordinary Shares or debentures or class of debentures of LMS in issue should be the same as described in the previous paragraph.

(c) Worked Example

The first day of trading in the shares of the newly demerged Leo Capital was 12 June 2006. The closing mid market prices, according to the Daily Official List, for LMS and Leo Capital on that date were, respectively, 198.5p and 64.25p. Assuming that the base cost of the old LMS shares is 100p per share, the base cost of the new LMS shares is therefore calculated as 100 x (198.5/262.75), which results in a base cost of 75.547p per LMS share. On the same basis, the base cost of your new Leo Capital shares is 100 x (64.25/262.75), which equals 24.453p.

Taxation of income

Subject to the above, neither the LMS Reorganisation of Capital, the Scheme nor the Demerger should give rise to taxable income in the hands of a shareholder, save for any person who is a dealer or other financial trader.

Stamp duty and stamp reserve tax

No stamp duty or stamp duty reserve tax will be payable by LMS Ordinary shareholders as a result of the LMS Reorganisation of Capital, the scheme and the Demerger, including the issue of Leo Capital Ordinary shares.

The above comments do not apply, in particular, to shares held in or issued or transferred into depositary receipts or clearance arrangements, to which special rules apply.

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