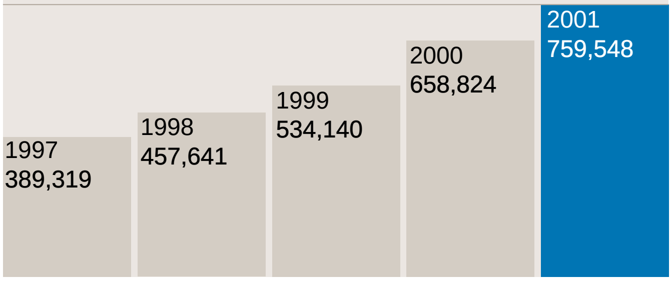
London Merchant Securities plc

Annual Report and Accounts 2001

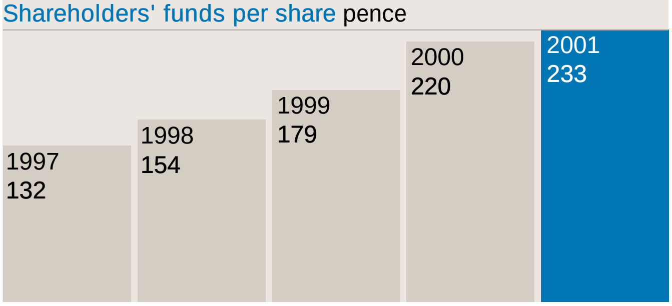
LMS

Financial Highlights

Shareholders' funds £000

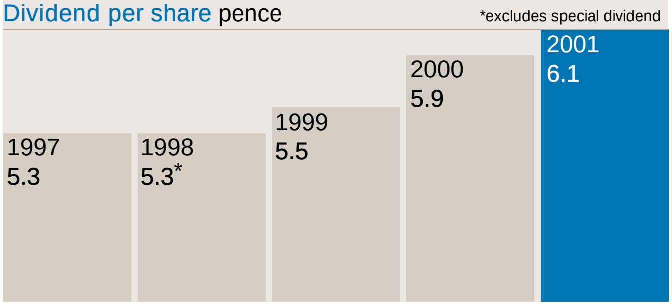


Shareholders' funds per share pence

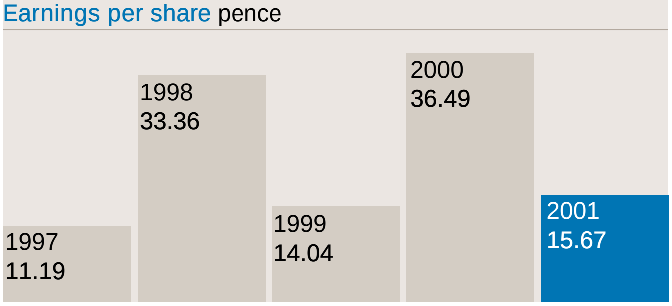


Dividend per share pence

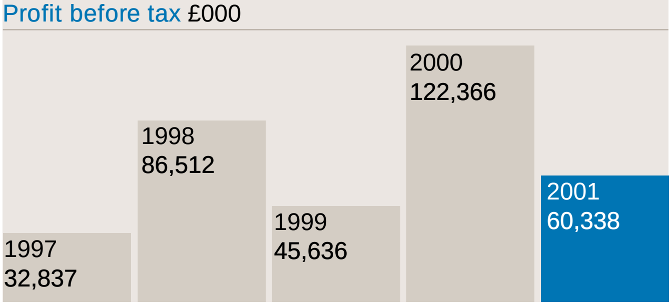
*excludes special dividend



Earnings per share pence



Profit before tax £000



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.

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The Chairman's Review

Shareholders' funds at 31st March 2001 were £759.5 million, a rise of £100.7 million up 15.3% year on year. Shareholders' funds have risen by a compound 14.3% over the last five years.

The Group's net assets have grown by 15.0% to £819.0 million (last year £712.3 million); this represents a compound growth over the last five years of 14.0% p.a.

The Group's balance sheet reflects the issuance of the Bond in March, which was rated A+ by Standard and Poor's. The finance secured at 6.5% will be used to fund the expansion of the Group's property portfolio. Liquidity was £190.0 million at the year-end.

Property assets were £708.5 million, a rise of 10.2%. In the next few years there will be considerable activity, which we expect to enhance both rental income and asset value.

Net rental income rose to £46.0 million from £44.8 million, with the gross rent roll rising to £53.6 million from £46.7 million. Venture capital profits were £26.2 million against the record profit of £92.8 million in the previous year. The return to shareholders from property and venture capital activities was 17.5% for the year.

The profits from venture capital investments are after provisions and the Group continues to adopt a conservative policy of carrying the venture capital investments at cost or value if lower.

Key achievements of the year included:

The flotation of £100m 6.5% Bond rated A+ by Standard & Poor's.

Development and pre-lease agreement for some 19,145 sq m (206,000 sq ft) of refurbishment and rebuild space in London W1.

The commencement of development and 75% pre-letting of 15,056 sq m (162,000 sq ft) mixed leisure use scheme in Kingston.

The addition of strong management both in the UK and US.

Realisation of some £72.2 million proceeds from venture capital activities.

The last financial year represented a stark contrast to the previous few years in the world stock markets, particularly in the US, where the NASDAQ declined 60% in value. Notwithstanding this, the market value of the Group's venture capital portfolio was £225.8 million, some 17% up on book value. Adequate provisions have been made in the light of the current state of the markets. Although the availability of funding for technology companies is reduced as compared to previous years, nonetheless, we remain backers of strong management teams with well financed partners who are equipped to take a longer term view. It is our conviction that, for the foreseeable future, technology will play an important role worldwide.

The Group has a well balanced property and venture capital portfolio which recognises its responsibility to risk manage shareholder funds.

The Group's core objective is the long-term enhancement of shareholder value through dividends and capital appreciation. We benefit from a highly experienced management team which has secured average total compound growth of 19.3% over the last five years.

The Group had another very satisfactory year, with a solid performance from the property division and, compared with the record profits of last year, the venture capital division produced good results in testing market conditions. We are confident that the Group is well positioned for the future.

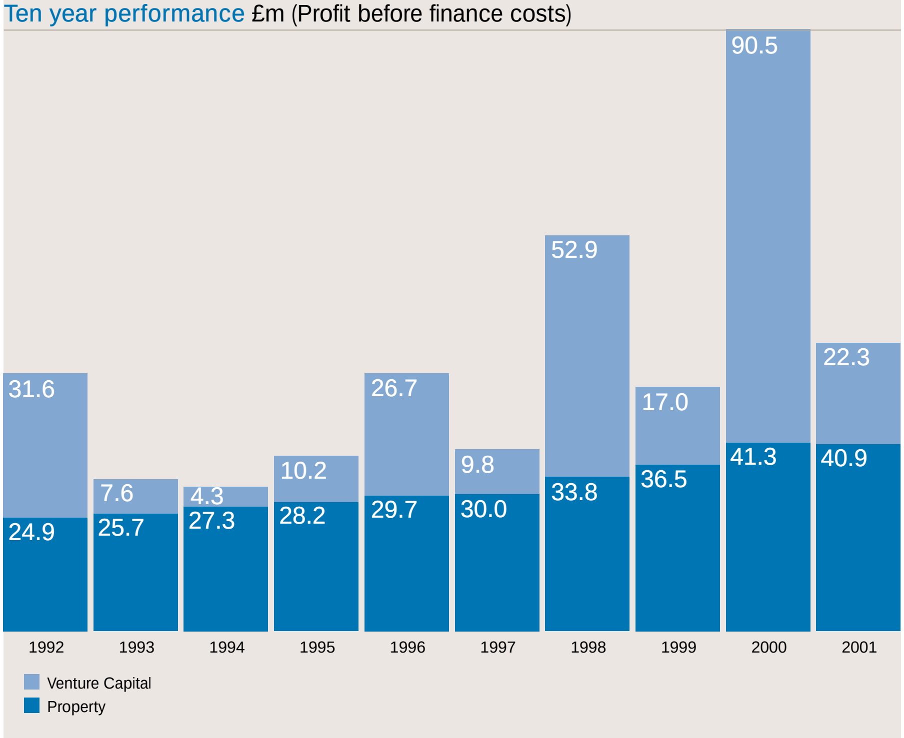
The Board is proposing a final dividend of 4.1p per Ordinary share and, with a more balanced interim payment of 2.0p per Ordinary share paid in January 2001, this would give a total dividend of 6.1p per Ordinary share for the year (2000 – 5.9p).

We welcome the appointment of Jamie Wilson as a non-executive director. He is a founding partner and Managing Director of a leading US media and communications private equity firm. With over 20 years of experience in the US media and venture capital business he is a valuable addition to the Board.

It has been an eventful but enjoyable first year as Chairman of LMS and I am grateful for the generous support and wise counsel of my Board colleagues, staff and advisers.

Graham Greene Chairman, 19th June 2001

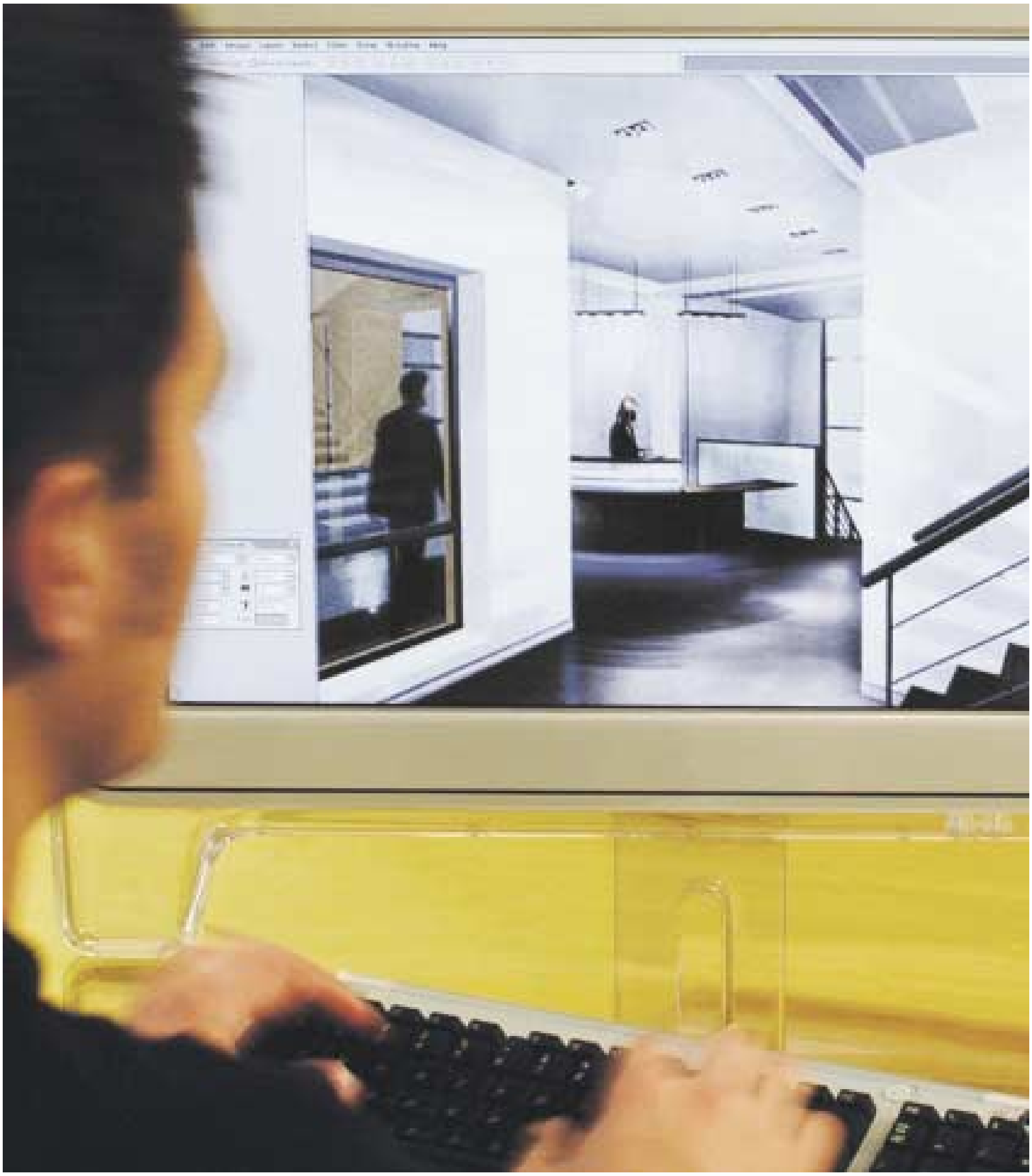
Ten year performance £m (Profit before finance costs)



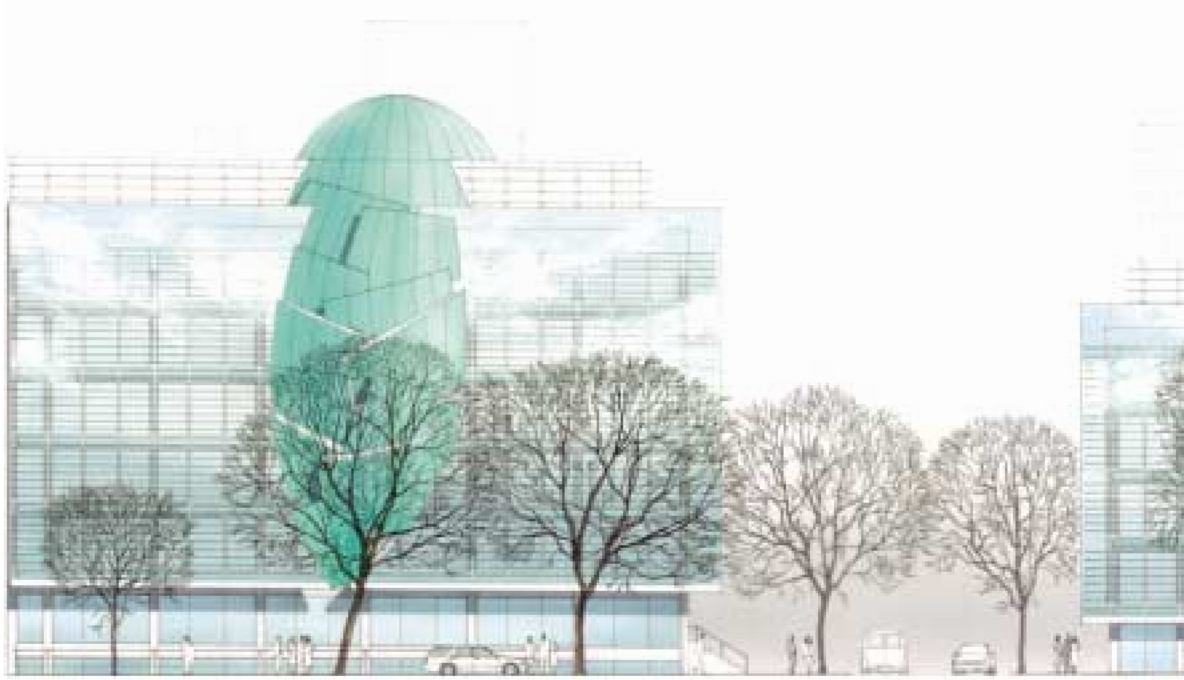
Operating Review

LMS continues to focus its property activities on investment in its Central London office stock, with developments in progress and planned in the West End. Investment in leisure orientated retail property continues, with the commencement of the Kingston Rotunda Project.

property



60 Whifield Street, London W1



Performance statistics

The independent open market valuation of the Group's property investment portfolio as at 31st March 2001 was £708.5 million. The comparable figure as at 31st March 2000 was £643.1 million, representing an increase of 10.2%. In addition, the Group's interests in the land at Greenwich and Kingston have been carried at their cost figure of £28.4 million at the year end. The directors' valuation of property trading stock at the year end (which is not included in the above total) is £19.2 million (2000 – £18.8 million).

The value of the office content of the portfolio has increased by 14.5% while the retail content has increased by 4.8%. The value of the West End office holdings increased by 14.8%, those in Islington/Clerkenwell by 8.8% and those in the US by 28.1%.

The total return for the year from the Group's properties was 18.2%. This breaks down to 10.8% in respect of capital growth and 7.4% in respect of income return.

Details of the principal properties are shown on page 48.

Net rental income for the year was £46.0 million, showing an increase of 2.7% over the comparable figure for 2000. The aggregate gross annual rate of rent reserved under all leases rose to £53.6 million, from £46.7 million between 2000 and 2001 year ends. The full impact of these increases has yet to flow through. Apart from properties in the course of development, voids in the entire portfolio are approximately 1.5%.

General review

During the past 12 months office demand has remained strong in all the areas in which the Group's core property assets are located and the rental levels established last year have been maintained. Rent reviews in the Clerkenwell holdings have continued to produce increases of over 100% of the rents agreed five years ago. In the Fitzrovia holdings, inceases have been secured ranging from 40% to 90% of the rent previously passing.

Terms have been agreed during the year for the first major development since the early 90's in the Fitzrovia holdings. It follows the Group's policy of nurturing long-term relationships with its tenants. Agreement has been reached with Arup to carry out a phased development to enable them to retain their headquaters at the same location. The transaction brought about an immediate increase in rent for the properties in question of some 41%.

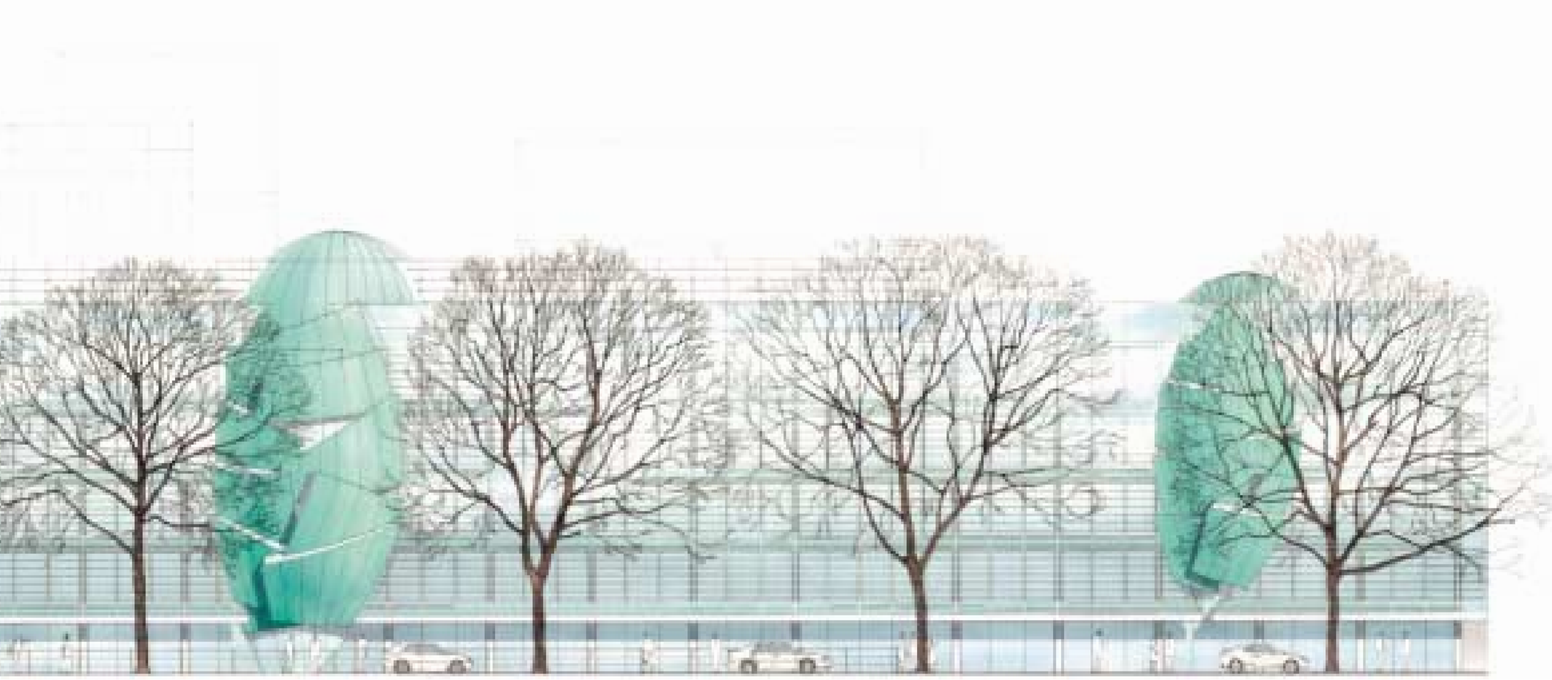
In aggregate, the rent reviews which were settled throughout the year produced an average increase of 21% and renewals of expired leases produced an average increase of 32% over rents previously payable.

In the US, the Group's 7,173 sq m (77,208 sq ft) office and retail development was completed in January and is now fully occupied and generating a net income of approximately $3.5 million per annum.

Development programme

Fitzrovia Project, W1

The conclusion of the Development Agreement with Arup in respect of two blocks of property comprising 17,658 sq m (190,000 sq ft) was reported in the interim statement. A planning application for some 19,145 sq m net (206,000 sq ft net) was submitted in January and a decision is expected shortly. The proposal is one of partial redevelopment and refurbishment behind a new energy efficient façade. The issue of sustainability has been a major consideration in the design process and the specification will include state-of-the-art building services, the creation of new atria and energy conserving features.



Fitzrovia Project, London W1, Redevelopment of Arup's London headquarters

101-108 Tottenham Court Road, London W1

Rotunda, Kingston upon Thames

Subject to the receipt of planning permission, the work is due to commence in September. Rent will continue to flow through the construction period which will be phased to allow Arup to relocate staff as each element is completed, freeing the next stage for construction work to start. On completion of each phase a new 20 year lease will be granted. The base rent from the first phase is set at approximately £42 per sq ft with agreed escalation for the subsequent phases, the final of which is due for completion in 2005.

101-108 Tottenham Court Road, W1

This building comprises basement, ground and six upper floors providing 8,539 sq m (91,920 sq ft) of office and retail accommodation. The office content will become vacant in December 2001. Discussions have been taking place with the Local Planning Authority and a planning application will be made shortly for permission for its major reconstruction, partial redevelopment and extension.

60 Whitfield Street, W1

The Group's strategy to link, reconstruct and extend its properties at 54-66 Whitfield Street is now in progress. It will provide 3,372 sq m (36,300 sq ft) of office accommodation. While it would be suitable for single occupation, it has been specifically designed to be capable of multi-occupation by small companies, sharing meeting rooms, conference rooms and communal activities and to meet the cabling and information technology requirements of the media and new economy companies seeking to locate in this area. Completion is due in November.

The Rotunda, Kingston upon Thames

Construction of the Group's 15,056 sq m (162,000 sq ft) leisure complex has commenced and is on course for completion in August 2002. The accommodation includes a 14 screen multiplex cinema let to Odeon Cinemas, a 3,213 sq m (34,570 sq ft) health and fitness centre, let to David Lloyd Leisure and a 2,271 sq m (24,440 sq ft) family entertainment centre let to Megabowl. Pre-lettings account for some 76% of the estimated rental value. Negotiations are at an advanced stage with other tenants which should take pre-letting to some 84%.

Greenwich Reach

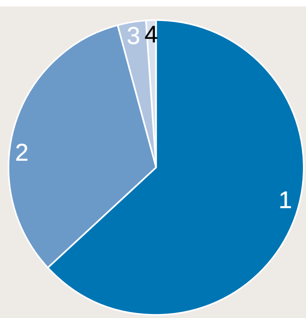
Following receipt of planning permission for the Group's 55,762 sq m (600,000 sq ft) mixed retail, leisure and residential development in Greenwich, good progress has been made towards securing an appropriate critical mass of pre-lettings. Agreements have been concluded with Speanbridge for a six screen multiplex cinema; Holmes Place for a 3,822 sq m (41,120 sq ft) health and fitness centre, Waitrose for a 3,216 sq m (34,600 sq ft) foodstore and Gap for a 929 sq m (10,000 sq ft) store. The majority of the residential content has been pre-sold to Barratts. Discussions are currently in hand with potential funding partners and it is anticipated that work on site will commence this year.

Restaurants and Bars

The Group has commenced work on the reconstruction and refurbishment of retail premises in North Street and New Road, Brighton which have been in its ownership since the 1970's. The property is situated between the Brighton Pavilion and the Lanes and work involves the creation of a restaurant at ground floor and basement with ten residential units above. The restaurant has been pre-let for 25 years to Quod – a new operation created by the founder of the Browns restaurant chain. The flats will be let on completion. The restaurant development recently completed by Urban First Limited in Mardol, Shrewsbury will be transferred to the Group portfolio for retention as an investment. It is let to Pizza Express (25 years) and Yates Wine Lodge (35 years).

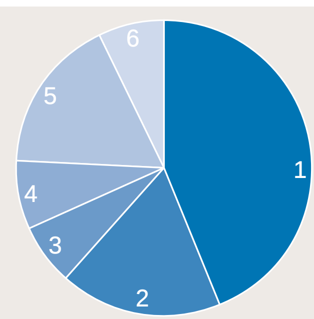
Several other development projects are under consideration in the Group's core holdings in Central London and in Scotland.

Breakdown by use
as at 31st March 2001



1 Offices	£447.2m	63.1%
2 Retail	£231.8m	32.7%
3 Residential	£21.5m	3.1%
4 Other	£8.0m	1.1%

Breakdown by location
as at 31st March 2001



1 London, West End	£310.3m	43.8%
2 London, Islington and Clerkenwell	£125.4m	17.8%
3 Remainder of Central London	£47.8m	6.7%
4 Scotland	£53.3m	7.5%
5 Remainder of UK	£120.5m	17.0%
6 US	£51.2m	7.2%

Disposals and acquisitions

Retail properties were acquired during the year in Birmingham, Chelmsford, Leeds, Leicester, Nottingham, Romford and Southampton for a total consideration of £14.7 million. The acquisitions were all made via Urbanfirst.The total net income derived from these acquisitions is approximately £1.3 million per annum and all have been identified by the Urbanfirst management as having good potential for improving net income and capital performance by reconfiguration and altering the tenant mix.

Disposals included properties in Charlotte Street, W1 and in Cheltenham which, together with some other minor sales produced a gain of some £1.9 million.

Urbanfirst (LMS 80%)

During the year, in order to avoid confusion as to its identity and operations, Arcadia changed its trading name to Urbanfirst – the name of its property trading subsidiary. The company has continued to perform well both in terms of income return and capital growth. The total value of its investment portfolio at the year end was £90.8 million, an increase of 7.7% over the equivalent figure for 2000 after adjustment for acquisitions, disposals and subsequent capital expenditure. Total returns for the property portfolio for the year were 19.3% (Capital Growth – 9%; Income Return – 10.3%).

Clearwater Estates & Properties Limited

Since the year end the Company has transferred its 80% investment in Clearwater Estates & Properties Limited (CEP) to the management. It has taken 100% ownership of Clearwater Estates (Kingston) Limited, the single purpose vehicle which owns the Kingston Rotunda. CEP will continue to act as project co-ordinators in respect of the Kingston and Greenwich developments.

General outlook and market comment

Although the severe imbalance between tenant demand and supply in the Central London office market which existed last year may have eased, there remains little competitive supply in those areas in which the Group's principal assets are located. The rental value levels established last year seem therefore likely to be maintained if not improved during the current year. The development programme currently underway will improve the quality and performance of the existing stock and set gradually increasing rental benchmarks in the core holdings over the next few years.

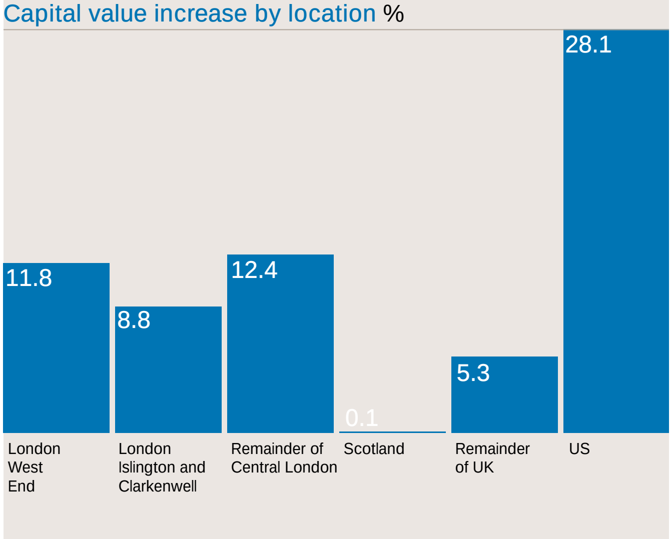
While it is likely that investment in the office sector will be directed mainly to the significant potential which exists for redeveloping and upgrading the existing holdings, new investment and development opportunities will also be sought.

The Group's investment in the retail sector will continue, predominantly through its Urbanfirst subsidiary, its successful track record of producing good income return and capital growth over the last five years is expected to continue by way of selective purchases of properties which have the potential to benefit from the close management and revenue enhancing skills of its management team.

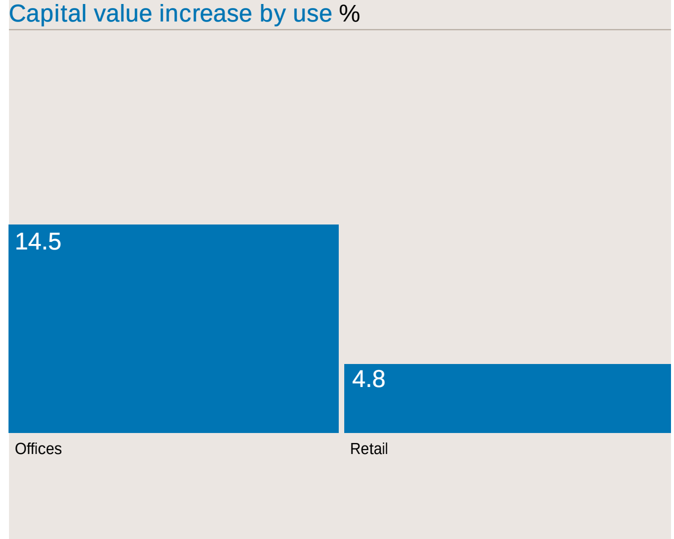
In the leisure property field it is the intention to retain the investment in the Kingston Rotunda on completion together with a selection of good quality restaurant and bar investments, including the Brighton and Shrewsbury developments, to form the basis of a long-term leisure property investment element of the Group's property holdings. The development of the Greenwich Reach project is likely to proceed in partnership.

Despite the adjustment in the market perception of e-commerce and 'new economy' companies since last year and the downturn in the American economy, there is little evidence of this affecting any of the sectors in which the Group's property activities are focused, all of which continue to perform well.

Capital value increase by location %



Capital value increase by use %



275 Sacramento Street, San Francisco

The Dome, Altrincham

venture cap

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

ital

On 31st March 2001, the book value of the venture capital investments was £192.7 million (31st March 2000 – £148.3 million). The Directors' valuation was £225.8 million (31st March 2000 – £351.4 million).

The contribution to Group profit during the year was £26.2 million before overheads and tax. Provisions of £21.1 million were made in the year of which £15.2 million related to Unipoly SA.

In the year ended 31st March 2001 new investments of £93.1 million were made. In the US realisations of $75.5 million were achieved with $54.8 million of new investments. In the UK realisations were £17.8 million and new investments of £48.5 million. As anticipated last year, the new investments were weighted towards the UK. Over the past three years the US/UK balance has shifted with investment in the UK rising from £9.4 million in 1999 to £31.8 million in 2000 and £48.5 million in 2001.

We continue to adopt a broad-based risk management strategy with a focus on technology offset by core investments in the leisure and the energy sectors. While private and public market valuations have dropped significantly over the last year, our long-term performance remains strong and is reflected by our five and ten year internal rate of return achievements:

	5 years %	10 years %
IRR*	47.3	27.9

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

The financial year saw a significant reduction in valuations for the technology and communications sectors, a 60% decline in the NASDAQ and a general reduction in technology company liquidity. However, the spread of investments and the risk management philosophy of the Group, has reduced the effect of the market downturn in technology holdings. To some extent the Group's energy related investments have offset the decline in the quoted technology sector.

We have seen some severe reductions in the valuation of some quoted holdings, in particular the Group's holding in Commerce One Inc. where values have fallen to £14.8 million from £94.8 million at 31st March 2000. In the 1999/2000 financial year £48.9 million of profit was realised from this investment, which had an original cost of £2.1 million.

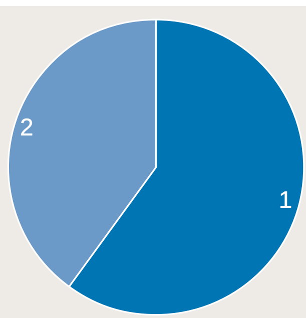
The Group adopts a cautious approach to the valuation of its portfolio, applying discounts to illiquid or restricted securities and holding unquoted and fund investments at cost even if subsequent rounds of investment have taken place at higher prices.

Investment strategy

We continue to diversify risk in the portfolio through investment in quoted and unquoted companies and through venture capital funds. The medium-term focus on technology remains unchanged even in these uncertain times for the venture capital industry on both sides of the Atlantic. We are proactive in investing in early stage technology companies and recognise the need to support them as they grow. Our technology focus is balanced by investments in the energy and leisure sectors which have a lower risk profile.

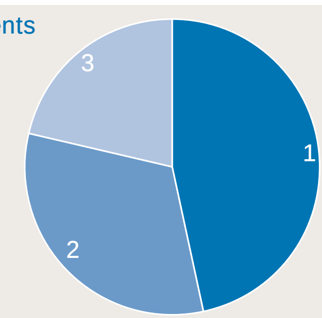
The portfolio break down by location and class

Market value of investments by location



1 USA	60%
2 UK	40%

Market valuation of investments by class



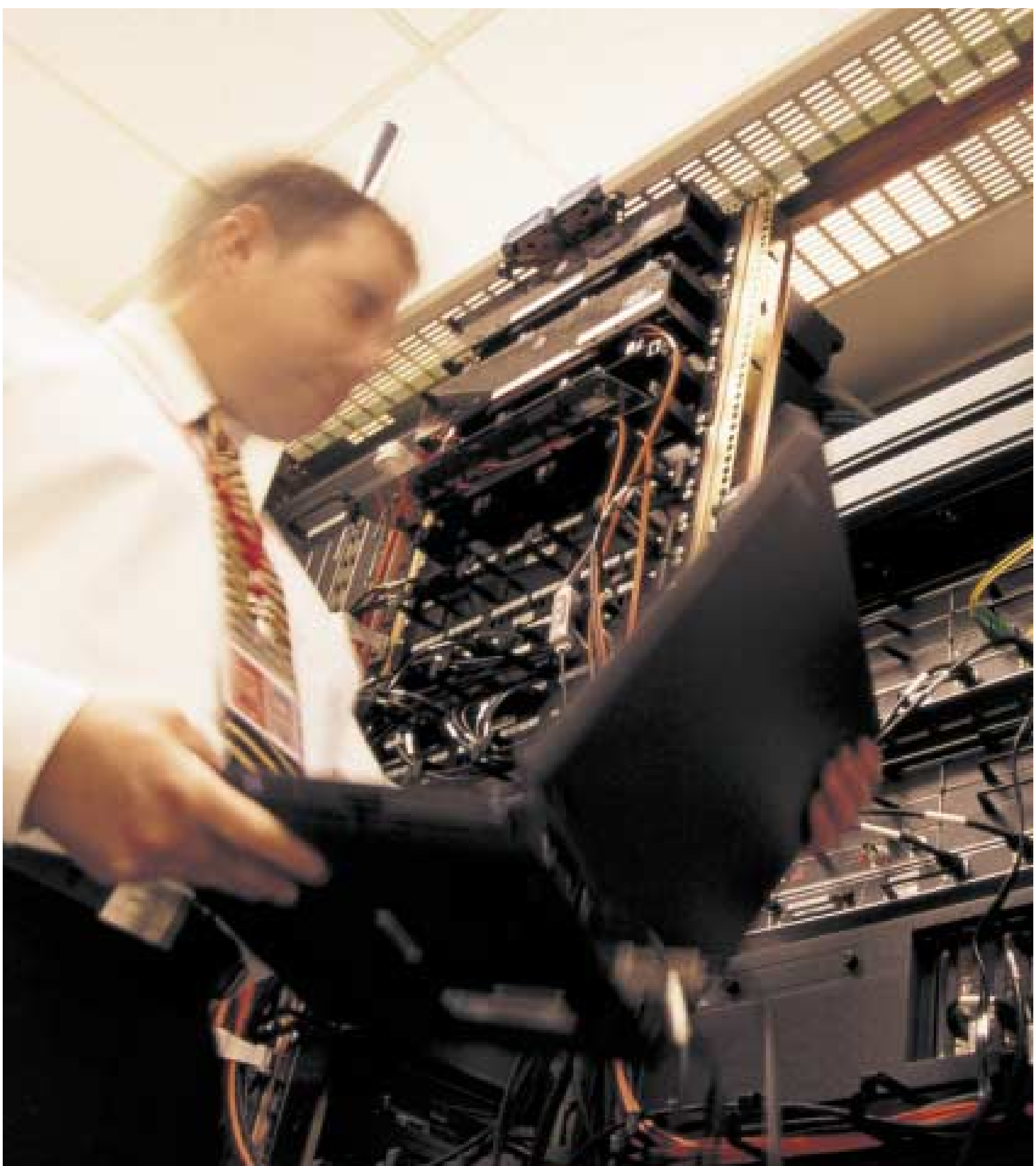
1 Listed and quoted	48%
2 Unquoted	30%
3 Funds	22%

AirFiber A telecommunications equipment supplier of wireless optical networks.

Cityspace A leading supplier of urban information networks of i-plus points in partnership with Local Authorities and Municipalities.

AssetHouse builds carrier-class Content Services Infrastructure for Content Owners and Content Service Providers. The company's technology is based on its unique Content Object Architecture (COA), which creates better, more maintainable content services faster, and more cost-effectively, than competing non-infrastructure-based approaches, and delivers true channel independent services.

7 Global A 'Business Services Aggregator' delivering 'Software As A Service' via a single connection, bill and service agreement. The services are delivered from highly secure data centres and complimented by essential systems integration and networking capabilities.



The current reduced availability of venture capital is producing attractive long-term investment opportunities. However, the significant short-term realisations that have been achieved in the last two years are unlikely to be repeated in the current environment as the IPO and M&A markets remain fragile.

In the year we have reorganised our venture capital investing activities bringing them together as LMS Capital. We have also continued to expand our investment team both in the US and the UK.

Major sales

This year major sales came from Broadbase Software Inc., Brocade Communications Systems Inc., Cantel Medical Corp., Commerce One Inc., Exodus Communications Inc., Informatica Corp., InterTrust Technologies Corp., Interwoven Inc., PMC – Sierra Inc., Quest Software Inc., Telcom Semiconductor Inc. and Weatherford International Inc. in the US. The most notable of these was the realisation of £24.7 million from the disposal of Interwoven Inc. stock acquired for a cost of £0.9 million.

In the UK, sales were made of holdings in Comino Group plc, Golden Wonder Holdings Limited, and jazz fm plc. The residual holding of 11.4 million shares in Esporta plc was sold to Crown Sports plc for consideration in shares and warrants realising a book profit of £0.7 million and a historic profit of £8.6 million.

New investments

In the year new investments were made on both sides of the Atlantic:

In the UK

7 Global Limited

(www.7global.com) is a 'Business Services Aggregator' delivering 'Software As A Service' via a single connection, bill and service agreement. The services are delivered from highly secure data centres and complimented by essential systems integration and networking capabilities.

AssetHouse Technology Limited

(www.assethouse.com) a content services infrastructure provider focused on enabling content owners and content service providers to manage and deliver rich content including streaming media.

Crown Sports Plc

(www.crownsportsplc.com) is a major operator of private sports clubs in the UK. Crown operates 33 health and fitness clubs and eight golf clubs with more than 65,000 members. Crown have also created a products division to develop and provide a range of complementary sport services and products which are marketed to both the membership and the general public.

First Index Group Limited

(www.firstindex.com) a leading sourcing service within the manufacturing sector in the UK, US and Germany.

Major new investments excluding investments in VC funds

1 Unquoted investment valued at cost
2 Investment was previously a division of Weatherford International Inc. This represents a new investment in the year.

Company	Activity	Country	Notes	Book value £000	Directors' valuation £000
Crown Sports plc	Health and fitness clubs	UK		15,000	14,500
7 Global Limited	Business services aggregator	UK	1	6,496	6,496
Grant Prideco Inc.	Oil and gas exploration products	US	2	4,621	6,533
Wesupply Limited	Supply chain application service provider	UK	1	4,471	4,606
Genient Limited	Application integration software	UK	1	3,000	3,000
First Index Group Limited	e-sourcing service	UK	1	2,822	2,822
12 Entrepreneuring Inc.	Creates and builds technology companies	US	1	2,647	2,647
Promptu Corporation	Global marketing solution	US	1	2,629	2,629
AssetHouse Technology Limited	Content management software	UK	1	2,546	2,546
AirFiber Inc.	Wireless telecommunications infrastructure	US	1	2,091	2,091

Major realisations

* Includes stock distribution from venture funds
** Stock received on sale of Service Metrics Inc

Company	Activity	Country	Proceeds £000	Gross profit £000
Interwoven Inc.*	Content management solutions	US	24,750	23,802
jazz fm plc	Radio stations and record label	UK	3,700	3,412
Brocade Communications Systems Inc.*	Storage area network technology	US	3,301	3,263
InterTrust Technologies Corporation	Digital rights management technology	US	2,925	2,742
PMC – Sierra Inc.*	Communications semiconductors	US	4,665	2,649
Commerce One Inc.*	e-commerce solutions	US	2,023	1,997
Broadbase Software Inc.	Customer-centric analytic solutions	US	2,036	1,804
Exodus Communications Inc.**	Internet infrastructure outsourcing	US	1,269	1,208
Telcom Semiconductor Inc.	Analogue intergrated circuits	US	1,604	1,115
Golden Wonder Holdings Limited	Crisps and savoury snacks	UK	1,269	1,005

Genient Limited

(www.genient.com) a supplier of an advanced application integration platform linking web based applications and business processes.

Wesupply Limited

(www.wesupply.net) provides a B2B Supplier Relationship Management (eSRM) solution using the Application Service Provider (ASP) model which enables a manufacturer and its entire supply chain to collaborate in real-time.

In the US

12 Entrepreneuring Inc.

(www.12.com) an entrepreneurial operating company that leverages the depth and breadth of its own intellectual assets to identify high-growth opportunities.

AirFiber Inc.

(www.airfiber.com) a telecommunications equipment supplier of wireless optical networks that provide high-bandwidth access to urban buildings for voice, data and multimedia services.

Oak Grove Systems Inc.

(www.oakgrovesystems.com) a technology company that develops and markets process co-ordination software tools and products developed for use by NASA.

Oberon Financial Technology Inc. (Formerly MyMoneyPro.com)

(www.oberonft.com) provides investment advisors with a private-labelled, turnkey platform for delivering separately managed accounts over the Internet.

Promptu Corporation

(www.promptu.com) creates and implements sales and marketing portals that enable fragmented, global companies to increase sales effectiveness, lower marketing costs and drive revenue.

Follow on investments

Further investments were made in the UK in Bloomsbury Publishing plc, Bond International Software plc, Cityspace Limited, GroupTrade.com Limited, NMT Group plc, Power X Limited, Ridgeway Systems and Software Inc., StepStone ASA, and Strakan Group Limited. Most notably:

Power X Limited

(www.powerxnetworks.com) In August 2000, Power X closed a £20 million private placement. The company has successfully developed a high-speed semiconductor switching fabric to power next generation routers and has recently entered into partnership agreements with Intel and Motorola.

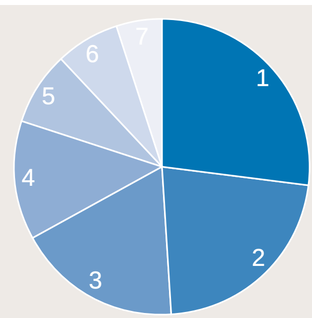
Strakan Group Limited

(www.strakan.com) In April 2001, Strakan closed a £30.5 million investment led by Warburg Pincus in which the Group participated. The fund raising represents one of the largest for a private UK life sciences company. The funding should provide Strakan with the resources to exploit their deep intellectual property in skin and bone therapies.

In the US follow on investments were made in Brooktrout Inc., Grant Prideco Inc., Jackpot Enterprises Inc., Polycom Inc. and Telespree Communications.

In spite of the rapid pace of change in the world of technology we believe that it takes first class management teams a minimum of four to six years to build a long-term business. Many of our investments are at an early stage and will require further funding. However, we are confident that we have backed strong management teams in the right areas of technology. The Group's risk diversification approach will continue to produce a continuous flow of liquidity and profits. We believe that both the leisure and the energy sectors will continue to out-perform the general economy.

Market value of investments by sector



1 e-commerce	27%
2 Communications	22%
3 Industrial and energy	18%
4 Software	13%
5 Media, leisure and retail	8%
6 Healthcare	7%
7 Other technology	5%

Genient is a software provider. The Genient platform bonds enterprise and partner applications with customer care and billing in an outsourced environment with the benefits of single sign-on, a single user interface, single billing, single user administrative console and unified business processes.

Wesupply provides a B2B Supplier Relationship Management (eSRM) solution using the Application Service Provider (ASP) model. The solution enables a customer and its entire supply chain to collaborate in real-time using IP based technology, saving cost and improving efficiency for both.

Financial Review

Profit before taxation of £60.3 million (2000 – £122.4 million) includes profit on the disposal of equity investments, adjusted for provisions, of £26.2 million, compared to the record profit of £92.8 million the previous year.

Investment property sales contributed £1.9 million (2000 – £1.6 million).

The increased dividends are covered 1.4 times (2000 – 1.4 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.

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

Profit and loss account

Gross rental income rose by 2.2% whilst property outgoings decreased marginally. Increases in rents on review during the year and first payment of rent from February 2001 from new lettings in San Francisco are expected to further increase rent receivable in the current financial year.

The rise in administrative expenses compared to 2000 largely reflects increases in salaries and the associated pension costs and additional costs arising from the establishment of a new subsidiary company in Bermuda.

Net finance costs are £2.8 million compared with £9.4 million in 2000. The improved position arises from the generally higher cash deposits held by the Group as a result of investments sold towards the end of the previous financial year, together with an increase in exchange gains generated by the Group's US dollar balances. In the current financial year the interest cost will increase as the full year effect of the issue in March 2001 of the £100 million 6.5% Secured Bond 2026 is recorded for the first time. The new financing was rated A+ by Standard & Poor's, with the Company itself being granted a Standard & Poor's credit rating of A–. The funds raised will be used to finance the expansion of the Group's property portfolio.

During the year the Company formed a new wholly-owned subsidiary, LMS Capital Limited, which is the holding company of the Group's venture capital subsidiaries. A new company, LMS Capital (Bermuda) Limited was also incorporated in Bermuda which is making medium to long-term investments. Costs incurred in Bermuda are not available for tax relief in the UK but the financing of the Bermuda company is constantly under review in order to keep these costs to a minimum.

The effective rate of corporation tax on profits for the year, before prior year adjustments, was 36.5%. The increase over the UK corporation tax rate of 30% is mainly due to the accounting treatment of profits attributable to the Group's long standing investment in Esporta plc (formerly First Leisure Corporation plc) and investment provisions for which no tax relief presently arises. First Leisure was treated as an associate in the Group accounts until the holding was reduced below the 20% level. The value at which the investment was carried in the Group accounts was based on its value as an associate at that date which was significantly higher than its historic cost, resulting in a higher taxable gain when the remaining holding was disposed of this year; these reported figures reflect a tax charge of £1.7 million compared to a book gain of £0.7 million. Also, investment provisions made in the year, where no deferred taxation credit has been established yet, amounted to approximately £4.5 million.

The revenue profit earned by subsidiaries in which LMS has less than 100% interest increased marginally 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:

	£m	Pence per share
Adjusted equity shareholders' funds		
Equity shareholders' funds	759.5	233.3
Excess of market value of equity investments over book value*	21.5	6.6
Group share of excess of market value of trading stock over book value*	7.0	2.1
	788.0	242.0**
Contingent tax liability on disposal of investment properties and equity investments at accounts values	(30.6)	(9.4)
Group share of marking to market of long-term borrowings* (see the table on page 22)	(30.3)	(9.3)
Adjusted equity shareholders' funds	727.1	223.3

* Net of taxation.
** On a diluted basis 238.2p (2000 – 254.2p).

Balance sheet

There was a surplus on revaluation of investment properties of £65.4 million, of which £59.9 million is attributable to the Group (including an exchange difference of £3.95 million) and £5.5 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 £21.1 million in 2001, including £15.2 million relating to the Group's investment in Unipoly SA.

The Group has an equity interest of more than 20% in certain companies, which are held as part of the Group's venture capital portfolio. This accounting 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).

The indemnity claim relating to Six Flags was settled during the year for a sum of £7.4 million compared to the provision of £6.9 million included in the 1999 Accounts. Tax was paid in 1999 on the gain on the sale of the investment with no account taken for the provision. On settlement of the indemnity claim the 1999 tax computation has been adjusted and a taxation repayment claimed.

The debtors figure includes deferred tax assets on the investment provisions established in the year where the tax loss is expected to crystallise in the current financial year, giving rise to relief on further gains. The corporation tax debtor relates to the settlement of the Six Flags indemnity claim.

The Group's cash balances declined during the early part of the year as expenditure was made by both the property and venture capital divisions. The receipt of the proceeds of the issue of the £100 million 6.5% Secured Bond 2026 in March 2001 have restored the Group's cash deposits to levels sufficient to undertake the Group's current property development programme. The amounts held as US dollar balances have reduced from $86.1 million to $42.5 million.

The reduction in short-term creditors arises from the reduction in the tax payable for the year on lower profits and the inclusion in the previous year of a provision of £6.9 million for Six Flags indemnity claim since settled.

There were several changes to the Group's borrowings during the year, to take advantage of the lower interest rates and increase long-term borrowings to fund the Group's current property development programme. Most significant was the issue in March 2001 of the £100 million 6.5% Secured Bond 2026. The £22.4 million Convertible Unsecured Loan Stock outstanding at the beginning of the year was converted into Ordinary and Deferred Ordinary shares in October 2000. Several smaller mortgages were taken out in Urbanfirst (LMS – 80%) to finance its property additions. These changes have had the effect of reducing the Group's weighted average interest rate on its fixed rate borrowings from 9.1% to 8.3%, whilst increasing the average period for which those interest liabilities are fixed from 13.0 years to 18.8 years. Gearing has increased marginally from 2.5% to 10.5%.

The Group's capital commitments (disclosed in note 28 on page 46) have increased substantially to a total of £165.7 million, anticipating the property development programme, in particular the Fitzrovia and Kingston projects. The contracted commitments of the venture capital division relate to the continuing participation in venture capital partnerships in the UK and in the US. The commitments, which are usually called-down over a three to four year period, are largely funded from proceeds of realised investments from these partnerships.

Cash flow

The Group continues 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.

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

Financial assets

The Group's financial assets for FRS13 purposes comprise the other investments of £192.7 million. At the year end the excess over market value was £33.1 million or £21.5 million net of taxation.

Financial liabilities

With the exception of £5.1 million the Group's long-term borrowings are at fixed rates of interest. FRS13 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 of £274.8 million is £33.8 million (stated net of taxation), of which £33.3 million relates to sterling liabilities and £0.5 million to US dollar borrowings. Of this total amount, £3.5 million relates to minority shareholders.

The Group has not included short-term debtors and creditors in the disclosures relating to FRS13. Cash deposits held by the Group are denominated £158.7 million sterling, £29.9 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	90.9	134.9	225.8
At cost	92.7	100.0	192.7
Surplus	(1.8)	34.9	33.1
Less: taxation	0.7	(12.3)	(11.6)
	(1.1)	22.6	21.5
Long-term borrowings			
Denomination of long-term borrowings	271.7	3.1	274.8
Weighted average interest rate of fixed rate financial liabilities	8.3%	8.2%	8.3%
Weighted average period for which interest rates on the fixed rate financial liabilities are fixed	18.8 years	19.3 years	18.8 years

Mark to market of long-term borrowing adjustment

	Accounts value £m	Fair value £m	Excess over accounts value £m
6.5% Secured Bond 2026	98.9	97.4	(1.5)
10% First Mortgage Debenture Stock 2018	96.9	131.4	34.5
7.21% Mortgage 2010-2015	31.5	33.1	1.6
9.695% Mortgage 2018	20.0	29.9	9.9
7.295% Mortgage 2010-2015	10.5	11.1	0.6
Floating Rate Mortgage 2010-2015	5.1	5.1	–
7.22% Mortgage 2010-2015	5.1	5.5	0.4
6.68% Mortgage 2010-2015	3.7	3.8	0.1
8.25% Mortgage 2020	3.1	4.1	1.0
	274.8	321.4	46.6
Less: taxation			(12.8)
Less: minority share			(3.5)
Group share of fair value adjustment (net of taxation)			30.3

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

M Waldron Director, 19th June 2001

Report of the Directors

The directors submit their report and the financial statements of the Group for the year ended 31st March 2001.

Results and dividends

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

An interim dividend of 2.0p per share was paid on the Ordinary shares on 5th January 2001. The directors recommend a final dividend of 4.1p per share making 6.1p (2000 – 5.9p) per share for the year. If the final dividend is approved, it will be paid on 3rd August 2001 to the holders of the issued Ordinary shares on the register at the close of business on 29th June 2001.

Principal activities and business review

The principal subsidiary undertakings of the Group and their activities are shown on page 47. Further details of these activities are given in the Operating Review on pages 4 to 19 and the Financial Review on pages 20 to 22.

Property

The Group's investment properties were valued at 31st March 2001 on the basis explained in note 13 on page 40. The resultant surplus is shown in note 12 on page 40.

Corporate governance

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

Environmental policy

A statement of the Group's Environmental Policy is shown on page 30.

Health and safety policy

A statement of the Company's Health and Safety Policy is shown on page 30.

Directors

The directors of the Company who held office during the year are those listed on page 52 with the exception of Lord Rayne and Mr J N Butterwick who retired as directors of the Company on 20th July 2000. Lord Rayne was appointed Life President of the Company.

The Hon J M Wilson was appointed a director of the Company on 1st April 2001. In accordance with the Company's Articles of Association The Hon J M Wilson retires from the Board and offers himself for reappointment.

The Hon R A Rayne will retire by rotation and seek re-election at the forthcoming Annual General Meeting. Lord Remnant who attained the age of 70 during the year retires and, being eligible offers himself for re-election. 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 the Managing Director) are to retire by rotation at each Annual General Meeting. The 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

The Hon R A Rayne, Chief Executive is aged 52 and joined the Company in 1975. He was appointed Investment Director in 1983, Joint Managing Director in 1998 and Chief Executive on 17th May 2001.

Mr N G E Driver, Managing Director is aged 57 and joined the Company in 1970. He was appointed Property Director in 1989, Joint Managing Director in 1998 and sole Managing Director on 17th May 2001.

Mr W Millsom is aged 74 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 54 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 G C Greene is aged 65 and was appointed a director in 1996 and Chairman on 20th July 2000. He is also a director of Greene King plc and Chairman of the Trustees of The British Museum.

Mr P J Grant is aged 71, 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 D Newell is aged 58 and was appointed a director in 1998. A Chartered Surveyor, he was Senior Partner of Hillier Parker May & Rowden until 1998. He was Co-Chairman of the Europe, Middle East and Africa division of CB Richard Ellis Services, Inc until December 2000. He is a past President of the British Council for Offices.

Lord Remnant is aged 70 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.

The Hon J M Wilson is aged 48 and was appointed a director on 1st April 2001. A founding partner and Managing Director of Boston Ventures, a leading US media and communications private equity firm, he is also director of Jobson Publishing LLC, PartMiner Inc., CAMP Systems Corp, TradePower Inc. and Marshall & Swift.

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 2001 are given in note 21 on page 43.

Articles of Association

The directors seek approval to amend the Company's Articles of Association at the forthcoming Extraordinary General Meeting and the details and explanation is given in the circular to shareholders dated 26th June 2001.

Directors' authority to allot shares

The purpose of special resolution 7 is to renew the power of the directors to allot up to 12,176,000 Ordinary shares of $27\frac{19}{41}$p each and/or 4,100,000 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 2001. The power is to expire after 15 months or at the end of the next Annual General Meeting of the Company, whichever first occurs.

Share schemes

The directors propose to recommend the adoption of a new LMS Sharesave and will be seeking approval at the forthcoming Extraordinary General Meeting. An explanation of the proposals are provided in the circular to shareholders dated 26th June 2001.

The directors also propose to introduce a new All-Employee Share Ownership Plan ('AESOP') to replace the existing Employee Share Scheme, subject to shareholders' consent. An explanation of the proposed AESOP is given in the circular to shareholders dated 26th June 2001.

An allocation of share options was made to all members of staff in July 2000 in accordance with the rules of LMS Executive Share Option Scheme following the record results for the year ended 31st March 2000. The directors propose that the rules of this scheme be amended as set out in the circular to shareholders dated 26th June 2001.

An allocation of shares to the Trustees of The London Merchant Securities Employee Share Scheme was made in July 2000. An allocation will be made in July 2001, the cost of which will not exceed £150,000.

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 2001 represented some 19 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.

Substantial shareholdings

The Company has been notified of the following material interests of 3% or more of its share capital at 1st June 2001.

	Ordinary shares	%	Deferred Ordinary shares	%
The Lord Rayne	37,750,597	15.50	30,184,655	36.80
CGNU plc	20,330,066	8.35	5,510,937	6.72
Trustees of The Rayne Foundation*	14,817,277	6.08	–	–
Trustees of Max Rayne Second and Third Family Settlements*	7,294,156	3.00	–	–

*Non-beneficial.

The Company has not been notified of any non-material interests of 10% or more of its share capital at 1st June 2001.

by order of the Board

M Waldron Director, 19th June 2001

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 2001, with the exceptions explained below.

The Board

The Board has nine directors, four executive and five non-executive; their details and experience are set out on page 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 Lord Remnant and Mr P J Grant respectively.

Since the year end The Hon R A Rayne was appointed Chief Executive and Mr N G E Driver as sole Managing Director. Mr G C Greene was appointed Non-executive Chairman of the Group on 20th July 2000. 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 the directors retire and are re-elected by the shareholders every three years 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 has complied 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 established 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 is 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, environmental, 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

All of the non-executive directors with the exception of The Hon J M Wilson are members of the Remuneration Committee, and the Committee is chaired by Mr P J Grant. The Hon R A Rayne attends the meetings, and absents himself when his own affairs are discussed.

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

Compliance

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

Policy on remuneration of executive directors

The Remuneration Committee has undertaken a review of the remuneration policy of the Company and has recommended a number of changes.

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

Remuneration package

For the future the main elements of the remuneration package for executive directors will be as follows:

- basic annual salary;
- annual bonus payments;
- carried interest arrangements, and
- share options.

Basic salary

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

Annual bonuses

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

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

LMS Carried Interest Plan

The Company has established carried interest arrangements for executives, who have responsibility for the investments made by the venture capital division. It is now intended to extend these arrangements to directors with such responsibility. Under these arrangements, up to 20% of the realised gains on venture capital investments, may be allocated to the executives, at the discretion of the Remuneration Committee. The Remuneration Committee will normally apply a cost of capital over the return of capital to be applied in calculating the gain.

The Company intends to seek approval from its shareholders for these arrangements at an Extraordinary General Meeting to be held on 26th July 2001.

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.

The Company will seek approval from its shareholders to make a number of changes to its Executive Share Option Scheme. These changes are being proposed to allow options to be granted to executive directors and all other employees up to one times remuneration per annum, and to update the Scheme Rules. Options may only be exercised if the growth in shareholders' funds over the three-year period following the grant of options exceeds the increase in RPI plus 9%.

All Employee Share Ownership Scheme

The Company intends to seek approval in principle to implement an AESOP at an Extraordinary General Meeting to be held on 26th July 2001.

SAYE Scheme

The Company intends to seek approval to adopt a new SAYE Scheme at an Extraordinary General Meeting to be held on 26th July 2001.

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	Annual bonus	Benefits £000	Employee share scheme £000	Total excluding pensions 2001 £000	Total excluding pensions 2000 £000	Share option gains 2001 £000	Share option gains 2000 £000
Executive									
Lord Rayne[1]	15	–	–	11	–	26	81	–	131
N G E Driver	350	–	50	16	8	424	254	–	14
W Millsom[2]	–	160	–	2	–	162	140	–	–
The Hon R A Rayne	440	–	50	23	–	513	276	–	131
M Waldron	175	–	–	15	8	198	181	–	24
Non-executive									
J N Butterwick[3]	–	6	–	–	–	6	20	–	–
P J Grant	–	50	–	–	–	50	40	–	–
G C Greene	–	34	–	–	–	34	20	–	–
D Newell	–	25	–	–	–	25	20	–	–
Lord Remnant	–	25	–	–	–	25	20	–	–
Total 2001	980	300	100	67	16	1,463	–	–	–
Total 2000	692	258	–	86	16	–	1,052	–	300

Notes
(1) Lord Rayne ceased to act as Chairman and became Life President of the Company on 20th July 2000.
(2) Includes a fee which Mr W Millsom received under a consultancy agreement with a subsidiary company which expired on 31st August 2000.
(3) J N Butterwick ceased to be a non-executive director on 20th July 2000.
(4) Payments made to former directors in the year amount to £66,000.

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 31/3/01 (see note 1) £000	Accrued pension entitlement p.a. at age 63 as at 31/3/00 (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	57	31	143	114	27	502
The Hon R A Rayne	52	26	131	110	19	288
M Waldron	54	31	87	73	12	198

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 2001 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 2001 Ordinary	At 31st March 2001 Deferred Ordinary	At 31st March 2000 Ordinary	At 31st March 2000 Deferred Ordinary
N G E Driver	204,056	477,930	199,975	477,930
P J Grant*				
Beneficial	944	303	944	303
Non-beneficial	6,535,505	2,187,562	6,562,300	2,173,741
G C Greene*	–	16,400	–	16,400
M Millsom	382,127	243,666	382,127	216,030
D Newell*	10,000	–	–	–
The Hon R A Rayne				
Beneficial	2,180,326	924,467	2,180,326	924,467
Non-beneficial	15,511,544	–	15,511,544	–
Lord Remnant*	–	10,842	–	10,842
M Waldron	36,441	617,047	36,441	622,528

*Non-executive directors.

(1) Mr G C Greene and Lord Remnant hold non-beneficial interests in common as trustees of the Max Rayne Share Participation Scheme amounting to 6,428,238 (2000 – 6,443,774) Ordinary shares and 1,993,530 (2000 – 1,934,740) Deferred Ordinary shares. In addition Lord Remnant holds non-beneficial interests in common as trustees amounting to 107,267 (2000 – 118,526) Ordinary shares and 194,032 (2000 – 239,001) Deferred Ordinary shares. All of these shares are included in Mr Grant's non-beneficial interests shown above.

(2) 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 (2000 – 7,294,156) Ordinary shares.

(3) The interests of the directors were unchanged at 1st June 2001. The Hon J M Wilson does not have an interest in the shares of the Company.

Executive directors' share options

	Option price (p)	Balance at 31st March 2001 Ordinary	Balance at 31st March 2001 Deferred Ordinary	Balance at 31st March 2000 Ordinary	Balance at 31st March 2000 Deferred Ordinary
N G E Driver					
Executive	32¼	–	575,000	–	575,000
Executive	131½	–	961,656	–	–
SAYE	40½	–	19,259	–	19,259
SAYE	65¼	–	17,931	–	17,931
The Hon R A Rayne					
Executive	32¼	–	575,000	–	575,000
Executive	131½	–	1,235,420	–	–
M Waldron					
Executive	32¼	–	510,000	–	510,000
Executive	131½	–	266,171	–	–
SAYE	40½	–	19,259	–	19,259
SAYE	65¼	–	17,931	–	17,931

(1) Options were granted to Mr N G E Driver, The Hon R A Rayne and Mr M Waldron on 5th January 2001 in respect of the year ended 31st March 2000. The grant price of the options was 131½p. The options are exercisable between 4th January 2004 and 4th January 2011.

(2) The Share option schemes are described in note 21 on page 43.

(3) Each option was granted for a total consideration of £1.

(4) The market price of an Ordinary share at 31st March 2001 was 158½p (2000 – 196½p) and the range during the year was 156½p to 240p. The market price of a Deferred Ordinary share at 31st March 2001 was 129½p (2000 – 166½p) and the range during the year was 129½p to 228½p.

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 7.5% of the qualifying employees' salaries be set aside from the Group's profits to be allocated to the Scheme. Mr N G E Driver and Mr M Waldron received the maximum £8,000 allowed under Inland Revenue rules.

Non-executive directors

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

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

P J Grant Chairman of Remuneration Committee, 19th June 2001

Environmental Policy

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

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

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

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

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

Furthermore, we also commit to report our progress in these initiatives in due course and to review the policy as appropriate.

Health and Safety Policy

The Board of London Merchant Securities plc has adopted the following policy:

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

Auditors' Report

to the members of London Merchant Securities plc

We have audited the financial statements on pages 32 to 46. 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 annual report. As described on page 25 this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and 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 the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st March 2001, 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 2001
London

Consolidated Profit and Loss Account
year ended 31st March 2001

	Notes	2001 £000	2000 £000
Net rental income from investment properties	2	46,028	44,800
Profit from property trading	2	452	1,261
Administrative expenses		(11,737)	(9,328)
Operating profit – Group	3	34,743	36,733
Other income	6	277	597
Profit on disposal of other investments and investment properties	7	28,149	94,458
Profit on ordinary activities before finance costs	8	63,169	131,788
Net finance costs	9	(2,831)	(9,422)
Profit on ordinary activities before taxation		60,338	122,366
Tax on profit on ordinary activities	10	(21,257)	(38,110)
Profit on ordinary activities after taxation		39,081	84,256
Equity minority interests		(2,464)	(2,388)
Profit for the year		36,617	81,868
Appropriations			
Transfer from/(to) capital reserve	24	256	(249)
Equity dividends			
– Interim paid 2.0p (2000 – 0.9p)		(4,875)	(2,026)
– Final proposed 4.1p (2000 – 5.0p)		(9,986)	(11,257)
Retained profit for the year	25	22,012	68,336
Earnings per Ordinary share	11		
– Before capital items		8.99p	8.17p
– Applicable to capital items		6.68p	28.32p
– Including capital items		15.67p	36.49p
– Diluted		11.21p	25.38p

All operations are continuing.

Consolidated Statement of Total Recognised Gains and Losses

year ended 31st March 2001

	2001 £000	2000 £000
Profit for the year	36,617	81,868
Unrealised surplus on revaluation of investment properties	55,998	54,445
Foreign exchange and other	390	(147)
Total recognised gains and losses relating to the financial year	93,005	136,166

Note of Historical Cost Profits and Losses

year ended 31st March 2001

	2001 £000	2000 £000
Profit on ordinary activities before taxation	60,338	122,366
Realised profit on disposal of former associate undertaking	7,873	–
Realisation of revaluation surpluses of previous years	748	1,652
Historical cost profit on ordinary activities before taxation	68,959	124,018
Historical cost profit for the year retained after taxation, minority interests, transfer to capital reserve and dividends	22,012	68,336

Reconciliation of Movements in Shareholders' Funds

year ended 31st March 2001

	Group 2001 £000	Group 2000 £000	Company 2001 £000	Company 2000 £000
Profit for the year	36,617	81,868	33,019	36,084
Ordinary dividends	(14,861)	(13,283)	(14,861)	(13,283)
Other recognised gains and losses	56,388	54,298	66,740	114,152
Issue of shares	22,580	1,801	22,580	1,801
Net addition to shareholders' funds	100,724	124,684	107,478	138,754
Shareholders' funds at beginning of year	658,824	534,140	661,159	522,405
Shareholders' funds at end of year	759,548	658,824	768,637	661,159

Balance Sheets
at 31st March 2001

	Notes	Group 2001 £000	Group 2000 £000	Company 2001 £000	Company 2000 £000
Fixed assets					
Tangible assets	12	737,539	633,412	19,191	18,591
Investments					
– Subsidiary undertakings	14	–	–	337,961	360,730
– Other investments	15	192,719	148,316	–	3,146
		930,258	781,728	357,152	382,467
Current assets					
Stocks – properties	16	9,187	10,447	–	–
Debtors	17	17,185	13,087	649,760	443,086
Cash at bank and in hand	18	190,015	173,543	1	144
		216,387	197,077	649,761	443,230
Creditors: amounts falling due within one year	19	(52,884)	(75,856)	(42,504)	(45,347)
Net current assets		163,503	121,221	607,257	397,883
Total assets less current liabilities		1,093,761	902,949	964,409	780,350
Creditors: amounts falling due after more than one year	20	(274,783)	(190,638)	(195,772)	(119,191)
Net assets		818,978	712,311	768,637	661,159
Capital and reserves					
Called up share capital	21	89,334	82,331	89,334	82,331
Share premium account	22	18,900	3,323	18,900	3,323
Capital reduction account		2,868	2,868	2,868	2,868
Revaluation reserve	23	287,037	231,787	255,898	265,222
Capital reserve	24	213,834	212,952	308,487	232,321
Profit and loss account	25	147,575	125,563	93,150	75,094
Equity shareholders' funds		759,548	658,824	768,637	661,159
Equity minority interests		59,430	53,487	–	–
Capital employed		818,978	712,311	768,637	661,159
Shareholders' funds per share		233p	220p		

The accounts on pages 32 to 46 were approved by the Board of directors on 19th June 2001 and were signed on its behalf by

G C Greene Director
P J Grant Director

Consolidated Cash Flow Statement

year ended 31st March 2001

	2001 £000	2001 £000	2000 £000	2000 £000
Net cash inflow from operating activities (see note 26 (1))		35,095		38,244
Returns on investments and servicing of finance				
Interest received	7,181		4,802	
Interest paid	(11,373)		(16,047)	
Dividends received	357		1,277	
Dividends paid – minority shareholders	(2,716)		(2,157)	
Net cash outflow from returns on investments and servicing of finance		(6,551)		(12,125)
Taxation paid		(41,174)		(21,165)
Capital expenditure and financial investment				
Property developments and acquisitions	(36,055)		(12,315)	
Sales of investment property	5,225		13,663	
Acquisition of other fixed assets	(228)		(207)	
Disposal of other fixed assets	28		67	
Purchase of other investments	(91,740)		(68,110)	
Sale and redemption of other investments	55,872		137,732	
Net cash (outflow)/inflow from capital expenditure and financial investment		(66,898)		70,830
Equity dividends paid		(16,132)		(12,316)
Cash (outflow)/inflow before use of liquid resources and financing		(95,660)		63,468
Management of liquid resources				
– (Increase) in short-term deposits		(12,974)		(103,341)
Financing				
Issue of share capital	227		109	
Debt due after more than one year:				
– Issue of 6.5% Secured Bond 2026	98,895		–	
– Repayment of mortgages	(6,659)		–	
– Repayment of Convertible Loan Stock	(24)		–	
– New mortgages	13,860		42,000	
Debt due within one year				
– Repayment of mortgages	–		(750)	
Net cash inflow from financing		106,299		41,359
(Decrease)/increase in cash in the year		(2,335)		1,486

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 £12.7 million. The profit effect is not material.

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

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

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

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

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

Deferred taxation
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 or asset will crystallise in the foreseeable future.

2 Rental income and trading turnover

	2001 £000	2000 £000
Group gross rental income	48,723	47,675
Property trading	3,235	3,499
Turnover	51,958	51,174
Property outgoings	(2,695)	(2,875)
Cost of sales	(2,783)	(2,238)
Gross profit – before administrative expenses	46,480	46,061

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

3 Operating profit

	2001 £000	2000 £000
Operating profit is stated after charging		
– Amortisation and depreciation of fixed assets	441	426
– Amortisation of mortgage debenture stock	61	55
– Auditors' remuneration – as auditors (Company £105,000 (2000 – £60,000))	121	105
– Other fees paid to the auditors and their associates	172	207

4 Directors' remuneration

	2001 £000	2000 £000
Directors' remuneration		
– Fees	300	258
– Salaries and other benefits	1,163	794
Directors' emoluments	1,463	1,052
– Gains on exercise of share options	–	300
	1,463	1,352

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

	2001 £000	2000 £000
Staff costs		
– Wages and salaries	4,303	3,570
– Social security costs	562	344
– Pension contributions	2,696	1,921
	7,561	5,835

The average number of employees of the Group was 103 (2000 – 115). The areas of the Group's operations in which they are employed were: property management 74 (2000 – 88), venture capital 7 (2000 – 7) and administration 22 (2000 – 20).

6 Other income

	2001 £000	2000 £000
Esporta/First Leisure Corporation – dividends	51	403
Income from other investments	226	194
	277	597

7 Profit on disposal of other investments and investment properties

	2001 £000	2000 £000
Net profit		
– Other investments	51,485	107,480
– New investment provisions	(21,132)	(3,655)
	30,353	103,825
– Less investment commissions	(4,139)	(10,983)
	26,214	92,842
– Investment properties	1,935	1,616
	28,149	94,458

8 Segmental analysis of profit before finance costs

	2001 Property division £000	2001 Venture capital division £000	2001 Total £000	2000 Property division £000	2000 Venture capital division £000	2000 Total £000
Net rental income from investment properties	46,028	–	46,028	44,800	–	44,800
Profit from property trading	452	–	452	1,261	–	1,261
Administrative expenses	(7,516)	(4,221)	(11,737)	(6,380)	(2,948)	(9,328)
Operating profit – Group	38,964	(4,221)	34,743	39,681	(2,948)	36,733
Other income	–	277	277	–	597	597
Profit on disposal of investment properties and other investments	1,935	26,214	28,149	1,616	92,842	94,458
Profit on ordinary activities before finance costs	40,899	22,270	63,169	41,297	90,491	131,788

9 Net finance costs

	2001 £000	2000 £000
Interest payable		
– On loans and bank overdrafts	25	65
– Other loans	16,279	15,786
	16,304	15,851
Interest receivable	(8,084)	(5,613)
Exchange gains	(5,389)	(816)
	2,831	9,422

10 Tax on profit on ordinary activities

	2001 £000	2000 £000
Corporation tax	10,024	8,152
Overseas taxation	176	12
	10,200	8,164
Taxation on disposal of fixed assets	14,101	30,127
Deferred tax credit on investment provisions	(2,266)	–
Adjustments relating to prior years	(778)	(181)
	21,257	38,110

11 Earnings per Ordinary share

	2001 '000	2000 '000
Calculations are based on the following		
Basic – weighted average Ordinary shares in issue	233,663	224,354

	2001 £000	2000 £000
Capital items		
– Gains and losses on fixed asset investments	28,149	94,458
– Taxation attributable to above	(12,012)	(30,127)
– Taxation adjustment in respect of prior years	(486)	(793)
– Minority interests	(31)	7
Capital profit after tax and minorities	15,620	63,545
Revenue profit after tax and minorities	20,997	18,323
Profit for the year	36,617	81,868

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

	2001 '000	2000 '000
Diluted		
– Weighted average Ordinary shares in issue	233,663	224,354
– Weighted average Deferred Ordinary shares in issue	78,067	74,427
– Adjustment for shares issuable on conversion of Convertible Loan Stock		
– Ordinary shares	10,881	19,042
– Deferred Ordinary shares	3,914	6,850
– Adjustment in respect of shares issuable under share option schemes	1,326	3,565
– Adjustment in respect of shares held by LMS QUEST Trustee Limited on which no dividends are payable	(885)	(885)
– Weighted average number of shares in issue – diluted	326,966	327,353

	2001 £000	2000 £000
Earnings adjusted for interest payable on the Convertible Unsecured Loan Stock	36,647	83,081

12 Tangible assets

	Group Investment properties £000	Group Other assets £000	Group Total £000	Company Investment properties £000
At 31st March 2000				
Cost or valuation	632,690	1,773	634,463	18,591
Amortisation and depreciation	–	(1,051)	(1,051)	–
	632,690	722	633,412	18,591
Exchange difference	3,950	–	3,950	–
Additions at cost	42,214	228	42,442	(12)
Disposals	(3,290)	(30)	(3,320)	–
Amortisation and depreciation for the year	(170)	(265)	(435)	–
Surplus on revaluation	61,490	–	61,490	612
At 31st March 2001	736,884	655	737,539	19,191
At cost				
– development properties	28,346	–	28,346	–
– other assets	–	1,936	1,936	–
At valuation – 2001	708,538	–	708,538	19,191
Amortisation and depreciation	–	(1,281)	(1,281)	–
Net book value	736,884	655	737,539	19,191

The historical cost of Group investment properties at 31st March 2001 was £297.0 million (2000 – £261.8 million). The historical cost of the Company's investment properties at 31st March 2001 was £3.7 million (2000 – £3.7 million). Other assets comprise motor cars, computers and office equipment.

13 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 2001					
At valuation					
– United Kingdom	545,987	139,574	117	685,678	19,191
– USA	51,206	–	–	51,206	–
	597,193	139,574	117	736,884	19,191
At 31st March 2000	505,717	126,658	315	632,690	18,591

The investment properties have been valued for the Board at 31st March 2001 on the basis of 'Open Market Value' in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors.

Some 80.0% of these properties have been externally valued by Cluttons, Chartered Surveyors of London and 12.8% valued by Colliers Conrad Ritblat Erdman, Chartered Surveyors of London. Properties in the USA (7.2%) have been valued by Jones Lang LaSalle, Global Consulting San Francisco.

14 Investment in subsidiary undertakings (unlisted)

	Company £000
At 31st March 2000	
Directors' valuations	360,729
Cost	1
	360,730
Additions	1,000
Disposals	(83,339)
Surplus on revaluation	59,570
At 31st March 2001	337,961
Directors' valuations	337,960
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 2001 are shown on page 47.

15 Other investments

	Group Listed £000	Group Unlisted £000	Group Total £000	Company Listed £000	Company Unlisted £000	Company Total £000
At 31st March 2000 at cost less provisions	25,723	122,593	148,316	3,146	–	3,146
Additions at cost	21,330	72,375	93,705	27	15,000	15,027
Reclassification	1,054	(1,054)	–	–	–	–
New provisions	(56)	(21,076)	(21,132)	–	–	–
Disposals	(12,251)	(15,919)	(28,170)	(3,173)	(15,000)	(18,173)
At 31st March 2001	35,800	156,919	192,719	–	–	–
Analysis of listed investments						
– On London Stock Exchange	19,924					
– On other stock exchanges	15,876					
	35,800					
Market or directors' valuations						
At 31st March 2001	56,190	169,580	225,770	–	–	–
At 31st March 2000	63,480	287,889	351,369	12,605	–	12,605

To arrive at market or directors' valuations, quoted investments are valued at market value with certain shares discounted by 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 less any provisions for permanent diminutions in value.

16 Stocks

	Group 2001 £000	Group 2000 £000	Company 2001 £000	Company 2000 £000
Trading property	9,179	10,436	–	–
Maintenance materials	8	11	–	–
	9,187	10,447		–

At 31st March 2001 the trading property has been valued by the directors at £19.2 million (2000 – £18.8 million).

17 Debtors

	Group 2001 £000	Group 2000 £000	Company 2001 £000	Company 2000 £000
Rents and service charges receivable	3,760	2,681	287	61
Amounts owed by subsidiary undertakings	–	–	649,467	442,648
Dividends receivable – listed companies	–	79	–	79
Other debtors	4,289	5,542	1	–
Pension prepayment	534	856	–	–
Other prepayments and accrued income	3,195	1,865	5	298
Corporation tax	3,141	–	–	–
Deferred tax asset on investment provisions	2,266	–	–	–
Deferred tax asset on provisions for indemnity claims	–	2,064	–	–
	17,185	13,087	649,760	443,086

All Group debtors fall due within one year.

All Company debtors fall due within one year with the exception of an amount of £10.1 million (2000 – £10.1 million) due from subsidiary undertakings.

18 Cash at bank and in hand

	Group 2001 £000	Group 2000 £000	Company 2001 £000	Company 2000 £000
Short-term deposits	188,556	170,741	–	–
Bank and cash balances	1,459	2,802	1	144
	190,015	173,543	1	144

19 Creditors: amounts falling due within one year

	Group 2001 £000	Group 2000 £000	Company 2001 £000	Company 2000 £000
Bank loans and overdrafts	1,001	557	–	–
Rents received in advance	10,628	10,034	296	290
Amounts owed to subsidiary undertakings	–	–	25,653	25,488
Corporation tax	15,586	30,775	927	6,279
Other taxes and social security	1,253	1,864	78	1,057
Proposed final dividend	9,986	11,257	9,986	11,257
Other creditors	8,621	2,006	279	109
Accruals	5,809	12,482	5,285	867
Provisions for indemnity claims	–	6,881	–	–
	52,884	75,856	42,504	45,347

Included in bank loans and overdrafts is a bank loan of £0.5 million secured on an investment property.

20 Creditors: amounts falling due after more than one year

	Group 2001 £000	Group 2000 £000	Company 2001 £000	Company 2000 £000
6.5% Secured Bond 2026	98,895	–	98,895	–
10% First Mortgage Debenture Stock 2018	96,877	96,815	96,877	96,815
7.21% Mortgage 2010-2015	31,500	31,500	–	–
9.695% Mortgage 2018	20,000	20,000	–	–
7.295% Mortgage 2010-2015	10,500	–	–	–
Floating rate Mortgage 2010-2015	5,068	10,500	–	–
7.22% Mortgage 2010-2015	5,110	–	–	–
6.68% Mortgage 2010-2015	3,682	–	–	–
8.25% Mortgage 2020	3.151	2,865	–	–
7.75% Convertible Unsecured Loan Stock 2000-2005	–	22,376	–	22,376
6.85% Mortgage 2002	–	6,582	–	–
	274,783	190,638	195,772	119,191

	Group 2001 £000	Group 2000 £000	Company 2001 £000	Company 2000 £000
Non-convertible				
– Repayable after more than five years	274,783	161,680	195,772	96,815
– Repayable between two and five years	–	6,582	–	–
	274,783	168,262	195,772	96,815
Convertible				
– Repayable after more than five years	–	22,376	–	22,376
	274,783	190,638	195,772	119,191

The Convertible Unsecured Loan Stock was converted or repaid during the year.

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 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 2001 was £3.1 million (2000 – £3.2 million).

The discount and issue costs in March 2001 at a price of 99.792% of the £100 million Secured Bond 2026 will be allocated to future accounting periods to March 2026 using the effective periodic rate. The effective finance cost, taking into account redemption at par in 2026, is 6.6% per annum. The unamortised amount of discount at 31st March 2001 was £1.1 million (2000 – £nil).

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

The Floating rate Mortgage 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 FRS 13 are given in the Financial Review on pages 20 to 22.

21 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 2000	272,850,398	75,359,203	16,234,843	225,141,286	74,909,086
Issued during the year					
– Conversion of Convertible Unsecured Loan Stock		6,200,000	(6,200,000)	18,329,087	6,593,999
– Executive Share Option Scheme		520,000	(520,000)	80,000	520,000
At 31st March 2001	272,850,398	82,079,203	9,514,843	243,550,373	82,023,085
Nominal value at 31st March 2001	£74,867,487	£22,521,733	£2,610,780	£66,827,846	£22,506,334
			£100,000,000		£89,334,180

21 Called up share capital continued

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

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

Executive Share Option Scheme

Number	Class	Exercise price	Date from which exercisable	Expiry date
80,000	Ordinary	74p	29th September 1995	29th September 2002
1,905,000	Deferred Ordinary	32¼p	29th September 1995	29th September 2002
40.516	Ordinary	190½p	27th July 2003	27th July 2010
852,712	Deferred Ordinary	178½p	27th July 2003	27th July 2010
2,506,509	Deferred Ordinary	131½p	4th January 2004	4th January 2011

The Rules of the LMS Executive Share Option Scheme have a performance criterion for any future options based on the growth in shareholders' funds of RPI plus 9% over 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	21st October 2001
177,622	Deferred Ordinary	40½p	1st April 2003	21st October 2003
36,757	Deferred Ordinary	65¼p	1st April 2001	21st October 2001
58,686	Deferred Ordinary	65¼p	1st April 2003	21st October 2003
283,904	Deferred Ordinary	65¼p	1st April 2005	21st 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 15 on page 41 of these accounts. All employees of the Company, including executive directors of the Company (except Mr W Millsom and The Hon R A Rayne), are potential beneficiaries under the QUEST.

22 Share premium account

	Group and Company £000
At 31st March 2000	3,323
Premium on issue of shares during the year	15,577
At 31st March 2001	18,900

23 Revaluation reserve

	Group £000	Company £000
At 31st March 2000	231,787	265,222
Surplus on revaluation		
– Subsidiary undertakings	–	59,570
– Investment properties – Group share	55,998	612
Realisation of revaluation surpluses of previous years	(748)	(69,506)
At 31st March 2001	287,037	255,898

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 £31 million (2000 – £28 million).

24 Capital reserve

	Group £000	Company £000
At 31st March 2000	212,952	232,321
Transfer from revaluation reserve	748	69,506
Appropriation from profit and loss account	(256)	6,660
Exchange difference	390	–
At 31st March 2001	213,834	308,487

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

25 Profit and loss account

	Group £000	Company £000
At 31st March 2000	125,563	75,094
Retained profit for the year	22,012	18,056
At 31st March 2001	147,575	93,150

The Company's profit for the year amounted to £33.0 million.

26 Notes to consolidated cash flow statement

	2001 £000	2000 £000
(1) Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	34,743	36,733
Depreciation and amortisation charges	502	481
Other non-cash movements	(256)	(107)
Decrease in stocks	1,260	53
(Increase)/decrease in debtors	(961)	1,118
(Decrease) in creditors	(193)	(34)
Net cash inflow from operating activities	35,095	38,244

	At 31st March 2000 £000	Cash flow £000	Other non-cash changes £000	Exchange movements £000	At 31st March 2001 £000
(2) Analysis of movement in net debt					
Cash at bank and in hand*	2,802	(1,891)	–	548	1,459
Bank loans and overdrafts	(557)	(444)	–	–	(1,001)
		(2,335)	–	–	
Debt due within one year	–	(550)	–	–	(550)
Debt due after more than one year	(190,638)	(106,074)	22,292	(363)	(274,783)
		(106,624)			
Short-term deposits*	170,741	12,974	–	4,841	188,556
	(17,652)	(95,985)	22,292	5,026	(86,319)

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

26 Notes to consolidated cash flow statement continued

	2001 £000	2000 £000
(3) Reconciliation of net cash flow to movement in net debt		
(Decrease)/increase in cash in the year	(2,335)	1,486
Cash (inflow) from increase in debt financing	(106,624)	(41,359)
Cash inflow from increase in liquid resources	12,974	103,341
Change in net debt resulting from cash flows	(95,985)	63,468
Translation differences	5,026	702
Other non-cash changes	22,292	2,596
Movement in net debt in the year	(68,667)	66,766
Net debt at 31st March 2000	(17,652)	(84,418)
Net debt at 31st March 2001	(86,319)	(17,652)

27 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 £2.8 million (2000 – £1.9 million) represents contributions payable to the scheme for the financial year.

At 1st November 2000, the date of the latest valuation carried out by the Projected Unit Method, the actuarial value of the scheme's assets of £10.0 million was sufficient to cover 82% 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. The employer will pay an enhanced contribution rate designed to eliminate the under funding by 31st March 2005.

28 Capital commitments

	Group 2001 £000	Group 2000 £000
Property division		
Contracted	72,973	18,627
Authorised but not contracted	27,506	35,043
	100,479	53,670
Venture capital division		
Contracted	65,175	53,661
Authorised but not contracted	–	–
	65,175	53,661
Total		
Contracted	138,148	72,288
Authorised but not contracted	27,506	35,043
	165,654	107,331

The Company had no capital commitments (2000 – nil).

29 Contingent liabilities

Guarantees have been given in respect of warranties on the sale of certain subsidiaries and other liabilities in the ordinary course of business. The Company has no guarantees (2000 – £6.6 million) relating to the borrowings of 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 Leisure Investments Limited	100
LMS Properties Limited	100
LMS Shops Limited*	100
Palaville Limited*	60
Portman Investments (Baker Street) Limited*	55
Portman Investments (Farnham) Limited*	55
St. James' Real Estate Company Limited*	60
The New River Company Limited*	100
West London & Suburban Property Investments Limited*	100
Property trading companies	
Caledonian Properties Limited*	100
Corinium Estates Limited*	100
Urban First Limited*	80
Venture capital companies	
LMS Capital Limited	100
LMS Capital (Bermuda) Limited – Bermuda*	100
LMS Investments Limited*	100
Lion Investments Limited*	100
Westpool Investment Trust plc*	100
Other subsidiary companies	
LMS Industrial Finance Limited *Group financing*	100
LMS Services Limited *Group services*	100
London Merchant Securities, Inc. – USA*	100

*Indicates subsidiary undertakings held indirectly.

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

Principal Properties

Properties in excess of £7 million by value

The Angel Centre, St. John Street, London EC1	15,080 sq m (162,330 sq ft) air-conditioned office building.
80 Charlotte Street and 23 Howland Street, London W1	12,372 sq m (133,180 sq ft) office building.
Strathkelvin Retail Park, Bishopbriggs, Glasgow	17,400 sq m (187,300 sq ft) retail warehouse park with a fast food restaurant and car parking for approximately 1,200 cars.
19-35 Baker Street, London W1	4,501sq m (48,450 sq ft) office building with five shops and three residential units.
101-108 Tottenham Court Road, London W1	8,539 sq m (91,920 sq ft) office building with ground floor retail.
36 Howland Street and 13-17 Fitzroy Street, London W1	Office buildings providing a total floor space of 8,037sq m (86,525 sq ft).
Myddelton Place, 88 Rosebery Avenue, London EC1	9,246 sq m (99,500 sq ft) air-conditioned office building.
275 Sacramento Street, San Francisco, CA	Development completed in 2000 providing 5,261 sq m (60,500 sq ft) of offices and 1,151 sq m (16,700 sq ft) of retail. Located in the Central Business District.
80-85 Tottenham Court Road, London W1	Air-conditioned office building having 2,657 sq m (28,600 sq ft) of office space with retail on ground floor and basement totalling 1,700 sq m (18,300 sq ft).
120-134 Tottenham Court Road, London W1	324 bed hotel with 17 retail units.
63 St. James's Street, London SW1	Air-conditioned office building developed in 1991 behind a listed Victorian stone faced elevation. 2,115 sq m (22,770 sq ft).
2-4 and 6-10 Fitzroy Street, London W1	Office buildings providing 5,167 sq m (55,400 sq ft).
18-24 Howland Street and 9-18 Maple Place, London W1	Office buildings providing a total floor space of 4,321 sq m (46,520 sq ft)
The Arcadia Centre, Ealing	5,695 sq m (61,300 sq ft) shopping centre providing 25 units and 76 parking spaces.
163-170 Tottenham Court Road, London W1	Office building of 2,899 sq m (31,200 sq ft) with 5 shops, 12 residential maisonettes and car park.
Lion & Lamb Yard, Farnham, Surrey	6,605 sq m (71,100 sq ft) shopping centre comprising a supermarket, 25 retail units, self-contained offices and parking for 114 cars.
158-166 Brompton Road, London SW3	Retail with 2,332 sq m (25,100 sq ft) of offices above. Also rear car park and three flats in Cheval Place.
The Triangle Shopping Centre, Bishopbriggs, Glasgow	6,969 sq m (75,000 sq ft) retail investment comprising a supermarket, 12 shops, and car parking.
340 Pine Street, San Francisco, CA	4,989 sq m (53,700 sq ft) office building located in the Central Business District.
The Graftons, Altrincham, Manchester	Recently refurbished and reconfigured shopping centre comprising 4,620 sq m (49,730 sq ft) of retail, 2,316 sq m (24,920 sq ft) office and 53 car parking spaces.
City House, 420-430 London Road, Croydon, Surrey	Office building providing 13,052 sq m (140,500 sq ft) net floor space.
17-39 George Street, London W1	Office building of 1,179 sq m (12,690 sq ft), 10 shops and 23 residential units.
1149 South Main Street, Walnut Creek, San Francisco, CA	2,694 sq m (29,000 sq ft) retail building.
5-8 Hardwick Street and 161 Rosebery Avenue, London EC1	Two interlinked buildings providing 3,149 sq m (33,900 sq ft) of office space.
60 Whitfield Street, London W1	Commercial buildings currently undergoing substantial refurbishment to provide 3,372 sq m (36,300 sq ft) of offices.
Bush House, South West Wing, London WC2	1930's office building, having a net floor area of 9,618 sq m (103,530 sq ft).
The Royal Arcade, Maidstone, Kent	3,641 sq m (39,190 sq ft) retail investment.
24-40 Gloucester Place, London W1	Office building of 2,202 sq m (23,700 sq ft) with eight maisonettes.
151 Rosebery Avenue, London EC1	Air-conditioned office building providing 2,118 sq m (22,800 sq ft) of office space.
2-12 Pentonville Road, London N1	2,443 sq m (26,300 sq ft) air-conditioned office building.

These properties represent some 75% of the total investment portfolio value.

Principal Venture Capital Investments

Largest investments: UK (quoted)

Company	Activity	Number of shares 000	Book value £000	Directors' valuation £000
Crown Sports plc	Health and fitness clubs	50,000	15,000	14,500
DMATEK plc (Israel)	Security tagging technology	2,651	1,054	4,427
NMT Group plc	Medical safety devices	14,346	3,821	4,017
Offshore Tool and Energy Corporation	Oilfield services	60,712	6,186	3,643
StepStone ASA (Norway)	Pan-European recruitment website	3,823	5,032	1,491
Bloomsbury Publishing plc	Book and information publisher	199	1,366	1,404
Bond International Software plc	Recruitment /HR software	1,683	993	1,330
jazz fm plc	Jazz radio station and record label	797	107	1,283
Group Trust plc	Investment trust	2,248	1,189	1,169
Whittard of Chelsea plc	Tea and coffee retailer	962	582	202

Largest investments: US (quoted)

Company	Activity	Notes	Number of shares 000	Book value £000	Directors' valuation £000
Weatherford International Inc.	Oilfield services		500	1,700	17,356
Commerce One Inc.	e-commerce solutions	2	2,478	1,617	14,835
Grant Prideco Inc.	Oil and gas exploration products		921	5,504	11,139
Pegasus Communications Corporation	Digital broadcast satellite service		361	2,299	5,834
InterTrust Technologies Inc.	Digital rights management technology		1,509	1,976	4,775
Aclara BioSciences Inc.	Drug discovery technology		848	1,090	3,282
Chyron Corporation	Broadcast media technology	1	3,465	3,576	1,850
Chordiant Software Inc.	Multi-channel CRM Software		543	857	1,527
Digital Generation Systems Inc.	Media delivery network		1,663	4,057	1,357
CTC Communications Group Inc.	Data communications network operator		231	1,415	1,026

Largest investments: UK and US (unquoted)

Company	Activity	Country	Book value £000	Directors' valuation £000
7 Global Limited	Business services aggregator	UK	6,496	6,496
Strakan Group Limited	Speciality pharmaceuticals	UK	5,250	5,250
netdecisions Holdings Limited	e-commerce services	UK	3,993	3,993
Elateral Holdings Limited	Marketing e-commerce services	UK	3,990	3,990
Wesupply Limited	Supply chain application service provider	UK	3,400	3,400
riodata LLC (Germany)	German DSL carrier	UK	3,145	3,145
GroupTrade.com Limited	e-sourcing service	UK	3,121	3,121
Genient Limited	Application integration software	UK	3,000	3,000
Ridgeway Systems and Software Inc.	Video conferencing technology provider	UK	2,949	2,949
First Index Group Limited	e-sourcing service	UK	2,822	2,822
12 Entrepreneuring Inc.	Creates and builds technology companies	US	2,647	2,647
Promptu Corporation	Global marketing solution	US	2,629	2,629
Health Media Group plc	Professional health media service	UK	2,600	2,600
AssetHouse Technology Limited	Content management software	UK	2,546	2,546
Power X Limited	Communications semiconductors	UK	2,405	2,405
Magex Limited	Payment solutions	UK	2,334	2,334
AirFiber Inc.	Wireless telecommunications infrastructure	US	2,091	2,091
Entuity Limited	Network management software	UK	1,838	1,838
Cityspace Limited	Urban information networks	UK	1,505	1,505
Talkcast Corporation plc	Virtual mobile network operator infrastructure	UK	1,000	1,000

Unquoted investments valued at cost, quoted investments valued at market value except: Notes (1) 80% of market value (2) £5.7 million valued at 80% of market value.

Glossary of terms

ASP: Application Service Provider.
B2B: Business to Business.
CRM: Customer Relationship Management.
DSL: Digital Subscriber Line.
HR: Human Resource.
IPO: Initial Public Offering.
IRR: Internal Rate of Return.
M&A: Mergers and Acquisitions.

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 ARICS
Secretary S C Mitchley ACIS

British Commercial Property Investment Trust Limited
Directors N G E Driver BSC FRICS
N T J Groves BA ARICS
M Newman FRICS
The Hon R A Rayne
M Waldron FCCA
R J Wood BSC ARICS
Secretary S C Mitchley ACIS

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

*Non-executive.

LMS Capital Limited
Directors N G E Driver BSC FRICS
The Hon R A Rayne
M Waldron FCCA
Secretary S C Mitchley ACIS

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

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

Five Year Summary

	2001 £000	2000 £000	1999 £000	1998 £000	1997 £000
Group balance sheet					
Tangible assets	737,539	633,412	568,660	486,385	432,897
Investments	192,719	148,316	113,356	112,781	91,611
Net current assets	163,503	121,221	49,996	52,475	46,048
Loans	(274,783)	(190,638)	(150,261)	(151,822)	(145,761)
Net assets	818,978	712,311	581,751	499,819	424,795
Equity minority interests	(59,430)	(53,487)	(47,611)	(42,178)	(35,476)
Equity shareholders' funds	759,548	658,824	534,140	457,641	389,319
Represented by					
Called up share capital	89,334	82,331	81,713	81,467	80,875
Reserves	670,214	576,493	452,427	376,174	308,444
	759,548	658,824	534,140	457,641	389,319
Group profit					
Revenue profit	32,189	27,908	27,036	25,646	19,742
Capital profit	28,149	94,458	18,600	60,866	13,095
Profit before taxation	60,338	122,366	45,636	86,512	32,837
Profit for the year	36,617	81,868	31,423	74,538	24,943
Earnings per Ordinary share	15.67p	36.49p	14.04p	33.36p	11.19p
Dividends per Ordinary share	6.1p	5.9p	5.5p	5.3p*	5.3p
Shareholders' funds per share	233p	220p	179p	154p	132p

The figures for 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 Meeting

Notice is hereby given that the one hundred and twenty-ninth Annual General Meeting of London Merchant Securities plc will be held at The Wallace Collection, Hertford House, Manchester Square, London W1U 3BN on Thursday, 26th July 2001 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 2001 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 2001 of 4.1p per share be and is hereby declared payable on the issued Ordinary shares of 27$\frac{18}{41}$p each in the capital of the Company to those shareholders on the register at the close of business on 29th June 2001.

Resolution 3
Special notice has been received of the intention to propose the re-election of Lord Remnant who has attained the age of seventy.

Resolution 4
To re-elect The Hon R A Rayne as a director of the Company.

Resolution 5
To reappoint The Hon J M Wilson as a director of the Company.

Resolution 6
To reappoint KPMG Audit Plc as auditors of the Company and to authorise the directors to determine their remuneration.

Resolution 7
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 20th July 2000 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 £3,341,000; and

(c) any other allotments of Deferred Ordinary shares for cash up to a maximum nominal amount of £1,125,000.

by order of the Board

M Waldron Director

Carlton House
33 Robert Adam Street
London W1U 3HR
26th June 2001

Notes
Only holders of Ordinary and/or Deferred Ordinary shares are entitled to attend and vote at the meeting. These accounts are sent to the holders of the First Mortgage Debenture Stock for information only. A member of the Company entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend and vote instead of him. A proxy need not be a member of the Company. A member who has appointed a proxy is still entitled to attend and vote at the meeting.
A summary of transactions since 31st March 2000 of the directors and their family interests in the share capital of the Company will be available for inspection at the Registered Office during normal business hours from the date of this notice until 26th July 2001 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.

Directorate and Administration

Life President
The Lord Rayne

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

*Non-executive.
The Audit and Remuneration Committees comprise all the non-executive directors except The Hon J M Wilson.

Group accountant
J M Townley BA ACA

Auditors
KPMG Audit Plc
London

Shareholder Information

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

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

Registered in England and Wales No. 7064

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

Shareholder enquiries
Telephone 020 8639 2000
Email ssd@capita-irg.com

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

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

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

Financial Calendar

Ex-dividend date 27th June 2001
Record date 29th June 2001
AGM and EGM 26th July 2001
Dividend payment date 3rd August 2001
Interim results November 2001

Designed and produced by Radley Yeldar (London)

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