London Merchant Securities plc
Annual Report and Accounts 2004

Highlights and Results 2003/04

£17.2m
Pre-tax profits
(2003 – loss £15.8m)

11.8%
Total property return
(2003 – 9.5%)

£39.8m
Operating profit
(2003 – £42.9m)

£54.0m
Net rental income
(2003 – £57.1m)

Front Cover: Development of Phase I of Arup's headquarters in the heart of LMS's Fitzrovia holdings. The building was redeveloped as part of LMS's ongoing regeneration of the area.

To produce high long-term rates of return to shareholders through investment in property, venture and development capital, employing a strategy of risk diversification.

Implicit in this is the continuous flow of dividends with liquidity from venture and development capital realisations.

6.4p
Dividend per share
(2003 – 6.3p)

37.7%
Gearing
(2003 – 36.9%)

+6.4%
Net assets
£758.0m (2003 – £712.1m)

14.5 years
Weighted average lease length
(2003 – 14.8 years)

+5.2%
Investment property values (like for like)
£856.2m (2003 – £823.1m)

+6.5%
Adjusted net asset value per share
229p (2003 – 215p)

The Board remains committed to delivering superior long-term shareholder returns through dividends and capital appreciation.

The Chairman's Statement

The results for 2003/04 show encouraging growth in the underlying value of the Group.

Net assets before minority interests rose to £758.0 million from £712.1 million in 2003, an increase of 6.4%, and equity shareholders' funds rose to £710.0 million (2003 – £678.9 million). Adjusted shareholders' funds per share rose to 229p (2003 – 215p). The balance sheet remains strong, with £57.5 million of cash, overall net indebtedness of £270.9 million and gearing of 37.7%.

Pre-tax profits were £17.2 million (2003 – loss of £15.8 million). These included £7.5 million of profits on disposal of venture capital investments, offset by £5.0 million of provisions. The return on equity for the year was 6.9%, with a five year rolling average return of 9.7% and a ten year rolling average of 17.4%.

Property Division
The value of investment properties increased to £856.2 million from £823.1 million in the prior year, a like-for-like increase of 5.2%. This is a good outcome and reflects the quality and well-balanced nature of the portfolio.

Net rental income of £54.0 million was lower than in the previous year (2003 – £57.1 million) and operating profit was consequently lower at £39.8 million (2003 – £42.9 million). This was a result of the sale of a large amount of secondary retail property, an opportunistic move taking advantage of an extraordinarily strong investment market, and of the inclusion in the prior year's figures of a £5.3 million lease termination payment in California. Set against this, there were some significant increases arising from new lettings and rent reviews.

The total property return was 11.8% (2003 – 9.5%), with a five year average of 13.6%.

The Group owns significant assets with either a very low or no yield. These comprise long leasehold reversions or land where a change of use is being sought. In Scotland our holdings include some 5,000 acres of undeveloped land presently in agricultural use, together with a number of developed and yielding assets. We will shortly complete the extension to Strathkelvin Retail Park which now comprises some 27,000 sq m (300,000 sq ft) of retail development on land originally in agricultural use. In addition, some 30 acres of agricultural land is subject to a planning application for housing. In London the Group continues to work on its eight acre site in Greenwich. It is expected that these assets will, in the years to come, produce both capital profits and development opportunities.

Investment Division
Performance stabilised with the investment assets ending the year with a book value of £191.9 million (2003 – £162.6 million). The Group continues to be prudent in its valuations and investments are held in the books at the lower of cost or impaired value – they are not revalued above cost.

Steps were taken during the year to extend the management of the Investment Division and to reorganise its structure through the subscription of new equity in Inflexion plc. The result of the transaction is to give London Merchant Securities a holding of 58.8% in Inflexion, which now has some £90 million under management. This transaction brings an experienced management team with expertise in UK development and buyout transactions which complements our in-house UK technology team.

Dividend
The Board is recommending the payment of a 4.4p final dividend per Ordinary share making a total of 6.4p for the year compared to 6.3p in the previous year. This is the 29th year of increased dividends.

Immediately after the Annual General Meeting in July 2004 the Deferred Ordinary shares in issue will be converted and will rank alongside the Ordinary shares for payment of dividend.


Graham Greene

The first such payment will be the interim dividend for the year ending 31st March 2005, payable in January 2005. The increased dividend requirement will not immediately be covered by recurring income from the property portfolio, but the Board is not planning any change to the dividend policy. The dividend requirement will be met in the medium term through a combination of property income and realisations from the Investment Division.

Board and Management

In March 2004 Nick Driver retired as Managing Director, after 34 years of dedicated service to LMS. His judicious management of our property portfolio has been a significant factor in the superior returns achieved and I should like on behalf of the Board and shareholders to express our gratitude. We are delighted that he is remaining as a consultant to the Company.

The process of strengthening our property management capability is continuing and the new Retail & Leisure Division is performing well. We have also strengthened our development team in preparation for a number of important projects.

In my half-year Statement I paid tribute to Lord Rayne, the Life President and founder of the Company in its present form, who died in October 2003. During his 40 years as Chairman, from 1960 to 2000, he had an extraordinary record of achievement. It is a tribute to him that I am able to report on a year when the Company has significantly outperformed the FTSE Real Estate index as well as the FTSE 250. We ended the year with the assets and management to sustain high levels of performance in the years to come.

Outlook

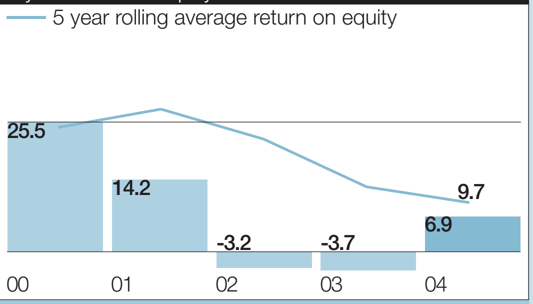
The general economic outlook has improved since I reported six months ago and this is reflected in our core property markets. We will continue to seek property investments with growth potential to add to our recurring revenue stream; but will only make acquisitions at prices which in our view will deliver long-term value for shareholders.

The improvement in markets is also benefiting companies held by the Investment Division. We believe that the next two to three years will see satisfactory realisations of many of the investments made during the current cycle.

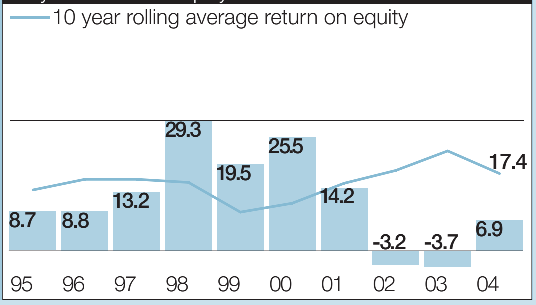
The Board remains committed to delivering superior long-term shareholder returns through dividends and capital appreciation. Our strong balance sheet and quality of management give us the flexibility to adapt to changing circumstances and take full advantage of opportunities for growth.

Graham Greene, Chairman
8th June 2004

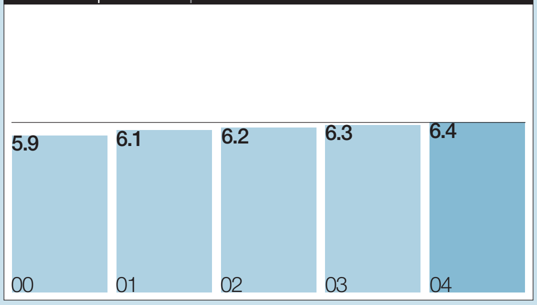
5 year return on equity %



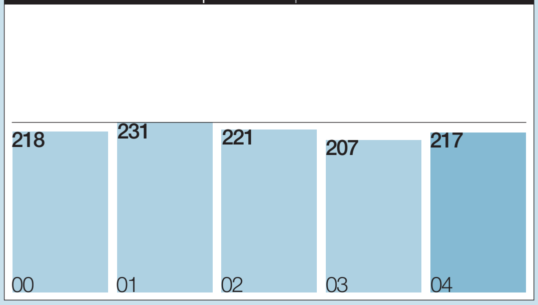
10 year return on equity %



Dividend per share pence



Shareholders' funds per share pence



Management team has been strengthened and prepared for the opportunities and challenges that lie ahead.

Chief Executive's Review

Introduction

The year under review saw the Group complete the rationalisation of the retail property portfolio, while adding to the stock of future development opportunities. The projects with planning consent when combined with those in the development pipeline give the Group a solid development programme for the next five to seven years. The Investment Division has continued to invest in and nurture its portfolio and has taken a significant strategic step with the acquisition of Inflexion plc. Gross property and Investment Division assets, taking account of the surplus over book value of the trading properties and quoted investments, grew to £1.093 billion from £1.015 billion the previous year, an increase of 7.7%.

Property

The Group's overriding objective is to combine capital growth with increasing net rental income, but there are times when it is appropriate to rationalise assets. The rationalisation of the retail portfolio was successfully achieved over the last 18 months without any material adverse effect on ongoing rental income. Gross rental income for the year was £58.4 million compared to last year's £62.6 million, which included an exceptional reverse premium of £5.3 million. Net rental income was £54.0 million (2003 – £57.1 million) and operating profit £39.8 million (2003 – £42.9 million). Further acquisitions were made during the year largely extending existing retail and office holdings to provide further medium-term redevelopment opportunities.

On the development front, Phase 1 of the Fitzrovia development comprising 8,454 sq m (91,000 sq ft) let to Arup was completed and we anticipate Phases 2 and 3 starting in the current financial year. The extension to the Strathkelvin Retail Park comprising some 10,000 sq m (107,000 sq ft) let to B&Q was commenced during the year and has now been handed over to the tenant.

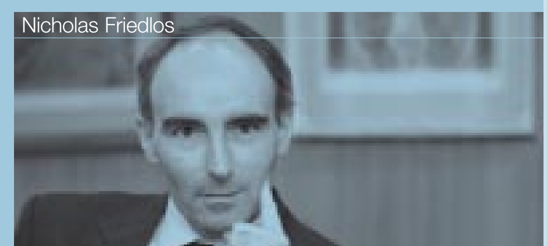
Investments

At the year end the Investment Division had a book value of £191.9 million. Sales proceeds during the year amounted to £24.1 million, and investments made were £46.9 million. As the quoted markets moved into positive territory with the Dow increasing by 30% and the FTSE by over 20% we realised £13.9 million of quoted investments. We are well positioned to take advantage of the next market cycle as world economies improve on a long-term basis and merger and acquisition activity rises.

The Investment Division has begun to restructure itself into a more flexible entity allowing for possible changes in the investment environment and in management requirements for the portfolio. As part of this process, we acquired ownership of some 58.8% of Inflexion plc, an AIM listed buyout and development capital company. Inflexion has some £90 million of funds under management.

After the 1995-2000 liquidity cycle where our investments generated more than £300 million of cash, we have experienced a period of capital absorption. These extreme cycles were


Robert Rayne


Nicholas Friedlos


Martin Pexton

ameliorated by the Group's diversified portfolio and an early shift of emphasis from technology investment to development and buyout companies. In the last three years our UK technology holdings have matured with improved management teams and growing revenues. We expect to be entering a period of generating net liquidity. At present several of our investee companies are subject to bids, with the sale of Ridgeway Systems & Software for $16 million having occurred since the year end.

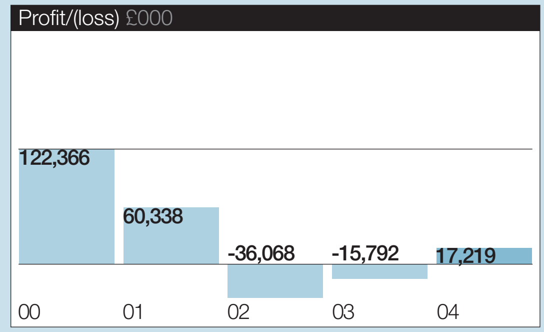
Outlook

The Group's diverse property portfolio includes several significant sites for redevelopment over the next five years. These should produce increases in rental income and asset value across the spectrum of office, retail and multi-use. The quality of tenants and the length of committed rental income provide a strong foundation for expanding the size of the portfolio. It is our strategy to grow the office portfolio around our core holdings and to continue to invest in retail in the top 100 towns in the UK.

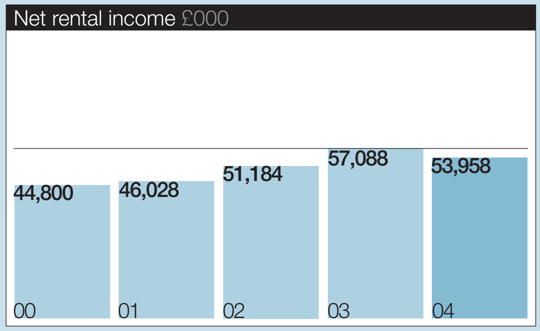
The Investment Division is entering a phase of maturity at a time when the markets appear conducive to providing liquidity. We remain committed to a strategy of diverse investments to achieve superior returns. We will retain a proportion of the Group's assets in higher risk, higher reward venture and development capital investments with state-of-the-art technology, supported by strong intellectual property and experienced management teams. These investments will be balanced with buyouts and development capital investments in both the UK and the US.

Your management team has been strengthened and is prepared for the opportunities and challenges that lie ahead.

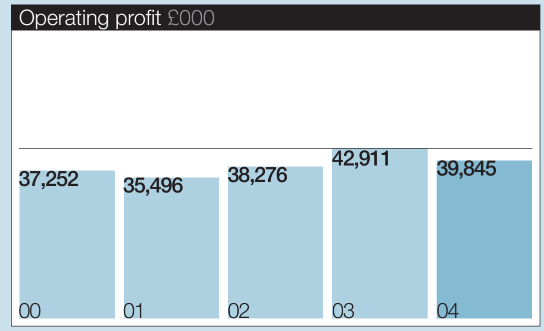
Profit/(loss) £000



Net rental income £000



Operating profit £000



Property Division: Generating high quality earnings

Total property return of 11.8% from a diversified office, retail and leisure portfolio valued at £895 million.

Strathkelvin
The retail park north of Glasgow has been extended to provide a new 10,000 sq m (107,000 sq ft) retail unit pre-let to B&Q, which is expected to be open for trading by the end of August 2004.

Operating Review
Property Division

Performance

Capital value

The valuation of our property holdings at the year end was £894.9 million. The investment portfolio at the year end was £856.2 million, a like for like increase of 5.2%. In addition to this, the value of the trading stock at the year end was £38.7 million, compared to £26.5 million in 2003 and a book value of £12.5 million.

Income

Net rental income for the year was £54.0 million, a fall of 5.4% reflecting predominantly the impact of the disposal of significant retail assets and the reverse premium of £5.3 million received in the US last year.

The aggregate gross annual rate of rent reserved under all leases was £56.6 million per annum, an increase of 0.4%.

The voids in the entire portfolio now stand at 6.7%, including properties held for redevelopment, and remain largely unchanged from the first half and previous full year. The level of voids excluding those properties held for redevelopment currently stands at 4.1%.

Assuming all lease breaks are exercised and all properties are vacated upon the expiry of their existing leases, 79% of the contracted rent roll is secured for five years, 45% for ten years and 37% for 15 years. The average unexpired lease term is 14.5 years (13.1 years including breaks).

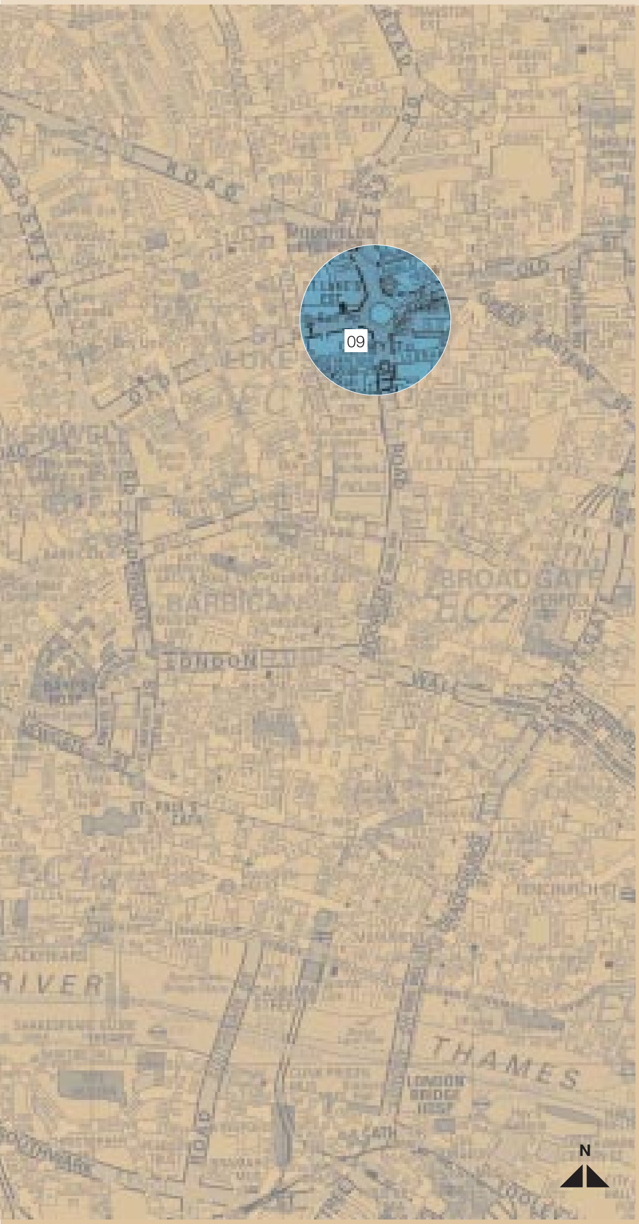
Total return

The total return for the year from the investment property portfolio was 11.8%. The annualised average for the last five years is 13.6%.

Business review

Rent reviews settled throughout the year have produced an increase of approximately £1.4 million per year, 44% ahead of the rents previously passing. The most significant of these was the review at 88 Rosebery Avenue in Islington, where a new rent was established at £29.50 per sq ft, an increase of over 100% of the previous rent. Significant contributions have also come from the Retail and Leisure portfolio; where an overall increase of 29% over the rents previously passing has been achieved through reviews and renewals.

Demand for Central London offices was generally weak albeit that pressure on rental values and lengthening rent free incentives now seem to have stabilised. Some 2,323 sq m (25,000 sq ft) of offices in small suites were successfully relet in the year. This includes

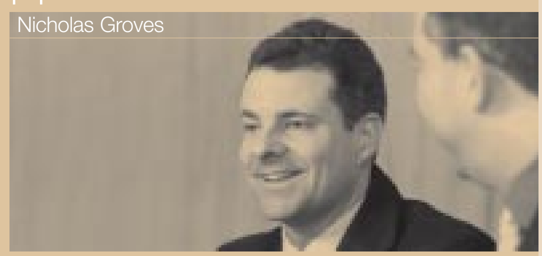


Principal Central London holdings by value

01 13 Fitzroy Street
02 The Angel Centre St John Street
03 80 Charlotte Street and 23 Howland Street
04 88 Rosebery Avenue
05 19-35 Baker Street
06 105 Tottenham Court Road
07 120-134 Tottenham Court Road
08 2-4 and 6-10 Fitzroy Street
09 The City Road Estate
10 163-170 Tottenham Court Road
11 80-85 Tottenham Court Road
12 18-24 Howland Street and 9/18 Maple Place
13 60 Whitfield Street
14 63 St James's Street
15 88-110 George Street
16 17-39 George Street
17 5-8 Hardwick Street
18 Bush House South West Wing
19 24-40 Gloucester Place
20 151 Rosebery Avenue
21 2-12 Pentonville Road
22 22-66 Myddelton Square
23 67-69 Whitfield Street and 8-15 Chitty Street
24 26-28 Dorset Square
25 61-63 Tottenham Court Road and 1-13 Goodge Street
26 14 Pentonville Road
27 16-20 Baker Street
28 76/78 Charlotte Street
29 70-74 Wigmore Street
30 31-33 Duke Street

Increasing demand in West End markets and strong development pipeline.

Nicholas Groves



lettings of 873 sq m (9,400 sq ft) of the total of 1,022 sq m (11,000 sq ft) of offices acquired last year at 76/78 Charlotte Street at rents ranging from £31 to £34 per sq ft.

Letting activity in the Retail and Leisure sector has remained strong, producing some £540,000 pa of additional income. The most significant of these were the further successful lettings at The Rotunda, Kingston where new 25 year leases on two units totalling some 697 sq m (7,500 sq ft) on the first floor have been concluded at a combined rent of £208,061 pa. These lettings take the percentage income secured to 92.5% of the estimated rental value of the Centre, with 1,120 sq m (12,050 sq ft) remaining to be let of which approximately 70%, 817 sq m (8,800 sq ft) is under offer.

New developments in core West End holdings of more than 300,000 sq ft.

Operating Review
Property Division

Development programme

Strathkelvin Retail Park, Glasgow
Work is nearly completed on the new 10,000 sq m (107,000 sq ft) retail unit,which has been pre-let to B&Q, at a rent of £1.29 million pa. B&Q plans to be open for trading by the end of August 2004. Negotiations are well advanced with a major retailer in relation to a substantial part of the 4,180 sq m (45,000 sq ft) unit that will be vacated by B&Q and strong interest exists in the remainder. On completion, the Park, at approximately 27,405 sq m (295,000 sq ft), will represent one of our largest and most valuable assets.

Fitzrovia Project, London W1
Construction of the 8,454 sq m (91,000 sq ft) first phase of this 18,952 sq m (204,000 sq ft) office project was completed on 5th October 2003. The rent payable has increased from £5 million to £6.6 million per year. Phases 2 and 3 are expected to start in the next 12 months.

105 Tottenham Court Road
Planning permission has been obtained, subject to the signing of Section 106 Agreement for the redevelopment of this building to produce 8,826 sq m (95,000 sq ft) of offices, 1,310 sq m (14,101 sq ft) of retail and a separate block of six residential flats. The scheme will create additional office accommodation of an enhanced quality. Construction could start by the early part of 2005 for completion at the end of 2006.

26/28 Dorset Square, London W1
The local planning authority has resolved to approve the Company's application for permission to undertake a major refurbishment of this building to provide 2,183 sq m (23,500 sq ft) of high quality offices. The current tenant is due to vacate in July this year and it is anticipated that construction will start towards the end of 2004.

Greenwich Reach
Comprehensive site clearance works have been completed, as a prelude to the river wall repairs and remediation works which are due to commence shortly. Revised scheme designs have been prepared for an amended mixed use scheme, which better reflects the residential nature of the site. Initial discussions have been held with the London Borough of Greenwich and the various other local consultative groups with a view to obtaining a revised planning consent. It is intended that the scheme design will be further refined in consultation with Greenwich with a view to preparing and submitting a revised planning application as soon as possible.

Strathkelvin
On completion of the new B&Q unit, the retail park will represent one of our largest and most valuable assets at approximately 27,405 sq m (295,000 sq ft).

Ian Mayhew, John Clark, David Brogan

Julian Diamond, Steven Dykes, Libby MacLennan

Badar Butt

Colin Hartford

Triangle Site, Wigmore Street/Marylebone Lane, London W1
Agreement has been reached on the formation of a joint company with Howard de Walden for the development of an island site at the junction of Wigmore Street and Marylebone Lane, London W1. The ultimate development should comprise some 3,000 sq m (32,300 sq ft) of new space.

Acquisitions
Three purchases were made, one of which was post year end, all in pursuance of our general policy of strategic acquisition of properties adjacent to existing buildings either as part of site assembly or where they will benefit from our own investment in the area.

10-11 East Bargate, Southampton
This long leasehold retail investment was acquired in June 2003 for £1.5 million. The property is

Actively seeking opportunistic acquisition of properties which will provide a balance of both revenue and redevelopment potential for the future.

Operating Review
Property Division

let to Maplin Electronics for a term to expire in November 2006, at a rent of £145,000 pa. The purchase is a strategic acquisition forming part of the site assembly for a future development scheme.

The Hippodrome, Brighton
This freehold property, let to Mecca Limited as a bingo hall at a current rent of £109,796 pa, was acquired in October 2003 for £1.6 million. The property is adjacent to our existing retail holdings in Dukes Lane and represents an important step in the possible assembly of a future development site.

36 & 37 Featherstone Street, London EC1
Subsequent to the year end, this freehold property comprising some 650 sq m (7,000 sq ft) of offices has been acquired for £1.7 million. The building occupies a corner location, which forms part of The City Road Estate, acquired in 2002, and is an important element in the assembly of a larger potential redevelopment site.

Disposals
In line with our policy of improving the quality of the portfolio and disposing of those assets with poor growth potential, further sales of Urbanfirst properties at Doncaster, Maidstone, Stirling and Cardiff were made yielding some £23 million showing a profit of £0.3 million. We have also sold a long leasehold interest in 88-110 George Street, London W1 to our joint company with Portman for £3.2 million, to remove the risk of a future negative revenue liability.

Outlook
The Group's core London holdings have held up well, largely as a result of the strength of tenant covenants and low level of voids. There are increasing signs that market conditions in the West End are beginning to improve at a time when we expect to have four significant refurbishment and redevelopment projects under way. In the next two years these could bring the total under redevelopment in our core West End holdings to some 28,427 sq m (306,000 sq ft).

In the retail sector, the competition and demand from occupiers and investors has led to continued buoyancy. The retail assets and in particular those retained following the sales of the Urbanfirst portfolio have continued to produce good income returns and capital growth, with some redevelopment potential which is being actively realised.

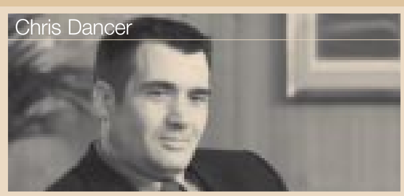
We will continue our current focus on the expansion and recreation of our core holdings, to improve their capital and revenue producing potential. We are also actively seeking opportunistic acquisition of properties which will provide a balance of both revenue and redevelopment potential for the future.

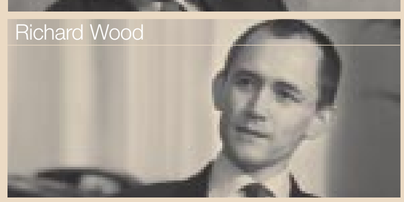
76/78 Charlotte Street

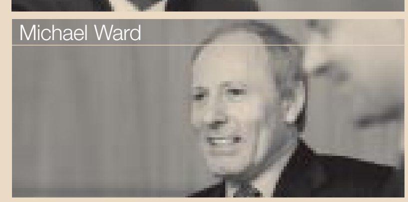
Acquired in March 2003, the property comprises 11,000 sq ft of offices (of which 9,400 sq ft were let during the year) and three residential flats which have been comprehensively refurbished.

Arup, Fitzrovia

Construction of the first phase of this 18,952 sq m (204,000 sq ft) office project was completed in October 2003.







Investment Division:
An opportunity to make high returns with managed risk

A UK and US portfolio of investments diversified across technology, development and buyout capital.

Energy Cranes International

ECI manufactures offshore cranes and provides crane related services to the offshore energy industry. LMS created ECI through the merger of Sparrows, which has a dominant position in the North Sea market, with American Aero and Titan, two businesses operating in the Gulf of Mexico and both already owned by LMS.

A resurgence of the IPO and M&A markets augurs well for an increasing stream of liquidity.

Strakan

Strakan is a speciality pharmaceutical company. It both markets products through its own sales forces across Europe and develops its own compounds which it then takes through to market or outlicences. Since 1999 LMS Capital has £9.3 million invested in Strakan, which is held at cost. Strakan's anti-angina product, Isotard XL, saw total sales rise by 30% in 2003, with total revenues growing by 45%.

Operating Review
Investment Division

Performance

The world's markets began the 2003/04 financial year at low levels with the Dow Jones at 8,069 and the FTSE 100 index at 3,684. The year ended substantially higher with a recovery starting in the quoted sector then percolating through to the private equity market. Indicative of this is the improvement in the IPO market in the first quarter of 2004. The LMS portfolio is risk diversified with a reasonable proportion of its assets in quoted stocks and the opportunity has been taken to release some profits during the period as the markets moved ahead. The current improvement in the equity market bodes well for third party funding requirements of our unquoted portfolio in the current financial year. Further we are pleased to report that the underlying trading in our investee companies has substantially improved over the last 12 months. At the year end there were four companies at various stages of acquisition/merger discussions.

The Investment Division ended the year with a book value of £191.9 million (2003 – £162.6 million). The market value at the end of the year was £200.6 million. During the year some £24.1 million of cash was realised from investment sales and some £46.9 million of cash was invested. The majority of investment comprised follow-on funding for the existing portfolio, which for the most part is now fully funded.

UK Portfolio

Strakan Group Limited

Strakan is a speciality pharmaceutical company which markets through its own sales forces across Europe.

LMS Capital has £9.3 million invested in Strakan, which is held at cost. The first investment was made in 1999.

The company is growing rapidly as a result of excellent organic growth in the UK and from its recent acquisition of OTL. Revenues grew 45% in 2003 over the previous year and are expected to increase by a similar rate in 2004. A number of development projects have reached critical Phase I and Phase II milestones during the year.

7 Global Limited

7 Global is the UK's leading provider of hosting infrastructure for software vendors providing software as a service.

LMS Capital has invested £12.9 million in 7 Global, which is held at £11.9 million. LMS Capital first invested in 7 Global in 2000.

7 Global expects an accelerating trend towards the delivery of software as a service as more customers choose rental options which no longer involve the ownership and maintenance of hardware and support resources. The market is showing increasing signs of moving in this direction and demand from software vendors has significantly picked up in the last two quarters. 7 Global has also launched a second line of business delivering hosted email, security and back-up services in the last three months.

Turnover for the year ended 31st March 2004 shows modest growth and the company's gross profit has increased by over 20%.

Portfolio Analysis

	LMS Capital and its subsidiaries £000	Inflexion plc £000	Total £000
Listed investments	27,372	9,234	36,606
Fund investments	38,411	6,403	44,814
Unlisted investments	110,465	–	110,465
Total	176,248	15,637	191,885


Michael Bennett


Shawn Pittman


Nick Habgood

Entuity Limited
Entuity develops and markets 'Eye of the Storm', an enterprise network management software suite. The product provides real-time visibility of fault, performance and resource allocation across an entire network in real-time.

LMS Capital has £5.9 million invested in Entuity, which is held at cost. The first investment was made in 2000.

Entuity has significantly improved its product functionality and the strength of its US sales force over the last year and is putting an emphasis on sales and marketing in the US over the coming year. This is expected to lead to increased revenues and larger sales per customer in 2004. The company has recently recorded a record revenue quarter.

Cityspace
Cityspace provides digital urban infrastructure solutions. Cityspace networks now exist in over 20 UK cities as well as Brussels, Gothenburg and Moscow. They provide street level access to modern digital services, provide infrastructure for 2G/3G mobile operators and broadband Wi-Fi coverage in urban environments.

LMS Capital has £6.3 million invested in Cityspace, which is held at cost. The first investment was made in 1995.

In the last year, Cityspace has sold and rolled out a record number of units and seen its billing increase over 100%. New revenue sources are being developed in mobile, Wi-Fi, transportation and transaction services which are expected to make a significant contribution over the next three years and to lead to a rapid growth in the number of networks and units deployed.

Recognised revenue for the financial year ending 30th June 2004 is expected to show a 100% increase over the previous year, with invoicing levels (a more relevant indicator of performance) showing even greater growth.

First Index Group Limited
First Index provide sourcing services for the global custom manufactured parts industry. First Index provide products and services which allow major OEM manufacturers to identify, qualify and then to receive quotes from new suppliers, often in low cost countries such as China, India and Mexico. First Index also provides suppliers with a subscription based lead service to access quotes from OEM manufacturers.

LMS Capital has £3.9 million invested in First Index, which is held at cost. The first investment was made in 2000.

The company has seen strong growth in its new services for large OEMs and has increased its resources in low cost countries to service the growing demand for expertise in these regions. Revenues from this source grew by over 50% compared to the previous year.

Vio Worldwide Limited
Vio provides software and services that facilitate the transportation and management of large digital files (digital workflows) within the advertising, printing, publishing and graphics arts sectors. In addition to providing software applications on a hosted basis, the Company provides and manages telecoms connectivity and networks. Vio is headquartered in the UK with sales and marketing operations in France and USA and an R&D operation in Israel.

LMS Capital has £7.3 million invested in Vio, which is held at cost. The first investment was made in 2002.

The expansion of the development and buyout capital business has been satisfactorily concluded with the Inflexion acquisition; and the technology investments are on plan to mature over the next few years.

Sound investment in state-of-the-art technology, supported by strong intellectual property and experienced management teams remains the way to achieve superior returns.

Operating Review
Investment Division

During the year the Company made excellent progress, growing sales by around 250% and establishing a strong presence in the UK and French markets and making its first inroads into the US market. Also during the year the Company strengthened the management team with the appointment of a new CFO and in May 2004 a new US-based Chief Executive.

Wesupply
Wesupply is the provider of a hosted ‘Supply Chain Execution Management’ software solution that allows real-time collaboration between a manufacturer and its suppliers or customers. The solution can be deployed in just 90 days and pay-back is as little as 180 days. LMS Capital has £8.0 million invested in Wesupply, with a book value of £6.0 million. The first investment was made in 2000.

The company is starting to experience rapid growth from a combination of incremental adoption across the existing customer base and the addition of new customers.

A new, experienced Chief Executive was brought into the Company in October 2003 and has successfully repositioned the company and built an experienced enterprise software sales team.

CopperEye
CopperEye is a provider of high performance, patent protected data indexing technology. The company delivers software for developing extremely high-performance data repositories needed by applications that handle very high transaction rates or very large historical data volumes.

LMS Capital has £3.5 million invested in CopperEye, which is held at cost. The first investment was made in 2001.

During the course of the last financial year the founder managers have been supplemented with an experienced, US-based Chief Executive.

Energy Cranes International (ECI)
ECI manufactures offshore cranes and provides crane related services to the offshore energy industry. LMS created ECI through the merger of Sparrows, a business it acquired in March 2003 and which has a dominant position in the North Sea market, with American Aero and Titan, two businesses operating in the Gulf of Mexico and already owned by LMS.

The total capital invested by LMS in the business is £18.5 million, with a similar amount of debt provided by ECI’s bankers. The business should record turnover of approximately $130 million in its first full year and achieve EBITDA of around $10 million.

ECI is the largest business of its type in the world and is well-positioned over the next three to five years to provide the offshore energy industry globally with outsourced, professionally managed crane services that deliver the health and safety and operational performance required by the industry.

ITS
ITS provides specialist engineering design and high quality fabrication solutions principally to the energy industry. It has particular expertise in steam generation and gasification, and is forging strategic partnerships with a number of process development companies in the oil and gas and alternative energy industries.

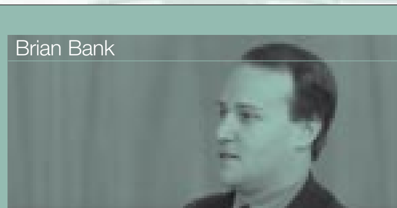
LMS has £7.6 million invested in ITS. The business is expected to record turnover of approximately $20 million in 2004 and achieve EBITDA of $1.5 million.

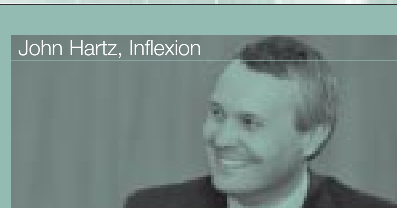
ITS’s first strategic partnership, a joint venture of which it owns 50%, has substantially completed the construction of a commercial scale demonstration plant in California for the recovery of heavy oil deposits through the application of steam in the reservoirs. Initiatives such as this open up significant earnings potential for the company.

Inflexion

The acquisition of a majority stake in Inflexion plc provides a platform for future activity in the UK private equity market and will strengthen the management of LMS's investment interests. Inflexion led the £22 million acquisition of Ster Century Cinemas, a multiplex operator in the UK and Ireland.


Scott Potter


Brian Bank


John Hartz, Inflexion


Simon Turner, Inflexion

US Portfolio

GoBeam/Covad

GoBeam Inc. delivers high quality, highly affordable and feature-rich VoIP telephony solutions to small and mid-size businesses.

LMS has invested a total of $3.1 million into GoBeam and has a 6.4% interest. It is held in the books net of provisions at £1.3 million.

In March 2004 it was announced that GoBeam would be acquired by Covad Communications Group. Covad is a leading national broadband service provider of high-speed Internet and network access utilising Digital Subscriber Line (DSL) technology. It offers DSL, T1, managed security, hosting, IP, dial-up services and bundled voice and data services directly through Covad's network and through Internet Service Providers, value-added resellers, telecommunications carriers and affinity groups to small and medium-sized businesses and home users. Covad will acquire GoBeam in a transaction valued at $48 million (at the time of the deal's signing). GoBeam's stockholders will receive Covad shares in exchange for their GoBeam shares.

Rave Motion Pictures

Rave Motion Pictures ('Rave') builds and operates stadium cinema 'mega-plexes' (12-20 screens) in the Southwest, Midwest, and Southeast regions of the United States. Rave targets markets with populations between 250,000 and 750,000 people in an effort to create new film zones where no stadium competition currently exists. Rave's theatres are distinctly hip and modern, while at the same time maintaining a cost of construction below that of their competitors.

LMS invested a total of $10 million in Rave in 2002 and currently holds a fully diluted position of 13.8%.

Rave currently has 13 theatres open, with three new builds under construction and several new sites being evaluated. Its 2003 financial year revenues and cash flows were on plan and the company is forecasting better than 100% growth in its 2004 financial year.

Method Products Inc

Based in San Francisco, Method Products Inc, is a company established in 2000 with the goal of evolving the household cleaner from an object that lives under the sink to a more attractive countertop accessory. Method's strategy is to use design, fragrance and environmentally friendly ingredients to re-define the $5 billion category of household cleaning products. In its short operating history, Method has successfully gained distribution in over 6,500 retail locations in the US and Japan. Major retailers include Target, Safeway, Publix, Albertsons, Ralphs, Linens 'n Things, and Wegmans.

LMS invested $475,000 into Method in late 2003 as part of a round of financing led by the existing investor group, including Tim Koogle (former chairman and CEO of Yahoo!) and Sumitomo Corporation.

Method's 2003 revenue represented better than 200% growth over 2002, with similar growth forecast for its 2004 financial year.

Chief Executive's Summary

The expansion of the development and buyout capital business has been satisfactorily concluded with the acquisition of 58% of Inflexion; and the technology investments are on a plan to mature over the next few years.

The last financial year saw a satisfactory performance with rent reviews and renewals. The Group now has four sites in the West End with planning consent for redevelopment, two of which are pre-let. Further, another five sites are at different stages of pre-planning; these provide substantial potential for rental and asset growth over the next five to seven years.

In a period when it is becoming increasingly difficult to acquire investment or development opportunities in the open market, the Group is well positioned with a number of attractive schemes already in the portfolio.

Robert Rayne, Chief Executive
8th June 2004

Net asset value **(TABLE A)**

	2004 £'m	2004 Pence per share	2003 £'m	2003 Pence per share
Shareholders' funds per balance sheet	710.0	217p	678.9	207p
Deferred tax provision not expected to crystallise	8.0		6.6	
Excess of value over book				
– Trading properties at directors' valuation less tax on planned disposals	23.8	7p	15.0	5p
– Quoted investments at market value	8.3	3p	4.2	1p
Adjusted net assets	750.1	229p	704.7	215p
Contingent tax liability on disposal of properties at balance sheet value	(41.0)		(29.9)	
Additional tax on disposal of investments and trading properties at valuation	(4.3)		(5.9)	
Contingent tax asset on disposal of venture capital investments at balance sheet value	8.0		8.0	
Mark to market of fixed rate borrowing	(45.0)		(46.5)	
Triple net assets	667.8	204p	630.4	192p

Financial Review

Adjusted net asset value
Adjusted net asset value includes the revaluation surplus on trading properties, net of tax where realisation is planned, and excludes deferred tax provided in respect of capital allowances where no tax payment is expected to crystallise. It also includes the excess of market value over cost on quoted investments.

Adjusted net asset value increased from 215p per share to 229p per share over the course of the year, on an undiluted basis.

The 'triple net' asset value over the year has increased from 192p per share to 204p per share. The net asset per share calculations are set out in Table A above.

Operations
Operating profit
Operating profit for the year is £39.8 million (2003 – £42.9 million). The reduction principally reflects the loss of one off income in the prior year of £5.3 million in relation to a lease termination payment in the US, offset by other net increases in rental income and reductions in property outgoings. The result includes operating losses of Inflexion plc for the two months post acquisition of £0.4 million.

Acquisition of Inflexion
With effect from 6th February 2004 the Group acquired a 58.8% interest in Inflexion.

The acquisition consideration was £18 million and associated costs £0.1 million. The consideration was satisfied by the transfer to Inflexion of investments and gilts from the existing LMS portfolio with a value of £12 million plus cash of £6 million. Negative goodwill of £0.4 million has been recognised in respect of the acquisition.

LMS plc has committed to invest a further £15 million in Inflexion plc, by way of new equity. The timing of the investment is at the option of LMS plc, but no later than 30th September 2009. The investment must be made during a 30 day period following the publication of Inflexion plc's results for its financial years 31st March 2004 to 31st March 2009. The investment will be at a price per share equal to 90% of the reported net asset value per share per ordinary share for the relevant year.

Included in the consolidated operating profit is a loss of £353,000 in respect of Inflexion for the period from 6th February 2004 to 31st March 2004. After taking account of interest income on cash balances, income from investments and profits on disposal, Inflexion contributed £116,000 to profit before tax, of which the Group's share is £68,000. Inflexion's results were consistent with the Group's expectations at the time of the acquisition.

Gross rental income
Gross rental income for the year was £58.4 million (2003 – £62.6 million). The 2003 result included a £5.3 million exceptional receipt following a lease termination in the US. Excluding this exceptional item, gross rental income has increased year-on-year by £1.1 million. Table B on page 22 analyses the year-on-year changes.

Property outgoings and other operating costs
The net property outgoings borne by the Group were £4.4 million (2003 – £5.5 million).

- Adjusted net asset value per share up 6.5% to 229p per share.
- Portfolio valuation up 5.2%.
- Return on adjusted net assets per share 9.5%.
- Net positive contribution from the investment business.

Nicholas Friedlos

This includes rent payable on long leasehold interests of only £60,000 (2003 – £0.3 million).

Net rental income after net property outgoings was £54.0 million (2003 – £57.1 million).

Administrative and other expenses for the year, excluding the impact of Inflexion, were £14.5 million. This compares to £15.2 million in 2003. Inflexion's expenses amounted to £0.6 million giving a consolidated total for the year of £15.1 million.

Investment activities

Property investment

Profits on the disposal of investment properties for the year were £0.3 million compared to £6.4 million in 2003. The principal disposals were early in the first half of the year and took place at the 31st March 2003 balance sheet values, hence they did not result in significant accounting profits.

Investment Division

Taking account of realised gains less net movements in provisions, the Investment Division activities produced a surplus for the year of £3.2 million (2003 – deficit £40.2 million).

Realisations of investments produced profits for the year in excess of book value of £7.5 million (2003 – £11.0 million). The book values and historic cost of the investments disposed of were £16.1 million and £24.9 million respectively.

Provisions for estimated impairment in value in the investment division portfolio, net of write backs were £5.0 million (2003 – £51.4 million). This comprises:

	£'m
– Net write backs on listed portfolio	(2.7)
– Net provisions in respect of fund investments	2.0
– Provision in respect of unlisted investments	4.4
– Group's share of limited partnership administration costs	1.3
	5.0

The result for the year represents an improved outlook generally for the venture capital business and for the individual prospects for the Group's investments in particular.

Net finance costs

Net finance costs for the year were £26.1 million (2003 – £25.0 million). Interest payable, excluding amortisation of issue costs, net of interest receivable was £23.7 million (2003 – £21.1 million), reflecting increased average indebtedness during 2004. There were in addition debt breakage costs of £1.2 million in connection with breakage of mortgage debt on the Urbanfirst properties disposed of, and exchange losses of £1.1 million on dollar deposits.

Taxation

The tax charge for the year was £3.9 million (2003 – £7.4 million).

The current year charge benefits from a low effective rate of tax on capital profits. The prior year charge was high due to a significant proportion of capital profits arising in the US, and being subject to a higher effective tax rate, and the incidence of a one off US tax charge following the change in domicile of one of the Group's investee companies to Bermuda.

Investment properties

Investment properties are included in the balance sheet at £853.6 million at 31st March

Gross rental income analysis **(TABLE B)**

	£'m	£'m
Gross rental income 2003		62.6
Less: Exceptional income		(5.3)
		57.3
2004 events		
– Sale of retail assets	(5.1)	
– New lettings	2.2	
– Rent reviews and renewals (inc. back rent)	2.5	
– Full year effect of 2003 activity	2.6	
– Other	(1.1)	1.1
Gross rental income for the year 2004		58.4

Cash inflows/(outflows) **(TABLE C)**

	2004 £'m	2003 £'m
– Cash generated from operating activities, net of costs of servicing finance	17.5	11.8
– Property disposals less property investment	7.7	(8.0)
– Investment Division net expenditure	(22.7)	(34.6)
– Dividends, taxation and sundry items	(19.6)	(24.6)
– Acquisition of subsidiaries (excluding Inflexion)	(1.1)	(23.9)
Outflows excluding Inflexion acquisition	(18.2)	(79.3)
– Impact on consolidated indebtedness of acquisition of Inflexion	10.7	–
Outflows including Inflexion acquisition	(7.5)	(79.3)

Financial Review

2004 based on open market valuations by external valuers. The surplus on revaluation amounted to £42.7 million of which £40.3 million was attributable to the Group and £2.4 million attributable to minorities.

Properties, principally retail assets, with a book value of £22.2 million were sold during the year.

Capital expenditure in the portfolio during the year amounted to £17.8 million. Significant items included the purchase of Brighton Hippodrome for £1.6 million, and expenditure on Phase I of the Arup development and on the B&Q development at Strathkelvin of £4.3 million and £7.6 million respectively. Trading properties in the balance sheet with a cost of £12.5 million were valued at 31st March 2004 by the directors at £38.7 million. Whilst not included within the balance sheet, the revaluation surplus on these assets is incorporated in the adjusted net asset calculation.

Investment Division investments
Investment Division investments are included in the balance sheet at cost less amounts written off and provision for estimated impairment value. At 31st March 2004 these investments amounted to £191.9 million, an increase of £29.2 million compared to the prior year. Additional investment in the year amounted to £44.6 million, the most significant items being Energy Cranes International £6.6 million; Weatherford £4.5 million; UK unquoted portfolio £17.6 million; and limited partnership funds £11.2 million.

The investment at 31st March 2004 includes £15.6 million of investments owned and managed by Inflexion.

Cash flow
Net indebtedness in the consolidated balance sheet increased by £8.4 million from £262.5 million at 31st March 2003 to £270.9 million at 31st March 2004. £7.5 million of this movement was a net cash outflow, the remainder being due principally to exchange differences.

The Inflexion acquisition involved payment to Inflexion of £6.75 million of cash and gilts. Although part of Inflexion cash, this amount remains in the consolidated balance sheet together with other Inflexion cash balances which at acquisition amounted to £10.7 million. The net result of the Inflexion acquisition on consolidated cash is therefore an increase of £10.7 million.

Table C above summarises cash inflows/(outflows) before and after the impact of the Inflexion acquisition.

Debt
The Group's external borrowings, cash balances and net indebtedness together with weighted average maturity and interest rate are summarised in Table D.

With the exception of £2.0 million (2003 – £2.0 million) the Group's long-term borrowings are at fixed rates of interest. The upward adjustment of the Group's long-term liabilities to fair value amounts to £48.3 million (2003 – £50.0 million) on a post tax basis. Of this total amount, the Group's share is £45.0 million (2003 – £46.5 million).

The Group is conservatively geared. At 31st March 2004, based on net indebtedness

(TABLE D)	2004 £'m	2003 £'m
External borrowings		
– 10% Five Mortgage Debenture Stock 2018	97.1	97.0
– 6.5% Secured Bonds 2026	173.0	172.9
– 9.69% Mortgage 2018	20.0	20.0
– Other mortgages and unsecured loans	38.3	49.9
Net liquid resources	(57.5)	(77.3)
Net indebtedness per balance sheet	270.9	262.5
Exclude Inflexion cash for gearing calculation	14.6	–
Net indebtedness for gearing calculation	285.5	262.5
Weighted average maturity of Group debt	17.6 years	18.3 years
Weighted average interest rate on fixed rate debt	7.8%	7.8%


Victoria Harper


Anju Vijan, John Townley, Brian Steggall


Paul Dickson


Dawn Brand

excluding cash held by Inflexion plc, the balance sheet gearing is 37.7% (2003 – 36.9%). Approximately 37% of the Group's property value is financed by borrowings.

The security of the Group's income and financing continues to be recognised and it is well positioned to fund existing and future activities. The Group's tenants are well diversified, 47% are rated, 30% at A minus or higher.

The Group's corporate credit rating from Standard & Poor's is BBB and the 6.5% Secured Bonds are rated A.

Capital commitments
Capital commitments at 31st March 2004 are £82.3 million (2003 – £101.8 million). Of this, £28.1 million relates to property expenditure, principally the completion of the B&Q development at Strathkelvin and Phases II and III of the Arup development. £54.2 million of the overall commitment arises in the investment division and relates to commitments to participate in venture capital partnerships in the UK and US. Such commitments, which are usually called down over a three to four year period, have historically been funded from proceeds of realised investments from the partnerships or direct investments, although not necessarily in the same accounting period. Included within this is Inflexion plc's commitment to subscribe to its funds.

Accounting issues
There have been no changes which affect the basis of measurement of the Group's results.

As explained in the interim statement to 30th September 2003, the Group reflects as a period cost, its share of the administrative costs of the various limited partnerships in which it invests. It has previously included these, along with its own administrative expenses, as part of operating profit. These costs are under the control of individual fund managers and are funded from the capital invested. They have therefore been reclassified and combined with amounts written (off)/back investments. The reclassification amounted to £1.3 million in 2004 and £1.4 million for 2003.

Following the acquisition of Inflexion and the consolidation of its results into the Group's accounts, there is now a separate caption for investment management income in the consolidated profit and loss account. Investment management income from the existing investment division activities, which has previously been credited against administrative and other expenditure, is now shown separately to be consistent.

Along with all other listed companies the Group will be required to report in accordance with International Accounting Standards. The first financial period for which this will be required will be the Group's financial year to 31st March 2006. The Group has established an internal working group, supported by appropriate external advice, to manage the transition process. Progress is monitored at both Audit Committee and Board level.

Nicholas Friedlos, Finance Director
8th June 2004

Report of the Directors

The directors submit their report and the financial statements of the Group for the year ended 31st March 2004.

Results and dividends

The Consolidated Profit and Loss Account for the year is set out on page 34. An interim dividend of 2p per share was paid on the Ordinary shares on 16th January 2004. The directors recommend a final dividend of 4.4p per Ordinary share making 6.4p (2003 – 6.3p) per Ordinary share for the year. If the final dividend is approved, it will be paid on 28th July 2004 to the holders of the issued Ordinary shares on the register at the close of business on 18th June 2004.

Principal activities and business review

The principal subsidiary undertakings of the Group and their activities are shown in note 11 on page 47. Further details of these activities are given in the Chief Executive's Review and Operating Reviews on pages 4 to 19 and the Financial Review on pages 20 to 23.

Property

The Group's investment properties were valued at 31st March 2004 on the basis explained in note 9 on page 46. 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 56.

Health and safety policy

A statement of the Company's Health and Safety policy is shown on page 56.

Directors

The directors of the Company, are those listed on page 64. Mr N G E Driver who held office during the year, resigned as a director of the Company on 11th March 2004. The Hon R A Rayne and The Hon J M Wilson will retire by rotation and offer themselves for re-election at the forthcoming Annual General Meeting in accordance with the Company's Articles of Association.

Directors' interests and service contracts

These are disclosed in the Remuneration Report of the Board of Directors shown on pages 28 to 32.

Share capital

Details of changes in the issued share capital during the year ended 31st March 2004 are given in note 20 on page 52.

Conversion of the Deferred Ordinary shares

The Ordinary shares and the Deferred Ordinary shares constitute a single class of share ranking pari passu in all respect, except that the Deferred Ordinary shares do not entitle their holders to receive any dividend before the conclusion of the Annual General Meeting on 21st July 2004, at which time the Deferred Ordinary shares will be automatically converted into the same number of Ordinary shares. The first dividend that the converted Deferred Ordinary shares will rank for a dividend will be the interim dividend in respect of the year ended 31st March 2005.

Further details of the conversion process shareholders of the Deferred Ordinary shares should refer to the letter sent to them dated 21st June 2004.

Directors' authority to allot shares

The purpose of special resolution 8 set out in the Notice of the Annual General Meeting is to renew the power of the directors to allot up to 16,379,227 Ordinary shares of 27$\frac{18}{41}$p each (in aggregate representing approximately 5% of the issued share capital of the Company at 24th May 2004) for cash as if the statutory pre-emption rights did not apply to such allotment. The power is to expire 15 months after the passing of the resolution or at the end of the next Annual General Meeting of the Company, whichever first occurs.

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 2004 represented some 24 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 charitable 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 £7,500.

Substantial shareholdings
The Company has been notified of the following material interests of 3% or more of its share capital at 24th May 2004.

	Ordinary shares	%	Deferred Ordinary shares	%	Total of issued share capital %
Lady Rayne†	44,621,698	18.31	30,164,855	35.93	22.83
The Estate of Lord Rayne*	17,557,538	7.21	–	–	5.36
Trustees of the Rayne Foundation*	14,817,277	6.08	–	–	4.52
Credit Lyonnais Securities	2,175,000	0.89	5,925,000	7.06	2.47
Cantor Fitzgerald Europe	7,326,212	3.01	–	–	2.24
Man Financial Limited	7,347,692	3.02	–	–	2.24

*Non-beneficial.
†Includes common interests held by The Estate of Lord Rayne and the Trustees of the Rayne Foundation.

The Company has not been notified of any non-material interests of 10% or more of its share capital at 24th May 2004.

By order of the Board

Simon Mitchley Company Secretary
8th June 2004

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.

Corporate Governance

The Combined Code
The Board confirms that the Company has complied with the Principles and Provisions of the Combined Code in effect for the year ended 31st March 2004. The Company has made significant progress in formalising existing policies and procedures in response to the revised Combined Code on which we shall be reporting next year. This report should be read in conjunction with the Directors' Remuneration report on pages 28 to 32, the biographies and experience of the directors on page 64 and the Directors' Responsibility Statement on page 25.

The Board
Responsibilities The Board is responsible for setting strategic aims, ensuring necessary resources are in place to meet its objectives, reviewing management performance, ensuring the integrity of financial information and financial controls and systems of risk. The Board met eight times during the year and has a number of matters reserved for its approval, including major investment expenditure, financing and dividend policy. Details of the committees of the Board, each of which has clear terms of reference, and their responsibilities, membership and activities during the year are listed in this report.

Structure The Board has eight directors, three executive and five non-executive, their details and experience is given on page 64. The separate roles of the non-executive Chairman and the Chief Executive are clearly established. All the non-executive directors are considered by the Board to be independent in character and judgement and neither represent a major shareholder group nor have any significant involvement in the day to day management of the Group.

Mr P J Grant, the Deputy Chairman is the senior independent director and is available to shareholders if normal channels of contact are not appropriate.

Directors' concerns which cannot be resolved are recorded in the Board minutes. There is appropriate insurance cover in respect of legal action against the directors.

Information and development The Board and its Committees are provided with full and timely information to enable them to discharge their responsibilities. The Board ensures that all new directors are sufficiently apprised of the Company's business and their duties as directors. 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 Board and its Committees continually monitor and review their own performance and the contribution made by individuals. As part of the continual evaluation, the Board has carried out a review of the information provided to the Board and the formal schedule of matters reserved for its approval. In addition the Board has reviewed the terms of reference of its Committees and the formal evaluation carried out by the Audit Committee.

Re-election of directors All directors are subject to election by shareholders at the first Annual General Meeting after their appointment and to re-election thereafter at intervals of no more than three years. The Hon R A Rayne and The Hon J M Wilson are due to retire by rotation at the forthcoming Annual General Meeting and their experience is given on page 64.

The Combined Code requires that non-executive directors should not be appointed for more than nine years. It is the Board's view that whilst such limits help to ensure that fresh ideas and views are available to the Board, they have the significant disadvantage of losing the contribution of directors who have a wealth of understanding of the Group's business. No overall limits are therefore imposed on the term of appointment for non-executive directors. Whenever non-executive directors are due to retire by rotation, their continued appointment for up to a further three years is subject to consideration by the Nomination Committee and approved by the Board. The Board considers that this review is sufficient to comply with the requirements of the Combined Code.

Directors' Responsibility Statement The Statement of the directors' responsibility to prepare financial statements, required by the Combined Code is given on page 25.

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 financial statements

Institutional shareholders A programme of presentations to institutional shareholders is implemented after results announcements and investors are encouraged to meet executive directors during the year. The Chairman, the senior independent director and non-executive directors are available to attend meetings requested by major shareholders. The Board is regularly apprised of the views of investors, analysts and the media. Reports are made available to the Board on feedback received on an unattributable basis from analyst briefings and investor road shows carried out regularly by management.

The Annual General Meeting The Board believe that the Annual General Meeting is a good opportunity to communicate with all investors and the Company provides time for shareholders attending to meet and discuss matters with members of the Board outside the formal meeting.

All proxy votes are counted and after each resolution has been dealt with on a show of hands the level of proxies lodged and the balance of votes is indicated. The number of proxy votes lodged, how they were voted and the result of the resolution voted at the Annual General Meeting will be available on the Company's web site after the Annual General Meeting. Members of CREST will be given the opportunity to vote electronically to maximise the number of votes cast.

All substantially separate issues are proposed as separate resolutions at the Annual General Meeting. All directors attend the Company's Annual General Meeting, where shareholders have the opportunity to put questions to the chairmen of the audit, remuneration and nomination committees. Notice of the Annual General Meeting is sent to shareholders at least 20 working days before the meeting.

Nomination Committee
The Board has a Nomination Committee of which a majority are independent non-executive directors. The members, appointed by the Board and chaired by Mr G C Greene, also comprise Mr N R Friedlos, Mr P J Grant, Mrs J de Moller, Mr D Newell, Mr M A Pexton, The Hon R A Rayne and The Hon J M Wilson. Their experience is given on page 64.

The main role and responsibilities of the Nomination Committee is set in written terms of reference in accordance with best practice and are reviewed annually. The remit of the Nominations Committee is available on the Company's web site (www.lms-plc.com). The Nomination Committee met twice during the last 12 months and carried out its responsibilities in accordance with its terms of reference, including reviewing its terms of reference, considering the skills and experience required by members of the Audit Committee and the re-election of directors retiring by rotation. The Nomination Committee considered the effectiveness of the contribution of the directors retiring by rotation and concluded that each makes a valuable and effective contribution to the Company and recommended that their periods of appointment should continue for a further three years.

Remuneration Committee

Membership The Board has a Remuneration Committee of independent non-executive directors. The members are appointed by the Board and chaired by the Senior Independent Director, Mr P J Grant. It also includes, Mr G C Greene, Mrs J de Moller and Mr D Newell. Their experience is given on page 64. The Remuneration Committee met five times during the year.

Responsibility The main role and responsibilities of the Remuneration Committee is set in written terms of reference, which are reviewed annually. The remit of the Remuneration Committee is available on the Company's web site (www.lms-plc.com).

Activities During the year the Remuneration Committee carried out its responsibilities in accordance with its terms of reference and its activities are described in the directors' remuneration report on pages 28 to 32.

The Audit Committee

Membership The Board has an Audit Committee of independent non-executive directors. The members are appointed by the Board and chaired by Mr D Newell. It also includes Mr P J Grant, Mr G C Greene and Mrs J de Moller. Their experience is given on page 64. The Nominations Committee has considered and recommended to the Board that collectively the Audit Committee has sufficient recent and relevant financial experience to discharge its duties properly. The Audit Committee met four times during the year. The Audit Committee has regular access to the Auditors and management and during the year the Committee met the Auditors without management being present.

Responsibility The main role and responsibilities of the Audit Committee is set in written terms of reference, which are reviewed annually. The terms of reference of the Audit Committee are available on the Company's web site (www.lms-plc.com).

Activities During the year the Audit Committee carried out its responsibilities in accordance with its terms of reference and its activities are described below.

Financial statements The Audit Committee has reviewed the significant financial reporting issues and judgements made in connection with the preparation of the Group's financial statements including significant accounting policies, any changes to them and any significant estimates and judgements. The Audit Committee has also reviewed the clarity and completeness of disclosures in the financial statements and considered whether the disclosures made were set properly in context. The review of the financial statements also included a review of the financial review, operating review and corporate governance statements relating to audit and risk management.

In addition, the Audit Committee has considered the impact of International Accounting Standards, as far as they are known, on the financial statements of the Group and have put in place a process to monitor the effectiveness of the systems to be implemented to meet the applicable requirements.

Internal control and risk management The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness. The Group's system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against misstatement or loss. The Audit Committee reviewed the system and reported to the Board. The Board confirms that throughout the year under review and up to the date of the approval of this annual report and accounts there has been a process in place for identifying, evaluating and managing the significant risks faced by the Group.

Management is responsible for the identification and evaluation of significant risks in the business together with the design and operation of a suitable system of control to manage those risks. Management is also responsible for ensuring that the risk profile of the business is kept under continuous review and that significant changes in the business or the external environment which affect the risk profile are identified and acted upon.

The Audit Committee has a responsibility to review the Group's internal control system and risk management system and make appropriate recommendations to the Board.

To enable it to do this, the Audit Committee reviews the risks identified and the system of control in place to manage those risks. It gives consideration in particular to the following:-

- A review of the inherent risks in the business which have been identified by management;
- The appropriateness of the authority, resources and co-ordination of those involved in the identification, assessment and management of significant risks faced by the Group;
- The effectiveness of management's response to the significant risks which have been identified;
- A review of risk monitoring and reporting procedures in place;
- The Group policies and employee procedures for the reporting and resolution of suspected fraudulent activities.

As part of its reporting, management provides the Audit Committee with risk indicators and recommendations for improvement in the system of risk management.

The Board on the recommendation of the Audit Committee has adopted a policy whereby staff of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The Audit Committee is responsible for implementing and reviewing the policy.

External auditors The Audit Committee has primary responsibility for recommending the appointment, reappointment and removal of the external auditors. In accordance with the policy and the Committee's terms of reference, the Audit Committee carried out a review of the independence of the Group's auditors, KPMG Audit Plc and agreed to rotate the audit team a year in advance of the normal rotation period.

The Board has adopted a policy on the provision of non-audit services by the auditors. The implementation of the policy is continually monitored by the Audit Committee. The policy excludes the auditors from providing services in relation to the outsourcing of internal audit and any other consultancy work that the Audit Committee considers are contrary to the ethical principles laid down by the Audit Committee. The Committee's considerations included the provision of non-audit services carried out by auditors (described on page 40) and was satisfied that they were objective and independent of the Group. The Committee reviewed the policy on the provision of non-audit services by the auditor and the Board considers that the policy provides adequate protection of the auditors' independence.

Internal audit The Audit Committee reviewed during the year the requirement for an internal audit function. The Committee concluded that such a function was not required due to the size of the Group and number of employees.

Evaluation The Audit Committee carried out a formal evaluation of its roles and responsibilities. The review included the terms of reference, membership and meetings, training and resources, financial reporting, internal control, audit process and relations with the Board.

Remuneration Report of the Board of Directors

Remuneration Committee
The members of the Remuneration Committee are:

Mr P J Grant (Chairman)
Mr G C Greene
Mrs J de Moller
Mr D Newell

The Secretary of the Committee is Mr S C Mitchley. The Committee considered advice from Clifford Chance, who also provided other legal services to the Company during the year. The Committee also considered advice from the Hon R A Rayne and Mr M A Pexton, but they were not involved in discussions about their own remuneration.

Policy on directors' remuneration
The Company's policy is to provide an overall remuneration package which will attract, retain and incentivise directors of the right calibre.

Non-executive directors receive a fee and necessarily incurred expenses. They do not participate in any bonus, incentive or pension arrangements. Their remuneration is established by the Board by reference to market rates.

The constituent elements of the remuneration package for each executive director are:

– base salary
– annual performance-related bonus
– long-term incentives
– pension benefits

Basic salary
In recommending basic salaries for executive directors the Remuneration Committee takes into account information from an independent source on market rates in comparable companies.

Annual bonus
Each executive director is eligible for an annual bonus based on the performance of the individual and of the aspects of the business for which they are responsible. During the year ended 31st March 2004, the Chief Executive was eligible for a bonus of up to 100% and other directors could receive a bonus of up to 50% of basic salary. For the year to 31st March 2005 it is proposed to maintain the maximum for the Chief Executive at 100% of basic salary and to increase the maximum payable to other directors to 70% of basic salary.

Long-term incentives
All executive directors participate in the ***Executive Share Option Scheme***, which is designed to increase the alignment of their interests with those of other shareholders. The Company's policy is to make an annual grant of options up to a maximum value of one times basic salary, in order to provide a continuing incentive. The Remuneration Committee will take individual performance into account in recommending the level of any grant of options.

The performance condition for exercise of the options granted from September 2002 onwards is that in the first three year period after grant of the options shareholders' funds must have increased by a percentage greater than the increase in the Retail Price Index plus 9%. For future grants of options it is proposed to adopt a performance condition which more closely aligns the interests of executives with returns to shareholders. The proposed new condition allows for exercise of options only if the Total Shareholder Return (TSR) over the first three year period after grant exceeds the arithmetic average of the TSR for the FTSE 250 and the TSR for the FTSE Real Estate index for the same period. The Remuneration Committee must be satisfied that the vesting of an option is justified by the underlying performance of the Group during the measurement period.

A ***Long Term Incentive Plan*** was established for Mr M A Pexton as part of the terms of his recruitment to the Company in April 2002, prior to his appointment as an executive director in October 2002. Under the Plan he has cash-settled options with the same performance conditions as those governing the Executive Share Option Scheme. It is not intended to make further grants to him under this Plan.

The Chief Executive, Mr R A Rayne, participates in the ***Carried Interest Plan***, which applies to certain executives who have responsibility for investments made by the venture capital division, and was approved by shareholders in 2001. The Plan is intended to correspond to the incentive arrangements applicable in the venture capital industry. Mr Rayne is entitled to 7% of the pre-tax net capital gains realised on the cost of direct investments (i.e. excluding investment in funds) after a preferred return to LMS of 6.5%. The percentage of realised capital gains which may be allocated to participants in aggregate may not exceed 20%, after the return of capital. No payment was made to Mr Rayne under the Plan in the year ending 31st March 2004.

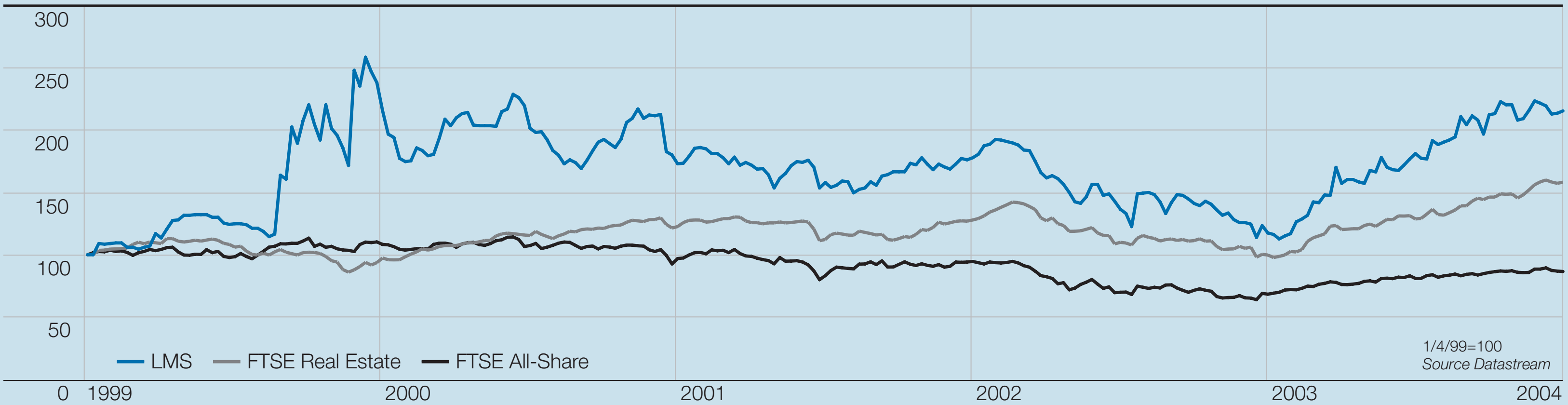
Executive directors, other than Mr Rayne, are eligible to participate with staff in the Company's ***Share Incentive Plan***, which allows employees to be granted free shares and to purchase shares which are matched equally by shares bought by the Company. They are also eligible to participate alongside other employees in the Company's ***Sharesave Scheme***, established under the Save As You Earn legislation. Under the Scheme employees make regular payments into a savings account which, after a predetermined period, can be used to purchase shares at a price set at the start of the savings period.

Notice periods
Executive directors' contracts are rolling contracts terminable with one year's notice. The appointment periods for non-executives are three years or until they are due for retirement by rotation, whichever is the earlier.

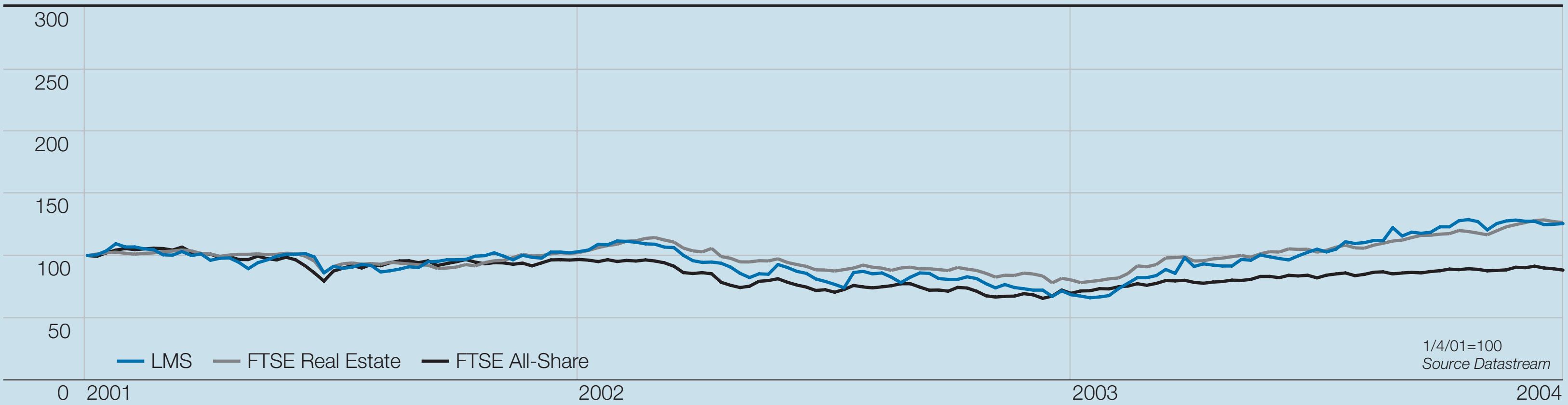
Executive directors' contracts contain no specific provision for payments on termination of employment, other than following a change of control, where there is provision for payment of 95% of annual salary and benefits. In determining the amount of any termination payment the Board will take into account the duty of the executive to mitigate loss.

Performance graphs
The graphs below show the total return for holders of LMS Ordinary shares for the five year, three year and one year periods ending 31st March 2004. Also shown are the total shareholder return for the FTSE All-Share Index and the FTSE Real Estate Index, which have been selected as broad-based comparative indices for quoted companies. In all cases dividends are assumed to have been reinvested at the date of payment.

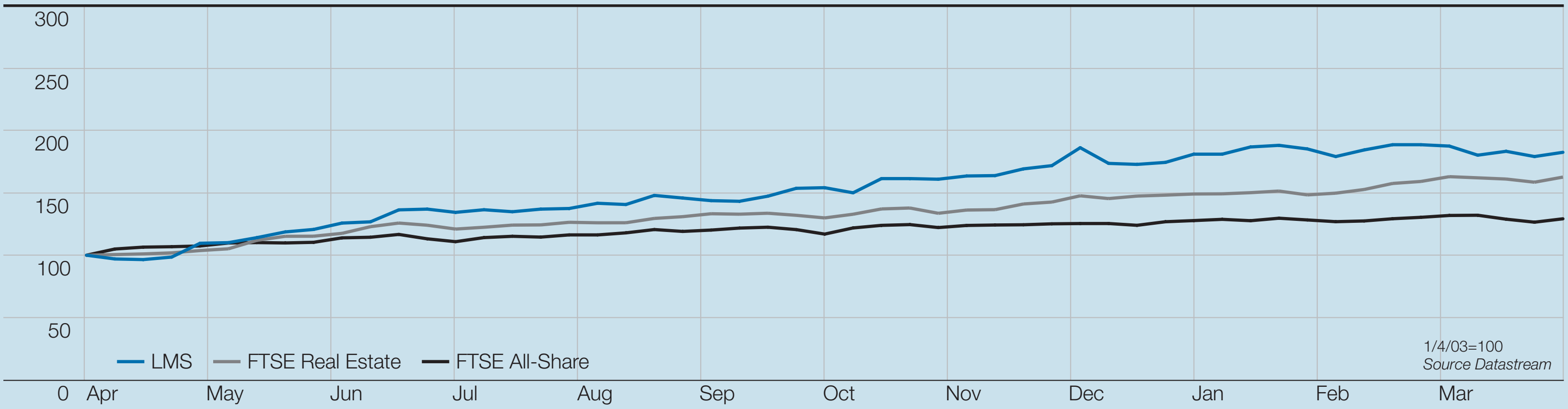
Five Year Total Shareholder Return to 31st March 2004



Three Year Total Shareholder Return to 31st March 2004



One Year Total Shareholder Return to 31st March 2004



Remuneration Report of the Board of Directors continued

Executive directors' service contracts

The contracts of service for Mr R A Rayne, Mr M A Pexton and Mr N R Friedlos are dated 28th March 2003 and provide for termination on one year's notice. There are no specific provisions for compensation upon early termination of the contract, except following a change of control where there is provision for payment of 95% of annual salary and benefits.

Non-executive directors' appointment letters

New letters of appointment were issued to all non-executive directors on 1st May 2003. The appointment periods for non-executives are three years or until they are due for retirement by rotation, whichever is the earlier. Their appointment letters do not contain compensation provisions in the event of early termination.

The auditors are required to report on the information contained in the following sections of the report

Directors' emoluments

Name	Basic salary £000	Fees £000	Bonus £000	Benefits[1] £000	Total excluding pensions 2004 £000	Total excluding pensions 2003 £000	Share option gains 2004 £000	Share option gains 2003 £000
Executive								
N G E Driver[2]	410	–	123	23	556	535	9	490
N R Friedlos[3]	230	–	92	19	341	45	–	–
W Millsom[4]	–	–	–	–	–	55	–	–
M A Pexton[3]	225	–	101	22	348	154	–	–
Hon R A Rayne	486	–	340	22	848	776	–	–
M Waldron[5]	–	–	–	–	–	1,517	–	435
Non-executive								
P J Grant	–	60	–	–	60	60	–	–
G C Greene	–	125	–	–	125	125	–	–
Mrs J de Moller[3]	–	30	–	–	30	26	–	–
D Newell	–	35	–	–	35	30	–	–
Lord Remnant[6]	–	–	–	–	–	10	–	–
Hon J M Wilson	–	30	–	–	30	30	–	–
Total	1,351	280	656	86	2,373	3,363	9	925

Notes to the table
1 Benefits comprise car allowance and private medical insurance together with the value of shares granted under the Company's Share Incentive Plan.
2 Mr Driver retired as a director in March 2004. He was appointed as a consultant to the Company with effect from 1st April 2004 with a fee at the rate of £60,000 per annum.
3 Mr Friedlos, Mr Pexton and Mrs de Moller were appointed as directors during the year to 31st March 2003.
4 Mr Millsom retired as a director in July 2002 but continued as a consultant to the Company. During the year to 31st March 2004 he received a fee of £178,000 and benefits of £2,000, bringing total emoluments for the year to £180,000.
5 Mr Waldron retired as a director during the year to 31st March 2003. His emoluments shown for the year included £1.285 million which represents the capital value of enhancements made to his pension entitlement.
6 Lord Remnant retired as a director during the year to 31st March 2003.
7 The basic salaries payable to executive directors with effect from 1st April 2004 are as follows: Mr R A Rayne £499,000; Mr N R Friedlos £240,000; Mr M A Pexton £240,000.

Directors' share options and long-term incentive awards

The number of shares subject to options/awards as at 31st March 2004 is set out below.

Name and scheme	Exercise price (p)	Deferred Ordinary balance at 31st March 2004[1]	Deferred Ordinary balance at 1st April 2003[1]	First exercise date	Expiry/actual exercise date
N G E Driver					
Executive	149.0	961,656	961,656	5th Jan 2004	5th Jan 2011
Executive	114.5	347,601	347,601	4th Sep 2005	4th Sep 2012
Executive[2]	135.0	303,706	–	29th Aug 2006	29th Aug 2013
SAYE[3]	40.5	–	19,259	1st Apr 2003	30th Sep 2003
SAYE	65.25	17,931	17,931	1st Apr 2005	30th Sep 2005
SAYE	104.5	3,708	3,708	1st Sep 2004	28th Feb 2005
SAYE[4]	130.0	4,257	–	1st Feb 2007	31st Jul 2007
N R Friedlos					
Executive[2]	96.0	229,175	229,175	1st Apr 2006	1st Apr 2013
Executive[2]	135.0	207,401	–	29th Aug 2006	29th Aug 2013
SAYE[4]	130.0	7,096	–	1st Feb 2007	31st Jul 2007
M A Pexton					
Executive	114.5	131,003	131,003	4th Sep 2005	4th Sep 2012
Executive[2]	135.0	166,666	–	29th Aug 2006	29th Aug 2013
Long-term incentive	114.5	393,013	393,013	25th Sep 2005	25th Sep 2012
SAYE[4]	130.0	7,096	–	1st Feb 2007	31st Jul 2007
Hon R A Rayne					
Executive	149.0	1,235,420	1,235,420	5th Jan 2004	5th Jan 2011
Executive	114.5	411,563	411,563	4th Sep 2005	4th Sep 2012
Executive[2]	135.0	359,635	–	29th Aug 2006	29th Aug 2013

Notes to the table

1 Holdings of options are shown as at the beginning and end of the year except where directors were appointed or ceased appointment, in which cases they are shown as at the date of taking up or ceasing appointment. All options are over Deferred Ordinary shares – no options were held over Ordinary shares.
2 Executive options over Deferred Ordinary shares were granted to Mr N R Friedlos on 1st April 2003 at an exercise price of 96p. Executive options over Deferred Ordinary shares were granted to Mr N G E Driver, Mr N R Friedlos, Mr M A Pexton and Mr R A Rayne on 29th August 2003 at an exercise price of 135p.
3 Mr N G E Driver exercised SAYE options over 19,259 Deferred Ordinary shares on 1st April 2003. The exercise price of the options was 40.5p and the middle market price on the day of exercise was 88.5p.
4 SAYE options over Deferred Ordinary shares were granted to Mr N G E Driver, Mr N R Friedlos and Mr M A Pexton on 1st February 2004 at an exercise price of 130p.
5 The performance condition for exercise of the executive options granted in January 2001 (first exercisable in January 2004) is that in any three year period following the grant of the options shareholders' funds must increase by a percentage greater than the increase in the Retail Prices Index plus 9%. The performance condition for exercise of executive options granted from 2002 onwards is that in the first three year period following the grant of the options shareholders' funds must increase by a percentage greater than the increase in the Retail Prices Index plus 9%.
6 The market price of a Deferred Ordinary share at 31st March 2004 was 166p and the range during the year was 85.5p to 175p.

Pensions

Mr R A Rayne and Mr N G E Driver are members of the LMS (1973) Pension Scheme, which is an Inland Revenue approved defined benefit scheme, of which the principal features for executive directors are a normal retirement age of 60 and a pension at normal retirement age after 20 years' service of two-thirds of final pensionable salary.

	Age	Years of service	Accrued pension entitlement at age 60 at 31st March 2004[1] £000	Accrued pension entitlement at age 60 at 31st March 2003 £000	Transfer value at 31st March 2004[2] £000	Transfer value at 31st March 2003[2] £000	Employee contributions £000	Change in transfer value during the year less employee contributions[2] £000
Executive								
N G E Driver	60	34	265	238	7,585	4,927	14	2,644
Hon R A Rayne	55	29	269	255	6,553	3,452	29	3,072

Notes to the table

1 Mr N G E Driver retired on 11th March 2004.

2 The basis for calculating transfer values in the pension scheme changed on 1st April 2003, following the recommendation of the scheme actuary. Prior to this date transfer values were calculated at the statutory minimum level, using the MFR (Minimum Funding Requirement) basis, whereas the new method is scheme-specific and more closely reflects the expected cost of providing pension benefits.

Remuneration Report of the Board of Directors continued

Pensions continued

Mr N R Friedlos and Mr M A Pexton received the following pension contributions during the year:

Mr N R Friedlos £46,000.

Mr M A Pexton £45,000.

Directors' share interests

At 31st March 2004 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 2004 Ordinary	At 31st March 2004 Deferred Ordinary	At 31st March 2003 Ordinary	At 31st March 2003 Deferred Ordinary
Beneficial				
N R Friedlos	3,840	10,000	–	–
P J Grant	944	303	944	303
G C Greene	–	16,400	–	16,400
Mrs J de Moller	–	20,000	–	20,000
D Newell	10,000	–	10,000	–
M A Pexton	57,930	–	23,659	–
Hon R A Rayne	6,190,326	1,439,467	2,190,326	1,439,467
Hon J M Wilson	–	360,000	–	360,000
Non-Beneficial				
P J Grant	35,609	60,612	6,382,584	1,386,259
G C Greene	7,379,256	60,612	13,726,231	1,386,259
D Newell	35,609	60,612	6,382,584	1,386,259
Hon R A Rayne	21,582,700	200	15,475,100	–

Because of common interests some shares are included against the names of more than one director. After eliminating such duplications, the total number of shares in which the directors are interested as Trustees is shown below:

	At 31st March 2004 Ordinary	At 31st March 2004 Deferred Ordinary	At 31st March 2003 Ordinary	At 31st March 2003 Deferred Ordinary
Directors	28,961,956	60,812	29,201,331	1,386,259

Changes in directors' shareholdings between 31st March 2004 and 24th May 2004 were as follows:

	Ordinary	Deferred Ordinary
Beneficial		
N R Friedlos	298	–
M A Pexton	298	–

	Ordinary	Deferred Ordinary
Non-Beneficial		
G C Greene	(24,745)	–

Approved by the Board on 8th June 2004 and signed on its behalf by

Simon Mitchley Company Secretary

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

We have audited the financial statements on pages 34 to 55. We have also audited the information in the directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors
The directors are responsible for preparing the Annual Report and the directors' remuneration report. As described on page 25, 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 whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Group is not disclosed.

We review whether the statement on page 26 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 the unaudited part of the directors' remuneration report, 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 and the part of the directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 and the part of the directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the directors' remuneration report to be audited.

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 2004 and of the profit of the Group for the year then ended; and
- the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc Chartered Accountants
Registered Auditor
8th June 2004
London

Consolidated Profit and Loss Account

	Notes	Year ended 31st March 2004 £000	Year ended 31st March 2003 £000
Turnover	2	60,242	65,276
Operating profit	2&4	39,845	42,911
Investment income		707	191
Profit on disposal of investment properties		302	6,449
Profit on disposal of Investment Division investments		7,492	11,016
Amounts written back/(off) Investment Division investments		(4,994)	(51,387)
Profit on ordinary activities before finance costs		43,352	9,180
Net finance costs	6	(26,133)	(24,972)
Profit/(loss) on ordinary activities before taxation		17,219	(15,792)
Tax on profit/(loss) on ordinary activities	7	(3,909)	(7,427)
Profit/(loss) on ordinary activities after taxation		13,310	(23,219)
Equity minority interests		(1,501)	(2,301)
Profit/(loss) for the year		11,809	(25,520)
Equity dividends		(15,593)	(15,349)
Retained loss for the year	21	(3,784)	(40,869)
Earnings/(loss) per Ordinary share			
– Before investment profits/(losses)	8	4.18p	5.30p
– Investment profits/(losses)	8	0.67p	(15.77p)
– Total	8	4.85p	(10.47p)
– Diluted	8	3.61p	(7.81p)

All operations are continuing in both the current and previous year.

The results for the year to 31st March 2004 include the results of Inflexion plc from 6th February 2004, the date of acquisition. The effect of the acquisition is explained in note 2.

Balance Sheets

	Notes	Group 31st March 2004 £000	Group 31st March 2003 £000	Company 31st March 2004 £000	Company 31st March 2003 £000
Fixed assets					
Intangible assets – negative goodwill	25	(392)	–	–	–
Investment properties	9	853,614	821,944	23,875	22,650
Other tangible assets	10	609	547	–	–
Investments – consolidated subsidiary undertakings	11	–	–	297,601	348,812
Investments – Investment Division	12	191,885	162,640	–	–
		1,045,716	985,131	321,476	371,462
Current assets					
Trading properties	13	12,475	11,489	–	–
Debtors	14	17,705	20,354	671,861	611,284
Cash and short-term deposits	15	57,475	77,833	248	–
		87,655	109,676	672,109	611,284
Creditors: amounts falling due within one year	16	(43,289)	(41,935)	(19,809)	(42,229)
Net current assets		44,366	67,741	652,300	569,055
Total assets less current liabilities		1,090,082	1,052,872	973,776	940,517
Creditors: amounts falling due after more than one year	17	(323,896)	(334,187)	(270,078)	(269,905)
Provisions for liabilities and charges	18	(8,213)	(6,622)	(55)	(54)
Net assets		757,973	712,063	703,643	670,558
Capital and reserves					
Called up share capital	20	89,886	89,881	89,886	89,881
Share premium account	21	19,049	19,034	19,049	19,034
Revaluation reserve	21	335,007	306,440	155,615	205,911
Capital reduction account	21	2,868	2,868	2,868	2,868
Profit and loss account	21	263,151	260,708	436,225	352,864
Equity shareholders' funds		709,961	678,931	703,643	670,558
Equity minority interests		48,012	33,132	–	–
Capital employed		757,973	712,063	703,643	670,558
Basic shareholders' funds per share	8	217p	207p		
Shareholders' funds per share – diluted	8	212p	207p		
Adjusted shareholders' funds per share	8	229p	215p		
Adjusted shareholders' funds per share – diluted	8	224p	215p		

The accounts on pages 34 to 55 were approved by the Board of Directors on 8th June 2004, and were signed on its behalf by

Robert Rayne Director

Nicholas Friedlos Director

Consolidated Cash Flow Statement

	Year ended 31st March 2004 £000	Year ended 31st March 2004 £000	Year ended 31st March 2003 £000	Year ended 31st March 2003 £000
Net cash inflow from operating activities (see note 22 (1))		42,001		43,916
Returns on investments and servicing of finance				
Interest received	2,655		1,561	
Interest paid	(26,558)		(31,467)	
Investment income received	707		191	
Dividends paid – minority shareholders	(1,336)		(2,422)	
Dividends paid – in connection with purchase of minority interest	–		(22,841)	
Net cash outflow from returns on investments and servicing of finance		(24,532)		(54,978)
Taxation paid		(4,111)		(9,310)
Capital expenditure and financial investment				
Property developments and acquisitions	(18,954)		(75,859)	
Sales of investment property	26,647		67,870	
Acquisition of other fixed assets	(189)		(278)	
Disposal of other fixed assets	70		63	
Purchases by Investment Division	(46,863)		(57,750)	
Realisations by Investment Division	24,147		23,178	
Net cash outflow from capital expenditure and financial investment		(15,142)		(42,776)
Acquisitions and disposals				
Purchase of subsidiaries		(7,811)		(1,052)
Net cash acquired with subsidiary (see note 25)		17,428		–
Equity dividends paid		(15,327)		(15,105)
Cash outflow before use of liquid resources and financing		(7,494)		(79,305)
Management of liquid resources				
Decrease in short-term deposits (see note 22 (2))		18,598		44,361
Financing				
Issue of share capital	20		429	
Debt due after more than one year: (see note 22 (2))				
– Repayment of mortgages	(10,734)		(21,305)	
– 6.5% Bond issue	–		73,896	
Debt due within one year:				
– Repayment of bank loans	(650)		(128)	
Net cash (outflow)/inflow from financing		(11,364)		52,892
(Decrease)/increase in cash in the year		(260)		17,948

Other Primary Statements

Consolidated Statement of Total Recognised Gains and Losses

	Year ended 31st March 2004 £000	Year ended 31st March 2003 £000
Profit/(loss) for the year	11,809	(25,520)
Unrealised surplus on revaluation of investment properties	38,873	3,644
Foreign exchange and other	(4,079)	(4,899)
Total recognised gains and losses relating to the financial year	46,603	(26,775)

Note of Consolidated Historical Cost Profits and Losses

	Year ended 31st March 2004 £000	Year ended 31st March 2003 £000
Profit/(loss) on ordinary activities before taxation	17,219	(15,792)
Realisation of property revaluation surpluses of previous years	4,951	9,067
Historical cost profit/(loss) on ordinary activities before taxation	22,170	(6,725)
Historical cost profit/(loss) retained after taxation, minority interests and dividends	1,167	(31,802)

Reconciliation of Movements in Shareholders' Funds

	Group Year ended 31st March 2004 £000	Group Year ended 31st March 2003 £000	Company Year ended 31st March 2004 £000	Company Year ended 31st March 2003 £000
Profit/(loss) for the year	11,809	(25,520)	98,954	(11,990)
Ordinary dividends	(15,593)	(15,349)	(15,593)	(15,349)
Retained (loss)/profit for the year	(3,784)	(40,869)	83,361	(27,339)
Other recognised gains and losses	34,794	(1,255)	(50,296)	(22,729)
Issue of shares	20	429	20	429
Movement in shareholders' funds	31,030	(41,695)	33,085	(49,639)
Shareholders' funds at beginning of year	678,931	720,626	670,558	720,197
Shareholders' funds at end of year	709,961	678,931	703,643	670,558

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 with the Companies Act 1985, except as noted below. The accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's accounts. The Group has also implemented the transitional provisions of FRS 17 'Retirement Benefits'.

Basis of consolidation

Except as explained below, 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 Division investments that are subsidiary undertakings are carried at cost less amounts, if any, written off to reflect impairment in value, in accordance with the Company's normal accounting policy for such investments, and are not consolidated as required by FRS 2 'Accounting for Subsidiary Undertakings'. These investments within the Group's portfolio are held for resale with a view to the ultimate realisation of capital gains, although not necessarily with a view to disposal within one year of acquisition. The Group's exposure to these companies is limited to its investment at the balance sheet date. Consequently, the directors consider that consolidation would not give a true and fair view of the Group's interest in these investments. This treatment reflects the application of the true and fair override to FRS 2. It is not practicable to determine the effects of the application of the true and fair override on the financial statements. Additional information on the subsidiary undertakings not consolidated is given in note 12.

Investment properties

In accordance with SSAP 19 'Accounting for Investment Properties', investment properties are revalued annually at open market value determined in accordance with the Appraisal and Valuation Manual of the Royal Institute of Chartered Surveyors. Revaluation surpluses and deficits 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 20 years to run. This treatment, which is in accordance with SSAP 19, 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 many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

Investment Division investments

Investments are stated at cost less amounts written off to reflect permanent diminution in value.

Those 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. It is not practicable to determine the effects of this departure (which is in accordance with FRS 9 'Associates and Joint Ventures') on the financial statements.

Other tangible assets

These comprise computers, furniture, fixtures and fittings, and improvements to Group occupied properties and are depreciated on a straight-line basis to estimated residual values over their estimated useful lives of between three and five years.

Goodwill

Goodwill, including negative goodwill, arising on acquisition is calculated based upon a comparison of the fair value of the assets acquired and the fair value of the consideration given and other costs of acquisition.

The negative goodwill arising on the acquisition during the year of Inflexion plc (see note 25) will be carried on the balance sheet and released to the profit and loss account as the Inflexion plc assets, to which the negative goodwill relates, are realised or impaired.

Trading properties

Trading properties are valued at the lower of cost and estimated net realisable value. Cost excludes interest.

Interest and other outgoings on property developments

Interest and other outgoings on vacant properties prior to redevelopment are treated as revenue expenditure and written off as incurred. Interest costs on properties in development are written off as incurred.

Foreign currencies
Transactions in foreign currencies are recorded at the rate of exchange at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date, and exchange differences are included in the profit and loss account.

The results and balance sheets of overseas operations are translated at the closing rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets are dealt with through reserves.

Investment Division investments denominated in foreign currencies remain at the initial recorded amount and are not retranslated as these balances represent the historical cost of acquiring these investments.

Operating lease incentives
Operating lease incentives include rent free periods and other incentives (such as contributions towards fitting out costs) given to lessees on entering into lease agreements.

In accordance with UITF Abstract 28 'Operating Lease Incentives', rent receivable in the period from lease commencement to the earlier of the first rent review to the prevailing market rate and the lease end date, is spread evenly over that period. The cost of other incentives is spread on a straight-line basis over a similar period.

Cash and liquid resources
Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise of short-term cash deposits.

Cost of raising finance
Debt instruments are stated at their net proceeds on issue. Issue costs are amortised to the profit and loss account over the life of the instrument and are included in interest payable.

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.

UITF Abstract 17
The Group operates an Inland Revenue approved employee share option scheme and has taken advantage of the exemption given in UITF Abstract 17 'Employee Share Schemes' from recognising a charge in the profit and loss account for the discount on the option.

Taxation
Corporation tax payable is provided on taxable profits at the current rate.

On disposal of an investment property the element of tax relating to the profit in the year is charged to the profit and loss account and the element relating to earlier revaluation surpluses is included in the Statement of Total Recognised Gains and Losses.

Deferred tax assets and liabilities arise from timing differences between the recognition of gains and losses in the financial statements and their recognition in a tax computation. Deferred tax is measured on a non-discounted basis.

In accordance with FRS 19 'Deferred Tax', deferred tax is provided in respect of all timing differences that have originated, but not reversed, at the balance sheet date that may give rise to an obligation to pay more or less tax in the future. Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on the sale has been recognised in the financial statements.

Subsidiary undertakings valuation
The Company's investments in the shares of Group undertakings are stated at directors' valuation on a basis which takes account of the net assets of the undertakings at 31st March 2004 which will include, where applicable, the professional valuation of properties and the carrying value of Investment Division investments. Surpluses and deficits arising from the directors' valuation are taken to revaluation reserve in the Company balance sheet, permanent diminutions in value are taken to the Company profit and loss account.

Notes on the Accounts continued

2 Segmental analysis of profit

	Property 31st March 2004 £000	Investment Division 31st March 2004 £000	Total 31st March 2004 £000	Property 31st March 2003 £000	Investment Division 31st March 2003 £000	Total 31st March 2003 £000
Turnover						
Gross rental income	58,396	–	58,396	62,621	–	62,621
Property trading income	1,269	–	1,269	2,284	–	2,284
Investment management income	–	577	577	–	371	371
	59,665	577	60,242	64,905	371	65,276
Cost of sales						
Property outgoings	4,438	–	4,438	5,533	–	5,533
Property trading	860	–	860	1,682	–	1,682
	5,298	–	5,298	7,215	–	7,215
Profit before administration costs						
Net rental income	53,958	–	53,958	57,088	–	57,088
Property trading profit	409	–	409	602	–	602
Investment management income	–	577	577	–	371	371
	54,367	577	54,944	57,690	371	58,061
Administration costs						
Administrative expenses	(9,850)	(5,249)	(15,099)	(9,411)	(5,739)	(15,150)
Operating profit/(loss)	44,517	(4,672)	39,845	48,279	(5,368)	42,911
Investment income	–	707	707	–	191	191
Profit on disposal of properties and other investments	302	7,492	7,794	6,449	11,016	17,465
Amounts written back/(off) other investments	–	(4,994)	(4,994)	–	(51,387)	(51,387)
Profit/(loss) on ordinary activities before finance costs	44,819	(1,467)	43,352	54,728	(45,548)	9,180

The Group's share of administration costs incurred by limited partnerships in which it has invested have previously been shown as part of operating profit. These costs are under the control of the individual limited partnership fund managers, are funded from the capital invested, and comprise part of the overall investment return. They have therefore been reclassified and combined with amounts written back/(off) venture capital investments. The prior year presentation has been adjusted accordingly.

The Investment Division results include the contribution from Inflexion plc for the period from its acquisition on 6th February 2004. Included for Inflexion is the following:

	£000
Investment Division turnover	216
Administrative expenses	(569)
Operating loss	(353)
Investment income	351
Profit on disposal of properties and other investments	64
Profit on ordinary activities before finance costs	62
Finance income	54
Profit on ordinary activities	116

	2004 £000	2003 £000
Operating profit is stated after charging:		
Amortisation and depreciation of fixed assets	152	210
Auditors' remuneration	167	140
Remuneration to Urbanfirst auditors, covered by KPMG Audit Plc in 2004	–	25
Remuneration for other services to KPMG Audit Plc and its associates		
– Due diligence on venture capital acquisitions	33	255
– Taxation advice	339	145
– Audit related services	27	–
£80,400 of the above taxation fees have been capitalised		

3 Segmental analysis of net assets

	Property 2004 £000	Investment Division 2004 £000	Total 2004 £000	Property 2003 £000	Investment Division 2003 £000	Total 2003 £000
Intangible assets – negative goodwill	–	(392)	(392)	–	–	–
Investment properties	853,614	–	853,614	821,944	–	821,944
Other tangible assets	408	201	609	438	109	547
Investments – Investment Division	–	191,885	191,885	–	162,640	162,640
Fixed assets	854,022	191,694	1,045,716	822,382	162,749	985,131
Trading properties	12,475	–	12,475	11,489	–	11,489
Debtors	14,462	3,243	17,705	18,326	2,028	20,354
Inflexion plc cash and short-term deposits	–	14,629	14,629	–	–	–
Creditors: amounts falling due within one year	(42,054)	(1,235)	(43,289)	(39,618)	(2,317)	(41,935)
Provisions for liabilities and charges	(8,213)	–	(8,213)	(6,622)	–	(6,622)
	830,692	208,331	1,039,023	805,957	162,460	968,417
Cash and short-term deposits			42,846			77,833
Creditors: amounts falling due after more than one year			(323,896)			(334,187)
Net assets			757,973			712,063

£34.5 million (2003 – £36.1 million) of the investment properties and £2.3 million (2003 – £2.8 million) of the creditors falling due after more than one year are in the US. Of the Investment Division investments, £70.7 million (2003 – £72.2 million) are located in the US.

The consolidated net assets of the Group at 31st March 2004 include the following amounts in respect of its 58.8% owned subsidiary, Inflexion plc, which was acquired on 6th February 2004.

	£000
– Other tangible assets	99
– Venture capital investments	15,637
– Debtors	1,644
– Cash and short-term deposits	14,629
– Creditors: amounts falling due within one year	(982)
– Creditors: amounts falling due after more than one year	(637)
	30,390

4 Employees, including executive directors

	2004 £000	2003 £000
Staff costs		
– Wages and salaries	5,707	5,814
– Social security costs	764	671
– Pension contributions	2,533	3,359
	9,004	9,844

The average number of employees of the Group was 85 (2003 – 105). The areas of the Group's operations in which they are employed were: property management 44 (2003 – 51), investment division 14 (2003 – 14) and 27 staff (2003 – 40) who were employed directly at the Group's properties and their cost recharged to tenants.

Notes on the Accounts continued

5 Pension costs

The assets of the pension schemes are held separately from those of the Group companies. 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 are eligible to join this arrangement; the defined benefit scheme is closed to new entrants.

Inflexion plc, the Group's 58.8% owned subsidiary, pays contributions to personal pensions for its employees.

The pension charge for the Group was £2.5 million (2003 – £3.4 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 5.4% per annum and that salaries will be increased at 4.5% per annum. The market value of assets of the scheme at 31st March 2004 was £4.6 million and the actuarial value of those assets on an ongoing basis represented 35.7% of the benefit of £12.9 million that had accrued to members allowing for expected future increases in earnings. Net of the related deferred tax asset the pension deficit is £5.8 million. The employer will pay an enhanced contribution designed to eliminate the underfunding over the next three to five years.

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 at 1st November 2003 and use the following financial assumptions as at 31st March 2004.

	2004 % per annum	2003 % per annum	2002 % per annum
Future salary growth	4.5%	3.9%	4.5%
Discount rate	5.4%	5.4%	5.9%
Rate of increase in pension payments	5.0%	5.0%	5.0%
Inflation rate	3.0%	2.7%	3.0%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale involved, 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:

	2004 Long-term rate of return expected per annum	2004 Value £m	2003 Long-term rate of return expected per annum	2003 Value £m	2002 Long-term rate of return expected per annum	2002 Value £m
Assets						
– Equities (UK and overseas)	7.5%	2.1	7.5%	0.8	–	–
– Bonds (Government and corporate)	5.0%	0.9	5.0%	0.8	–	–
– Property (UK)	7.0%	0.2	7.0%	0.1	–	–
– Cash (cash and deposits)	4.5%	1.2	4.5%	0.1	–	–
– Unitised with profits	6.8%	0.2	6.8%	7.5	6.8%	15.4
Total market value of assets	6.7%	4.6	6.7%	9.3	6.8%	15.4
Present value of scheme liabilities		(12.9)		(17.0)		(18.7)
Deficit in scheme		(8.3)		(7.7)		(3.3)
Related deferred tax asset		2.5		2.3		1.0
Net pension liability		(5.8)		(5.4)		(2.3)
Equity shareholders' funds		710.0		678.9		720.6
Net pension liability		(5.8)		(5.4)		(2.3)
Equity shareholders' funds including net pension liability		704.2		673.5		718.3
Reserves						
Profit and loss account excluding net pension liability		263.2		260.7		78.2
Net pension liability		(5.8)		(5.4)		(2.3)
Profit and loss account including net pension liability		257.4		255.3		75.9

5 Pension costs continued

	2004 £m
Analysis of the amount that would have been charged to operating profit	
Current service cost	0.7
Past service cost	–
Total operating charge	0.7
Analysis of the amount that would have been credited/(charged) to other finance income/(expense)	
Interest on pension liabilities	(0.8)
Expected return on schemes' assets	0.4
Net return	(0.4)

Analysis of the amount that would have been recognised in the Group statement of recognised gains and losses (STRGL).

	2004 £m
Actual return less expected return on assets	1.8
Experience gains and losses on liabilities	(3.2)
Changes in financial assumptions underlying the present value of the schemes' liabilities	(0.5)
Actuarial loss recognised in STRGL	(1.9)

Actual return less expected return on pension scheme assets is the actual return on the assets less the expected return with allowance for contributions paid into and benefits paid out of the scheme during the year.

Experience gains and losses on the scheme liabilities are the difference between actuarial assumptions underlying the scheme liabilities and actual experience during the year.

Changes in assumptions underlying the scheme liabilities reflects the changes made to the actuarial assumptions since the last accounting date.

Movement in deficit during the year

	2004 £m
Deficit in scheme at 31st March 2003	(7.7)
Current service cost	(0.7)
Contributions	2.4
Past service costs	–
Other finance income	(0.4)
Actuarial loss	(1.9)
Deficit in scheme at 31st March 2004	(8.3)

There have been no refunds of surplus paid to the employer during the current year.

History of experience gains and losses

	2004 £m
Difference between the expected and the actual return on the schemes' assets	
– Amount	1.8
– Percentage of schemes' assets	50.6%
Experience gains and losses on the schemes' liabilities	
– Amount	(3.2)
– Percentage of the present value of the schemes' liabilities	24.5%
Effect of changes in assumptions underlying the present value of the schemes' liabilities	
– Amount	0.5
– Percentage of the present value of the schemes' liabilities	3.9%
Total amount recognised in the statement of Group total recognised gains and losses	
– Amount	(1.9)
– Percentage of the present value of the schemes' liabilities	14.4%

Notes on the Accounts continued

6 Net finance costs

	2004 £000	2003 £000
Interest payable		
– 10% First Mortgage Debenture Stock 2018	10,000	10,000
– 6.5% Secured Bond 2026	11,375	8,222
– Other mortgages	4,244	6,493
– Amortisation of issue costs and discounts on issue of mortgages and bonds	194	299
– Bank loans and bank overdrafts	597	29
	26,410	25,043
Interest receivable	(2,540)	(3,621)
Exchange losses on dollar deposits	1,099	1,706
Mortgage breakage costs	1,164	1,844
	26,133	24,972

7 Tax on profit/(loss) on ordinary activities

	2004 £000	2003 £000
Analysis of charge for year		
UK corporation tax on profit for the year	2,754	2,832
UK taxation on disposal of investment properties	10	–
Adjustments relating to prior years	(820)	(250)
	1,944	2,582
US taxation arising on Weatherford's change of domicile to Bermuda	–	1,698
US taxation on disposal of venture capital investments	454	2,510
Other US taxation	56	433
Total current tax	2,454	7,223
Deferred tax		
Origination and reversal of capital allowances and other timing differences	664	619
Release of deferred tax on sale of properties	(105)	(890)
Adjustments relating to prior years	896	–
Deferred tax asset on US lease surrender payment	–	475
Total deferred tax	1,455	204
Tax on loss on ordinary activities	3,909	7,427

Factors affecting the tax charge for the year

	2004 £000	2003 £000
Profit/(loss) on ordinary activities before taxation	17,219	(15,792)
Profit/(loss) on ordinary activities multiplied by the standard UK rate of corporation tax at 30%	5,166	(4,738)
Investment provisions, not available for tax relief	676	12,065
Investment property historical profits in excess of accounting profits	1,879	2,720
Capital profits sheltered by losses	(2,757)	(3,678)
US taxation arising on Weatherford's change of domicile to Bermuda	–	1,698
Intra-group exchange loss	(960)	(793)
Capital allowances on investment properties	(952)	(587)
Bermuda results not available for current tax deduction	15	446
Adjustments to tax charge in respect of prior years	(820)	(250)
Other items	207	340
Current tax charge for the year	2,454	7,223

8 Earnings/(loss) per Ordinary 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). The split between investment profits/(losses) and other profits for 2003 has been restated to take account of the presentational change explained in note 2.

		2004 Basic	2004 Diluted		2003 Basic	2003 Diluted
Earnings per share						
Weighted average shares in issue						
(See (a) below)		243.6m	327.6m		243.6m	326.9m
Earnings (See (c) below)						
– Before investment profits/(losses)	£10.2m	4.18p	3.11p	£12.9m	5.30p	3.95p
– Investment profits/(losses)	£1.6m	0.67p	0.50p	(£38.4m)	(15.77p)	(11.76p)
– Total	£11.8m	4.85p	3.61p	(£25.5m)	(10.47p)	(7.81p)
Shareholders' funds per share						
Shares in issue at 31st March						
(See (b) below)		327.6m	334.5m		327.6m	327.6m
Shareholders' funds (See (d) below)						
– Balance sheet	£710.0m	217p	212p	£678.9m	207p	207p
– Adjusted	£750.1m	229p	224p	£704.7m	215p	215p

(a) Calculation of basic and diluted weighted average shares in issue

	2004 '000	2003 '000
Basic		
– Weighted average Ordinary shares in issue	243,637	243,637
– Weighted average Deferred Ordinary shares in issue	83,938	83,285
– Adjustment in respect of shares issuable under share option schemes	12	287
– Adjustment in respect of shares held as trustees by LMS QUEST Trustee Limited on which no dividends are payable	(12)	(287)
Diluted		
– Weighted average number of shares in issue	327,575	326,922

(b) Calculation of basic and diluted shares in issue at 31st March

	2004 '000	2003 '000
Basic		
– Ordinary and Deferred Ordinary shares in issue at 31st March	327,584	327,567
– Adjustment in respect of Ordinary and Deferred Ordinary shares under option	7,282	488
– Adjustment in respect of shares held by trustees by LMS Quest	(320)	(488)
Diluted		
– Ordinary and Deferred Ordinary shares in issue at 31st March	334,546	327,567

(c) Calculation of earnings per share before and after investment activity

	2004 £000	2003 £000
Investments profit and losses		
– Income profits, losses and write downs on fixed asset investments and investment properties	2,800	(33,922)
– Debt breakage costs	(1,164)	(1,844)
– Taxation attributable to above	33	(2,582)
– Minority interests	(37)	(84)
Total investments profit and losses	1,632	(38,432)
Total other profit and losses	10,177	12,912
Profit/(loss) for the year	11,809	(25,520)

Notes on the Accounts continued

8 Earnings/(loss) per Ordinary share and shareholders' funds per share continued

(d) Shareholders funds and adjusted shareholders' funds per share

	2004 £000	2003 £000
Shareholders' funds per balance sheet	709,961	678,931
Deferred tax from capital allowances on investment properties	8,062	6,622
Group share of excess over market value of investments	8,289	4,165
Revaluation surplus on trading properties net of tax on planned disposals	23,832	15,026
Adjusted shareholders' funds	750,144	704,744

9 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 £000
At 31st March 2003	737,562	82,497	1,885	821,944	22,650
Amount included in prepayments under UITF28	1,133	–	–	1,133	–
Open market value at 31st March 2003	738,695	82,497	1,885	823,077	22,650
Exchange difference	(5,045)	–	–	(5,045)	–
Additions at cost	17,581	206	–	17,787	–
Disposals	(19,650)	(2,600)	–	(22,250)	–
Surplus on revaluation	41,269	1,207	195	42,671	1,225
Open market value at 31st March 2004	772,850	81,310	2,080	856,240	23,875
Amount included in prepayments under UITF28	(2,626)	–	–	(2,626)	–
At 31st March 2004	770,224	81,310	2,080	853,614	23,875

The historical cost of Group investment properties at 31st March 2004 was £346.6 million (2003 – £356.0 million). The historical cost of the Company's investment properties at 31st March 2004 was £3.7 million (2003 – £3.7 million).

Included in Group freehold above are properties with a value of £34.5 million located in the US (2003 – £36.1 million).

All investment properties have been valued at 31st March 2004 on the basis of 'Open Market Value' in accordance with the Approved Valuation Manual of the Royal Institution of Chartered Surveyors.

96.0% by value of the properties have been valued by Cluttons, Chartered Surveyors. The remaining 4.0%, located in the US, have been valued by Jones Lang LaSalle Global Consulting, San Francisco.

The unprovided 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 £41.0 million (2003 – £29.9 million). The deferred taxation relating to capital allowances which would be released in such circumstances, assuming that no balancing charge would be incurred, is £8.0 million (2003 – £6.6 million).

10 Other tangible assets

	Group £000
Cost at 31st March 2003	1,718
Depreciation at 31st March 2003	(1,171)
Net book value at 31st March 2003	547
Additions at cost	184
Inflexion acquisition	99
Disposals at net book value	(69)
Depreciation charge for the year	(152)
Total movements in the year	62
Cost at 31st March 2004	1,762
Depreciation at 31st March 2004	(1,153)
Net book value at 31st March 2004	609

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

11 Investments – consolidated subsidiary undertakings

	Company £000
At 31st March 2003 at valuation	348,812
Additions	310
Disposals	–
Deficit on revaluation (due to paying up of dividends in subsidiaries)	(51,521)
At 31st March 2004 at valuation	297,601

Principal consolidated subsidiary undertakings

Property investment companies – 100% owned by Group

340 Pine Street, Inc – USA*
Urbanfirst Limited
British Commercial Property Investment Trust Limited
Caledonian Property Investments Limited*
Central London Commercial Estates Limited*
Greenwich Reach 2000 Limited
Kensington Commercial Property Investments Limited*
LMS Leisure Investments Limited
LMS Properties Limited
LMS Shops Limited*
Palaville Limited*
St. James' Real Estate Company Limited*
The New River Company Limited*
West London & Surburban Property Investments Limited

Property investment companies – 55% owned by Group

Portman Investments (Baker Street) Limited*
Portman Investments (Farnham) Limited*

Property trading companies – 100% owned by Group

Caledonian Properties Limited*
City Shops Limited*
Corinium Estates Limited*

Investment Division companies – 100% owned by Group

LMS Capital Limited
LMS Capital (Bermuda) Limited – Bermuda*
LMS Tiger Investments Limited*
Lion Investments Limited*
Westpool Investment Trust plc

Investment Division companies – 58.8% owned by Group

Inflexion plc*
Inflexion Managers Limited*
Inflexion Partners Limited*
Inflexion General Partner Limited*

Other subsidiary companies – 100% owned by Group

LMS Industrial Finance Limited
London Merchant Securities, Inc. – USA*
LMS Services Limited

* Indicates subsidiary undertakings held indirectly.

Only the details of subsidiary undertakings principally affecting the profit and 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. Holdings are of Ordinary shares with the exception of £6.3 million of Preference shares in Urbanfirst Limited.

Notes on the Accounts continued

12 Investments – Investment Division

	Fund investments £000	Listed investments £000	Unlisted investments £000	Inflexion investments £000	Total £000
Group					
At 31st March 2003	39,376	37,581	85,683	–	162,640
Inflexion acquisition	–	–	–	4,464	4,464
Additions at cost	10,624	6,498	24,801	2,652	44,575
Reclassification	(808)	(4,443)	5,251	–	–
Transfers to Inflexion	–	(9,526)	–	9,526	–
Amounts (written off)/written back	(1,902)	2,854	(4,400)	(216)	(3,664)
Disposals	(8,879)	(5,592)	(870)	(789)	(16,130)
At 31st March 2004	38,411	27,372	110,465	15,637	191,885

The fund investment, listed investment and unlisted investment categories shown above comprise the portfolio of investments managed by the Group's wholly owned Investment Division. The Inflexion investments are owned and managed by Inflexion plc, the Group's 58.8% owned subsidiary. The Inflexion investments comprise.

	£000
– Listed investments	9,234
– Unlisted investments held via Inflexion plc's interest in its managed funds	6,403
	15,637

As is common practice in the venture and development capital industry, the investments are structured using a variety of instruments including ordinary shares, preference and other shares carrying special rights, options and warrants and debt instruments both with and without conversion rights. The investments are held for resale with a view to the realisation of capital gains. Generally, the investments do not pay significant income.

A list of the principal investments is included on pages 62 and 63.

FRS 13 requires disclosure of the fair value of the Group's investments. In the case of listed investments this is disclosed based on the quoted market value at the balance sheet date. In respect of investment in funds, fair value is based on external managers' valuations. In respect of unlisted investments against which write downs have been made, the written down value is considered to be the same as fair value. In respect of all other unlisted investments the determination of fair value in excess of cost is highly judgemental. Unless there is an imminent transaction which indicates a fair value materially in excess of cost, the fair value of these investments is taken as cost. The fair value disclosures are shown below.

	Fund investments £000	Listed investments £000	Unlisted investments £000	Inflexion investments £000	Total £000
Fair values per FRS 13					
At 31st March 2004	41,623	31,546	110,465	16,965	200,599
At 31st March 2003	40,780	40,343	85,682	–	166,805

£76.4 million of the above investments are subsidiary undertakings which the Group does not consolidate. Information on these investments is given on page 49. The percentage holding assumes the exercise of all conversion and dilution rights that are entitled to be exercised at 31st March 2004.

12 Investments – Investment Division continued

It is not practicable to state the impact of the non-consolidation of the subsidiaries on the Group's accounts due to the number of individual transactions over which many of the holdings were acquired and the need to determine asset values, including goodwill, retrospectively at each stage.

Investment	Activity	Percentage holding %	Most recent audited accounts	Most recent audited net assets £000	Most recent audited net profit/(loss) £000
Energy Cranes International Limited	Crane manufacture and crane-related services to the offshore energy industry	95	31.12.03	18,833	1,117
7 Global Limited	Software hosting services	84	31.03.03	1,517	(3,548)
Ridgeway Systems and Software Inc	Secure solutions for IP multimedia communication	88	31.12.03	(1,722)	(2,525)
Offshore Tool and Energy Corporation ('ITS')	Specialist engineering design and fabrication for the energy industry	100	31.12.02	798	(4,838)
Citizen Limited ('Vio')	Digital workflow management solutions	80	30.06.03	(7,066)	(2,384)
Cityspace Limited	Urban information networks	75	30.06.03	1,482	(2,722)
Entuity Limited	Network management software	66	31.12.02	923	(2,736)
CopperEye Limited	Data indexing technology and software	53	31.12.03	285	(933)
AssetHouse Technology Limited	Content services infrastructure software	72	31.05.03	870	(2,360)

13 Trading properties

	Group 2004 £000	Group 2003 £000
Trading properties	12,475	11,489

As at 31st March 2004 the trading properties have been valued by the directors at £38.7 million (2003 – £26.5 million). The valuations were performed by the directors on the basis of 'Open Market Value' in accordance with the Approved Valuation Manual of the Royal Institute of Chartered Surveyors.

14 Debtors

	Group 2004 £000	Group 2003 £000	Company 2004 £000	Company 2003 £000
Rents and service charges receivable	4,053	4,151	43	44
Amounts owed by subsidiary undertakings	–	–	669,710	610,459
Other debtors	6,219	13,204	90	578
Pension prepayment	756	661	–	–
Other prepayments and accrued income	5,614	2,338	28	203
Corporation tax	780	–	1,990	–
Deferred tax asset	283	–	–	–
	17,705	20,354	671,861	611,284

All Group and company debtors fall due within one year.

15 Cash and short-term deposits

	Group 2004 £000	Group 2003 £000	Company 2004 £000	Company 2003 £000
Short-term deposits	40,260	60,059	–	–
Bank and cash balances	17,215	17,774	248	–
	57,475	77,833	248	–

Group cash and short-term deposits include £14.6 million held by Inflexion plc.

Notes on the Accounts continued

16 Creditors: amounts falling due within one year

	Group 2004 £000	Group 2003 £000	Company 2004 £000	Company 2003 £000
Bank overdrafts	118	535	–	–
Bank loans	4,956	5,606	–	–
Rents received in advance	11,533	11,921	309	304
Amounts owed to subsidiary undertakings	–	–	3,964	26,995
Corporation tax	–	730	–	–
Other taxes and social security	1,167	1,294	75	79
Proposed final dividend	10,741	10,476	10,741	10,476
Other creditors	5,169	9,909	3,035	3,939
Accruals	9,605	1,464	1,685	436
	43,289	41,935	19,809	42,229

Bank loans are secured on investment properties.

17 Creditors: amounts falling due after more than one year

	Group 2004 £000	Group 2003 £000	Company 2004 £000	Company 2003 £000
6.5% Secured Bond 2026	172,974	172,914	172,974	172,914
10% First Mortgage Debenture Stock 2018	97,104	96,991	97,104	96,991
9.695% Mortgage 2018	20,000	20,000	–	–
7.135% Mortgage 2010-2015	10,450	10,440	–	–
6.675% Mortgage 2010-2015	5,170	5,160	–	–
6.68% Mortgage 2010-2015	3,754	3,748	–	–
7.22% Mortgage 2010-2015	3,671	5,202	–	–
6.7% Mortgage 2014	2,384	2,384	–	–
8.25% Mortgage 2020	2,320	2,766	–	–
Floating rate Mortgage 2017	2,000	2,000	–	–
6.57% Mortgage 2010-2015	1,885	1,874	–	–
Unsecured loans	1,547	1,303	–	–
7.21% Mortgage 2010-2015	–	9,405	–	–
Other creditors	637	–	–	–
	323,896	334,187	270,078	269,905

	Group 2004 £000	Group 2003 £000	Company 2004 £000	Company 2003 £000
Borrowings				
– Repayable after more than five years	323,896	334,187	270,078	269,905
– Repayable within one year (note 16)	5,074	6,141	–	–
	328,970	340,328	270,078	269,905

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 11.0% per annum. The unamortised amount of discount at 31st March 2004 was £2.9 million (2003 – £3.0 million).

The discount and issue costs in March 2002 at a price of 99.792% of £100 million of the £175 million Secured Bond 2026 and the discount and issue costs in November 2002 at a price of 99.394% of a further £75 million are 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 2004 was £2.0 million (2003 – £2.1 million).

The Mortgage Debenture Stock of £100 million, together with the Mortgages are secured on investment properties. The secured bond of £175 million is secured on all the assets of the Company and nine of its property owning subsidiaries.

The Floating rate Mortgage 2017 has an interest rate of LIBOR plus a margin of 1.0%.

18 Provisions for liabilities and charges

	Group 2004 £000	Group 2003 £000	Company 2004 £000	Company 2003 £000
Provision for deferred taxation				
At 31st March 2003	6,622	6,893	54	53
Net provision/(reversal) during the year	1,591	(271)	1	1
At 31st March 2004	8,213	6,622	55	54

This provision relates to accelerated capital allowances except for £0.2 million in relation to other timing differences.

19 Financial instruments

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

	£ sterling 2004 £m	US dollars 2004 £m	Total 2004 £m	£ sterling 2003 £m	US dollars 2003 £m	Total 2003 £m
Investment Division investments (note 12)						
At FRS 13 fair value	122.6	78.0	200.6	90.5	76.3	166.8
At cost less amounts written off	(121.2)	(70.7)	(191.9)	(90.4)	(72.2)	(162.6)
Surplus	1.4	7.3	8.7	0.1	4.1	4.2
Less: taxation	–	–	(0.4)	–	–	–
	1.4	7.3	8.3	0.1	4.1	4.2
Long-term borrowings						
Denomination of long-term borrowings	321.0	2.3	323.3	331.4	2.8	334.2
Weighted average interest rate of fixed rate financial liabilities	7.8%	8.3%	7.8%	7.8%	8.3%	7.8%
Weighted average period for which interest rates on the fixed rate financial liabilities are fixed	17.7 yrs	16.3 yrs	17.6 yrs	18.3 yrs	17.3 yrs	18.3 yrs

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 £49.5 million sterling, £7.8 million US dollars, £0.2 million euros and are predominantly held on short-term floating rate deposit accounts with a range of banks.

Mark to market of long-term borrowing adjustment

	Book value 2004 £m	Fair value 2004 £m	Excess over book value 2004 £m	Book value 2003 £m	Fair value 2003 £m	Excess over book value 2003 £m
6.5% Secured Bond 2026	173.0	189.9	16.9	172.9	193.6	20.7
10% First Mortgage Debenture Stock 2018	97.1	136.6	39.5	97.0	130.1	33.1
9.695% Mortgage 2018	20.0	30.3	10.3	20.0	31.2	11.2
7.135% Mortgage 2010-2015	10.5	11.2	0.7	10.4	11.5	1.1
6.675% Mortgage 2010-2015	5.2	5.4	0.2	5.2	5.6	0.4
6.68% Mortgage 2010-2015	3.7	4.0	0.3	3.7	4.0	0.3
7.22% Mortgage 2010-2015	3.7	4.0	0.3	5.2	5.8	0.6
6.7% Mortgage 2014	2.4	2.4	–	2.4	2.3	(0.1)
8.25% Mortgage 2020	2.3	3.1	0.8	2.8	3.7	0.9
Floating rate Mortgage 2017	2.0	2.0	–	2.0	2.0	–
6.57% Mortgage 2010-2015	1.9	2.0	0.1	1.9	2.0	0.1
Unsecured loans	1.5	1.5	–	1.3	1.3	–
7.21% Mortgage 2010-2015	–	–	–	9.4	10.5	1.1
Other creditors	0.6	0.6	–	–	–	–
	323.9	393.0	69.1	334.2	403.6	69.4
Less: taxation			(20.8)			(19.4)
Less: minority share			(3.3)			(3.5)
Group share of fair value adjustment (net of taxation)			45.0			46.5

Fair values of the liabilities have 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 are repayable at their nominal value.

Notes on the Accounts continued

20 Called up share capital

	Authorised 27 18⁄41p Ordinary	Authorised 27 18⁄41p Deferred Ordinary	Authorised 27 18⁄41p Unclassified	Allotted, called up and fully paid 27 18⁄41p Ordinary	Allotted, called up and fully paid 27 18⁄41p Deferred Ordinary
At 31st March 2003	272,850,398	83,984,203	7,609,843	243,636,971	83,930,460
Issued during the year	–	–	–	–	17,114
At 31st March 2004	272,850,398	83,984,203	7,609,843	243,636,971	83,947,574
Nominal value at 31st March 2004	£74,867,487	£23,044,446	£2,088,067	£66,851,608	£23,034,395
			£100,000,000		£89,886,003

During the year 17,114 Deferred Ordinary shares were issued for consideration of 114.5p each under the LMS Executive Share Option Scheme. The Ordinary shares and the Deferred Ordinary shares constitute a single class of share ranking pari passu in all respect, except that the Deferred Ordinary shares do not entitle their holders to receive any dividend before the conclusion of the Annual General Meeting on 21st July 2004, at which time the Deferred Ordinary shares will be automatically converted into the same number of Ordinary shares. The first dividend for which the converted Deferred Ordinary shares will rank, will be the interim dividend in respect of the year ended 31st March 2005.

Options to subscribe for shares under the Company's share option scheme are listed below. Performance conditions exist for options granted under the LMS Executive Share Option Scheme. These are explained in the remuneration report.

Executive Share Option Scheme

Number	Class	Exercise price	Date from which exercisable	Expiry date
231,520	Deferred Ordinary	180½p	27th July 2003	27th July 2010
376,912	Deferred Ordinary	178½p	27th July 2003	27th July 2010
5,630	Deferred Ordinary	134p	5th January 2004	5th January 2011
2,491,389	Deferred Ordinary	149p	5th January 2004	5th January 2011
2,163,089	Deferred Ordinary	114½p	4th September 2005	4th September 2012
377,112	Deferred Ordinary	96p	1st April 2006	31st March 2013
1,710,521	Deferred Ordinary	135p	1st August 2006	28th August 2013

Savings-Related Share Options Scheme

Number	Class	Exercise price	Date from which exercisable	Expiry date
197,836	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
20,394	Deferred Ordinary	104½p	1st September 2004	31st March 2005
73,630	Deferred Ordinary	104½p	1st September 2006	31st March 2007
92,484	Deferred Ordinary	104½p	1st September 2008	31st March 2009
32,070	Deferred Ordinary	130p	1st February 2007	31st July 2007
80,461	Deferred Ordinary	130p	1st February 2009	31st July 2009
28,386	Deferred Ordinary	130p	1st February 2011	31st July 2011

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 Investments – Investment Division in note 12 on page 48 of these accounts. All employees of the Company, including executive directors of the Company (except The Hon R A Rayne), are potential beneficiaries under the QUEST. At 31st March 2004, the QUEST held 320,897 Deferred Ordinary shares at a cost and valuation of £0.2 million.

21 Reserves

	Share premium account £000	Capital reduction account £000	Revaluation reserve £000	Profit and loss account £000	Total £000
Group					
At 31st March 2003	19,034	2,868	306,440	260,708	589,050
Premium on issue of shares during the year	15	–	–	–	15
Surplus on revaluation of					
Investment properties – Group share	–	–	38,873	–	38,873
Realisation of revaluation surpluses of previous years	–	–	(4,951)	4,951	–
Exchange difference	–	–	(5,045)	587	(4,458)
Gain on investments disposed of to Inflexion plc minority (note 25)	–	–	–	689	689
Share of revaluation reserve on acquisition of minority interests in subsidiaries	–	–	(310)	–	(310)
Retained loss for the year	–	–	–	(3,784)	(3,784)
At 31st March 2004	19,049	2,868	335,007	263,151	620,075
Company					
At 31st March 2003	19,034	2,868	205,911	352,864	580,677
Premium on issue of shares during the year	15	–	–	–	15
Surplus/(deficit) on revaluation					
Investment properties	–	–	1,225	–	1,225
Subsidiary undertakings	–	–	(51,521)	–	(51,521)
Retained profit for the year	–	–	–	83,361	83,361
At 31st March 2004	19,049	2,868	155,615	436,225	613,757

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

The Company's profit for the year amounted to £99.0 million (2003 – loss £12.0 million).

22 Notes to consolidated cash flow statement

	2004 £000	2003 £000
(1) Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	39,845	42,911
Depreciation	152	213
Other non-cash movements	(1)	(3)
Increase in stocks	(987)	(603)
Decrease in debtors	37	1,824
Increase/(decrease) in creditors	2,955	(426)
Net cash inflow from operating activities	42,001	43,916

	31st March 2003 £000	Cash flow £000	Other non-cash changes £000	Exchange movements £000	31st March 2004 £000
(2) Analysis of movement in net debt					
Bank and cash balances*	17,775	(677)	–	117	17,215
Bank overdrafts	(535)	417	–	–	(118)
		(260)			
Debt due within one year	(5,606)	650	–	–	(4,956)
Debt due after more than one year	(334,187)	10,734	(194)	388	(323,259)
		11,384			
Short-term deposits*	60,059	(18,598)	–	(1,201)	40,260
Net cash inflow from operating activities	(262,494)	(7,474)	(194)	(696)	(270,858)

*Totalled on balance sheet as cash and short-term deposits.

Notes on the Accounts continued

22 Notes to consolidated cash flow statement continued

	2004 £000	2003 £000
(3) Reconciliation of net cash flow to movement in net debt		
(Decrease)/increase in cash in the year	(260)	17,948
Cash outflow/(inflow) from decrease/(increase) in debt financing	11,384	(52,591)
Cash inflow from decrease in liquid resources	(18,598)	(44,361)
Change in net debt resulting from cash flows	(7,474)	(79,004)
Translation differences	(696)	(1,394)
Other non-cash changes	(194)	(299)
Movement in net debt in the year	(8,364)	(80,697)
Net debt at 31st March 2003	(262,494)	(181,797)
Net debt at 31st March 2004	(270,858)	(262,494)

23 Capital commitments

	Group 2004 £000	Group 2003 £000
Property division	28,088	52,843
Investment division – commitments by LMS Capital	38,148	48,937
– commitments by Inflexion plc	16,034	–
Total	82,270	101,780

24 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. As explained in note 25, LMS plc entered into arrangements with Inflexion plc in respect of the shares transferred as part of the acquisition consideration.

25 Acquisition of Inflexion plc

On 6th February 2004 Inflexion plc issued Ordinary shares in consideration for a portfolio of the Group's listed investments plus gilts to a total value of £12 million. This transaction resulted in the Group owning 50.5% of Inflexion plc. At the same time, the Group undertook to subscribe £6 million in cash to an open offer of Inflexion plc shares. When the open offer closed, on 2nd March 2004, the Group had a total interest of 58.8% in Inflexion plc.

The acquisition is treated as made on 6th February 2004. The book value and fair value of the assets acquired and the resulting negative goodwill is shown below.

	Book value at acquisition £000	Fair value adjustments £000	Fair value £000
Net assets acquired			
Tangible fixed assets	104	–	104
Investments	15,025	(1,035)	13,990
Goodwill	777	(777)	–
Debtors	1,338	–	1,338
Cash at bank and in hand	17,428	–	17,428
Creditors: amounts falling due within one year	(712)	–	(712)
Creditors: amounts falling due after more than one year	(675)	–	(675)
Net assets	33,285	(1,812)	31,473
58.8% acquired			18,506
Negative goodwill arising on acquisition			(392)
Cost of acquisition			18,114

The book value at acquisition includes the fair value of consideration of £18 million, as set out below, introduced into Inflexion as consideration for the shares issued.

25 Acquisition of Inflexion plc continued

Fair value adjustments have been made to write off goodwill in the Inflexion balance sheet and to restate the investments acquired from LMS in accordance with LMS accounting policy. The cost of acquisition comprises:

	Fair value £000
Listed investments and gilts	12,000
Cash	6,000
Fair value of consideration	18,000
Expenses of acquisition	114
	18,114

The investment portfolio given in consideration comprised seven of the Group's listed investments with a market value at the date of acquisition of £11.3 million plus £0.7 million of gilts to give a combined value of £12 million.

This represented a profit over the Group's book cost of £1.6 million. 41.2% of this amount (£0.7 million) being the gain attributable to that part of the investment portfolio effectively disposed of to the Inflexion plc minority, has been credited to reserves in accordance with UITF31.

London Merchant Securities plc has agreed to subscribe £15 million in total in cash for B Ordinary shares in Inflexion plc at a price per share equal to 90% of Inflexion's consolidated net asset value per issued Ordinary share at the time of subscription. This is reflected in the balance sheet of LMS plc. The timing of these subscriptions will be at the Company's option but no later than 30th September 2009, and only during the 30 day period following the publication of Inflexion plc's preliminary statement of results for each of the financial years up to and including the year ending 31st March 2009.

In respect of three of the investments transferred to Inflexion plc, (Crown Sports Plc, DMATEK Limited and NMT Group Plc), comprising £7.9 million of the acquisition consideration, Inflexion has the option to require the Group to buy the investments back, subject to certain conditions being satisfied, for 80% of the acquisition value. As part of this arrangement the Group is entitled to receive a preferential share of any increase in value of the investment.

At 31st March 2004, the option in respect of NMT Group Plc comprising £0.5 million of the consideration, had lapsed and no liability had arisen. The option still exists in respect of Crown Sports Plc (31st March 2004 market value £4.1 million; acquisition value £4.3 million) and DMATEK Limited (31st March 2004 market value £3.6 million; acquisition value £3.1 million).

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 our buildings; and
- To undertake our responsibilities as landlords for communal areas under our control in buildings forming part of the Group's property portfolio.

Five Year Summary

	2004 £000	2003 £000	2002 £000	2001 £000	2000 £000
Group balance sheet					
Investment properties	853,614	821,944	809,153	736,884	632,690
Other tangible assets	609	547	542	655	722
Investments – Investment Division	191,885	162,640	170,450	192,719	148,316
Intangible assets – negative goodwill	(392)	–	–	–	–
Cash and short-term deposits	57,475	77,833	107,532	190,015	173,543
Other net liabilities	(13,109)	(10,092)	(20,374)	(26,512)	(52,322)
Long-term loans	(323,896)	(334,187)	(281,479)	(274,783)	(190,638)
Provision for liabilities and charges	(8,213)	(6,622)	(6,893)	(6,455)	(5,862)
Net assets	757,973	712,063	778,931	812,523	706,449
Equity minority interests	(48,012)	(33,132)	(58,305)	(58,830)	(52,966)
Equity shareholders' funds	709,961	678,931	720,626	753,693	653,483
Represented by					
Called up share capital	89,886	89,881	89,516	89,334	82,331
Reserves	620,075	589,050	631,110	664,359	571,152
	709,961	678,931	720,626	753,693	653,483
Group profit and loss account					
Net rental income	53,958	57,088	51,184	46,028	44,800
Profit/(loss) before taxation	17,219	(15,792)	(36,068)	60,338	122,366
Profit/(loss) for the year	11,809	(25,520)	(46,918)	36,096	81,392
Earnings/(loss) per Ordinary share	4.85p	(10.47p)	(19.26p)	15.45p	36.28p
Dividends per Ordinary share	6.4p	6.3p	6.2p	6.1p	5.9p
Shareholders' funds per share	217p	207p	221p	231p	218p
Diluted shareholders' funds per share	212p	207p	220p	231p	206p

Note
1 The figures for the years ended 2000-2001 are as restated to incorporate the implementation of FRS 19, which requires the Group to provide in full for deferred taxation.

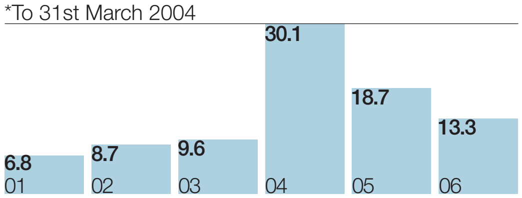
Return on equity					
LMS overall	6.9%	(3.7%)	(2.4%)	14.2%	25.5%
Property	9.4%	3.9%	6.7%	16.0%	18.6%
Investment Division	(1.2%)	(28.1%)	(34.4%)	7.9%	51.2%
Market price at 31st March					
Ordinary shares	171.75p	99.5p	157p	158.5p	196.5p
Deferred Ordinary shares	166p	89p	140p	129.5p	166.5p

Property Portfolio Breakdown

Total property returns by location %*

01 London, West End
02 Islington and Clerkenwell
03 Other Central London
04 Scotland
05 Other UK
06 US

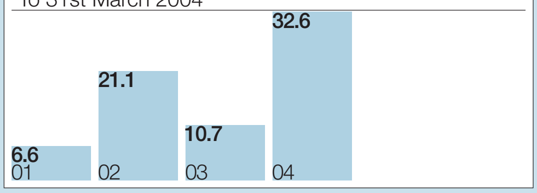
*To 31st March 2004



Total property returns by use %*

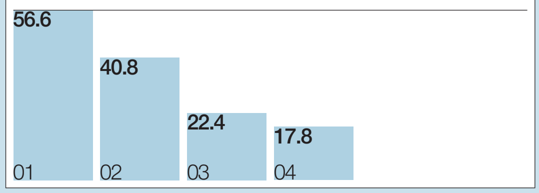
01 Office
02 Retail
03 Leisure
04 Other

*To 31st March 2004



Security of income Gross rent roll £m

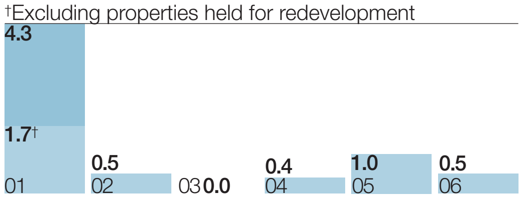
01 31 March 2004
02 5 years
03 10 years
04 15 years



Void rate by location %

01 London, West End
02 Islington and Clerkenwell
03 Other Central London
04 Scotland
05 Other UK
06 US

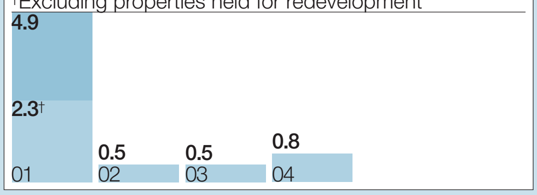
†Excluding properties held for redevelopment



Void rate by use %

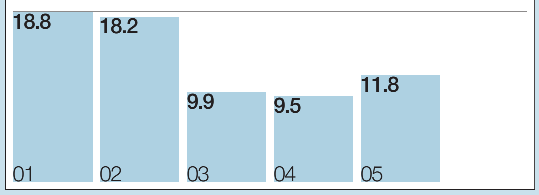
01 Office
02 Retail
03 Leisure
04 Other

†Excluding properties held for redevelopment



Total property returns %

01 2000
02 2001
03 2002
04 2003
05 2004



Property Portfolio Breakdown
As at 31st March 2004

Portfolio breakdown	values (£m)		% of portfolio		% like for like change		gross rent roll (£m pa)	
London, West End	**362.2**		**42.3**		**0.8**		**22.2**	
Office		286.8		33.5		–1.2		17.7
Retail		50.8		5.9		10.6		2.9
Leisure		13.8		1.6		5.4		0.9
Other		10.8		1.3		15.3		0.7
Islington and Clerkenwell	**148.5**		**17.3**		**–0.6**		**13.0**	
Office		133.2		15.5		–1.2		12.3
Retail		2.5		0.3		7.5		0.1
Leisure		1.4		0.2		–3.6		0.2
Other		11.4		1.3		6.5		0.4
Other Central London	**51.5**		**6.0**		**2.5**		**3.4**	
Office		36.1		4.2		1.7		2.1
Retail		4.9		0.6		5.3		0.5
Leisure		8.3		1.0		4.0		0.6
Other		2.2		0.2		44.6		0.2
Scotland	**80.0**		**9.4**		**20.5**		**4.8**	
Office		2.6		0.3		0.3		0.2
Retail		73.7		8.6		21.6		3.6
Leisure		3.0		0.4		15.0		0.3
Other		0.7		0.1		23.6		0.7
Other UK	**179.5**		**21.0**		**14.1**		**11.4**	
Office		14.0		1.7		12.0		2.0
Retail		76.3		8.9		17.2		5.4
Leisure		61.9		7.2		5.5		3.8
Other		27.3		3.2		30.1		0.2
US	**34.5**		**4.0**		**11.2**		**1.8**	
Office		15.2		1.8		5.3		0.4
Retail		19.3		2.2		16.3		1.4
Total	**856.2**	**856.2**	**100.0**	**100.0**		**5.2**	**56.6**	**56.6**

Summary use breakdown	values (£m)	% of portfolio	% like for like change	gross rent roll (£m pa)
Office	**487.9**	**57.0**	**–0.5**	**34.7**
Retail	**227.5**	**26.6**	**16.6**	**13.9**
Leisure	**88.4**	**10.3**	**5.5**	**5.8**
Other	**52.4**	**6.1**	**21.5**	**2.2**

Principal Properties
as at 31st March 2004

Values of £50 million plus

Strathkelvin Retail Park Bishopbriggs, Glasgow
17,372 sq m (187,300 sq ft) — S R

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

Values of £40 million plus

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

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

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

Values of £30 million plus

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

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

Greenwich Reach Greenwich, London
3.1 hectare (8 acres) site **Held for development** — UK R RD

Values of £20 million plus

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

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

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

Values of £15 million plus

Lion & Lamb Yard Farnham
6,605 sq m (71,105 sq ft) — UK O R P

City Road Estate London EC1
8,918 sq m (96,000 sq ft) — I O R

163/170 Tottenham Court Road London WC1
3,344 sq m (36,000 sq ft) — W O R RD

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

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

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

Values of £10 million plus

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

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

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

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

160-166 Brompton Road London SW3
2,332 sq m (25,100 sq ft) — CL O R RD

17-39 George Street London W1
1,973 sq m (21,235 sq ft) — W O R RD LH P

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

Values of £7.5 million plus

Rivergate Centre Peterborough
5,574 sq m (60,000 sq ft)
UK R

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

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

The Quadrant Arcade Bournemouth
7,673 sq m (82,775 sq ft)
UK R L

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

Dukes Lane Brighton
2,278 sq m (24,525 sq ft)
UK R

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

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

Values of £5 million plus

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

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

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

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

22-66 Myddelton Square London EC1
I RD

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

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

26-28 Dorset Square London NW1
1,983 sq m (21,350 sq ft) **Held for Redevelopment**
CL O

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

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

W	London, West End	O	Office
I	Islington and Clerkenwell	R	Retail
CL	Other Central London	L	Leisure
S	Scotland	RD	Residential
UK	Other UK	LH	Leasehold
US	US	P	Portman Investments, 55% owned

Investment Portfolio Breakdown

Largest investments: UK quoted

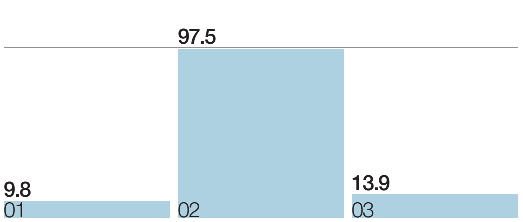
Company	Activity	Number of shares 000	Book value £000
Crown Sports plc	Health and fitness club owner/operator	57,754	4,176
DMATEK Limited	Security tagging technology	4,076	2,422
Bloomsbury Publishing plc	Book and information publisher	560	1,167
Bond International Software plc	Recruitment/HR software	1,683	750
Dunedin Enterprise Investment Trust plc	Investment trust	214	551
Civilian Content plc	Television and film production	2,143	196
NMT Group plc	Medical safety devices	20,346	164
Medal Entertainment & Media plc	TV studios and video distribution	214	150
RWS Holdings Plc	Intellectual property and support services	45	72
Other			207
Total UK quoted			9,855

Largest investments: US quoted

Company	Activity	Number of shares 000	Book value £000
Weatherford International Inc	Oilfield services	596	12,501
Grant Prideco Inc	Oil and gas exploration products	830	5,885
Digital Generation Systems Inc	Media delivery network	1,984	1,630
Aclara Biosciences Inc	Drug discovery technology	848	1,090
Chyron Corporation	Broadcast media technology	3,715	991
Brooktrout Inc	Electronic information exchange	80	864
Halliburton Company	Provider of products and services to the oil and gas industry	60	857
AXS-One Inc	Enterprise software	686	828
Pegasus Communications Corporation	Digital broadcast satellite service	16	334
Indus International Inc	Enterprise asset management software	100	180
Kana Software Inc	Customer relationship management software	59	145
Commerce One Inc	e-commerce solutions	165	144
Other			1,302
Total US quoted			26,751
Total UK and US quoted			36,606
Held by – Inflexion			9,234
– LMS Capital			27,372

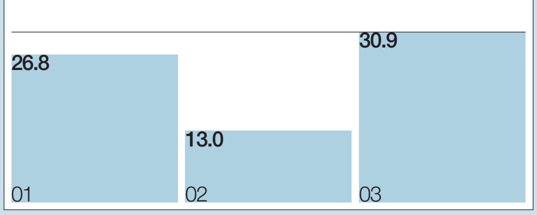
UK portfolio analysis by class (book value) £ million

01 Quoted
02 Unquoted
03 Funds



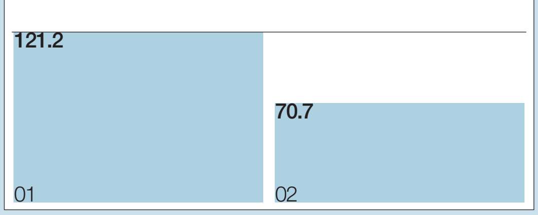
US portfolio analysis by class (book value) £ million

01 Quoted
02 Unquoted
03 Funds



Analysis by location (book value) £ million

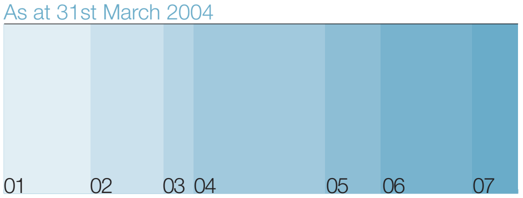
01 UK
02 US



Analysis by sector (book value) %

01 Communication 16.8
02 e-commerce 14.2
03 Health 5.8
04 Energy/Industrial 25.6
05 Media/Leisure/Retail 10.8
06 Software 17.8
07 Other technology 9.0

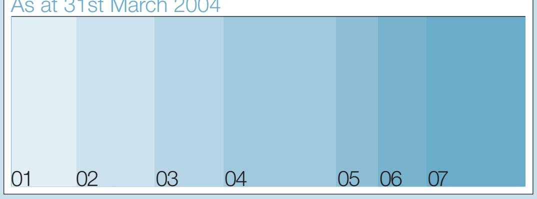
As at 31st March 2004



Analysis by sector (age of investment) years

01 Communication 4.8
02 e-commerce 5.8
03 Health 5.1
04 Energy/Industrial 8.3
05 Media/Leisure/Retail 3.1
06 Software 3.6
07 Other technology 7.3

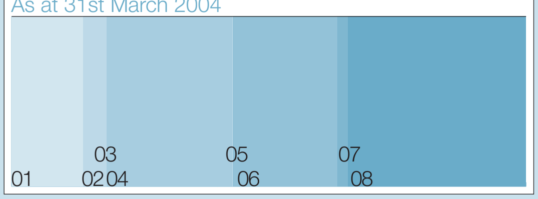
As at 31st March 2004



Analysis by sector (principal new investments in 2004) %

01 Communication 13.9
02 e-commerce 4.5
03 Health 0.0
04 Energy/Industrial 24.5
05 Media/Leisure/Retail 0.0
06 Software 20.4
07 Other technology 2.0
08 Funds 34.7

As at 31st March 2004



Largest investments: UK unquoted

Company	Activity	Book value £000
Energy Cranes International Limited*	Provider of crane and crane related services	18,456
7 Global Limited*	Software hosting services	11,946
Strakan Group Limited	Speciality pharmaceuticals	9,260
Offshore Tool & Energy Corporation (ITS)*	Oilfield services	7,617
Ridgeway Systems and Software Inc*	Secure solutions for IP multimedia communication	7,433
Citizen Limited (Vio Worldwide Limited)*	Digital workflow management solutions	7,300
Cityspace Limited*	Urban information networks	6,258
Wesupply Limited	Supply chain execution management software	6,024
Entuity Limited*	Network management software	5,948
First Index Group Limited	Manufacturing sourcing service	3,921
CopperEye Limited*	Data indexing technology and software	3,520
AssetHouse Technology Limited*	Content services infrastructure software	3,083
netdecisions Holdings Limited	IT services	2,993
Elateral Holdings Limited	Marketing automation software	1,874
Corizon Limited	Application integration software	1,795
Other		74
Total		97,502

Largest investments: US unquoted

Company	Activity	Book value £000
Rave Motion Pictures	Movie theatre operators	5,804
TradePower Inc	Software for electrical and other distributors	2,110
GoBeam Inc	Business communication services	1,317
Telespree Communications	Wireless telecommunications infrastructure	1,071
Oberon Financial Technology Inc	Software for independent financial advisors	780
Chyron Corporation (Debt)	Broadcast media technology	639
LifeMasters Supported SelfCare Inc	Comprehensive disease management services provider	422
Method Products Inc	Household cleaning products	280
Other		540
Total		12,963
Total UK and US unquoted		110,465

*Economic Interest above 50%.

Directors and Management

Chairman G C Greene CBE*
Mr Greene is aged 67 and was appointed a director in 1996 and Chairman in July 2000. He is Chairman of the Nomination Committee and is a member of the Remuneration and Audit Committees. A current director of Greene King plc, his career has included directorships with Guinness Mahon, Guinness Peat Group plc, Jupiter International Green Investment Trust plc. In addition he has also been a director and Chairman of a number of publishing companies. He is a former member of the Board of the British Council and former Chairman of the Trustees of The British Museum.

Deputy Chairman P J Grant CBE*
Mr Grant is aged 74 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 Nomination and Audit Committees. He has substantial experience gained through a career in banking and investment and is currently a director of BNP Paribas Holdings Limited. He is a former Chairman of Sun Life Assurance where he served as a director for 22 years and was Deputy Chairman of Lazard Brothers & Co., Limited for three years. Other former directorships include Scottish Hydro (now part of Scottish & Southern Energy plc).

Chief Executive The Hon R A Rayne
The Hon R A Rayne is aged 55 and first joined the Company in 1975 when he was initially involved in the development of LMS' properties in the US. He later returned to the UK with responsibility for LMS' properties in Scotland. He was appointed Investment Director in 1983, Joint Managing Director in 1998 and Chief Executive in May 2001. He is a member of the Nomination Committee. He has been on the boards of a number of public companies including First Leisure Corporation plc and Crown Sports plc. He is currently a non-executive director of NYSE quoted, Weatherford International Inc, an international oil services company and is Chairman of ECI Group.

Finance Director N R Friedlos
Mr Friedlos is aged 46 and was appointed Finance Director in January 2003. He is a member of the Nomination Committee. He was Finance Director of Land Securities Trillium and was involved in its sale to Land Securities plc in 2000. Before joining Trillium in 1998, he worked for twelve years at PricewaterhouseCoopers in London and Birmingham, becoming a partner at Price Waterhouse in 1992.

Director of Corporate Development M A Pexton
Mr Pexton is aged 47, joined the Company in April 2002 and was appointed a director in October 2002. He is a member of the Nomination Committee. He was formerly the director responsible for human resources at the international law firm Allen & Overy. Prior to joining Allen & Overy in 1990, he worked for Deloitte, Haskins & Sells (now PricewaterhouseCoopers) and in the insurance and nuclear industries. He is a Fellow of the Chartered Institute of Personnel and Development and has an MBA from the London Business School.

Mrs J F de Moller*
Mrs de Moller is aged 56 and was appointed a director in May 2002. She is a member of the Nomination, Remuneration and Audit Committees. 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 and was previously a non-executive director of BT plc for three years and AWG plc for eight years.

D Newell*
Mr Newell is aged 61 and was appointed a director in 1998. He is Chairman of the Audit Committee and a member of the Remuneration and Nomination 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.

The Hon J M Wilson*
The Hon J M Wilson is aged 51 and was appointed a director in April 2001. He is a member of the Nomination Committee. A founding partner and Managing Director of Boston Ventures, a leading US media and communications private equity firm, Mr Wilson brings to the board a wealth of experience in the private equity market. He is a director of Jobson Publishing LLC, PartMiner Inc., CAMP Systems Corp, TradePower Inc., Marshall & Swift, Northstar Travel Media and World Publications.

*Non-executive director.

Company Secretary S C Mitchley ACIS

Group Property Manager N T J Groves BA MRICS

Group Accountant J M Townley BA ACA

Shareholder Information

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

Conversion of Deferred Ordinary shares
On 21st July 2004 the Company's Deferred Ordinary shares, which currently do not rank for dividend, will automatically convert into Ordinary shares. All holders of Deferred Ordinary shares will be issued with new certificates on a one for one basis. Further details are provided in the letter to the holders of Deferred Ordinary shares dated 21st June 2004.

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
16th June 2004

Record date
18th June 2004

Final date for receipt of DRIP forms
7th July 2004

AGM
21st July 2004

Conversion of Deferred Ordinary shares
21st July 2004 following the AGM

Final dividend payment date
28th July 2004

Interim results
November 2004

Glossary of Terms

FRS:
Financial Reporting Standard.

Gross annual rate of rent:
Contracted rent roll.

HR:
Human Resources.

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

OEM:
Original Equipment Manufacturer

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.

STRGL:
Statement of Total Realised Gains and Losses.

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

Total return on equity:
Closing shareholders' funds plus equity dividends in respect of the year, divided by the opening shareholders' funds.

UITF:
Urgent Issues Task Force.

VoIP:
Voice-over internet protocol.

Wi-Fi:
Wireless Fidelity – high frequency wireless local area network.

Advisers

Auditor
KPMG Audit Plc, London

Banker
Barclays Bank plc

Broker
Cazenove

Solicitors
Clifford Chance, Michael Conn Goldsobel

Valuers
Cluttons, Jones Lang LaSalle Americas Inc.
San Francisco

Designed and produced
by Radley Yeldar

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 with the Companies Act 1985, except as noted below. The accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's accounts. The Group has also implemented the transitional provisions of FRS 17 'Retirement Benefits'.

Basis of consolidation

Except as explained below, 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 Division investments that are subsidiary undertakings are carried at cost less amounts, if any, written off to reflect impairment in value, in accordance with the Company's normal accounting policy for such investments, and are not consolidated as required by FRS 2 'Accounting for Subsidiary Undertakings'. These investments within the Group's portfolio are held for resale with a view to the ultimate realisation of capital gains, although not necessarily with a view to disposal within one year of acquisition. The Group's exposure to these companies is limited to its investment at the balance sheet date. Consequently, the directors consider that consolidation would not give a true and fair view of the Group's interest in these investments. This treatment reflects the application of the true and fair override to FRS 2. It is not practicable to determine the effects of the application of the true and fair override on the financial statements. Additional information on the subsidiary undertakings not consolidated is given in note 12.

Investment properties

In accordance with SSAP 19 'Accounting for Investment Properties', investment properties are revalued annually at open market value determined in accordance with the Appraisal and Valuation Manual of the Royal Institute of Chartered Surveyors. Revaluation surpluses and deficits 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 20 years to run. This treatment, which is in accordance with SSAP 19, 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 many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

Investment Division investments

Investments are stated at cost less amounts written off to reflect permanent diminution in value.

Those 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. It is not practicable to determine the effects of this departure (which is in accordance with FRS 9 'Associates and Joint Ventures') on the financial statements.

Other tangible assets

These comprise computers, furniture, fixtures and fittings, and improvements to Group occupied properties and are depreciated on a straight-line basis to estimated residual values over their estimated useful lives of between three and five years.

Goodwill

Goodwill, including negative goodwill, arising on acquisition is calculated based upon a comparison of the fair value of the assets acquired and the fair value of the consideration given and other costs of acquisition.

The negative goodwill arising on the acquisition during the year of Inflexion plc (see note 25) will be carried on the balance sheet and released to the profit and loss account as the Inflexion plc assets, to which the negative goodwill relates, are realised or impaired.

Trading properties

Trading properties are valued at the lower of cost and estimated net realisable value. Cost excludes interest.

Interest and other outgoings on property developments

Interest and other outgoings on vacant properties prior to redevelopment are treated as revenue expenditure and written off as incurred. Interest costs on properties in development are written off as incurred.

Foreign currencies
Transactions in foreign currencies are recorded at the rate of exchange at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date, and exchange differences are included in the profit and loss account.

The results and balance sheets of overseas operations are translated at the closing rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets are dealt with through reserves.

Investment Division investments denominated in foreign currencies remain at the initial recorded amount and are not retranslated as these balances represent the historical cost of acquiring these investments.

Operating lease incentives
Operating lease incentives include rent free periods and other incentives (such as contributions towards fitting out costs) given to lessees on entering into lease agreements.

In accordance with UITF Abstract 28 ‘Operating Lease Incentives’, rent receivable in the period from lease commencement to the earlier of the first rent review to the prevailing market rate and the lease end date, is spread evenly over that period. The cost of other incentives is spread on a straight-line basis over a similar period.

Cash and liquid resources
Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise of short-term cash deposits.

Cost of raising finance
Debt instruments are stated at their net proceeds on issue. Issue costs are amortised to the profit and loss account over the life of the instrument and are included in interest payable.

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.

UITF Abstract 17
The Group operates an Inland Revenue approved employee share option scheme and has taken advantage of the exemption given in UITF Abstract 17 ‘Employee Share Schemes’ from recognising a charge in the profit and loss account for the discount on the option.

Taxation
Corporation tax payable is provided on taxable profits at the current rate.

On disposal of an investment property the element of tax relating to the profit in the year is charged to the profit and loss account and the element relating to earlier revaluation surpluses is included in the Statement of Total Recognised Gains and Losses.

Deferred tax assets and liabilities arise from timing differences between the recognition of gains and losses in the financial statements and their recognition in a tax computation. Deferred tax is measured on a non-discounted basis.

In accordance with FRS 19 ‘Deferred Tax’, deferred tax is provided in respect of all timing differences that have originated, but not reversed, at the balance sheet date that may give rise to an obligation to pay more or less tax in the future. Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on the sale has been recognised in the financial statements.

Subsidiary undertakings valuation
The Company’s investments in the shares of Group undertakings are stated at directors’ valuation on a basis which takes account of the net assets of the undertakings at 31st March 2004 which will include, where applicable, the professional valuation of properties and the carrying value of Investment Division investments. Surpluses and deficits arising from the directors’ valuation are taken to revaluation reserve in the Company balance sheet, permanent diminutions in value are taken to the Company profit and loss account.

Notes on the Accounts continued

2 Segmental analysis of profit

	Property 31st March 2004 £000	Investment Division 31st March 2004 £000	Total 31st March 2004 £000	Property 31st March 2003 £000	Investment Division 31st March 2003 £000	Total 31st March 2003 £000
Turnover						
Gross rental income	58,396	–	58,396	62,621	–	62,621
Property trading income	1,269	–	1,269	2,284	–	2,284
Investment management income	–	577	577	–	371	371
	59,665	577	60,242	64,905	371	65,276
Cost of sales						
Property outgoings	4,438	–	4,438	5,533	–	5,533
Property trading	860	–	860	1,682	–	1,682
	5,298	–	5,298	7,215	–	7,215
Profit before administration costs						
Net rental income	53,958	–	53,958	57,088	–	57,088
Property trading profit	409	–	409	602	–	602
Investment management income	–	577	577	–	371	371
	54,367	577	54,944	57,690	371	58,061
Administration costs						
Administrative expenses	(9,850)	(5,249)	(15,099)	(9,411)	(5,739)	(15,150)
Operating profit/(loss)	44,517	(4,672)	39,845	48,279	(5,368)	42,911
Investment income	–	707	707	–	191	191
Profit on disposal of properties and other investments	302	7,492	7,794	6,449	11,016	17,465
Amounts written back/(off) other investments	–	(4,994)	(4,994)	–	(51,387)	(51,387)
Profit/(loss) on ordinary activities before finance costs	44,819	(1,467)	43,352	54,728	(45,548)	9,180

The Group's share of administration costs incurred by limited partnerships in which it has invested have previously been shown as part of operating profit. These costs are under the control of the individual limited partnership fund managers, are funded from the capital invested, and comprise part of the overall investment return. They have therefore been reclassified and combined with amounts written back/(off) venture capital investments. The prior year presentation has been adjusted accordingly.

The Investment Division results include the contribution from Inflexion plc for the period from its acquisition on 6th February 2004. Included for Inflexion is the following:

	£000
Investment Division turnover	216
Administrative expenses	(569)
Operating loss	(353)
Investment income	351
Profit on disposal of properties and other investments	64
Profit on ordinary activities before finance costs	62
Finance income	54
Profit on ordinary activities	116

	2004 £000	2003 £000
Operating profit is stated after charging:		
Amortisation and depreciation of fixed assets	152	210
Auditors' remuneration	167	140
Remuneration to Urbanfirst auditors, covered by KPMG Audit Plc in 2004	–	25
Remuneration for other services to KPMG Audit Plc and its associates		
– Due diligence on venture capital acquisitions	33	255
– Taxation advice	339	145
– Audit related services	27	–
£80,400 of the above taxation fees have been capitalised		

3 Segmental analysis of net assets

	Property 2004 £000	Investment Division 2004 £000	Total 2004 £000	Property 2003 £000	Investment Division 2003 £000	Total 2003 £000
Intangible assets – negative goodwill	–	(392)	(392)	–	–	–
Investment properties	853,614	–	853,614	821,944	–	821,944
Other tangible assets	408	201	609	438	109	547
Investments – Investment Division	–	191,885	191,885	–	162,640	162,640
Fixed assets	854,022	191,694	1,045,716	822,382	162,749	985,131
Trading properties	12,475	–	12,475	11,489	–	11,489
Debtors	14,462	3,243	17,705	18,326	2,028	20,354
Inflexion plc cash and short-term deposits	–	14,629	14,629	–	–	–
Creditors: amounts falling due within one year	(42,054)	(1,235)	(43,289)	(39,618)	(2,317)	(41,935)
Provisions for liabilities and charges	(8,213)	–	(8,213)	(6,622)	–	(6,622)
	830,692	208,331	1,039,023	805,957	162,460	968,417
Cash and short-term deposits			42,846			77,833
Creditors: amounts falling due after more than one year			(323,896)			(334,187)
Net assets			757,973			712,063

£34.5 million (2003 – £36.1 million) of the investment properties and £2.3 million (2003 – £2.8 million) of the creditors falling due after more than one year are in the US. Of the Investment Division investments, £70.7 million (2003 – £72.2 million) are located in the US.

The consolidated net assets of the Group at 31st March 2004 include the following amounts in respect of its 58.8% owned subsidiary, Inflexion plc, which was acquired on 6th February 2004.

	£000
– Other tangible assets	99
– Venture capital investments	15,637
– Debtors	1,644
– Cash and short-term deposits	14,629
– Creditors: amounts falling due within one year	(982)
– Creditors: amounts falling due after more than one year	(637)
	30,390

4 Employees, including executive directors

	2004 £000	2003 £000
Staff costs		
– Wages and salaries	5,707	5,814
– Social security costs	764	671
– Pension contributions	2,533	3,359
	9,004	9,844

The average number of employees of the Group was 85 (2003 – 105). The areas of the Group’s operations in which they are employed were: property management 44 (2003 – 51), investment division 14 (2003 – 14) and 27 staff (2003 – 40) who were employed directly at the Group’s properties and their cost recharged to tenants.

Notes on the Accounts continued

5 Pension costs

The assets of the pension schemes are held separately from those of the Group companies. 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 are eligible to join this arrangement; the defined benefit scheme is closed to new entrants.

Inflexion plc, the Group's 58.8% owned subsidiary, pays contributions to personal pensions for its employees.

The pension charge for the Group was £2.5 million (2003 – £3.4 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 5.4% per annum and that salaries will be increased at 4.5% per annum. The market value of assets of the scheme at 31st March 2004 was £4.6 million and the actuarial value of those assets on an ongoing basis represented 35.7% of the benefit of £12.9 million that had accrued to members allowing for expected future increases in earnings. Net of the related deferred tax asset the pension deficit is £5.8 million. The employer will pay an enhanced contribution designed to eliminate the underfunding over the next three to five years.

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 at 1st November 2003 and use the following financial assumptions as at 31st March 2004.

	2004 % per annum	2003 % per annum	2002 % per annum
Future salary growth	4.5%	3.9%	4.5%
Discount rate	5.4%	5.4%	5.9%
Rate of increase in pension payments	5.0%	5.0%	5.0%
Inflation rate	3.0%	2.7%	3.0%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale involved, 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:

	2004 Long-term rate of return expected per annum	2004 Value £m	2003 Long-term rate of return expected per annum	2003 Value £m	2002 Long-term rate of return expected per annum	2002 Value £m
Assets						
– Equities (UK and overseas)	7.5%	2.1	7.5%	0.8	–	–
– Bonds (Government and corporate)	5.0%	0.9	5.0%	0.8	–	–
– Property (UK)	7.0%	0.2	7.0%	0.1	–	–
– Cash (cash and deposits)	4.5%	1.2	4.5%	0.1	–	–
– Unitised with profits	6.8%	0.2	6.8%	7.5	6.8%	15.4
Total market value of assets	6.7%	4.6	6.7%	9.3	6.8%	15.4
Present value of scheme liabilities		(12.9)		(17.0)		(18.7)
Deficit in scheme		(8.3)		(7.7)		(3.3)
Related deferred tax asset		2.5		2.3		1.0
Net pension liability		(5.8)		(5.4)		(2.3)
Equity shareholders' funds		710.0		678.9		720.6
Net pension liability		(5.8)		(5.4)		(2.3)
Equity shareholders' funds including net pension liability		704.2		673.5		718.3
Reserves						
Profit and loss account excluding net pension liability		263.2		260.7		78.2
Net pension liability		(5.8)		(5.4)		(2.3)
Profit and loss account including net pension liability		257.4		255.3		75.9

5 Pension costs continued

	2004 £m
Analysis of the amount that would have been charged to operating profit	
Current service cost	0.7
Past service cost	–
Total operating charge	0.7
Analysis of the amount that would have been credited/(charged) to other finance income/(expense)	
Interest on pension liabilities	(0.8)
Expected return on schemes' assets	0.4
Net return	(0.4)

Analysis of the amount that would have been recognised in the Group statement of recognised gains and losses (STRGL).

	2004 £m
Actual return less expected return on assets	1.8
Experience gains and losses on liabilities	(3.2)
Changes in financial assumptions underlying the present value of the schemes' liabilities	(0.5)
Actuarial loss recognised in STRGL	(1.9)

Actual return less expected return on pension scheme assets is the actual return on the assets less the expected return with allowance for contributions paid into and benefits paid out of the scheme during the year.

Experience gains and losses on the scheme liabilities are the difference between actuarial assumptions underlying the scheme liabilities and actual experience during the year.

Changes in assumptions underlying the scheme liabilities reflects the changes made to the actuarial assumptions since the last accounting date.

Movement in deficit during the year

	2004 £m
Deficit in scheme at 31st March 2003	(7.7)
Current service cost	(0.7)
Contributions	2.4
Past service costs	–
Other finance income	(0.4)
Actuarial loss	(1.9)
Deficit in scheme at 31st March 2004	(8.3)

There have been no refunds of surplus paid to the employer during the current year.

History of experience gains and losses

	2004 £m
Difference between the expected and the actual return on the schemes' assets	
– Amount	1.8
– Percentage of schemes' assets	50.6%
Experience gains and losses on the schemes' liabilities	
– Amount	(3.2)
– Percentage of the present value of the schemes' liabilities	24.5%
Effect of changes in assumptions underlying the present value of the schemes' liabilities	
– Amount	0.5
– Percentage of the present value of the schemes' liabilities	3.9%
Total amount recognised in the statement of Group total recognised gains and losses	
– Amount	(1.9)
– Percentage of the present value of the schemes' liabilities	14.4%

Notes on the Accounts continued

6 Net finance costs

	2004 £000	2003 £000
Interest payable		
– 10% First Mortgage Debenture Stock 2018	10,000	10,000
– 6.5% Secured Bond 2026	11,375	8,222
– Other mortgages	4,244	6,493
– Amortisation of issue costs and discounts on issue of mortgages and bonds	194	299
– Bank loans and bank overdrafts	597	29
	26,410	25,043
Interest receivable	(2,540)	(3,621)
Exchange losses on dollar deposits	1,099	1,706
Mortgage breakage costs	1,164	1,844
	26,133	24,972

7 Tax on profit/(loss) on ordinary activities

	2004 £000	2003 £000
Analysis of charge for year		
UK corporation tax on profit for the year	2,754	2,832
UK taxation on disposal of investment properties	10	–
Adjustments relating to prior years	(820)	(250)
	1,944	2,582
US taxation arising on Weatherford's change of domicile to Bermuda	–	1,698
US taxation on disposal of venture capital investments	454	2,510
Other US taxation	56	433
Total current tax	2,454	7,223
Deferred tax		
Origination and reversal of capital allowances and other timing differences	664	619
Release of deferred tax on sale of properties	(105)	(890)
Adjustments relating to prior years	896	–
Deferred tax asset on US lease surrender payment	–	475
Total deferred tax	1,455	204
Tax on loss on ordinary activities	3,909	7,427

Factors affecting the tax charge for the year

	2004 £000	2003 £000
Profit/(loss) on ordinary activities before taxation	17,219	(15,792)
Profit/(loss) on ordinary activities multiplied by the standard UK rate of corporation tax at 30%	5,166	(4,738)
Investment provisions, not available for tax relief	676	12,065
Investment property historical profits in excess of accounting profits	1,879	2,720
Capital profits sheltered by losses	(2,757)	(3,678)
US taxation arising on Weatherford's change of domicile to Bermuda	–	1,698
Intra-group exchange loss	(960)	(793)
Capital allowances on investment properties	(952)	(587)
Bermuda results not available for current tax deduction	15	446
Adjustments to tax charge in respect of prior years	(820)	(250)
Other items	207	340
Current tax charge for the year	2,454	7,223

8 Earnings/(loss) per Ordinary 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). The split between investment profits/(losses) and other profits for 2003 has been restated to take account of the presentational change explained in note 2.

		2004 Basic	2004 Diluted		2003 Basic	2003 Diluted
Earnings per share						
Weighted average shares in issue						
(See (a) below)		243.6m	327.6m		243.6m	326.9m
Earnings (See (c) below)						
– Before investment profits/(losses)	£10.2m	4.18p	3.11p	£12.9m	5.30p	3.95p
– Investment profits/(losses)	£1.6m	0.67p	0.50p	(£38.4m)	(15.77p)	(11.76p)
– Total	£11.8m	4.85p	3.61p	(£25.5m)	(10.47p)	(7.81p)
Shareholders' funds per share						
Shares in issue at 31st March						
(See (b) below)		327.6m	334.5m		327.6m	327.6m
Shareholders' funds (See (d) below)						
– Balance sheet	£710.0m	217p	212p	£678.9m	207p	207p
– Adjusted	£750.1m	229p	224p	£704.7m	215p	215p

(a) Calculation of basic and diluted weighted average shares in issue

	2004 '000	2003 '000
Basic		
– Weighted average Ordinary shares in issue	243,637	243,637
– Weighted average Deferred Ordinary shares in issue	83,938	83,285
– Adjustment in respect of shares issuable under share option schemes	12	287
– Adjustment in respect of shares held as trustees by LMS QUEST Trustee Limited on which no dividends are payable	(12)	(287)
Diluted		
– Weighted average number of shares in issue	327,575	326,922

(b) Calculation of basic and diluted shares in issue at 31st March

	2004 '000	2003 '000
Basic		
– Ordinary and Deferred Ordinary shares in issue at 31st March	327,584	327,567
– Adjustment in respect of Ordinary and Deferred Ordinary shares under option	7,282	488
– Adjustment in respect of shares held by trustees by LMS Quest	(320)	(488)
Diluted		
– Ordinary and Deferred Ordinary shares in issue at 31st March	334,546	327,567

(c) Calculation of earnings per share before and after investment activity

	2004 £000	2003 £000
Investments profit and losses		
– Income profits, losses and write downs on fixed asset investments and investment properties	2,800	(33,922)
– Debt breakage costs	(1,164)	(1,844)
– Taxation attributable to above	33	(2,582)
– Minority interests	(37)	(84)
Total investments profit and losses	1,632	(38,432)
Total other profit and losses	10,177	12,912
Profit/(loss) for the year	11,809	(25,520)

Notes on the Accounts continued

8 Earnings/(loss) per Ordinary share and shareholders' funds per share continued

(d) Shareholders funds and adjusted shareholders' funds per share

	2004 £000	2003 £000
Shareholders' funds per balance sheet	709,961	678,931
Deferred tax from capital allowances on investment properties	8,062	6,622
Group share of excess over market value of investments	8,289	4,165
Revaluation surplus on trading properties net of tax on planned disposals	23,832	15,026
Adjusted shareholders' funds	750,144	704,744

9 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 £000
At 31st March 2003	737,562	82,497	1,885	821,944	22,650
Amount included in prepayments under UITF28	1,133	–	–	1,133	–
Open market value at 31st March 2003	738,695	82,497	1,885	823,077	22,650
Exchange difference	(5,045)	–	–	(5,045)	–
Additions at cost	17,581	206	–	17,787	–
Disposals	(19,650)	(2,600)	–	(22,250)	–
Surplus on revaluation	41,269	1,207	195	42,671	1,225
Open market value at 31st March 2004	772,850	81,310	2,080	856,240	23,875
Amount included in prepayments under UITF28	(2,626)	–	–	(2,626)	–
At 31st March 2004	770,224	81,310	2,080	853,614	23,875

The historical cost of Group investment properties at 31st March 2004 was £346.6 million (2003 – £356.0 million). The historical cost of the Company's investment properties at 31st March 2004 was £3.7 million (2003 – £3.7 million).

Included in Group freehold above are properties with a value of £34.5 million located in the US (2003 – £36.1 million).

All investment properties have been valued at 31st March 2004 on the basis of 'Open Market Value' in accordance with the Approved Valuation Manual of the Royal Institution of Chartered Surveyors.

96.0% by value of the properties have been valued by Cluttons, Chartered Surveyors. The remaining 4.0%, located in the US, have been valued by Jones Lang LaSalle Global Consulting, San Francisco.

The unprovided 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 £41.0 million (2003 – £29.9 million). The deferred taxation relating to capital allowances which would be released in such circumstances, assuming that no balancing charge would be incurred, is £8.0 million (2003 – £6.6 million).

10 Other tangible assets

	Group £000
Cost at 31st March 2003	1,718
Depreciation at 31st March 2003	(1,171)
Net book value at 31st March 2003	547
Additions at cost	184
Inflexion acquisition	99
Disposals at net book value	(69)
Depreciation charge for the year	(152)
Total movements in the year	62
Cost at 31st March 2004	1,762
Depreciation at 31st March 2004	(1,153)
Net book value at 31st March 2004	609

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

11 Investments – consolidated subsidiary undertakings

	Company £000
At 31st March 2003 at valuation	348,812
Additions	310
Disposals	–
Deficit on revaluation (due to paying up of dividends in subsidiaries)	(51,521)
At 31st March 2004 at valuation	297,601

Principal consolidated subsidiary undertakings

Property investment companies – 100% owned by Group

340 Pine Street, Inc – USA*
Urbanfirst Limited
British Commercial Property Investment Trust Limited
Caledonian Property Investments Limited*
Central London Commercial Estates Limited*
Greenwich Reach 2000 Limited
Kensington Commercial Property Investments Limited*
LMS Leisure Investments Limited
LMS Properties Limited
LMS Shops Limited*
Palaville Limited*
St. James' Real Estate Company Limited*
The New River Company Limited*
West London & Surburban Property Investments Limited

Property investment companies – 55% owned by Group

Portman Investments (Baker Street) Limited*
Portman Investments (Farnham) Limited*

Property trading companies – 100% owned by Group

Caledonian Properties Limited*
City Shops Limited*
Corinium Estates Limited*

Investment Division companies – 100% owned by Group

LMS Capital Limited
LMS Capital (Bermuda) Limited – Bermuda*
LMS Tiger Investments Limited*
Lion Investments Limited*
Westpool Investment Trust plc

Investment Division companies – 58.8% owned by Group

Inflexion plc*
Inflexion Managers Limited*
Inflexion Partners Limited*
Inflexion General Partner Limited*

Other subsidiary companies – 100% owned by Group

LMS Industrial Finance Limited
London Merchant Securities, Inc. – USA*
LMS Services Limited

* Indicates subsidiary undertakings held indirectly.

Only the details of subsidiary undertakings principally affecting the profit and 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. Holdings are of Ordinary shares with the exception of £6.3 million of Preference shares in Urbanfirst Limited.

Notes on the Accounts continued

12 Investments – Investment Division

	Fund investments £000	Listed investments £000	Unlisted investments £000	Inflexion investments £000	Total £000
Group					
At 31st March 2003	39,376	37,581	85,683	–	162,640
Inflexion acquisition	–	–	–	4,464	4,464
Additions at cost	10,624	6,498	24,801	2,652	44,575
Reclassification	(808)	(4,443)	5,251	–	–
Transfers to Inflexion	–	(9,526)	–	9,526	–
Amounts (written off)/written back	(1,902)	2,854	(4,400)	(216)	(3,664)
Disposals	(8,879)	(5,592)	(870)	(789)	(16,130)
At 31st March 2004	38,411	27,372	110,465	15,637	191,885

The fund investment, listed investment and unlisted investment categories shown above comprise the portfolio of investments managed by the Group's wholly owned Investment Division. The Inflexion investments are owned and managed by Inflexion plc, the Group's 58.8% owned subsidiary. The Inflexion investments comprise.

	£000
– Listed investments	9,234
– Unlisted investments held via Inflexion plc's interest in its managed funds	6,403
	15,637

As is common practice in the venture and development capital industry, the investments are structured using a variety of instruments including ordinary shares, preference and other shares carrying special rights, options and warrants and debt instruments both with and without conversion rights. The investments are held for resale with a view to the realisation of capital gains. Generally, the investments do not pay significant income.

A list of the principal investments is included on pages 62 and 63.

FRS 13 requires disclosure of the fair value of the Group's investments. In the case of listed investments this is disclosed based on the quoted market value at the balance sheet date. In respect of investment in funds, fair value is based on external managers' valuations. In respect of unlisted investments against which write downs have been made, the written down value is considered to be the same as fair value. In respect of all other unlisted investments the determination of fair value in excess of cost is highly judgemental. Unless there is an imminent transaction which indicates a fair value materially in excess of cost, the fair value of these investments is taken as cost. The fair value disclosures are shown below.

	Fund investments £000	Listed investments £000	Unlisted investments £000	Inflexion investments £000	Total £000
Fair values per FRS 13					
At 31st March 2004	41,623	31,546	110,465	16,965	200,599
At 31st March 2003	40,780	40,343	85,682	–	166,805

£76.4 million of the above investments are subsidiary undertakings which the Group does not consolidate. Information on these investments is given on page 49. The percentage holding assumes the exercise of all conversion and dilution rights that are entitled to be exercised at 31st March 2004.

12 Investments – Investment Division continued

It is not practicable to state the impact of the non-consolidation of the subsidiaries on the Group's accounts due to the number of individual transactions over which many of the holdings were acquired and the need to determine asset values, including goodwill, retrospectively at each stage.

Investment	Activity	Percentage holding %	Most recent audited accounts	Most recent audited net assets £000	Most recent audited net profit/(loss) £000
Energy Cranes International Limited	Crane manufacture and crane-related services to the offshore energy industry	95	31.12.03	18,833	1,117
7 Global Limited	Software hosting services	84	31.03.03	1,517	(3,548)
Ridgeway Systems and Software Inc	Secure solutions for IP multimedia communication	88	31.12.03	(1,722)	(2,525)
Offshore Tool and Energy Corporation ('ITS')	Specialist engineering design and fabrication for the energy industry	100	31.12.02	798	(4,838)
Citizen Limited ('Vio')	Digital workflow management solutions	80	30.06.03	(7,066)	(2,384)
Cityspace Limited	Urban information networks	75	30.06.03	1,482	(2,722)
Entuity Limited	Network management software	66	31.12.02	923	(2,736)
CopperEye Limited	Data indexing technology and software	53	31.12.03	285	(933)
AssetHouse Technology Limited	Content services infrastructure software	72	31.05.03	870	(2,360)

13 Trading properties

	Group 2004 £000	Group 2003 £000
Trading properties	12,475	11,489

As at 31st March 2004 the trading properties have been valued by the directors at £38.7 million (2003 – £26.5 million). The valuations were performed by the directors on the basis of 'Open Market Value' in accordance with the Approved Valuation Manual of the Royal Institute of Chartered Surveyors.

14 Debtors

	Group 2004 £000	Group 2003 £000	Company 2004 £000	Company 2003 £000
Rents and service charges receivable	4,053	4,151	43	44
Amounts owed by subsidiary undertakings	–	–	669,710	610,459
Other debtors	6,219	13,204	90	578
Pension prepayment	756	661	–	–
Other prepayments and accrued income	5,614	2,338	28	203
Corporation tax	780	–	1,990	–
Deferred tax asset	283	–	–	–
	17,705	20,354	671,861	611,284

All Group and company debtors fall due within one year.

15 Cash and short-term deposits

	Group 2004 £000	Group 2003 £000	Company 2004 £000	Company 2003 £000
Short-term deposits	40,260	60,059	–	–
Bank and cash balances	17,215	17,774	248	–
	57,475	77,833	248	–

Group cash and short-term deposits include £14.6 million held by Inflexion plc.

Notes on the Accounts continued

16 Creditors: amounts falling due within one year

	Group 2004 £000	Group 2003 £000	Company 2004 £000	Company 2003 £000
Bank overdrafts	118	535	–	–
Bank loans	4,956	5,606	–	–
Rents received in advance	11,533	11,921	309	304
Amounts owed to subsidiary undertakings	–	–	3,964	26,995
Corporation tax	–	730	–	–
Other taxes and social security	1,167	1,294	75	79
Proposed final dividend	10,741	10,476	10,741	10,476
Other creditors	5,169	9,909	3,035	3,939
Accruals	9,605	1,464	1,685	436
	43,289	41,935	19,809	42,229

Bank loans are secured on investment properties.

17 Creditors: amounts falling due after more than one year

	Group 2004 £000	Group 2003 £000	Company 2004 £000	Company 2003 £000
6.5% Secured Bond 2026	172,974	172,914	172,974	172,914
10% First Mortgage Debenture Stock 2018	97,104	96,991	97,104	96,991
9.695% Mortgage 2018	20,000	20,000	–	–
7.135% Mortgage 2010-2015	10,450	10,440	–	–
6.675% Mortgage 2010-2015	5,170	5,160	–	–
6.68% Mortgage 2010-2015	3,754	3,748	–	–
7.22% Mortgage 2010-2015	3,671	5,202	–	–
6.7% Mortgage 2014	2,384	2,384	–	–
8.25% Mortgage 2020	2,320	2,766	–	–
Floating rate Mortgage 2017	2,000	2,000	–	–
6.57% Mortgage 2010-2015	1,885	1,874	–	–
Unsecured loans	1,547	1,303	–	–
7.21% Mortgage 2010-2015	–	9,405	–	–
Other creditors	637	–	–	–
	323,896	334,187	270,078	269,905

	Group 2004 £000	Group 2003 £000	Company 2004 £000	Company 2003 £000
Borrowings				
– Repayable after more than five years	323,896	334,187	270,078	269,905
– Repayable within one year (note 16)	5,074	6,141	–	–
	328,970	340,328	270,078	269,905

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 11.0% per annum. The unamortised amount of discount at 31st March 2004 was £2.9 million (2003 – £3.0 million).

The discount and issue costs in March 2002 at a price of 99.792% of £100 million of the £175 million Secured Bond 2026 and the discount and issue costs in November 2002 at a price of 99.394% of a further £75 million are 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 2004 was £2.0 million (2003 – £2.1 million).

The Mortgage Debenture Stock of £100 million, together with the Mortgages are secured on investment properties. The secured bond of £175 million is secured on all the assets of the Company and nine of its property owning subsidiaries.

The Floating rate Mortgage 2017 has an interest rate of LIBOR plus a margin of 1.0%.

18 Provisions for liabilities and charges

	Group 2004 £000	Group 2003 £000	Company 2004 £000	Company 2003 £000
Provision for deferred taxation				
At 31st March 2003	6,622	6,893	54	53
Net provision/(reversal) during the year	1,591	(271)	1	1
At 31st March 2004	8,213	6,622	55	54

This provision relates to accelerated capital allowances except for £0.2 million in relation to other timing differences.

19 Financial instruments

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

	£ sterling 2004 £m	US dollars 2004 £m	Total 2004 £m	£ sterling 2003 £m	US dollars 2003 £m	Total 2003 £m
Investment Division investments (note 12)						
At FRS 13 fair value	122.6	78.0	200.6	90.5	76.3	166.8
At cost less amounts written off	(121.2)	(70.7)	(191.9)	(90.4)	(72.2)	(162.6)
Surplus	1.4	7.3	8.7	0.1	4.1	4.2
Less: taxation	–	–	(0.4)	–	–	–
	1.4	7.3	8.3	0.1	4.1	4.2
Long-term borrowings						
Denomination of long-term borrowings	321.0	2.3	323.3	331.4	2.8	334.2
Weighted average interest rate of fixed rate financial liabilities	7.8%	8.3%	7.8%	7.8%	8.3%	7.8%
Weighted average period for which interest rates on the fixed rate financial liabilities are fixed	17.7 yrs	16.3 yrs	17.6 yrs	18.3 yrs	17.3 yrs	18.3 yrs

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 £49.5 million sterling, £7.8 million US dollars, £0.2 million euros and are predominantly held on short-term floating rate deposit accounts with a range of banks.

Mark to market of long-term borrowing adjustment

	Book value 2004 £m	Fair value 2004 £m	Excess over book value 2004 £m	Book value 2003 £m	Fair value 2003 £m	Excess over book value 2003 £m
6.5% Secured Bond 2026	173.0	189.9	16.9	172.9	193.6	20.7
10% First Mortgage Debenture Stock 2018	97.1	136.6	39.5	97.0	130.1	33.1
9.695% Mortgage 2018	20.0	30.3	10.3	20.0	31.2	11.2
7.135% Mortgage 2010-2015	10.5	11.2	0.7	10.4	11.5	1.1
6.675% Mortgage 2010-2015	5.2	5.4	0.2	5.2	5.6	0.4
6.68% Mortgage 2010-2015	3.7	4.0	0.3	3.7	4.0	0.3
7.22% Mortgage 2010-2015	3.7	4.0	0.3	5.2	5.8	0.6
6.7% Mortgage 2014	2.4	2.4	–	2.4	2.3	(0.1)
8.25% Mortgage 2020	2.3	3.1	0.8	2.8	3.7	0.9
Floating rate Mortgage 2017	2.0	2.0	–	2.0	2.0	–
6.57% Mortgage 2010-2015	1.9	2.0	0.1	1.9	2.0	0.1
Unsecured loans	1.5	1.5	–	1.3	1.3	–
7.21% Mortgage 2010-2015	–	–	–	9.4	10.5	1.1
Other creditors	0.6	0.6	–	–	–	–
	323.9	393.0	69.1	334.2	403.6	69.4
Less: taxation			(20.8)			(19.4)
Less: minority share			(3.3)			(3.5)
Group share of fair value adjustment (net of taxation)			45.0			46.5

Fair values of the liabilities have 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 are repayable at their nominal value.

Notes on the Accounts continued

20 Called up share capital

	Authorised 27 18/41p Ordinary	Authorised 27 18/41p Deferred Ordinary	Authorised 27 18/41p Unclassified	Allotted, called up and fully paid 27 18/41p Ordinary	Allotted, called up and fully paid 27 18/41p Deferred Ordinary
At 31st March 2003	272,850,398	83,984,203	7,609,843	243,636,971	83,930,460
Issued during the year	–	–	–	–	17,114
At 31st March 2004	272,850,398	83,984,203	7,609,843	243,636,971	83,947,574
Nominal value at 31st March 2004	£74,867,487	£23,044,446	£2,088,067	£66,851,608	£23,034,395
			£100,000,000		£89,886,003

During the year 17,114 Deferred Ordinary shares were issued for consideration of 114.5p each under the LMS Executive Share Option Scheme. The Ordinary shares and the Deferred Ordinary shares constitute a single class of share ranking pari passu in all respect, except that the Deferred Ordinary shares do not entitle their holders to receive any dividend before the conclusion of the Annual General Meeting on 21st July 2004, at which time the Deferred Ordinary shares will be automatically converted into the same number of Ordinary shares. The first dividend for which the converted Deferred Ordinary shares will rank, will be the interim dividend in respect of the year ended 31st March 2005.

Options to subscribe for shares under the Company's share option scheme are listed below. Performance conditions exist for options granted under the LMS Executive Share Option Scheme. These are explained in the remuneration report.

Executive Share Option Scheme

Number	Class	Exercise price	Date from which exercisable	Expiry date
231,520	Deferred Ordinary	180½p	27th July 2003	27th July 2010
376,912	Deferred Ordinary	178½p	27th July 2003	27th July 2010
5,630	Deferred Ordinary	134p	5th January 2004	5th January 2011
2,491,389	Deferred Ordinary	149p	5th January 2004	5th January 2011
2,163,089	Deferred Ordinary	114½p	4th September 2005	4th September 2012
377,112	Deferred Ordinary	96p	1st April 2006	31st March 2013
1,710,521	Deferred Ordinary	135p	1st August 2006	28th August 2013

Savings-Related Share Options Scheme

Number	Class	Exercise price	Date from which exercisable	Expiry date
197,836	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
20,394	Deferred Ordinary	104½p	1st September 2004	31st March 2005
73,630	Deferred Ordinary	104½p	1st September 2006	31st March 2007
92,484	Deferred Ordinary	104½p	1st September 2008	31st March 2009
32,070	Deferred Ordinary	130p	1st February 2007	31st July 2007
80,461	Deferred Ordinary	130p	1st February 2009	31st July 2009
28,386	Deferred Ordinary	130p	1st February 2011	31st July 2011

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 Investments – Investment Division in note 12 on page 48 of these accounts. All employees of the Company, including executive directors of the Company (except The Hon R A Rayne), are potential beneficiaries under the QUEST. At 31st March 2004, the QUEST held 320,897 Deferred Ordinary shares at a cost and valuation of £0.2 million.

21 Reserves

	Share premium account £000	Capital reduction account £000	Revaluation reserve £000	Profit and loss account £000	Total £000
Group					
At 31st March 2003	19,034	2,868	306,440	260,708	589,050
Premium on issue of shares during the year	15	–	–	–	15
Surplus on revaluation of					
Investment properties – Group share	–	–	38,873	–	38,873
Realisation of revaluation surpluses of previous years	–	–	(4,951)	4,951	–
Exchange difference	–	–	(5,045)	587	(4,458)
Gain on investments disposed of to Inflexion plc minority (note 25)	–	–	–	689	689
Share of revaluation reserve on acquisition of minority interests in subsidiaries	–	–	(310)	–	(310)
Retained loss for the year	–	–	–	(3,784)	(3,784)
At 31st March 2004	19,049	2,868	335,007	263,151	620,075
Company					
At 31st March 2003	19,034	2,868	205,911	352,864	580,677
Premium on issue of shares during the year	15	–	–	–	15
Surplus/(deficit) on revaluation					
Investment properties	–	–	1,225	–	1,225
Subsidiary undertakings	–	–	(51,521)	–	(51,521)
Retained profit for the year	–	–	–	83,361	83,361
At 31st March 2004	19,049	2,868	155,615	436,225	613,757

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

The Company's profit for the year amounted to £99.0 million (2003 – loss £12.0 million).

22 Notes to consolidated cash flow statement

	2004 £000	2003 £000
(1) Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	39,845	42,911
Depreciation	152	213
Other non-cash movements	(1)	(3)
Increase in stocks	(987)	(603)
Decrease in debtors	37	1,824
Increase/(decrease) in creditors	2,955	(426)
Net cash inflow from operating activities	42,001	43,916

	31st March 2003 £000	Cash flow £000	Other non-cash changes £000	Exchange movements £000	31st March 2004 £000
(2) Analysis of movement in net debt					
Bank and cash balances*	17,775	(677)	–	117	17,215
Bank overdrafts	(535)	417	–	–	(118)
		(260)			
Debt due within one year	(5,606)	650	–	–	(4,956)
Debt due after more than one year	(334,187)	10,734	(194)	388	(323,259)
		11,384			
Short-term deposits*	60,059	(18,598)	–	(1,201)	40,260
Net cash inflow from operating activities	(262,494)	(7,474)	(194)	(696)	(270,858)

*Totalled on balance sheet as cash and short-term deposits.

Notes on the Accounts continued

22 Notes to consolidated cash flow statement continued

	2004 £000	2003 £000
(3) Reconciliation of net cash flow to movement in net debt		
(Decrease)/increase in cash in the year	(260)	17,948
Cash outflow/(inflow) from decrease/(increase) in debt financing	11,384	(52,591)
Cash inflow from decrease in liquid resources	(18,598)	(44,361)
Change in net debt resulting from cash flows	(7,474)	(79,004)
Translation differences	(696)	(1,394)
Other non-cash changes	(194)	(299)
Movement in net debt in the year	(8,364)	(80,697)
Net debt at 31st March 2003	(262,494)	(181,797)
Net debt at 31st March 2004	(270,858)	(262,494)

23 Capital commitments

	Group 2004 £000	Group 2003 £000
Property division	28,088	52,843
Investment division – commitments by LMS Capital	38,148	48,937
– commitments by Inflexion plc	16,034	–
Total	82,270	101,780

24 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. As explained in note 25, LMS plc entered into arrangements with Inflexion plc in respect of the shares transferred as part of the acquisition consideration.

25 Acquisition of Inflexion plc

On 6th February 2004 Inflexion plc issued Ordinary shares in consideration for a portfolio of the Group's listed investments plus gilts to a total value of £12 million. This transaction resulted in the Group owning 50.5% of Inflexion plc. At the same time, the Group undertook to subscribe £6 million in cash to an open offer of Inflexion plc shares. When the open offer closed, on 2nd March 2004, the Group had a total interest of 58.8% in Inflexion plc.

The acquisition is treated as made on 6th February 2004. The book value and fair value of the assets acquired and the resulting negative goodwill is shown below.

	Book value at acquisition £000	Fair value adjustments £000	Fair value £000
Net assets acquired			
Tangible fixed assets	104	–	104
Investments	15,025	(1,035)	13,990
Goodwill	777	(777)	–
Debtors	1,338	–	1,338
Cash at bank and in hand	17,428	–	17,428
Creditors: amounts falling due within one year	(712)	–	(712)
Creditors: amounts falling due after more than one year	(675)	–	(675)
Net assets	33,285	(1,812)	31,473
58.8% acquired			18,506
Negative goodwill arising on acquisition			(392)
Cost of acquisition			18,114

The book value at acquisition includes the fair value of consideration of £18 million, as set out below, introduced into Inflexion as consideration for the shares issued.

25 Acquisition of Inflexion plc continued

Fair value adjustments have been made to write off goodwill in the Inflexion balance sheet and to restate the investments acquired from LMS in accordance with LMS accounting policy. The cost of acquisition comprises:

	Fair value £000
Listed investments and gilts	12,000
Cash	6,000
Fair value of consideration	18,000
Expenses of acquisition	114
	18,114

The investment portfolio given in consideration comprised seven of the Group's listed investments with a market value at the date of acquisition of £11.3 million plus £0.7 million of gilts to give a combined value of £12 million.

This represented a profit over the Group's book cost of £1.6 million. 41.2% of this amount (£0.7 million) being the gain attributable to that part of the investment portfolio effectively disposed of to the Inflexion plc minority, has been credited to reserves in accordance with UITF31.

London Merchant Securities plc has agreed to subscribe £15 million in total in cash for B Ordinary shares in Inflexion plc at a price per share equal to 90% of Inflexion's consolidated net asset value per issued Ordinary share at the time of subscription. This is reflected in the balance sheet of LMS plc. The timing of these subscriptions will be at the Company's option but no later than 30th September 2009, and only during the 30 day period following the publication of Inflexion plc's preliminary statement of results for each of the financial years up to and including the year ending 31st March 2009.

In respect of three of the investments transferred to Inflexion plc, (Crown Sports Plc, DMATEK Limited and NMT Group Plc), comprising £7.9 million of the acquisition consideration, Inflexion has the option to require the Group to buy the investments back, subject to certain conditions being satisfied, for 80% of the acquisition value. As part of this arrangement the Group is entitled to receive a preferential share of any increase in value of the investment.

At 31st March 2004, the option in respect of NMT Group Plc comprising £0.5 million of the consideration, had lapsed and no liability had arisen. The option still exists in respect of Crown Sports Plc (31st March 2004 market value £4.1 million; acquisition value £4.3 million) and DMATEK Limited (31st March 2004 market value £3.6 million; acquisition value £3.1 million).

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 our buildings; and
- To undertake our responsibilities as landlords for communal areas under our control in buildings forming part of the Group's property portfolio.

Five Year Summary

	2004 £000	2003 £000	2002 £000	2001 £000	2000 £000
Group balance sheet					
Investment properties	853,614	821,944	809,153	736,884	632,690
Other tangible assets	609	547	542	655	722
Investments – Investment Division	191,885	162,640	170,450	192,719	148,316
Intangible assets – negative goodwill	(392)	–	–	–	–
Cash and short-term deposits	57,475	77,833	107,532	190,015	173,543
Other net liabilities	(13,109)	(10,092)	(20,374)	(26,512)	(52,322)
Long-term loans	(323,896)	(334,187)	(281,479)	(274,783)	(190,638)
Provision for liabilities and charges	(8,213)	(6,622)	(6,893)	(6,455)	(5,862)
Net assets	757,973	712,063	778,931	812,523	706,449
Equity minority interests	(48,012)	(33,132)	(58,305)	(58,830)	(52,966)
Equity shareholders' funds	709,961	678,931	720,626	753,693	653,483
Represented by					
Called up share capital	89,886	89,881	89,516	89,334	82,331
Reserves	620,075	589,050	631,110	664,359	571,152
	709,961	678,931	720,626	753,693	653,483
Group profit and loss account					
Net rental income	53,958	57,088	51,184	46,028	44,800
Profit/(loss) before taxation	17,219	(15,792)	(36,068)	60,338	122,366
Profit/(loss) for the year	11,809	(25,520)	(46,918)	36,096	81,392
Earnings/(loss) per Ordinary share	4.85p	(10.47p)	(19.26p)	15.45p	36.28p
Dividends per Ordinary share	6.4p	6.3p	6.2p	6.1p	5.9p
Shareholders' funds per share	217p	207p	221p	231p	218p
Diluted shareholders' funds per share	212p	207p	220p	231p	206p

Note
1 The figures for the years ended 2000-2001 are as restated to incorporate the implementation of FRS 19, which requires the Group to provide in full for deferred taxation.

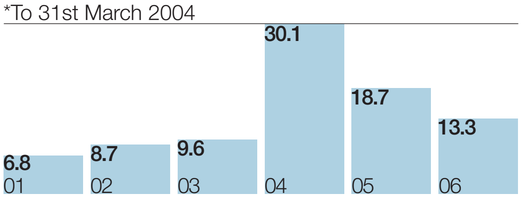
	2004	2003	2002	2001	2000
Return on equity					
LMS overall	6.9%	(3.7%)	(2.4%)	14.2%	25.5%
Property	9.4%	3.9%	6.7%	16.0%	18.6%
Investment Division	(1.2%)	(28.1%)	(34.4%)	7.9%	51.2%
Market price at 31st March					
Ordinary shares	171.75p	99.5p	157p	158.5p	196.5p
Deferred Ordinary shares	166p	89p	140p	129.5p	166.5p

Property Portfolio Breakdown

Total property returns by location %*

01 London, West End
02 Islington and Clerkenwell
03 Other Central London
04 Scotland
05 Other UK
06 US

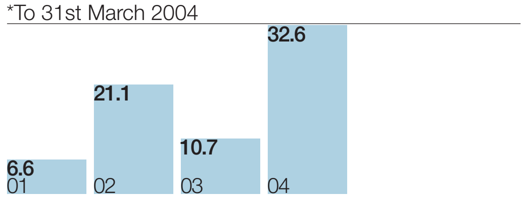
*To 31st March 2004



Total property returns by use %*

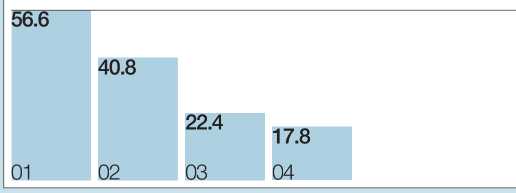
01 Office
02 Retail
03 Leisure
04 Other

*To 31st March 2004



Security of income Gross rent roll £m

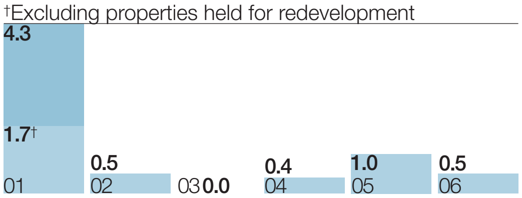
01 31 March 2004
02 5 years
03 10 years
04 15 years



Void rate by location %

01 London, West End
02 Islington and Clerkenwell
03 Other Central London
04 Scotland
05 Other UK
06 US

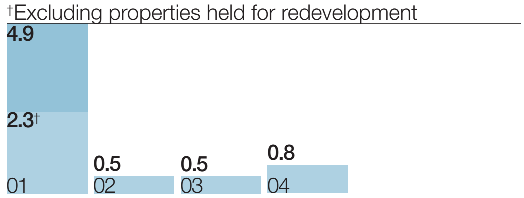
†Excluding properties held for redevelopment



Void rate by use %

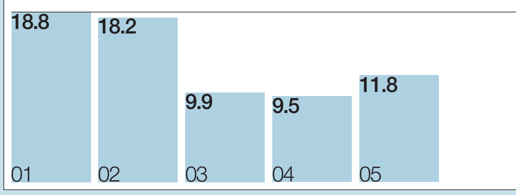
01 Office
02 Retail
03 Leisure
04 Other

†Excluding properties held for redevelopment



Total property returns %

01 2000
02 2001
03 2002
04 2003
05 2004



Property Portfolio Breakdown
As at 31st March 2004

Portfolio breakdown	values (£m)		% of portfolio		% like for like change		gross rent roll (£m pa)	
London, West End	**362.2**		**42.3**		**0.8**		**22.2**	
Office		286.8		33.5		–1.2		17.7
Retail		50.8		5.9		10.6		2.9
Leisure		13.8		1.6		5.4		0.9
Other		10.8		1.3		15.3		0.7
Islington and Clerkenwell	**148.5**		**17.3**		**–0.6**		**13.0**	
Office		133.2		15.5		–1.2		12.3
Retail		2.5		0.3		7.5		0.1
Leisure		1.4		0.2		–3.6		0.2
Other		11.4		1.3		6.5		0.4
Other Central London	**51.5**		**6.0**		**2.5**		**3.4**	
Office		36.1		4.2		1.7		2.1
Retail		4.9		0.6		5.3		0.5
Leisure		8.3		1.0		4.0		0.6
Other		2.2		0.2		44.6		0.2
Scotland	**80.0**		**9.4**		**20.5**		**4.8**	
Office		2.6		0.3		0.3		0.2
Retail		73.7		8.6		21.6		3.6
Leisure		3.0		0.4		15.0		0.3
Other		0.7		0.1		23.6		0.7
Other UK	**179.5**		**21.0**		**14.1**		**11.4**	
Office		14.0		1.7		12.0		2.0
Retail		76.3		8.9		17.2		5.4
Leisure		61.9		7.2		5.5		3.8
Other		27.3		3.2		30.1		0.2
US	**34.5**		**4.0**		**11.2**		**1.8**	
Office		15.2		1.8		5.3		0.4
Retail		19.3		2.2		16.3		1.4
Total	**856.2**	**856.2**	**100.0**	**100.0**		**5.2**	**56.6**	**56.6**

Summary use breakdown	values (£m)	% of portfolio	% like for like change	gross rent roll (£m pa)
Office	**487.9**	**57.0**	**–0.5**	**34.7**
Retail	**227.5**	**26.6**	**16.6**	**13.9**
Leisure	**88.4**	**10.3**	**5.5**	**5.8**
Other	**52.4**	**6.1**	**21.5**	**2.2**

Principal Properties
as at 31st March 2004

Values of £50 million plus

Strathkelvin Retail Park Bishopbriggs, Glasgow S R
17,372 sq m (187,300 sq ft)

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

Values of £40 million plus

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

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

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

Values of £30 million plus

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

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

Greenwich Reach Greenwich, London UK R RD
3.1 hectare (8 acres) site **Held for development**

Values of £20 million plus

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

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

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

Values of £15 million plus

Lion & Lamb Yard Farnham UK O R P
6,605 sq m (71,105 sq ft)

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

163/170 Tottenham Court Road London WC1 W O R RD
3,344 sq m (36,000 sq ft)

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

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

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

Values of £10 million plus

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

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

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

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

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

17-39 George Street London W1 W O R RD LH P
1,973 sq m (21,235 sq ft)

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

Values of £7.5 million plus

Rivergate Centre Peterborough UK R
5,574 sq m (60,000 sq ft)

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

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

The Quadrant Arcade Bournemouth UK R L
7,673 sq m (82,775 sq ft)

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

Dukes Lane Brighton UK R
2,278 sq m (24,525 sq ft)

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

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

Values of £5 million plus

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

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

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

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

22-66 Myddelton Square London EC1 I RD

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

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

26-28 Dorset Square London NW1 CL O
1,983 sq m (21,350 sq ft) **Held for Redevelopment**

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

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

W London, West End
I Islington and Clerkenwell
CL Other Central London
S Scotland
UK Other UK
US US

O Office
R Retail
L Leisure
RD Residential
LH Leasehold
P Portman Investments, 55% owned

Investment Portfolio Breakdown

Largest investments: UK quoted

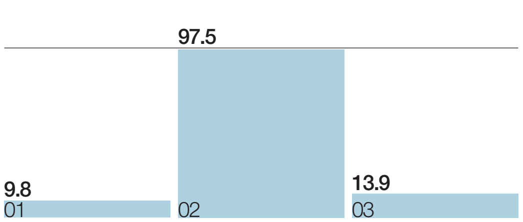
Company	Activity	Number of shares 000	Book value £000
Crown Sports plc	Health and fitness club owner/operator	57,754	4,176
DMATEK Limited	Security tagging technology	4,076	2,422
Bloomsbury Publishing plc	Book and information publisher	560	1,167
Bond International Software plc	Recruitment/HR software	1,683	750
Dunedin Enterprise Investment Trust plc	Investment trust	214	551
Civilian Content plc	Television and film production	2,143	196
NMT Group plc	Medical safety devices	20,346	164
Medal Entertainment & Media plc	TV studios and video distribution	214	150
RWS Holdings Plc	Intellectual property and support services	45	72
Other			207
Total UK quoted			9,855

Largest investments: US quoted

Company	Activity	Number of shares 000	Book value £000
Weatherford International Inc	Oilfield services	596	12,501
Grant Prideco Inc	Oil and gas exploration products	830	5,885
Digital Generation Systems Inc	Media delivery network	1,984	1,630
Aclara Biosciences Inc	Drug discovery technology	848	1,090
Chyron Corporation	Broadcast media technology	3,715	991
Brooktrout Inc	Electronic information exchange	80	864
Halliburton Company	Provider of products and services to the oil and gas industry	60	857
AXS-One Inc	Enterprise software	686	828
Pegasus Communications Corporation	Digital broadcast satellite service	16	334
Indus International Inc	Enterprise asset management software	100	180
Kana Software Inc	Customer relationship management software	59	145
Commerce One Inc	e-commerce solutions	165	144
Other			1,302
Total US quoted			26,751
Total UK and US quoted			36,606
Held by – Inflexion			9,234
– LMS Capital			27,372

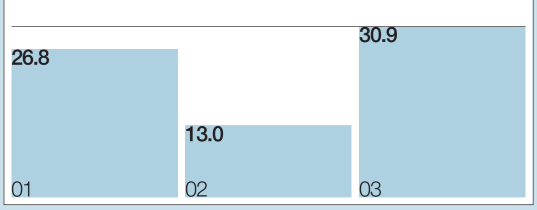
UK portfolio analysis by class (book value) £ million

01 Quoted
02 Unquoted
03 Funds



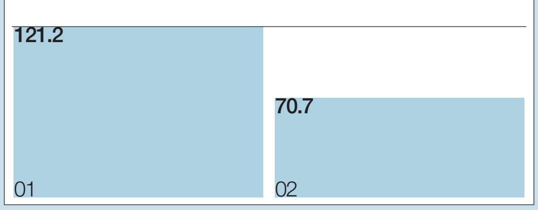
US portfolio analysis by class (book value) £ million

01 Quoted
02 Unquoted
03 Funds



Analysis by location (book value) £ million

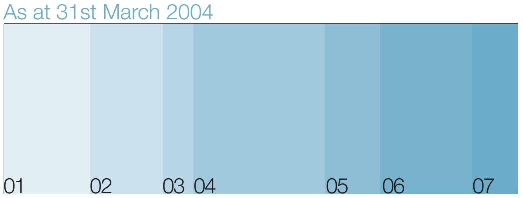
01 UK
02 US



Analysis by sector (book value) %

01 Communication 16.8
02 e-commerce 14.2
03 Health 5.8
04 Energy/Industrial 25.6
05 Media/Leisure/Retail 10.8
06 Software 17.8
07 Other technology 9.0

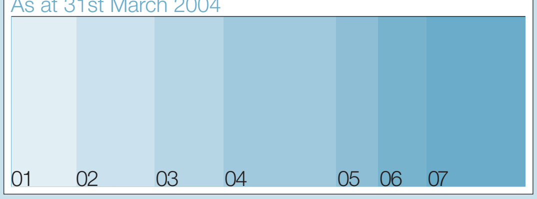
As at 31st March 2004



Analysis by sector (age of investment) years

01 Communication 4.8
02 e-commerce 5.8
03 Health 5.1
04 Energy/Industrial 8.3
05 Media/Leisure/Retail 3.1
06 Software 3.6
07 Other technology 7.3

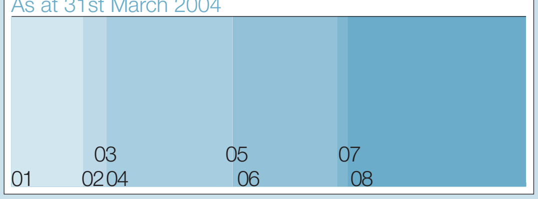
As at 31st March 2004



Analysis by sector (principal new investments in 2004) %

01 Communication 13.9
02 e-commerce 4.5
03 Health 0.0
04 Energy/Industrial 24.5
05 Media/Leisure/Retail 0.0
06 Software 20.4
07 Other technology 2.0
08 Funds 34.7

As at 31st March 2004



Largest investments: UK unquoted

Company	Activity	Book value £000
Energy Cranes International Limited*	Provider of crane and crane related services	18,456
7 Global Limited*	Software hosting services	11,946
Strakan Group Limited	Speciality pharmaceuticals	9,260
Offshore Tool & Energy Corporation (ITS)*	Oilfield services	7,617
Ridgeway Systems and Software Inc*	Secure solutions for IP multimedia communication	7,433
Citizen Limited (Vio Worldwide Limited)*	Digital workflow management solutions	7,300
Cityspace Limited*	Urban information networks	6,258
Wesupply Limited	Supply chain execution management software	6,024
Entuity Limited*	Network management software	5,948
First Index Group Limited	Manufacturing sourcing service	3,921
CopperEye Limited*	Data indexing technology and software	3,520
AssetHouse Technology Limited*	Content services infrastructure software	3,083
netdecisions Holdings Limited	IT services	2,993
Elateral Holdings Limited	Marketing automation software	1,874
Corizon Limited	Application integration software	1,795
Other		74
Total		97,502

Largest investments: US unquoted

Company	Activity	Book value £000
Rave Motion Pictures	Movie theatre operators	5,804
TradePower Inc	Software for electrical and other distributors	2,110
GoBeam Inc	Business communication services	1,317
Telespree Communications	Wireless telecommunications infrastructure	1,071
Oberon Financial Technology Inc	Software for independent financial advisors	780
Chyron Corporation (Debt)	Broadcast media technology	639
LifeMasters Supported SelfCare Inc	Comprehensive disease management services provider	422
Method Products Inc	Household cleaning products	280
Other		540
Total		12,963
Total UK and US unquoted		110,465

*Economic Interest above 50%.

Directors and Management

Chairman G C Greene CBE*
Mr Greene is aged 67 and was appointed a director in 1996 and Chairman in July 2000. He is Chairman of the Nomination Committee and is a member of the Remuneration and Audit Committees. A current director of Greene King plc, his career has included directorships with Guinness Mahon, Guinness Peat Group plc, Jupiter International Green Investment Trust plc. In addition he has also been a director and Chairman of a number of publishing companies. He is a former member of the Board of the British Council and former Chairman of the Trustees of The British Museum.

Deputy Chairman P J Grant CBE*
Mr Grant is aged 74 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 Nomination and Audit Committees. He has substantial experience gained through a career in banking and investment and is currently a director of BNP Paribas Holdings Limited. He is a former Chairman of Sun Life Assurance where he served as a director for 22 years and was Deputy Chairman of Lazard Brothers & Co., Limited for three years. Other former directorships include Scottish Hydro (now part of Scottish & Southern Energy plc).

Chief Executive The Hon R A Rayne
The Hon R A Rayne is aged 55 and first joined the Company in 1975 when he was initially involved in the development of LMS' properties in the US. He later returned to the UK with responsibility for LMS' properties in Scotland. He was appointed Investment Director in 1983, Joint Managing Director in 1998 and Chief Executive in May 2001. He is a member of the Nomination Committee. He has been on the boards of a number of public companies including First Leisure Corporation plc and Crown Sports plc. He is currently a non-executive director of NYSE quoted, Weatherford International Inc, an international oil services company and is Chairman of ECI Group.

Finance Director N R Friedlos
Mr Friedlos is aged 46 and was appointed Finance Director in January 2003. He is a member of the Nomination Committee. He was Finance Director of Land Securities Trillium and was involved in its sale to Land Securities plc in 2000. Before joining Trillium in 1998, he worked for twelve years at PricewaterhouseCoopers in London and Birmingham, becoming a partner at Price Waterhouse in 1992.

Director of Corporate Development M A Pexton
Mr Pexton is aged 47, joined the Company in April 2002 and was appointed a director in October 2002. He is a member of the Nomination Committee. He was formerly the director responsible for human resources at the international law firm Allen & Overy. Prior to joining Allen & Overy in 1990, he worked for Deloitte, Haskins & Sells (now PricewaterhouseCoopers) and in the insurance and nuclear industries. He is a Fellow of the Chartered Institute of Personnel and Development and has an MBA from the London Business School.

Mrs J F de Moller*
Mrs de Moller is aged 56 and was appointed a director in May 2002. She is a member of the Nomination, Remuneration and Audit Committees. 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 and was previously a non-executive director of BT plc for three years and AWG plc for eight years.

D Newell*
Mr Newell is aged 61 and was appointed a director in 1998. He is Chairman of the Audit Committee and a member of the Remuneration and Nomination 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.

The Hon J M Wilson*
The Hon J M Wilson is aged 51 and was appointed a director in April 2001. He is a member of the Nomination Committee. A founding partner and Managing Director of Boston Ventures, a leading US media and communications private equity firm, Mr Wilson brings to the board a wealth of experience in the private equity market. He is a director of Jobson Publishing LLC, PartMiner Inc., CAMP Systems Corp, TradePower Inc., Marshall & Swift, Northstar Travel Media and World Publications.

*Non-executive director.

Company Secretary S C Mitchley ACIS

Group Property Manager N T J Groves BA MRICS

Group Accountant J M Townley BA ACA

Shareholder Information

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 Plc
The Registry, 34 Beckenham Road
Beckenham, Kent BR3 4TU
www.capitaregistrars.com
Shareholder enquiries
Telephone 0870 1623100
Email ssd@capitaregistrars.com

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

Conversion of Deferred Ordinary shares
On 21st July 2004 the Company's Deferred Ordinary shares, which currently do not rank for dividend, will automatically convert into Ordinary shares. All holders of Deferred Ordinary shares will be issued with new certificates on a one for one basis.
Further details are provided in the letter to the holders of Deferred Ordinary shares dated 21st June 2004.

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
16th June 2004

Record date
18th June 2004

Final date for receipt of DRIP forms
7th July 2004

AGM
21st July 2004

Conversion of Deferred Ordinary shares
21st July 2004 following the AGM

Final dividend payment date
28th July 2004

Interim results
November 2004

Glossary of Terms

FRS:
Financial Reporting Standard.

Gross annual rate of rent:
Contracted rent roll.

HR:
Human Resources.

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

OEM:
Original Equipment Manufacturer

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.

STRGL:
Statement of Total Realised Gains and Losses.

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

Total return on equity:
Closing shareholders' funds plus equity dividends in respect of the year, divided by the opening shareholders' funds.

UITF:
Urgent Issues Task Force.

VoIP:
Voice-over internet protocol.

Wi-Fi:
Wireless Fidelity – high frequency wireless local area network.

Advisers

Auditor
KPMG Audit Plc, London

Banker
Barclays Bank plc

Broker
Cazenove

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