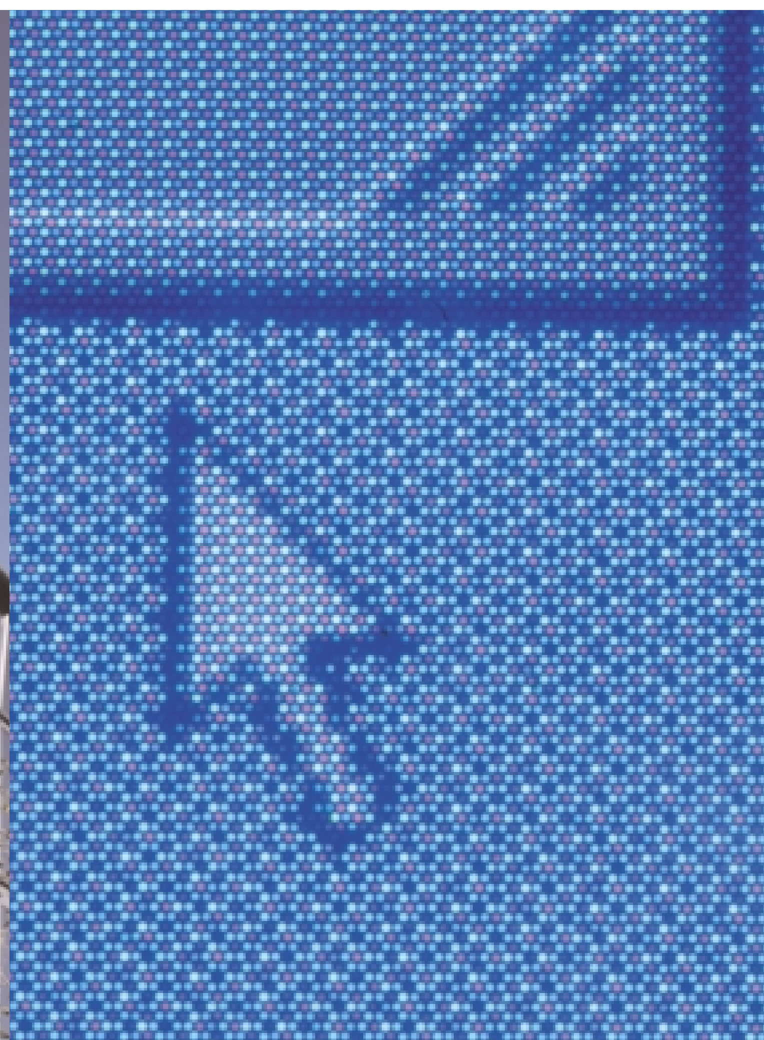
London Merchant Securities plc

Report and Accounts 2000

LMS



The Chairman's Review	2
Financial Highlights	2
Joint Managing Directors' Operating Review	4
Directorate and Administration	18
Financial Review	19
Report of the Directors	22
Corporate Governance	25
Remuneration Report of the Directors	27
Auditors' Report	30
Consolidated Profit and Loss Account	31
Consolidated Statement of Total Recognised Gains and Losses	32
Note of Historical Cost Profits and Losses	32
Reconciliation of Movements in Shareholders' Funds	32
Balance Sheets	33
Consolidated Cash Flow Statement	34
Notes on the Accounts	35
Principal Subsidiary Undertakings	46
Principal Properties	47
Principal Venture Capital Investments	48
Management of Principal Subsidiary Undertakings	49
Five Year Summary	50
Notice of Annual General Meeting	51

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

The Chairman's Review

The Group's net assets have grown by 22.4% to £712.3 million (219.6p per share) from £581.8 million (179.4p per share). Shareholders' funds at 31st March 2000 were £658.8 million from £534.1 million, a rise of 23.3%. The Group's performance in capital and revenue terms reached record highs. The balance sheet reflects the strong performance of both property and venture capital divisions with £173.5 million of cash and borrowings of £191.2 million. The finance costs are covered 4.8 times by net rental income.

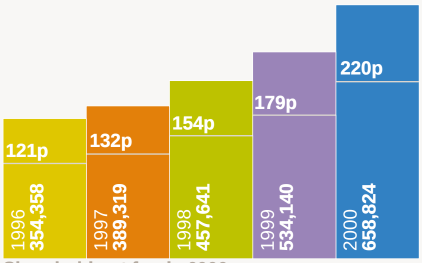
Net rental income rose to £44.8 million from £40.1 million an increase of 11.7%. Property assets were £632.7 million, an increase of 10.7% on a like for like basis. Venture capital profits increased to £92.8 million from £17.9 million up by 418.3%. The return to shareholders was 25.8%, a satisfactory performance, the average return to shareholders over the past five years has been 17.5%.

Earnings per share were 8.17p before investment gains and 36.49p including investment profits.

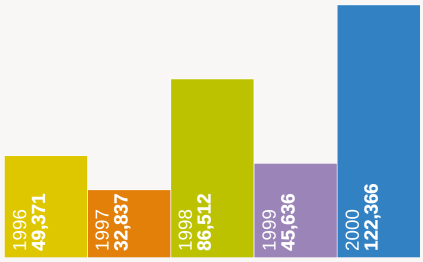
Reflecting the good results the directors are proposing a final dividend of 5.0p per Ordinary share, making a total for the year of 5.9p per Ordinary share. This represents an increase of 7.3% over last year's dividend. Further, in future years it is the Board's intention to pay a higher percentage of the total dividend at the interim stage. In the absence of unforeseen circumstances, the interim dividend, which has been static at 0.9p for many years is expected to be increased to 2.0p per Ordinary share.

In February I announced my intention not to seek re-election at the forthcoming AGM. It is gratifying that the Company has produced a record performance in my last year as Chairman and I am delighted that Graham Greene has agreed to accept the position of Non-Executive Chairman. In my new role as Life President I will remain available for consultation but the Company is in robust shape and in the hands of a proven management team. John Butterwick has indicated that it is not his intention to stand for re-election at this AGM. He has served as a director for 37 years and provided the Company with invaluable guidance and counsel for

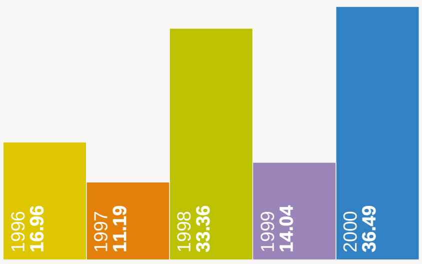
Financial Highlights



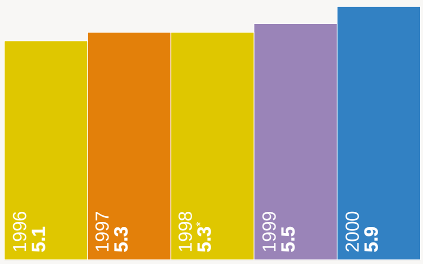
Shareholders' funds £000
Shareholders' funds per share p



Profit before tax £000



Earnings per share p



Dividend per share p *excludes special dividend which we are truly grateful; it is the intention that he will remain available as a consultant.

At this time tenant demand remains high particularly for our Central London property where the opportunities for refurbishment and redevelopment are coming closer to fruition. The public markets have shown extreme volatility in the first months of 2000, affecting the short-term value of our quoted investments. The Company has made a number of interesting new long-term investments in excellent management teams in the UK and the US.

Our objective remains the long-term enhancement of shareholder value through dividends and capital appreciation. We believe our unique blend of high quality, well let property, with investment in rapid growth technology companies provides this opportunity.

I retire as Executive Chairman after 40 years, confident that the shareholders' interests are in sound hands.

Finally, I take this opportunity of expressing my appreciation for the generous support that I have received over the years from colleagues, staff, associates, advisers and shareholders without which it would not have been possible to achieve the continued growth of the Company from small beginnings since 1960.

Rayne

The Lord Rayne Chairman
19th June 2000

property

The property division will continue to focus on reinvestment in its core Central London office stock, where demand from both traditional and 'new economy' occupiers is strong. Activity will also be directed towards schemes such as Kingston and Greenwich, which contain significant leisure and entertainment space to complement their retail content. The twin strategy of using the property business to develop relationships with the technology and other businesses in which the venture capital division is seeking to expand its interests, will continue.

Performance statistics

The open market valuation of the Group's property investment portfolio as at 31st March 2000 was £623.5 million. The comparable figure as at 31st March 1999 – having allowed for subsequent purchases, disposals, capital expenditure and exchange adjustments is £563.2 million. The 2000 valuation therefore represents an increase of 10.7% over the suitably adjusted 1999 figure. In addition to the above, the Group's land at Greenwich is carried at cost in the figure of £9.2 million producing an aggregate value for the property investment portfolio of £632.7 million. Details of the principal properties are shown on page 47.

The net rental income for the year was £44.8 million, showing an increase of 11.7% over the comparable figure (£40.1 million) for 1999. Income received during the year from the West End holdings increased by some 13.1%, from the Islington/Clerkenwell holdings by some 11.6% and from the Scottish holdings by some 19.4%.

The current annual rate of gross rents is £46.7 million producing an estimated net annual rate of about £44.0 million.

Voids in the portfolio are now less than 1%, and relate to properties awaiting redevelopment.

General review

During the past 12 months all the office markets in which the Group has significant holdings have displayed strong tenant demand not only from traditional office occupiers but also from the 'new economy' businesses based on technology and the Internet. These have focused particularly on our holdings in Fitzrovia to the north of Oxford Street; those in Islington/Clerkenwell and those in San Francisco, where, in each case, in addition to strong tenant demand, the supply of space is scarce.

This has resulted in a continuation of the good rental performances in these locations reported last year with two individual rent review cases being settled in the Fitzrovia holdings on a basis reflecting 85% and 97% increases respectively. In the Clerkenwell holdings there have been several individual increases of over 100% on the rent agreed five years ago.

85 Tottenham Court Road, London, W1

63 St. James's Street, London, SW1

275 Sacramento Street, San Francisco

A similar set of circumstances has been causing significant rental growth in the San Francisco real estate market in which the 60,500 sq ft office element of the Company's new office/retail development in the Central Business District has been pre-let to Twelve Entrepreneuring Inc., (Twelve) a new venture set up by Eric Greenberg (founder and former Chairman of Scient and Viant), Halsey Minor (founder and Chairman of CNET) and Benchmark Capital. The building is programmed for completion at the beginning of August and the aggregate net income of about $3.5 million p.a., is due to become payable from the beginning of November. The transaction includes a right to invest in Twelve and may also provide further investment opportunities in new companies created by the new venture illustrating the synergy which exists between the property and venture capital divisions of LMS.

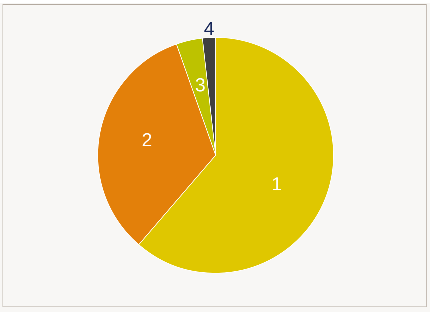
The development of such relationships with similar companies is under consideration in the UK, both as tenants of our properties and providers of corporate investment opportunities.

As to the core office portfolio, in W1, negotiations have continued with existing tenants with a view to rearranging the terms to bring forward redevelopment on a pre-let basis. These are now close to fruition and discussions with the Local Authority have been taking place as a prelude to the submission of planning applications. Proposals are also under consideration for the refurbishment of two buildings in the Fitzrovia holdings to provide the standard of specification, cabling and technical services currently required by the Internet, new economy and media occupiers who are showing increasingly strong interest in the area.

Disposals and acquisitions

The policy of selective disposals has continued. Some £16.3 million of properties of limited revenue and capital growth potential have been sold, with the aim of improving the quality of the retained portfolio. The sales included a Sainsbury supermarket investment in Ruislip; a group of arcades and retail units held by Arcadia Limited (LMS 80%); a portfolio of unit shop investments held by LMS Shops Limited. In addition, a site in San Francisco was sold for $1.25 million. Retail investments in Shrewsbury, Southampton and Staines were acquired at a total price of some £2.9 million.

The focus of new investment will be upon the realisation of the potential of the core office holdings referred to earlier together with selective investment in the retail sector both direct and via Arcadia.



Asset value by property use
1 Offices 61.3%
2 Retail 33.3%
3 Residential 3.6%
4 Other 1.8%

Breakdown by use* (by capital value)

	2000	1999	Capital value increase since 1999
Offices	61.3%	60.0%	13.7%
Retail	33.3%	35.5%	5.5%
Residential	3.6%	3.0%	
Other	1.8%	1.5%	

*Including Greenwich.

Greenwich

In Greenwich, the Section 106 Agreement has been concluded and planning permission granted (conditional upon the subsequent approval of several Reserved Matters), for the construction of some 56,000 sq m of floor space, including a 12 screen multiplex cinema, 13,425 sq m of retail and 8,220 sq m of restaurants/themed bars, together with a cruise liner terminal, 90-bed hotel and a 140 unit block of flats. The consent includes 850 car parking spaces. The foodstore has been pre-let to Waitrose and the block of flats sold on long lease to Barratts. The marketing of the retail/restaurant units has been delayed by the planning uncertainties, but with these now resolved and the anchor pre-letting concluded, it is anticipated that sufficient pre-lettings will be achieved to permit work on site to start by the end of the year.

Clearwater
(LMS 80% – leisure development)

In Kingston, Clearwater's Rotunda leisure development has now received detailed planning permission. The scheme comprises a 14 screen multiplex cinema, pre-let to Odeon Cinemas, a 3,186 sq m health and fitness centre pre-let to David Lloyd Leisure, a 2,184 sq m family entertainment centre and some 2,842 sq m of bars and restaurants, one of which is pre-let to Scottish & Newcastle. Some 70% of the accommodation is now pre-let and it is expected that construction will commence in the Autumn of this year. The total cost is estimated at some £39 million. The management of Clearwater is shown on page 49.

Arcadia
(LMS 80% – town centre retail)

During the year, the financing of Arcadia was restructured and a £42 million loan agreement was concluded with Bradford & Bingley, £31.5 million of which is at a fixed rate averaging 7.2%, the rate on the remainder is floating. It remains the focus to expand Arcadia by making selective purchases of retail properties which have scope to benefit from the proven close management acumen of the Arcadia team in rejuvenating, reconfiguring and adding value to such investments. The management of Arcadia is shown on page 49.

The Arcadia Centre, Ealing, London, W5

Lion & Lamb Yard, Farnham, Surrey

The Rotunda, Kingston, Surrey

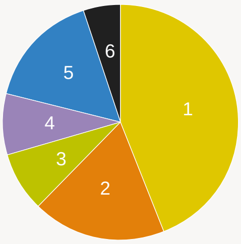
General outlook and market comment

The general level of tenant demand in Central London remains high. This coupled with the shortage of supply of all quality and types of office space has continued to underpin rental growth. There is growing evidence both in the US and the UK of a return in the value placed by the workforce on an attractive live/work environment in central locations – a tendency which is particularly marked in the new economy sectors. This, if it continues, is likely to maintain an upward pressure on rents, particularly in those areas which combine good office locations with proximity to residential accommodation and easy access to restaurants, shops, central parks and places of entertainment.

With regard to retail, it remains difficult to assess the impact of e-commerce on the performance of conventional retailers and retail property investments. However, it seems likely that those retail investments which can offer a variety of entertainment attractions in addition to pure sales area, should be better insulated against competition from the Internet.

The strategy of the Group's property division will be to continue to focus its activities on responding to these two market forces – in the office sector, particularly in Fitzrovia and Clerkenwell where both the conventional and 'new economy' interest is strong and in the urban retail/entertainment sector through projects such as Kingston and Greenwich and via the activities of Arcadia.

We will also continue to pursue and expand the twin strategy of using the property business to develop relationships with the technology and other businesses in which the venture capital division is seeking to expand its interests and activities.

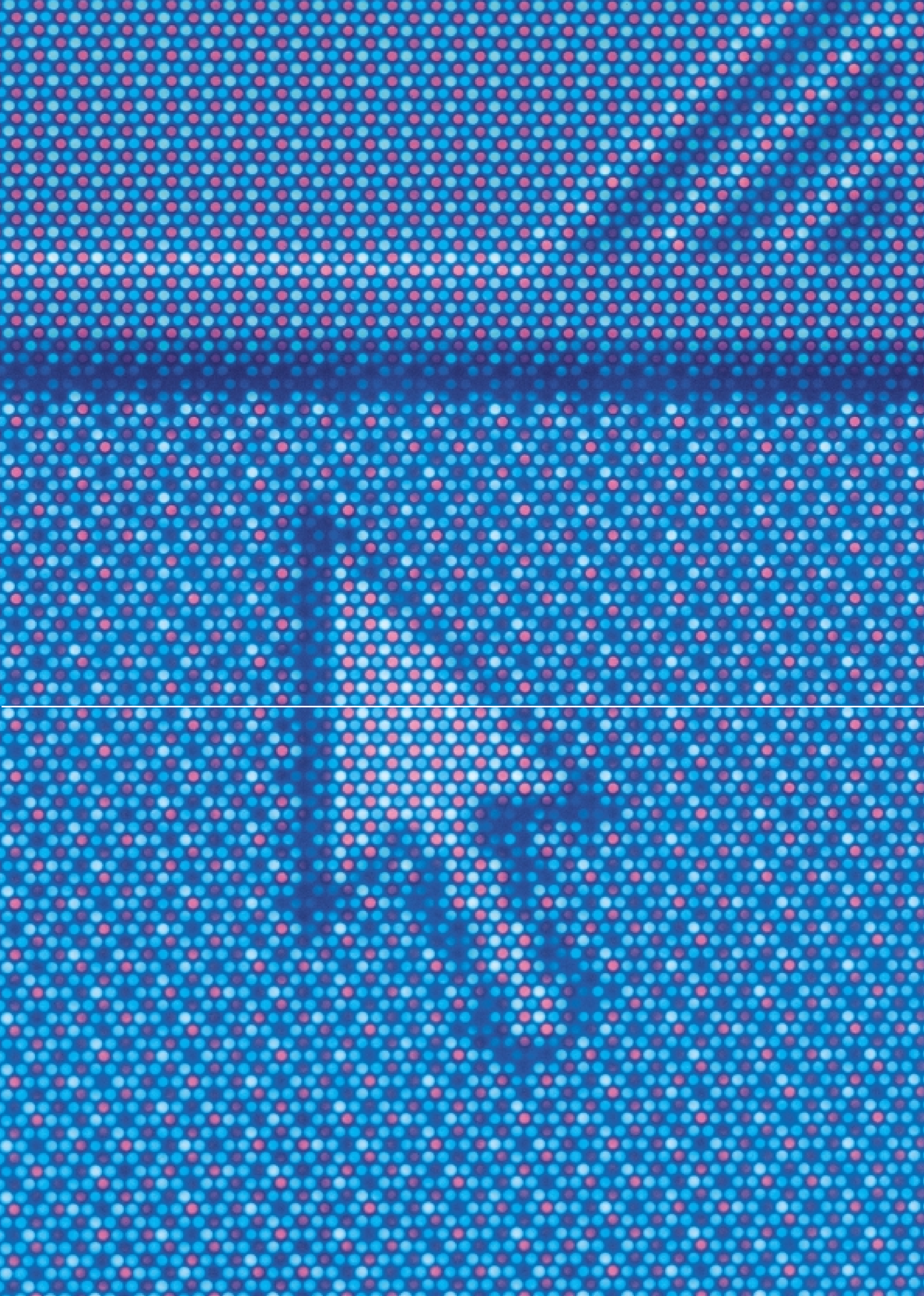


Asset value by location
1 London, W1 44.0%
2 London, Islington and Clerkenwell 18.3%
3 Remainder of Central London 8.2%
4 Scotland 8.4%
5 Remainder of UK 16.0%
6 US 5.1%

Breakdown by location* (by capital value)

	Offices	Retail	Residential	Other	Total	Capital value increase since 1999
London W1	35.0%	6.1%	1.8%	1.1%	44.0%	14.6%
London Islington and Clerkenwell	16.7%	0.2%	0.9%	0.5%	18.3%	10.5%
Remainder of Central London	4.9%	2.3%	0.9%	0.1%	8.2%	20.0%
Scotland	0.1%	8.2%	0.0%	0.1%	8.4%	1.5%
Remainder of United Kingdom	2.0%	14.0%	0.0%	0.0%	16.0%	3.4%
United States of America	2.6%	2.5%	0.0%	0.0%	5.1%	8.7%

*Including Greenwich.



venture capital

LMS continues to be an active investor in high growth venture capital opportunities predominately in the communications, e-commerce and software sectors.

Summary and performance

On 31st March 2000 the book value of the venture capital division was £148.3 million (31st March 1999 – £113.6 million). The directors' valuation was £351.4 million (31st March 1999 – £124.3 million).

The contribution to Group profit during the year was £92.8 million before overheads and tax, and the net liquidity generated after new investments was some £69.6 million. During the year £80.2 million of new investments were made. In the US realisations of $191.8 million were achieved with $77.2 million of new investments. In the UK realisations were £29.1 million and new investments made of £31.8 million.

Our strong long-term performance is reflected in our five and ten year internal rate of return achievements:

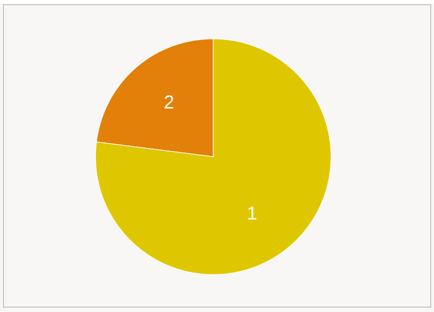
	5 years %	10 years %
IRR*	68.3	44.9

*Based on new investments made after the start of the relevant period.

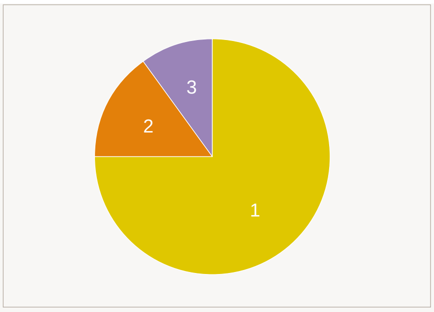
A selection of the major investments representing some 80% of the total portfolio valuation is shown on page 48.

We continue to focus predominantly on communications (components, systems and infrastructure), e-commerce (infrastructure and business to business service providers) and software (enterprise applications, professional services and application service providers). Our other investments include holdings in energy services, health, pharmaceuticals and medical devices sectors. We have reduced our weighting in media, leisure and retail. The Group has an investment of £15.2 million in Unipoly, the former Dunlop business acquired from BTR.

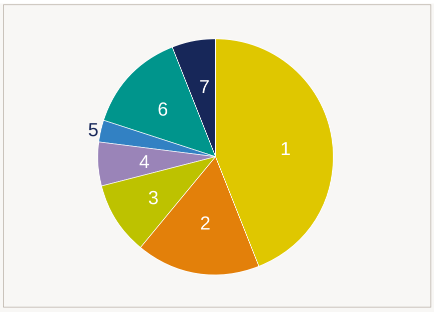
The portfolio break down by region, stage and sector is shown below.



Market value of investments by location
1 USA 77%
2 UK 23%



Market valuation of investments by class
1 Listed and quoted 75%
2 Unquoted 15%
3 Funds 10%



Market value of investments by sector
1 e-commerce 44%
2 Communications 17%
3 Software 10%
4 Healthcare 6%
5 Other Technology 3%
6 Industrial & Energy 14%
7 Media, Leisure and Retail 6%

Initial Public Offering and major trade transactions

During the year the value of the portfolio has benefited from seven IPOs and a number of major trade transactions.

Commerce One Inc.
(www.commerceone.com) has become one of the leading business to business platform technologies and now powers some of the largest vertical and horizontal trading market places worldwide, including marketplaces for GM/Ford/Daimler, BT, Shell and various industry consortia. The strength of its achievements have been reflected in a premium, albeit volatile, valuation.
(Directors' valuation £94.2 million.)

InterTrust Technologies Inc.
(www.intertrust.com) has developed a deep base of intellectual property to protect and manage digital rights. Its technology is being integrated in devices, software and clearing house services to enable the secure and managed delivery of valuable content online. InterTrust completed a strong IPO and more recently a secondary offering in April 2000. We are delighted to join with InterTrust, Reuters, Universal Music and other investors in backing Magex Holdings Limited in the UK. Magex is a leading digital payment infrastructure provider using InterTrust technology.
(Directors' valuation £22.0 million.)

Aclara BioSciences Inc.
(www.aclara.com) develops and produces lab-on-a-chip products for rapid drug discovery. Its products are expected to improve the productivity of bioscience research and reduce the cost of drug development.
(Directors' valuation £10.4 million.)

A leading business e-commerce platform technology provider

A leading vendor of lab-on-a chip products for rapid drug discovery

Major realisations

Company	Activity	Proceeds £000	Gross profit £000
Commerce One Inc.*	e-commerce solutions	48,906	48,432
American Cellular Inc.	Regional mobile telephony operator	21,997	16,032
First Leisure Corporation plc (Esporta)	Health and fitness clubs	11,696	2,932
Exodus Inc.**	Internet infrastructure	7,680	7,332
Interwoven Inc.	Web content management	4,868	4,566
Quest Software Inc.†	Enterprise software	3,758	3,235
Sportsworld Media Group plc	Sports media products	3,590	2,807
Fusion Medical Technology Inc.	Medical products	3,621	2,369
Brocade Communications Inc.*	Storage area network technology	1,935	1,875
ACT Manufacturing Inc.‡	High technology manufacturing	1,894	972

* Includes stock distribution from venture funds.
** Stock received on sale of Service Metrics Inc.
† Stock received on sale of Foglight Software Inc.
‡ Stock received after merger of CMC Industries Inc.

Broadbase Software Inc.'s
(www.broadbase.com) Customer Relationship Management products have been adopted by over 200 firms and are showing extraordinary growth. After a very successful IPO and secondary offering Broadbase has been severely affected by the downturn in technology stocks after the year end.
(Directors' valuation £8.2 million.)

Interwoven Inc.
(www.interwoven.com) has achieved dramatic sales growth with its TeamSite products to better manage web content within enterprises. As another leading e-commerce platform technology, Interwoven has gone on to a very successful IPO and secondary offering on NASDAQ.
(Directors' valuation £4.3 million.)

Chordiant Software Inc.
(www.chordiant.com) supplies high-end multi-channel management solutions for blue chip enterprises such as Thomas Cook in Europe and MetLife in the US. It has seen adoption of its solution steadily building especially in Europe and will be using IPO funds to increase the pace at which it expands. Again, after a very successful IPO, the valuation of the company has fallen dramatically after the year-end.
(Directors' valuation £2.6 million.)

Stepstone ASA
(www.stepstone.com) completed a successful IPO in Oslo and London in March 2000. It has since gone on to become the largest pan-European job site by revenue, posting a 74% increase in revenue quarter on quarter. Stepstone represents the first European IPO from our expanding UK and European e-commerce portfolio.
(Directors' valuation £2.1 million.)

American Cellular Corporation
In February 2000 American Cellular Corporation (www.att.com), a rural mobile telephony operator was purchased by AT&T & Dobson Communication for cash. The transaction was valued at approximately $2.4 billion.

Foglight Software Inc.
(www.quest.com) was purchased by Quest Software in an all stock transaction in January 2000. Foglight's RAPS range of software complements Quest's products in the enterprise application management area.
(Directors' valuation £3.1 million.)

Service Metrics Inc.
(www.exodus.com) was purchased by Exodus Communications in an all stock transaction in November 1999. Service Metrics provides a leading Internet performance monitoring service.
(Directors' valuation £3.0 million.)

A leading CRM solutions vendor

Chordiant: a multi-channel management e-commerce software solutions provider

Major sales

In the second half of the year part of our Commerce One holding became derestricted. Advantage was taken of a strong market in this company's shares to realise 23% of our total holding producing a profit of approximately £48.4 million. Other important profits were achieved through the sale of our holding in American Cellular where we received proceeds of £22 million, generating a £16 million pre-tax profit. Other profitable sales included Exodus Communications, Interwoven, Quest Software, Fusion Medical Technologies, Brocade Communications and ACT Manufacturing (previously CMC Industries).

In the UK proceeds of some £11.7 million, were received following the reorganisation of First Leisure Corporation plc, we retain a 6.9% interest in Esporta plc, previously the health and fitness division of First Leisure. Further realisations were achieved from the sale of our interest in Sportsworld Media Group plc, part of Jazz[fm] plc and our partnership interests in five Legal & General Ventures funds.

New investments

The 1999/2000 year saw new investments being made on both sides of the Atlantic; in the UK there were new investments in:

NetDecisions Holdings Limited (www.netdecisions.co.uk) a leading e-commerce solutions provider, with over 600 staff and offices in the UK, France, Germany, Spain, India, Hong Kong, Singapore and the US.

Major new investments (excluding investments in VC funds)

Company	Activity	Notes	Book value £000	Directors' valuation £000
World Access Inc.	International wholesale telco		3,986	4,196
NetDecisions Holdings Limited	e-commerce services	2	3,993	3,993
Elateral Limited	Marketing e-commerce services	2	3,990	3,990
Strakan Group plc	Skin and bone pharmaceuticals	2	3,250	3,250
Health Media Limited	Professional health media news service	2	2,600	2,600
Magex Holdings Limited	Digital rights management service provider	2	2,334	2,334
Stepstone ASA	Pan-European job site	1	3,717	2,053
Entuity Limited	Network management software	2	1,839	1,839
GroupTrade.com Limited	e-commerce service	2	1,618	1,618
Ridgeway Systems and Software Inc.	Broadband multimedia applications	2	1,540	1,540

1 50% discount to market value.
2 Unquoted investment valued at cost.

Elateral Limited
(www.elateral.com) a B2B e-commerce service which improves the channel marketing effectiveness of major blue chip organisations, especially in the technology and automotive sectors.

Strakan Group plc
(www.strakan.com) an emerging pharmaceutical company specialising in skin and bone disease therapeutics, founded by the original founders of Shire Pharmaceutical Group plc, now a £2 billion business.

Riodata LLC
(www.riodata.de) a European DSL service provider, rolling out service across Germany and Switzerland, offering high-speed connectivity and services to small and medium sized businesses.

Magex Holdings Limited
(www.magex.com) a leading global digital commerce payment service provider utilising InterTrust digital rights management technology.

Entuity Limited
(www.entuity.com) a rapidly growing supplier of network management software, which is expanding its sales and marketing capabilities on both sides of the Atlantic after significant early sales success.

Health Media Limited
(www.health-news.co.uk) the leading provider of online health information to the professional medical community in the UK. Health Media is expanding its services in online education and is building a secure Internet platform for UK healthcare professionals.

GroupTrade.com Limited
(www.grouptrade.com) a UK based e-commerce start-up aiming to bring the benefits of professional procurement and big company prices to small and medium sized businesses.

Ridgeway Systems and Software Inc.
(www.ridgeway-sys.com) a supplier of broadband multimedia applications, which enhance basic telephony services. Trials of Ridgeway's products are currently underway with BT, NTL and V-Span.

A business to business e-commerce company delivering increasing channel marketing effectiveness for blue chip customers

A leading global digital commerce payment service provider

In the US new major holdings were established in:

World Access Inc.
(www.waxs.com) a facilities based international long distance carrier, which is building a predominantly European high speed network to transport the increasing voice and data traffic within Europe and between continents.

P-Com Inc.
(www.p-com.com) a supplier of data orientated wireless local loop equipment.

Smaller investments also made include, Applicast, Bloomsbury Publishing plc, Bond International Software plc, Homespace.com, Manna Networks, Movepoint.com, Quiver, Power X, Talkcast Corporation, and Telespree Communications.

Investment in venture capital funds continues to be a core part of our portfolio. In the year we invested £18.9 million in new funds and received distributions of £13.4 million. Within our fund investments, 15 companies successfully completed their IPOs. This area of investment is an important element of the Company's long-term strategy and the relationship with our partners remains invaluable.

The management team in the US and in the UK has been extremely active both in achieving new investments and realisations. With the growth of our activities, new members are being added to the team in London and San Francisco. As indicated in last year's report there has been an increase in the activity in the UK where we continue to see attractive and reasonably priced investment opportunities.

In these times of volatile markets we remain long-term investors in good management teams in growth sectors. We aim to maintain a reasonable and balanced spread of risk and expect to continue the steady stream of liquidity events both through the stock markets but equally importantly through trade sales.

netdecisions

A leading architect of e-commerce solutions, with operations across the globe.

STRAKAN GROUP PLC

An emerging pharmaceutical firm specialising in skin and bone therapeutics.

N G E Driver Joint Managing Director
19th June 2000

The Hon R A Rayne Joint Managing Director
19th June 2000

Directorate and Administration

Directors

The Lord Rayne, Chairman
P J Grant CBE, Deputy Chairman*
N G E Driver, Joint Managing Director
The Hon R A Rayne, Joint Managing Director
J N Butterwick*
G C Greene CBE*
W Millsom OBE
D Newell*
The Lord Remnant CVO*
M Waldron, Secretary/Treasurer

*Non-executive directors
The Audit and Remuneration Committees comprise all the non-executive directors

Group accountant

J M Townley BA ACA

Auditors

KPMG Audit Plc
London

Trustee for 7¾% Convertible Unsecured Loan Stock 2000/2005

Alliance Assurance Company Limited
London

Trustee for 10% First Mortgage Debenture Stock 2018

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

Registrars and transfer office

IRG plc
Bourne House
34 Beckenham Road
Beckenham
Kent BR3 4TU
www.irg.co.uk

Shareholder enquiries:
Telephone 020 8639 2000
Email ssd@irg.plc.uk

Registered office

Carlton House
33 Robert Adam Street
London W1M 5AH
Telephone 020 7935 3555
Facsimile 020 7935 3737
Website www.lms-plc.com
Email co.secretary@lms-plc.com
Registered in England and Wales No. 7064

Financial Review

Profit before taxation increased by 168% to £122.4 million from £45.6 million.

The 2000 figures include profits on the disposal of equity investments, adjusted for provisions, of £92.8 million, compared with £17.9 million the previous year.

Investment property sales contributed £1.6 million in 2000 compared to £0.7 million in 1999.

The increased dividends are covered 1.4 times (1999 – 1.5 times) by revenue profits net of taxation and minorities.

The financial statements have been prepared on the basis of accounting policies which are consistent with those applied in the previous year, except that the Group has adopted Financial Reporting Standards 15 (Tangible Fixed Assets) and 16 (Current Tax) which have had no significant effect on the results.

In recognition of the increasing importance of the venture capital division, an analysis of the segmental performance of this division and the property division is presented for the first time this year.

Profit and loss account

Gross rental income rose by 12.3% reflecting significant rent reviews being completed during the year including £1.7 million relating to previous years. The apparent rise in property outgoings is distorted by the release in 1999 of a property outgoing provision created in earlier years. The property purchases made during 2000 will not significantly enhance gross rents for the current year but the completion of the development in San Francisco will contribute to rental income.

The increase in administrative expenses is a product of the expanding activities of the Group in the year.

The acquisition during the year of the remaining 50% of Greenwich Reach 2000 Limited has had no material effect on the results as previously it was the Group's policy, as the provider of finance to GR2000, to take 100% of losses.

The Group has an equity interest of more than 20% in certain companies which are held as part of the Group's investment portfolio. This treatment has been adopted to give a true and fair view on realisation of these investments, and is in accordance with Financial Reporting Standard 9 (Associates and Joint Ventures).

Net finance costs are £9.4 million compared with £7.9 million in 1999. This increase reflects the marginal cost of the new £42 million loan from Bradford & Bingley only partially offset by increased interest income received in the last quarter of the financial year following the receipt of the proceeds from the sale of investments, in particular, Commerce One Inc., American Cellular Corporation and First Leisure Corporation plc.

The effective rate of corporation tax on profits before capital items and prior year adjustments was 29.3%. The small reduction from the UK corporation tax rate of 30% is mainly due to relief from capital allowances on non-depreciating assets offset in part by losses not available for group relief.

The revenue profit earned by subsidiaries in which LMS has less than 100% interest was unchanged this year.

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

Adjusted equity shareholders' funds	£m	Pence per share
Equity shareholders' funds	658.8	219.7
Excess of market value of equity investments over book value*	144.1	48.0
Group share of excess of market value of trading stock over book value*	6.9	2.3
	809.8	270.0**
Contingent tax liability on disposal of investment properties and equity investments at accounts values	(27.9)	(9.3)
Group share of marking to market of long-term borrowings* (see the note on page 21)	(47.8)	(15.9)
Adjusted equity shareholders' funds	734.1	244.8

* Net of taxation.
** On a diluted basis 254.2p (1999 – 176.0p).

Balance sheet

There was a surplus on revaluation of investment properties of £60.2 million, of which £54.4 million is attributable to the Group and £5.8 million to the minorities.

It is the Group's policy to include investments at cost in the balance sheet. Provisions are made against individual investments where it is considered that there is a permanent diminution in value. These amount to £3.7 million in 2000. As there have been no further developments relating to Six Flags since the last Report, the provision of £6.9 million for indemnity claims remains together with the corresponding deferred tax asset.

Creditors have increased in the year mainly as a result of investment commissions and the provision for taxation on increased profits net of quarterly payments under the new Inland Revenue rules.

Debtors have decreased following the reclassification of a loan to a joint venture and the end of the requirement to account for ACT.

The Group's capital commitments have increased with the continuing participation in venture capital partnerships in the UK and in the US. The commitments, which are usually called-down over a two to three year period, are largely funded from proceeds of realised investments remitted to the UK by these partnerships.

Other commitments relate to the developments in Kingston and San Francisco and other property activities.

Cash flow

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

Cash balances have increased during the year, mainly from the proceeds of the sale of investments. Most of these have been kept as US dollar balances to provide funds for expenditure on property development in San Francisco and to meet commitments to US limited partnership and other investments.

FRS 13 (Derivatives and other financial instruments: disclosures)

The Group operates in two principal currencies, sterling and US dollars. Balance sheet exposure to exchange rate movements is limited by financing US dollar denominated assets with dollar mortgages for US property investments, and by making US equity investments out of dollar funds specifically retained for that purpose.

Financial assets

The Group's financial assets for FRS 13 purposes comprise the other investments of £148.3 million (further described in note 17 on page 40). At the year end the excess of market value over accounts value was £203.1 million or £144.1 million net of taxation.

Financial liabilities

With the exception of £10.5 million the Group's long-term borrowings are at fixed rates of interest. FRS 13 requires disclosure of the effect that marking to market the Group's long-term financial assets and liabilities would have on net assets. The upward adjustment to fair value required of the Group's long-term liabilities amounts to £50.2 million (stated net of taxation) compared to an accounts value of £190.6 million, of which £49.7 million relates to sterling liabilities and £0.5 million to US dollar borrowings. Of this total amount, £2.4 million relates to minority shareholders.

The Group has not included short-term debtors and creditors in the disclosures relating to FRS 13. Cash deposits held by the Group are denominated £116.7 million sterling, £54.0 million in US dollars.

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

	£ sterling £m	US dollars £m	Total £m
Other investments			
At market value	80.4	271.0	351.4
At cost	73.4	74.9	148.3
Surplus	7.0	196.1	203.1
Less: taxation	(1.2)	(57.8)	(59.0)
	5.8	138.3	144.1
Long-term borrowings			
Denomination of long-term borrowings	181.2m	9.4m	190.6m
Weighted average interest rate of fixed rate financial liabilities	9.2%	7.9%	9.1%
Weighted average period for which interest rates on the fixed rate financial liabilities are fixed	14.1 years	7.7 years	13.0 years

Mark to market of long-term borrowing adjustment

	Accounts value £m	Fair value £m	Excess over accounts value £m
10% First Mortgage Debenture Stock 2018	96.8	137.4	40.6
9.695% Mortgage 2018	20.0	27.4	7.4
7.21% Mortgage 2010-2015	31.5	32.0	0.5
Floating Rate Mortgage 2010-2015	10.5	10.5	–
7.75% Convertible Unsecured Loan Stock 2000/2005	22.4	45.2	22.8
8.25% Mortgage 2020	2.8	3.3	0.5
6.85% Mortgage 2002	6.6	6.6	–
	190.6	262.4	71.8
Less: taxation			(21.6)
Less: minority share			(2.4)
Group share of fair value adjustment			47.8

Note

Fair value has been calculated at the year end by taking market value, where available, or using discounted cash flows. However, with the exception of the Convertible Loan Stock (see page 42) the Group is under no obligation to redeem borrowings until maturity at which time they will be repaid at their nominal value.

M Waldron Director
19th June 2000

Report of the Directors

The directors submit their report and the financial statements of the Group for the year ended 31st March 2000.

Results and dividends

The Consolidated Profit and Loss Account for the year is set out on page 31.

An interim dividend of 0.9p per share was paid on the Ordinary shares on 7th January 2000. The directors recommend a final dividend of 5.0p per share making 5.9p (1999 – 5.5p) per share for the year. If the final dividend is approved, it will be paid on 4th August 2000 to the holders of the issued Ordinary shares on the register at the close of business on 30th June 2000.

Principal activities and business review

The principal subsidiary undertakings of the Group and their activities are shown on page 46. Further details of these activities are given in the Joint Managing Directors' Operating Review on pages 4 to 17 and the Financial Review on pages 19 to 21.

Property

The Group's investment properties were valued at 31st March 2000 on the basis explained in note 14 on page 39. The resultant surplus is shown in note 13 on page 39.

Although the Group's property interests are widespread and include substantial holdings in Scotland, some 71% of the value of the Group's UK investment in property is represented by office, retail and other commercial property in Central London.

The annual rent roll, net of ground rents, of the Group's investment properties was £46.7 million at 31st March 2000.

Corporate governance

A report on the Company's Code on corporate governance is shown on pages 25 and 26.

Directors

The directors of the Company who held office during the year are those listed on page 18.

Lord Rayne and Mr J N Butterwick will retire as directors of the Company at the forthcoming Annual General Meeting and will not be seeking re-election. However, Lord Rayne will be appointed Life President and Mr Butterwick has agreed to act as a consultant to the Company. The Company's Articles of Association stipulate that one-third, but not exceeding a third, of directors who are subject to retirement by rotation (excluding Joint Managing Directors) are to retire by rotation at each Annual General Meeting. The two directors retiring at the forthcoming Annual General Meeting fulfil this requirement. None of the retiring directors has service contracts with the Company or its subsidiaries.

Executive directors

Lord Rayne, Chairman is aged 82 and has been a director of the Company since 1960, when he was appointed Chairman. Lord Rayne will retire as Chairman and director at the end of the forthcoming Annual General Meeting when he will be appointed Life President.

Mr N G E Driver, Joint Managing Director is aged 56 and joined the Company in 1970. He was appointed Property Director in 1989 and Joint Managing Director in 1998.

The Hon R A Rayne, Joint Managing Director is aged 51 and joined the Company in 1975. He was appointed Investment Director in 1983 and Joint Managing Director in 1998.

Mr W Millsom is aged 73 and has been a director since 1983. A Chartered Surveyor, he joined the Company in 1958. He is also a director of Stewart and Wight PLC.

Mr M Waldron, Company Secretary/Treasurer is aged 53 and joined the Company in 1970. He was appointed a director in 1998, Company Secretary in 1978, Treasurer in 1992 and was Group Accountant from 1993 to March 1999.

Non-executive directors

Mr P J Grant is aged 70, has been a director since 1984 and was appointed Deputy Chairman of the Company in 1994. He was formerly Chairman of Sun Life Corporation plc and Deputy Chairman of Lazard Brothers & Co., Limited.

Mr J N Butterwick is aged 77 and has been a director since 1963. He was a Vice-Chairman of Lazard Brothers & Co., Limited and a director of Duncan Lawrie Limited. On his retirement, Mr Butterwick has agreed to act as a consultant to the Company.

Mr G C Greene is aged 64 and was appointed a director in 1996. He is a director of Greene King plc and Jupiter International Green Investment Trust plc. Mr Greene will succeed Lord Rayne as Chairman of the Company at the forthcoming Annual General Meeting.

Mr D Newell is aged 57 and was appointed a director in 1998. A Chartered Surveyor, he was Senior Partner of Hillier Parker May & Rowden until 1998. He is now Co-Chairman of the Europe, Middle East and Africa division of CB Richard Ellis Services, Inc. He is a past President of the British Council for Offices.

Lord Remnant is aged 69 and was appointed a director in 1994. A Chartered Accountant, he was formerly a director of Bank of Scotland and Chairman of National Provident Institution.

Directors' interests

These are disclosed in the Remuneration Report of the Directors, shown on pages 27 to 29.

Share capital

Details of changes in the issued share capital during the year ended 31st March 2000 are given in note 23 on page 42.

Directors' authority to allot shares

The purpose of special resolution 4 is to renew the power of the directors to allot up to 11,257,000 Ordinary shares of $27\frac{19}{41}$p each and/or 3,745,000 Deferred Ordinary shares of $27\frac{19}{41}$p each for cash as if the statutory pre-emption rights did not apply to such allotment. This represents approximately 5% of the issued share capital at 1st June 2000. The power is to expire after 15 months or at the end of the next Annual General Meeting of the Company, whichever first occurs.

Employee share scheme

An allocation of shares to the Trustees of The London Merchant Securities Employee Share Scheme was made in July 1999. An allocation will be made in July 2000, the cost of which will not exceed £150,000.

Low cost share dealing service

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

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 2000 represented some 18 days' purchases.

Auditors

A resolution concerning the re-appointment 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. Contributions to charities are made independently of the Group by The Rayne Foundation.

Year 2000

The Group took reasonable steps to ensure the Year 2000 issue did not materially affect the Group's business. The revenue cost of the programme was not material.

Substantial shareholdings

The Company has been notified of the following material interests of 3% or more of its share capital at 1st June 2000 excluding those of Lord Rayne which are set out on page 28.

	Ordinary shares	%	Deferred Ordinary shares	%
Norwich Union plc	16,274,511	7.23	5,510,937	7.36
Trustees of The Rayne Foundation*	14,817,277	6.58	–	–
J Rothschild Assurance Holdings plc and St. James's Place Capital plc	6,747,794	3.00	3,017,353	4.03
RIT Capital Partners plc	–	–	3,644,444	4.87
Trustees of Max Rayne Second and Third Family Settlements*	7,294,156	3.24	–	–

*Non-beneficial.

The Company has not been notified of any non-material interests of 10% or more of its share capital at 1st June 2000.

by order of the Board

M Waldron Secretary
19th June 2000

Corporate Governance

The following statements show how the Company has applied the Principles of the Combined Code and whether or not it has complied with the Provisions of the Combined Code. Where there is a deviation from the Provisions of the Combined Code an explanation should be given.

The Company has complied with the Principles and Provisions of the Combined Code throughout the year ended 31st March 2000, with the exceptions explained below.

The Board

The Board has ten directors, five executive and five non-executive; their details and experience are set out on pages 22 and 23. All the non-executive directors are considered independent as they have no significant involvement in the day to day management of the Group.

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

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

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

In 1998 Mr N G E Driver and The Hon R A Rayne were appointed as Joint Managing Directors, separating Lord Rayne's role as Chairman and Chief Executive Officer. Mr P J Grant is considered to be the senior independent director.

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

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

Relations with shareholders

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

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

The Company will comply with the Combined Code to give 20 working days' notice of the Annual General Meeting.

Accountability and audit

After making enquires, 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.

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

The Audit Committee is satisfied that the Company's auditors KPMG Audit Plc, continue to be objective and independent of the Company. KPMG Audit Plc does perform non-audit services for the Group but the Audit Committee is satisfied that its objectivity is not impaired by such work.

Directors' responsibility statement

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss for that period. In preparing those financial statements, the directors are required to

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

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

Internal control

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

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

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

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

A process of control self-assessment and hierarchical reporting has been established which provides for a documented and auditable trail of accountability. These procedures are relevant across Group operations and provide for successive assurances to be given at increasingly higher levels of management and, finally, to the Board.

In addition the Board has decided to set up an internal audit function under the responsibility of a Board director.

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

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

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

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

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

Remuneration Report of the Directors

Composition of the Remuneration Committee

The members of the Committee are all the non-executive directors.

Compliance

The Board is satisfied that the Company has complied with the principles of the Combined Code relating to the levels of remuneration, remuneration policy, the Remuneration Committee's procedures and formal disclosure.

Policy on remuneration of executive directors

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

Basic salary

Basic salary for each executive director is approved by the Remuneration Committee taking into account the performance of the individual and information from independent sources on the rates of salary in a selected group of comparable companies.

Share options

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

Future options granted under the Executive Share Option Scheme may only be exercised if the growth in shareholders' funds over a three year period exceeds the increase in RPI plus 9%.

Pensions

The LMS (1973) Pension Scheme, available to all employees aged 25 or over, is an Inland Revenue approved contributory defined benefits scheme insured with the Sun Alliance and London Assurance Company Limited. The main features of the Scheme as applied to the executive directors and senior management are

- a normal pension age of 63;
- pension at normal pension age of two-thirds of final pensionable salary;
- life assurance cover of four times pensionable salary in respect of death in service; and
- spouse's pension on death.

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

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

Directors' remuneration

	Basic salary £000	Fees £000	Benefits £000	Employee share scheme £000	Total excluding pensions 2000 £000	Total excluding pensions 1999 £000	Share option gains 2000 £000	Share option gains 1999 £000
Executive								
Lord Rayne	50	–	31	–	81	78	131	–
N G E Driver	231	–	15	8	254	217	14	–
W Millsom	–	138*	2	–	140	120	–	–
The Hon R A Rayne	255	–	21	–	276	258	131	–
M Waldron	156	–	17	8	181	131†	24	–
Non-executive								
J N Butterwick	–	20	–	–	20	19	–	–
P J Grant	–	40	–	–	40	38	–	–
G C Greene	–	20	–	–	20	19	–	–
D Newell	–	20	–	–	20	11†	–	–
Lord Remnant	–	20	–	–	20	19	–	–
Total	692	258	86	16	1,052	–	300	–
Total 1999	663	225	68	16	–	972**	–	–

*Includes consultancy fee.
**Includes £62,000 paid to a director who retired in July 1998.
†Mr Waldron and Mr Newell were appointed as directors of the Company on 1st June 1998 and 1st September 1998 respectively.

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

	Age	Years of service	Accrued pension entitlement p.a. at age 63 as at 31/3/00 (see note 1) £000	Accrued pension entitlement p.a. at age 63 as at 31/3/99 (see note 1) £000	Increase in accrued pension entitlement for the year (see note 2) £000	Transfer value of the increase in entitlement for the year (see note 3) £000
Executive						
N G E Driver	56	30	114	91	20	324
The Hon R A Rayne	51	25	110	106	2	24
M Waldron	53	30	73	58	14	217

Notes

(1) The pension entitlement shown is that which would be paid annually on retirement based on service to the end of the year.

(2) The increase in accrued pension during the year excludes any increase for inflation.

(3) The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11, less directors' contributions.

(4) Additional Voluntary Contributions have not been included in the above table.

Directors' share interests

At 31st March 2000 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 2000 Ordinary	At 31st March 2000 Deferred Ordinary	At 31st March 1999 Ordinary	At 31st March 1999 Deferred Ordinary
Lord Rayne				
Beneficial	37,750,597	29,664,655	37,750,597	29,834,655
Non-beneficial	22,073,844	2,173,741	22,108,609	2,127,617
J N Butterwick*	4,553	1,517	4,553	1,517
N G E Driver	199,975	477,930	167,768	451,397
P J Grant*	944	303	944	303
G C Greene*	–	16,400	–	16,400
M Millsom	382,127	216,030	382,127	188,655
D Newell*	–	–	–	–
The Hon R A Rayne	2,180,326	924,467	2,180,326	924,467
Lord Remnant*	–	10,842	–	10,842
M Waldron	36,441	622,528	36,732	567,348

*Non-executive directors.

(i) Mr J N Butterwick, Mr P J Grant, Mr G C Greene and Lord Remnant hold non-beneficial interests in common as trustees of the Max Rayne Share Participation Scheme amounting to 6,443,774 (1999 – 6,469,238) Ordinary shares and 1,934,740 (1999 – 1,827,277) Deferred Ordinary shares. In addition Mr J N Butterwick, Mr P J Grant and Lord Remnant hold non-beneficial interests in common as trustees amounting to 118,526 (1999 – 127,827) Ordinary shares and 239,001 (1999 – 300,340) Deferred Ordinary shares. All of these shares are included in Lord Rayne's non-beneficial interests shown above.

(ii) Mr G C Greene also has a non-beneficial interest as trustee of the Max Rayne Second and Third Family Settlements amounting to 7,294,156 (1999 – 7,440,383) Ordinary shares.

(iii) Lord Rayne's non-beneficial interests also include 15,475,100 (1999 – 15,475,100) Ordinary shares held in common with The Hon R A Rayne as trustees.

(iv) During the year the holding of £2,718,000 7¾% Convertible Unsecured Loan Stock 2000/2005, held as a non-beneficial interest by Lord Rayne and The Hon R A Rayne in common as trustees, was sold.

(v) The interests of the directors were unchanged at 1st June 2000.

Executive directors' share options

	Option price (p)	Balance at 31st March 2000 Ordinary	Balance at 31st March 2000 Deferred Ordinary	Balance at 31st March 1999 Ordinary	Balance at 31st March 1999 Deferred Ordinary
Lord Rayne					
Executive	32¼	–	520,000	–	520,000
SAYE	27 18/41	–	–	–	90,000
N G E Driver					
Executive	32¼	–	575,000	–	575,000
SAYE	54	–	–	25,000	–
SAYE	40½	–	19,259	–	19,259
SAYE	65¼	–	17,931	–	17,931
The Hon R A Rayne					
Executive	32¼	–	575,000	–	575,000
SAYE	27 18/41	–	–	–	90,000
M Waldron					
Executive	32¼	–	510,000	–	510,000
SAYE	27 18/41	–	–	–	54,000
SAYE	40½	–	19,259	–	19,259
SAYE	65¼	–	17,931	–	17,931

(i) No options were granted during the year. Mr N G E Driver and Mr M Waldron exercised their SAYE options for 25,000 Ordinary shares and 54,000 Deferred Ordinary shares respectively on 11th November 1999. The prices of the Ordinary and Deferred Ordinary shares at that date was 110p and 72.5p respectively. Lord Rayne and The Hon R A Rayne exercised their options for 90,000 Deferred Ordinary shares each on 17th January 2000. The price of the Deferred Ordinary shares at that date was 173.5p. Lord Rayne and The Hon R A Rayne sold these shares immediately upon exercise.
(ii) Share option schemes are described in note 23 on page 43.
(iii) Each option was granted for a total consideration of £1.
(iv) The market price of an Ordinary share at 31st March 2000 was 196½p (1999 – 100p) and the range during the year was 100p to 250p. The market price of a Deferred Ordinary share at 31st March 2000 was 166½p (1999 – 72p) and the range during the year was 72p to 225½p.

Employee share scheme

The London Merchant Securities Employee Share Scheme is an Inland Revenue approved scheme. The directors of the Company agreed that an amount representing 7½% of qualifying employees' salaries be set aside from the Group's profits to be allocated to the Scheme. Mr N G E Driver and Mr M Waldron received the maximum £8,000 allowed under Inland Revenue rules.

The remuneration of the non-executive directors is a matter reserved for the Board.

Mr W Millsom has a consultancy agreement with a subsidiary company which expires on 31st August 2000.

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

Auditors' Report

to the members of London Merchant Securities plc

We have audited the financial statements on pages 31 to 45. We have also examined the amounts disclosed relating to emoluments, share options and pension entitlements of the directors which form part of the Remuneration Report of the Directors on pages 27 to 29.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the report and accounts as described on page 25 of the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the UK Listing Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the Report of the Directors is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Group is not disclosed.

We review whether the statement on pages 25 and 26 reflects the Company's compliance with those 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 report and accounts, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st March 2000, and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
19th June 2000
London

Consolidated Profit and Loss Account

year ended 31st March 2000

	Notes	2000 £000	1999 £000
Net rental income from investment properties	2	44,800	41,606
Profit from property trading	2	1,261	394
Administrative expenses		(9,328)	(7,665)
Operating profit – Group	3	36,733	34,335
Other income	6	597	1,312
Share of operating loss of associated undertakings	7	–	(658)
Share of operating loss of joint venture		–	(61)
Profit on disposal of other investments and investment properties	8	94,458	18,600
Profit on ordinary activities before finance costs	9	131,788	53,528
Net finance costs	10	(9,422)	(7,892)
Profit on ordinary activities before taxation		122,366	45,636
Tax on profit on ordinary activities	11	(38,110)	(11,889)
Profit on ordinary activities after taxation		84,256	33,747
Equity minority interests		(2,388)	(2,324)
Profit for the year		81,868	31,423
Appropriations			
Transfer to capital reserve	26	(249)	(7,804)
Equity dividends			
Interim paid 0.9p (1999 – 0.9p)		(2,026)	(2,013)
Final proposed 5.0p (1999 – 4.6p)		(11,257)	(10,290)
Retained profit for the year	27	68,336	11,316
Earnings per Ordinary share	12		
Before capital items		8.17p	8.16p
Applicable to capital items		28.32p	5.88p
Including capital items		36.49p	14.04p
Diluted		25.38p	10.06p

All operations are continuing.

Consolidated Statement of Total Recognised Gains and Losses

year ended 31st March 2000

	2000 £000	1999 £000
Profit for the year	81,868	31,423
Unrealised surplus on revaluation of investment properties	54,445	57,924
Foreign exchange and other	(147)	(1,020)
Total recognised gains and losses relating to the financial year	136,166	88,327

Note of Historical Cost Profits and Losses

year ended 31st March 2000

	2000 £000	1999 £000
Profit on ordinary activities before taxation	122,366	45,636
Realisation of revaluation surpluses of previous years	1,652	2,698
Historical cost profit on ordinary activities before taxation	124,018	48,334
Historical cost profit for the year retained after taxation, minority interests, transfer to capital reserve and dividends	68,336	11,316

Reconciliation of Movements in Shareholders' Funds

year ended 31st March 2000

	Group 2000 £000	Group 1999 £000	Company 2000 £000	Company 1999 £000
Profit for the year	81,868	31,423	36,084	21,083
Ordinary dividends	(13,283)	(12,303)	(13,283)	(12,303)
Other recognised gains and losses	54,298	56,904	114,152	58,528
Issue of shares	1,801	475	1,801	475
Net addition to shareholders' funds	124,684	76,499	138,754	67,783
Shareholders' funds at beginning of year	534,140	457,641	522,405	454,622
Shareholders' funds at end of year	658,824	534,140	661,159	522,405

Balance Sheets

at 31st March 2000

	Notes	Group 2000 £000	Group 1999 £000	Company 2000 £000	Company 1999 £000
Fixed assets					
Tangible assets	13	633,412	568,660	18,591	17,551
Investments					
Subsidiary undertakings	15	–	–	360,730	247,397
Joint venture	16				
Share of gross assets		–	2,086	–	–
Share of gross liabilities		–	(2,317)	–	–
		–	(231)	–	–
Other investments	17	148,316	113,587	3,146	5,648
		781,728	682,016	382,467	270,596
Current assets					
Stocks – properties	18	10,447	10,500	–	–
Debtors	19	13,087	23,262	443,086	414,985
Cash at bank and in hand	20	173,543	67,684	144	151
		197,077	101,446	443,230	415,136
Creditors: amounts falling due within one year	21	(75,856)	(51,450)	(45,347)	(42,498)
Net current assets		121,221	49,996	397,883	372,638
Total assets less current liabilities		902,949	732,012	780,350	643,234
Creditors: amounts falling due after more than one year (including convertible debt of £22.4 million)	22	(190,638)	(150,261)	(119,191)	(120,829)
Net assets		712,311	581,751	661,159	522,405
Capital and reserves					
Called up share capital	23	82,331	81,713	82,331	81,713
Share premium account	24	3,323	2,140	3,323	2,140
Capital reduction account		2,868	2,868	2,868	2,868
Revaluation reserve	25	231,787	178,994	265,222	150,890
Capital reserve	26	212,952	211,198	232,321	225,427
Profit and loss account	27	125,563	57,227	75,094	59,367
Equity shareholders' funds		658,824	534,140	661,159	522,405
Equity minority interests		53,487	47,611	–	–
Capital employed		712,311	581,751	661,159	522,405
Shareholders' funds per share		220p	179p		

The accounts on pages 31 to 45 were approved by the Board of directors on 19th June 2000 and were signed on its behalf by

Rayne Director
P J Grant Director

Consolidated Cash Flow Statement

year ended 31st March 2000

	2000 £000	2000 £000	1999 £000	1999 £000
Net cash inflow from operating activities (see note 28 (1))		38,244		32,077
Returns on investments and servicing of finance				
Interest received	4,802		5,793	
Interest paid	(16,047)		(14,796)	
Dividends received	1,277		1,130	
Dividends paid – minority shareholders	(2,157)		(1,983)	
Net cash outflow from returns on investments and servicing of finance		(12,125)		(9,856)
Taxation paid		(21,165)		(7,196)
Capital expenditure and financial investment				
Property developments and acquisitions	(12,315)		(22,252)	
Sales of investment property	13,663		3,990	
Acquisition of other fixed assets	(207)		(642)	
Disposal of other fixed assets	67		140	
Purchase of other investments	(68,110)		(34,796)	
Sale and redemption of other investments	137,732		57,168	
Net cash inflow from capital expenditure and financial investment		70,830		3,608
Acquisitions and disposals				
Loan to joint venture		–		(852)
Equity dividends paid		(12,316)		(11,845)
Cash inflow before use of liquid resources and financing		63,468		5,936
Management of liquid resources				
(Increase) in short-term deposits		(103,341)		(5,974)
Financing				
Issue of share capital	109		185	
Debt due after more than one year:				
Repayment of mortgages	–		(167)	
New mortgage	42,000		–	
Debt due within one year				
Repayment of mortgages	(750)		–	
Net cash inflow from financing		41,359		18
Increase/(decrease) in cash in the year		1,486		(20)

Notes on the Accounts

1 Accounting policies

Accounting convention

The accounts have been prepared under the historical cost convention, modified to include the revaluation of investment properties and subsidiary undertakings, and in accordance with applicable accounting standards and, except as noted below, with the Companies Act 1985. The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's accounts.

Basis of consolidation

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

Investment properties

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

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

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

Other investments

Other investments are stated at cost or cost less provision where there is permanent diminution in value.

Those venture capital investments that are associated undertakings are carried at cost in accordance with the Group's normal policy and are not equity accounted as required by the Companies Act 1985. The directors consider that as these investments are held as part of the Group's portfolio with a view to the ultimate realisation of capital gains, equity accounting would not give a true and fair view of the Group's interest in these investments. The effect of this departure is to increase fixed asset investments by £6.2 million. The profit effect is not material.

Capital reserve

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

Repairs and renewals

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

Stocks

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

Foreign currencies

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

Pensions

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

Deferred taxation

Provision for deferred taxation is made using the liability method, on the excess of capital allowances over depreciation and other timing differences, to the extent that it is probable that a liability will crystallise in the foreseeable future.

2 Rental income and trading turnover

	2000 £000	1999 £000
Gross rental income: Group and share of joint venture	47,675	42,467
Less: share of joint venture's rental income	–	(15)
Group gross rental income	47,675	42,452
Property trading	3,499	2,027
Turnover	51,174	44,479
Property outgoings	(2,875)	(846)
Cost of sales	(2,238)	(1,633)
Gross profit – before administrative expenses	46,061	42,000

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

3 Operating profit

	2000 £000	1999 £000
Operating profit is stated after charging		
Amortisation and depreciation of fixed assets	426	417
Amortisation of mortgage debenture stock	55	49
Auditors' remuneration – as auditors	105	96
Other fees paid to the auditors and their associates	207	167

4 Directors' remuneration

	2000 £000	1999 £000
Directors' remuneration		
Fees	258	225
Salaries and other benefits	794	747
Directors' emoluments	1,052	972
Gains on exercise of share options	300	–
	1,352	972

Directors' remuneration, the interests of each director and his family in the shares of the Company and options held under the Executive and SAYE option schemes are disclosed on pages 27 to 29.

5 Employees, including executive directors

	2000 £000	1999 £000
Staff costs		
Wages and salaries	3,570	3,109
Social security costs	344	298
Pension contributions	1,921	1,397
	5,835	4,804

The average number of employees of the Group was 115 (1999 – 108).

6 Other income

	2000 £000	1999 £000
First Leisure Corporation/Esporta – dividends	403	1,163
Income from other investments	194	149
	597	1,312

7 Share of operating loss of associated undertakings

	2000 £000	1999 £000
Jazz[fm]	–	(658)

Jazz[fm] was reclassified as an other investment in March 1999.

8 Profit on disposal of other investments and investment properties

	2000 £000	1999 £000
Net profit		
Other investments	107,480	26,001
Investment provisions no longer required	–	408
New investment provisions	(3,655)	(795)
Provisions for indemnity claims	–	(6,881)
	103,825	18,733
Less investment commissions	(10,983)	(820)
	92,842	17,913
Investment properties	1,616	687
	94,458	18,600

9 Segmental analysis of profit before finance costs

	2000 Venture capital division £000	2000 Property division £000	2000 Total £000	1999 Venture capital division £000	1999 Property division £000	1999 Total £000
Net rental income from investment properties	–	44,800	44,800	–	41,606	41,606
Profit from property trading	–	1,261	1,261	–	394	394
Administrative expenses	(2,948)	(6,380)	(9,328)	(2,246)	(5,419)	(7,665)
Operating profit – Group	(2,948)	39,681	36,733	(2,246)	36,581	34,335
Other Income	597	–	597	1,312	–	1,312
Share of operating loss of associated undertakings	–	–	–	–	(658)	(658)
Share of operating loss of joint venture	–	–	–	–	(61)	(61)
Profit on disposal of investment properties and other investments	92,842	1,616	94,458	17,913	687	18,600
Profit on ordinary activities before finance costs	90,491	41,297	131,788	16,979	36,549	53,528

10 Net finance costs

	2000 £000	1999 £000
Interest payable		
On loans and bank overdrafts	65	31
Other loans	15,786	14,814
	15,851	14,845
Interest receivable	(6,429)	(7,095)
Net finance costs – Group	9,422	7,750
Share of interest payable – joint venture	–	142
	9,422	7,892

11 Tax on profit on ordinary activities

	2000 £000	1999 £000
Corporation tax at 30% (1999 – 31%)	8,152	6,560
Taxation on franked investment income	–	158
Overseas taxation	12	3
	8,164	6,721
Taxation on disposal of fixed assets	30,127	7,831
Deferred taxation on provisions for indemnity claims	–	(2,064)
Adjustments relating to prior years	(181)	(599)
	38,110	11,889

12 Earnings per Ordinary share

	2000 '000	1999 '000
Calculations are based on the following		
Basic		
Weighted average Ordinary shares in issue	224,354	223,615

	2000 £000	1999 £000
Capital items		
Gains and losses on fixed asset investments	94,458	18,600
Taxation attributable to above	(30,127)	(7,831)
Deferred taxation on provisions for indemnity claims	–	2,064
Taxation adjustment in respect of prior years	(793)	318
Minority interests	7	10
Capital profit after tax and minorities	63,545	13,161
Revenue profit after tax and minorities	18,323	18,262
Profit for the year	81,868	31,423

The Group has disclosed both the capital and revenue elements of earnings per share to highlight the profit available after capital Items.

	2000 '000	1999 '000
Diluted		
Weighted average Ordinary shares in issue	224,354	223,615
Weighted average Deferred Ordinary shares in issue	74,427	73,540
Adjustment for shares issuable on conversion of Convertible Loan Stock		
Ordinary shares	19,042	19,874
Deferred Ordinary shares	6,850	7,150
Adjustment in respect of shares issuable under share option schemes	3,565	1,821
Adjustment in respect of shares held by LMS QUEST Trustee Limited on which no dividends are payable	(885)	(1,208)
Weighted average number of shares in issue – diluted	327,353	324,792

	2000 £000	1999 £000
Earnings adjusted for interest payable on the Convertible Loan Stock	83,081	32,711

13 Tangible assets

	Group Investment properties £000	Group Other assets £000	Group Total £000	Company Investment properties £000
At 31st March 1999				
Cost or valuation	567,815	1,743	569,558	17,551
Amortisation and depreciation	–	(898)	(898)	–
	567,815	845	568,660	17,551
Exchange difference	314	–	314	–
Additions at cost	17,415	207	17,622	–
Disposals	(12,910)	(58)	(12,968)	–
Amortisation and depreciation for the year	(154)	(272)	(426)	–
Surplus on revaluation	60,210	–	60,210	1,040
At 31st March 2000	632,690	722	633,412	18,591
At cost – development properties	9,235	–	9,235	–
other assets	–	1,773	1,773	–
At valuation – 2000	623,455	–	623,455	18,591
Amortisation and depreciation	–	(1,051)	(1,051)	–
Net book value	632,690	722	633,412	18,591

The historical cost of Group investment properties at 31st March 2000 was £261.8 million (1999 – £254.4 million). The historical cost of the Company's investment properties at 31st March 2000 was £3.7 million (1999 – £3.7 million). Other assets comprise motor cars, computers and office equipment.

14 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 2000					
At valuation					
United Kingdom	473,366	126,658	315	600,339	18,591
USA	32,351	–	–	32,351	–
	505,717	126,658	315	632,690	18,591
At 31st March 1999	452,632	114,778	405	567,815	17,551

The investment properties have been valued for the Board at 31st March 2000 on the basis of 'Open Market Value' in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors.

Some 83.4% of these properties have been externally valued by Cluttons, Chartered Surveyors, of London, 11.5% valued by Healey & Baker, International Real Estate Consultants. Properties in the USA (5.1%) have been valued by Mr I B Paget BSc FRICS CRE, a director of a subsidiary company.

15 Investment in subsidiary undertakings (unlisted)

	Company £000
At 31st March 1999	
Directors' valuations	247,396
Cost	1
	247,397
Additions	41
Surplus on revaluation	113,292
At 31st March 2000	360,730
Directors' valuations	360,729
Cost	1

Directors' valuations are at net asset value. The surplus on revaluation reflects increases in underlying property valuations and realised retained investment gains.

The principal subsidiary undertakings at 31st March 2000 are shown on page 46.

16 Investment in joint venture

	2000 £000	1999 £000
Share of gross assets	–	2,086
Share of gross liabilities	–	(2,317)
	–	(231)

Greenwich Reach 2000 Limited, a leisure and retail development company became a wholly-owned subsidiary during the year.

17 Other investments

	Group Listed £000	Group Unlisted £000	Group Total £000	Company Listed £000	Company Unlisted £000	Company Total £000
At 31st March 1999 at cost less provisions	31,761	81,826	113,587	5,648	–	5,648
Additions at cost	929	79,299	80,228	–	–	–
Reclassification	4,493	(4,493)	–	–	–	–
New provisions	(851)	(2,804)	(3,655)	–	–	–
Disposals	(10,609)	(31,235)	(41,844)	(2,502)	–	(2,502)
At 31st March 2000	25,723	122,593	148,316	3,146	–	3,146
Analysis of listed investments						
On London Stock Exchange	18,406			3,146		
On other stock exchanges	7,317			–		
	25,723			3,146		
Market or directors' valuations						
At 31st March 2000	63,480	287,889	351,369	12,605	–	12,605
At 31st March 1999	44,134	80,185	124,319	27,197	–	27,197

Quoted investments are valued at market value with certain shares discounted by either 50% or 20% to reflect selling and volume restrictions following recent IPOs of these investments. Unquoted investments and investments within partnerships in the UK and US are valued at cost.

18 Stocks

	Group 2000 £000	Group 1999 £000	Company 2000 £000	Company 1999 £000
Trading property	10,436	10,496	–	–
Maintenance materials	11	4	–	–
	10,447	10,500	–	–

At 31st March 2000 the trading property had been valued by the directors at £18.8 million (1999 – £19.1 million).

19 Debtors

	Group 2000 £000	Group 1999 £000	Company 2000 £000	Company 1999 £000
Rents and service charges receivable	2,681	3,536	61	65
Amounts owed by subsidiary undertakings	–	–	442,648	408,938
Loans to joint venture	–	4,458	–	2,751
Dividends receivable – listed companies	79	759	79	759
Other debtors	5,542	5,883	–	–
Pension prepayment	856	788	–	–
Other prepayments and accrued income	1,865	2,238	298	14
ACT recoverable	–	3,536	–	2,458
Deferred tax asset on provisions for indemnity claims	2,064	2,064	–	–
	13,087	23,262	443,086	414,985

All Group debtors fall due within one year with the exception of deferred tax.

All Company debtors fall due within one year with the exception of an amount of £10.1 million (1999 – £10.1 million) due from subsidiary undertakings.

20 Cash at bank and in hand

	Group 2000 £000	Group 1999 £000	Company 2000 £000	Company 1999 £000
Short-term deposits	170,741	66,584	–	150
Bank and cash balances	2,802	1,100	144	1
	173,543	67,684	144	151

21 Creditors: amounts falling due within one year

	Group 2000 £000	Group 1999 £000	Company 2000 £000	Company 1999 £000
17½% Mortgage 1999	–	1,500	–	–
Bank loans and overdrafts – unsecured	557	341	–	–
Rents received in advance	10,034	9,718	290	273
Amounts owed to subsidiary undertakings	–	–	25,488	24,441
Corporation tax	30,775	17,035	6,279	5,443
Other taxes and social security	1,864	1,810	1,057	1,051
Proposed final dividend	11,257	10,290	11,257	10,290
Other creditors	2,006	1,880	109	67
Accruals	12,482	1,995	867	933
Provisions for indemnity claims	6,881	6,881	–	–
	75,856	51,450	45,347	42,498

22 Creditors: amounts falling due after more than one year

	Group 2000 £000	Group 1999 £000	Company 2000 £000	Company 1999 £000
10% First Mortgage Debenture Stock 2018	96,815	96,761	96,815	96,761
9.695% Mortgage 2018	20,000	20,000	–	–
7¾% Convertible Unsecured Loan Stock 2000/2005	22,376	24,068	22,376	24,068
7.21% Mortgage 2010-2015	31,500	–	–	–
Floating rate Mortgage 2010-2015	10,500	–	–	–
8¼% Mortgage 2020	2,865	2,928	–	–
6.85% Mortgage 2002	6,582	6,504	–	–
	190,638	150,261	119,191	120,829

	Group 2000 £000	Group 1999 £000	Company 2000 £000	Company 1999 £000
Non-convertible				
Repayable after more than five years	161,680	119,689	96,815	96,761
Repayable between two and five years	6,582	6,504	–	–
	168,262	126,193	96,815	96,761
Convertible				
Repayable after more than five years	22,376	24,068	22,376	24,068
	190,638	150,261	119,191	120,829

The stockholders have the right to convert the Convertible Unsecured Loan Stock into fully paid Ordinary shares and Deferred Ordinary shares of the Company in the period from 1st October 2000 to 25th October 2000 at the rate of 82 fully paid Ordinary shares and 29.5 fully paid Deferred Ordinary shares for every £100 of stock converted. If 75% or more of the stock has been converted, the Company shall have the right, on giving stockholders the appropriate notice, to convert the whole of the remaining stock.

The discount on issue in January 1992 at a price of 91.284% of £40 million First Mortgage Debenture Stock 2018 will be allocated to future accounting periods to 3rd April 2018 using the effective periodic rate. The effective finance cost, taking into account redemption at par in 2018, is 11% per annum. The unamortised amount of discount at 31st March 2000 was £3.2 million (1999 – £3.2 million).

The Mortgage Debenture Stock of nominal value £100 million and the Mortgages are secured on investment properties.

The Floating rate Mortgage 2010-2015 has an interest rate of 0.875% over three month LIBOR.

Further disclosures relating to long-term financial liabilities and the effects of FRS13 are given in the Financial Review on pages 19 to 21.

23 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 1999	272,850,398	74,359,203	17,234,843	223,753,538	74,044,836
Issued during the year					
Conversion of Convertible Unsecured Loan Stock	–	1,000,000	(1,000,000)	1,387,748	499,250
Executive Share Option Scheme	–	–	–	–	185,000
SAYE Share Option Scheme	–	–	–	–	180,000
At 31st March 2000	272,850,398	75,359,203	16,234,843	225,141,286	74,909,086
Nominal value at 31st March 2000	£74,867,487	£20,677,830	£4,454,683	£61,776,572	£20,554,322
			£100,000,000		£82,330,894

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

23 Called up share capital (continued)

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

Executive Share Option Scheme

Number	Class	Exercise price	Date from which exercisable	Expiry date
160,000	Ordinary	74p	29th September 1995	29th September 2002
2,425,000	Deferred Ordinary	32¼p	29th September 1995	29th September 2002

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

Savings-Related Share Option Scheme

Number	Class	Exercise price	Date from which exercisable	Expiry date
243,623	Deferred Ordinary	40½p	1st April 2001	1st October 2001
235,399	Deferred Ordinary	40½p	1st April 2003	1st October 2003
36,757	Deferred Ordinary	65¼p	1st April 2001	1st October 2001
69,260	Deferred Ordinary	65¼p	1st April 2003	1st October 2003
297,053	Deferred Ordinary	65¼p	1st April 2005	1st October 2005

In March 1998, the Company established a qualifying employee share ownership trust (QUEST) to acquire Ordinary and Deferred Ordinary shares of the Company for supply to employees exercising options under the LMS Savings-Related Share Option Scheme. The trustee of the QUEST is LMS QUEST Trustee Limited, which is a wholly-owned subsidiary of the Company. Shares acquired by the QUEST are included in other investments in note 17 on page 40 of these accounts. All employees of the Company, including executive directors of the Company (except Lord Rayne, Mr W Millsom and The Hon R A Rayne), are potential beneficiaries under the QUEST.

24 Share premium account

	Group and Company £000
At 31st March 1999	2,140
Premium on issue of shares during the year	1,183
At 31st March 2000	3,323

25 Revaluation reserve

	Group £000	Company £000
At 31st March 1999	178,994	150,890
Surplus on revaluation		
Subsidiary undertakings	–	113,292
Investment properties – Group share	54,445	1,040
Realisation of revaluation surpluses of previous years	(1,652)	–
At 31st March 2000	231,787	265,222

No provision has been made for tax on capital gains which would become payable if the investment properties and other investments were sold at the values at which they are included in the accounts. The directors estimate that if all these assets were disposed of, at those values, the tax liability would be unlikely to exceed £28 million (1999 – £23 million).

26 Capital reserve

	Group £000	Company £000
At 31st March 1999	211,198	225,427
Transfer from revaluation reserve	1,652	–
Appropriation from profit and loss account	249	6,894
Exchange difference	(147)	–
At 31st March 2000	212,952	232,321

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

27 Profit and loss account

	Group £000	Company £000
At 31st March 1999	57,227	59,367
Retained profit for the year	68,336	15,727
At 31st March 2000	125,563	75,094

The Company's profit for the year amounted to £35.9 million.

The Company's retained profit includes an amount of £16.0 million that is not distributable until the 7¾% Convertible Unsecured Loan Stock 2000/2005 is converted or redeemed.

28 Notes to consolidated cash flow statement

	2000 £000	1999 £000
(1) Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	36,733	34,335
Depreciation and amortisation charges	481	466
Other non-cash movements	(107)	751
Decrease/(increase) in stocks	53	(885)
Decrease/(increase) in debtors	1,118	(1,848)
(Decrease) in creditors	(34)	(742)
Net cash inflow from operating activities	38,244	32,077

	At 31st March 1999 £000	Cash flow £000	Other non-cash changes £000	Exchange movements £000	At 31st March 2000 £000
(2) Analysis of movement in net debt					
Cash at bank and in hand*	1,100	1,702	–	–	2,802
Bank loans and overdrafts	(341)	(216)	–	–	(557)
		1,486			
Debt due within one year	(1,500)	750	750	–	–
Debt due after more than one year	(150,261)	(42,109)	1,846	(114)	(190,638)
		(41,359)			
Short-term deposits*	66,584	103,341	–	816	170,741
	(84,418)	63,468	2,596	702	(17,652)

*Totalled on balance sheet as cash at bank and in hand.

	2000 £000	1999 £000
(3) Reconciliation of net cash flow to movement in net debt		
Increase/(decrease) in cash in the year	1,486	(20)
Cash (inflow)/outflow from (increase)/decrease in debt financing	(41,359)	167
Cash inflow from increase in liquid resources	103,341	5,974
Change in net debt resulting from cash flows	63,468	6,121
Translation differences	702	(346)
Other non-cash changes	2,596	240
Movement in net debt in the year	66,766	6,015
Net debt at 31st March 1999	(84,418)	(90,433)
Net debt at 31st March 2000	(17,652)	(84,418)

29 Pension funding

The Group's funded pension scheme, which is subject to a trust deed and rules and provides defined benefits on final salary, is insured with a major life office. An actuary of the life office carries out an annual actuarial valuation.

The charge to profit and loss account of £1.9 million (1999 – £1.4 million) represents contributions payable to the scheme for the financial year.

At 1st November 1999, the date of the latest valuation carried out by the Projected Unit Method, the actuarial value of the scheme's assets of £9.0 million was sufficient to cover 102% of the benefits which had accrued to members on an ongoing basis after allowing for expected future increases in earnings. This assumed, *inter alia*, that the rate of investment return would exceed the rate of increase in pensionable salaries by 0.5% per annum.

30 Capital commitments

	Group 2000 £000	Group 1999 £000	Company 2000 £000	Company 1999 £000
Contracted	72,288	33,709	–	–
Authorised but not contracted	35,043	12,781	–	–
	107,331	46,490	–	–

31 Contingent liabilities

Guarantees have been given in respect of warranties on the sale of certain subsidiaries and other liabilities in the ordinary course of business. The Company has guaranteed £6.6 million (1999 – £8.0 million) of borrowings of certain of its subsidiaries.

Principal Subsidiary Undertakings

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

*Indicates subsidiary undertakings held indirectly.

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

Principal Properties

Properties in excess of £10 million by value

The Angel Centre, St. John Street, London EC1	Modern air-conditioned office building on ground and five upper floors. 15,080 sq m (162,330 sq ft). Built in 1984.
80 Charlotte Street and 23 Howland Street, London W1	Office building on basement, ground and six upper floors with basement car park. 12,372 sq m (133,180 sq ft). 23 Howland Street was built in 1968 and 80 Charlotte Street erected in 1959.
Strathkelvin Retail Park, Bishopbriggs, Glasgow	Recent development of 12 retail warehouse units, a fast food restaurant and car parking for approx. 1,200 cars. 17,400 sq m (187,300 sq ft). A planning consent has been granted for an extension to provide an additional 2,323 sq m (25,000 sq ft) of retail warehousing.
19-35 Baker Street, 88-110 George Street and 24-40 Gloucester Place, London W1	Modern block of mixed use properties consisting of approx. 7,453 sq m (80,230 sq ft) offices, 12 shops and 58 residential units.
Myddelton Place, 88 Rosebery Avenue, London EC1	Modern office building (completed 1992) on basement, ground and four upper floors with basement car park. 9,246 sq m (99,500 sq ft).
101-108 Tottenham Court Road, London W1	Office building on basement, ground and six upper floors with three ground floor shops. 8,539 sq m (91,920 sq ft). Built in 1960.
120-134 Tottenham Court Road, London W1	Mixed block of properties, part Edwardian, part newly built behind a similar façade, comprising a modernised 324 bed hotel on basement, ground and five upper floors together with 17 retail units, offices and ancillary areas.
80-85 Tottenham Court Road, London W1	A modern office building (completed 1992) having 2,657 sq m (28,600 sq ft) of air-conditioned office space on five upper floors with five shops on ground floor and basement totalling 1,700 sq m (18,300 sq ft).
36 Howland Street, London W1	Office building on basement, ground and six upper floors with basement car park. 5,876 sq m (63,250 sq ft). Built in 1968.
63 St. James's Street, London SW1	Modern air-conditioned office building developed in 1991 behind a listed Victorian stone faced elevation on basement, ground and five upper floors. 2,115 sq m (22,770 sq ft).
164-170 Tottenham Court Road, London W1	Modern building on basement, ground and six upper floors comprising car park, five shop units, 2,899 sq m (31,200 sq ft) of offices and 12 residential maisonettes on the fifth and sixth floors.
Lion & Lamb Yard, Farnham, Surrey	Open shopping centre comprising a mixture of old and new shops developed in 1985/86 providing 24 retail units, restaurant, self-contained offices at first and second floor levels plus supermarket, with a total lettable area of 6,605 sq m (71,100 sq ft) together with parking for 114 cars.
The Arcadia Centre, Ealing	5,695 sq m (61,300 sq ft) shopping centre on two levels with 76 parking spaces providing 25 units with tenants including TK Maxx, McDonald's and HMV.
The Triangle Shopping Centre, Bishopbriggs, Glasgow	Recent development of a food supermarket, 12 shops, first floor offices with associated car parking and service area. 3,995 sq m (43,000 sq ft).
158-166 Brompton Road, London SW3	Modern block with shops on basement and ground floors and offices on six upper floors having a total of 2,332 sq m (25,100 sq ft) net floor space. Also rear car park with 20 spaces and three flats fronting Cheval Place.
City House, 420/430 London Road, Croydon, Surrey	Office block comprising ground and 13 upper floors. 13,052 sq m (140,500 sq ft). Built in 1963.
Howland House, 18/24 Howland Street, London W1	Office building on basement, ground and four upper floors. 3,282 sq m (35,330 sq ft). Built in 1960.

These properties represent some 56% of the total portfolio value.

Principal Venture Capital Investments

Largest investments: US (quoted)

Company	Activity	Number of Ordinary shares 000	Book value £000	Directors' valuation £000	Notes
Commerce One Inc.	e-commerce solutions	1,259	1,643	94,217	1
InterTrust Technologies Inc.	Digital rights management technology	1,649	2,159	21,960	2
Weatherford International Inc.	Oilfield services	540	3,206	19,802	
Chyron Corporation Inc.	Broadcast media technology	3,465	3,576	19,496	1
Aclara BioSciences Inc.	Drug discovery technology	838	991	10,362	2
Broadbase Software Inc.	CRM software	653	1,711	8,162	2
Computron Software Inc.	Enterprise software	1,416	1,704	7,742	
Digital General Systems Inc.	Media delivery network	1,578	3,856	7,110	
CTC Communications Inc.	Data orientated communications	194	969	5,188	
Interwoven Inc.	Web content management	124	671	4,276	2
World Access Inc.	International wholesale telco	350	3,986	4,196	
Quest Software Inc.	Enterprise software	89	523	3,132	2
P-Com Inc.	Wireless data technology	263	910	3,046	
Exodus Communications Inc.	Internet infrastructure provider	34	118	2,989	
Chordiant Software Inc.	Call centre and CRM software	505	755	2,574	2

Largest investments: UK (quoted)

Company	Activity	Number of Ordinary shares 000	Book value £000	Directors' valuation £000	
Esporta plc	Health and fitness clubs	11,356	11,019	12,605	
DMATEK plc (Israel)	Security tagging technology	2,651	1,054	5,633	
Offshore Tool and Energy Corporation	Oilfield services	60,712	6,186	4,553	
Jazz[fm] plc	Jazz radio station and record label	2,947	394	3,138	
NMT Group plc	Medical safety devices	3,863	2,249	2,434	
Stepstone ASA (Norway)	Pan-European job site	2,933	3,717	2,053	2

Largest investments: UK (unquoted)

Company	Activity	Book value £000	Directors' valuation £000
Unipoly SA (Luxembourg)	Manufactured polymer products	15,156	15,156
NetDecisions Holdings Limited	e-commerce services	3,993	3,993
Elateral Limited	Marketing e-commerce services	3,990	3,990
Strakan Group plc	Skin and bone pharmaceuticals	3,250	3,250
Riodata LLC (Germany)	German DSL carrier	3,145	3,145
Health Media Limited	Professional health media service	2,600	2,600
Magex Holdings Limited	Digital rights management service provider	2,334	2,334
Entuity Limited	Network management software	1,839	1,839
GroupTrade.Com Limited	Procurement e-commerce service	1,618	1,618

Unquoted investments valued at cost, quoted investments valued at market value except: notes (1) 80% of market value (2) 50% of market value.

Glossary of terms

B2B: Business to Business.
DSL: Digital Subscriber Line.
CRM: Customer Relationship Management.
IPO: Initial Public Offering.
IRR: Internal Rate of Return.

Management of Principal Subsidiary Undertakings

Arcadia Limited
Directors: N G E Driver BSc FRICS, R J Pearson ARICS, The Hon R A Rayne, E P M F Smith BA, Secretary: S C Mitchley ACIS.

British Commercial Property Investment Trust Limited
Directors: Lord Rayne, N G E Driver BSc FRICS, N T J Groves BA ARICS, M Newman FRICS, M Waldron FCCA, R J Wood BSc ARICS, Secretary: S C Mitchley ACIS.

Caledonian Property Investments Limited
Directors: Lord Rayne, N G E Driver BSc FRICS, S Dykes BSc ARICS, N T J Groves BA ARICS, G Wright*, Secretary: M Waldron FCCA.

Clearwater Estates & Properties Limited
Directors: N G E Driver BSc FRICS, A C Michell BSc FRICS, H R Morris BSc ARICS, The Hon R A Rayne, M Waldron FCCA, Secretary: M Waldron FCCA.

LMS Industrial Finance Limited
Directors: Lord Rayne, N G E Driver BSc FRICS, The Hon R A Rayne, M Waldron FCCA, Secretary: S C Mitchley ACIS.

LMS Services Limited
Directors: Lord Rayne, N G E Driver BSc FRICS, The Hon R A Rayne, D E Smith ACII, M Waldron FCCA, Secretary: S C Mitchley ACIS.

Westpool Investment Trust plc
Directors: Lord Rayne, The Hon R A Rayne, Lord Remnant* CVO FCA, M Waldron FCCA, Secretary: S C Mitchley ACIS.

*Non-executive.

Five Year Summary

Group balance sheet

	2000 £000	1999 £000	1998 £000	1997 £000	1996 £000
Tangible assets	633,412	568,660	486,385	432,897	392,318
Investments	148,316	113,356	112,781	91,611	78,689
Net current assets	121,221	49,996	52,475	46,048	65,168
Loans	(190,638)	(150,261)	(151,822)	(145,761)	(148,214)
Net assets	712,311	581,751	499,819	424,795	387,961
Equity minority interests	(53,487)	(47,611)	(42,178)	(35,476)	(33,603)
Equity shareholders' funds	658,824	534,140	457,641	389,319	354,358
Represented by					
Called up share capital	82,331	81,713	81,467	80,875	80,676
Reserves	576,493	452,427	376,174	308,444	273,682
	658,824	534,140	457,641	389,319	354,358

Group profit

	2000	1999	1998	1997	1996
Revenue profit	27,908	27,036	25,646	19,742	14,759
Capital profit	94,458	18,600	60,866	13,095	34,612
Profit before taxation	122,366	45,636	86,512	32,837	49,371
Profit for the year	81,868	31,423	74,538	24,943	37,751
Earnings per Ordinary share	36.49p	14.04p	33.36p	11.19p	16.96p
Dividends per Ordinary share	5.9p	5.5p	5.3p*	5.3p	5.1p
Shareholders' funds per share	220p	179p	154p	132p	121p

The figures for 1996 and 1997 for earnings, dividends and shareholders' funds per share have been restated to reflect the share capital consolidation in August 1997.
*This figure excludes the special dividend of 10.5p per share which was paid to the holders of both Ordinary and Deferred Ordinary shares on 11th August 1997.

Notice of Annual General Meeting

Notice is hereby given that the one hundred and twenty-eighth Annual General Meeting of London Merchant Securities plc will be held at The Wallace Collection, Hertford House, Manchester Square, London W1M 6BN on Thursday, 20th July 2000 at 12 noon for the following purposes:

Ordinary business

Resolution 1

To receive and adopt the report and accounts for the year ended 31st March 2000 and the auditors' report thereon.

Resolution 2

That upon the recommendation of the directors a final dividend in respect of the year ended 31st March 2000 of 5.0p per share be and is hereby declared payable on the issued Ordinary shares of 27 $^{18}/_{41}$p each in the capital of the Company to those shareholders on the register at the close of business on 30th June 2000.

Resolution 3

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

Special business

Resolution 4

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

That the directors be and are hereby empowered to allot equity securities (within the meaning of Section 94(2) of the Companies Act 1985 (the 'Act') of the Company pursuant to the authority conferred by ordinary resolution of the Company passed on 22nd July 1999 as if Section 89(1) of the Act did not apply to such allotment provided that this power

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

(b) shall be limited to

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

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

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

(b) any other allotments of Ordinary shares for cash up to a maximum nominal amount of £3,088,000; and

(c) any other allotments of Deferred Ordinary shares for cash up to a maximum nominal amount of £1,027,000.

by order of the Board

M Waldron Secretary

Carlton House
33 Robert Adam Street
London W1M 5AH
21st June 2000

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

A summary of transactions since 31st March 1999 of the directors and their family interests in the share capital and convertible loan stocks of the Company will be available for inspection at the Registered Office during normal business hours from the date of this notice until 20th July 2000 and at the place of the meeting from 15 minutes prior to and during the meeting. There are no service contracts between any director and the Company or its subsidiaries.

Designed and produced by Radley Yeldar (London)

London Merchant Securities plc
Carlton House
33 Robert Adam Street
London W1M 5AH
Telephone 020 7935 3555
www.lms-plc.com