London Merchant Securities Limited

(formerly London Merchant Securities plc)

Annual Report & Accounts

31 December 2006

Registered in England and Wales number 7064

Contents

Directors' report

Merger changes
On 1 February 2007, the Company merged with Derwent Valley Holdings plc to form Derwent London plc Accordingly, the following changes have taken place

- the Company de-listed from the London Stock Exchange,
- the Company reduced its issued share capital,
- the Company was re-registered as a private limited company, and
- the directors have shortened the Company's financial reporting period to be in line with that of Derwent London's, being 31 December

The directors submit their report for the nine month period 1 April 2006 to 31 December 2006

Business review

The Company is a group holding company whose subsidiary companies own, manage and invest in a number of properties

The Group actively managed its portfolio during the period under review, with a significant letting being made at 28 Dorset Square, the refurbishment of 85 Tottenham Court Road and managing the voids at Monmouth House, being part of the City Road Estate There was also progress in the development pipeline at The Qube and with Arups phases 2 & 3

The Group acquired 210 Old Street, London EC1 for a price of £10 4m The property is adjacent to the Group's City Road Estate and is let to the Government providing an initial yield of 6 1% In addition, the Group also acquired 139 – 143 Whitfield Street, London W1, which forms part of the Group's core Fitzrovia holdings The purchase price was £1 0m and the property provides an initial yield of 7 5%

During the period, the Group disposed of land at Summerston for £8 5m and various non-core holdings for £7 6m

In November 2006, the Company announced that it was in merger talks with Derwent Valley Holdings plc Shareholders approved the merger on 10 January 2007 and final Court approval was granted on 31 January 2007

Turnover at 31 December 2006 decreased by 20% to £49 1 million (31 March 2006 £61 4 million)

Operating profit for the period was £190 9 million (31 March 2006 £195 6 million), while profit after tax was £123 0 million (31 March 2006 £126 6 million)

During the period, the Board used the following three measures to monitor performance of the Group

Total Property Return – this is a measure of like-for-like capital growth and net rental income from the property portfolio plus profit on disposals For the period ended 31 December 2006, the Total Property Return was 21 5% (31 March 2006 25 8%)

Return on Equity – this is a measure of growth in Shareholders' funds per share, adding back any current year dividend In the period ended 31 December 2006, Return on Equity was 15 1% (31 March 2006 18 6%)

Total Shareholder Return (TSR) – this is a measure of total returns to shareholders, adding together the movement in the market value of their shares between the beginning and the end of the financial period and the value of the dividend For the period ended 31 December 2006, the Company's TSR was 48 0% (31 March 2006 42 7%)

The Group's strategy for the future will be the same as the merged Group's strategy – to deliver an above average annualised total return to shareholders, which is achieved by adding value to buildings and sites through creative planning, imaginative design and enterprising lease management

Directors' report continued

The principal risks that the Company faces have been identified as property related (for example fall in asset values), finance related (for example rise in interest rates) and corporate and social environmental, including health and safety (for example adverse reputation risk)

Dividends

An interim dividend of 1 2p per ordinary share was paid on 16 January 2007 The directors do not recommend the payment of a final dividend

Properties

The Company's properties were revalued at 31 December 2006 as set out in note 13 to the financial statements

Directors and directors' interests

The directors who held office during the period were as follows

Mr G C Greene
Mr P J Grant
The Hon R A Rayne
Mr N R Friedlos
Mr M A Pexton
Dr B J Duroc-Danner
Mrs J de Moller
Mr D Newell

On 1 February 2007, the following changes took place
Mr Greene, Mr Grant, Mr Rayne, Mr Pexton, Dr Duroc-Danner, Mrs de Moller and Mr Newell resigned as directors,

Mr J D Burns, Mr N Q George, Mr C J Odom, Mr S P Silver and Mr P M Williams were appointed as directors, and

Mr S C Mitchley resigned as company secretary and Mr T J Kite was appointed in his stead

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Auditors

In accordance with s 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting

By order of the board

T J Kite
Company Secretary

25 Savile Row
London
W1S 2ER

6 July 2007

Directors' Remuneration Report

This report covers the period 1 April 2006 to 31 December 2006 Following the merger of the Company with Derwent Valley Holdings plc on 1 February 2007, the Company was re-registered as a private limited company Accordingly, the remuneration policy and director benefits stated below are no longer in place

Remuneration committee

The members of the Remuneration Committee were

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

The Secretary of the Committee was Mr S C Mitchley The Committee considered advice from the Hon R A Rayne and Mr M A Pexton, but they were not involved in discussions about their own remuneration The Committee was dissolved when the Company was merged with Derwent Valley Holdings plc on 1 February 2007

Policy on Directors' remuneration

The Company's policy was to provide an overall remuneration package which attracted, retained and incentivised directors of the right calibre

Non-executive directors received a fee and necessarily incurred expenses They did not participate in any bonus or incentive arrangements Their remuneration was established by the Board by reference to market data

The constituent elements of the remuneration package for each executive director was
- base salary
- annual performance-related bonus
- long-term incentives

The variable elements of each executive director's pay (annual bonus and long-term incentives) were intended to form a significant component of the total remuneration package

Basic salary

In recommending basic salaries for executive directors the Remuneration Committee took into account information from an independent source on amounts paid in FTSE 250 companies with comparable market capitalisation

Annual bonus

Each executive director was eligible for an annual bonus based on the performance of the company and of the individual, including those aspects of the business for which they are directly responsible During the period ended 31 December 2006, executive directors could receive a bonus of up to 100% of basic salary The measures used in assessing corporate performance included Total Shareholder Return, both in absolute terms and in relation to the FTSE 250 and FTSE Real Estate indices, realised profits and growth in net asset value

Long-term incentives

All executive directors participated in the ***Executive Share Option Scheme***, which was designed to increase the alignment of their interests with those of other shareholders The company's policy was to make an annual grant of options up to a maximum value of one times basic salary, in order to provide a continuing incentive The Remuneration Committee took individual performance into account when recommending the level of any grant of options

Directors' Remuneration Report continued

The performance condıtıon for the exercıse of optıons granted from September 2004 onwards was that the Total Shareholder Return (TSR) over the first three year penod after grant must exceed the anthmetıc average of the TSR for the FTSE 250 and the TSR for the FTSE Real Estate ındex for the same penod

The Chıef Executıve, Mr R A Rayne, partıcıpated ın the ***Carried Interest Plan***, whıch applıed to certaın executıves who had responsıbılıty for ınvestments made by the demerged ınvestment dıvısıon, and was approved by shareholders ın 2001 The Plan was ıntended to correspond to the ıncentıve arrangements applıcable ın the venture capıtal ındustry Mr Rayne was entıtled to 7% of the pre-tax net capıtal gaıns realısed on the cost of dırect ınvestments (ı e excludıng ınvestment ın funds) after a preferred return to LMS of 6 5% The percentage of realısed capıtal gaıns whıch may be allocated to partıcıpants ın aggregate may not exceed 20%, after the return of capıtal No payment was made to Mr Rayne under the Plan ın the penod endıng 31 December 2006

Executıve dırectors, other than Mr Rayne, were elıgıble to partıcıpate wıth staff ın the Company's ***Share Incentive Plan***, whıch allowed employees to be granted free shares and to purchase shares whıch were are matched equally by shares bought by the Company They were also elıgıble to partıcıpate alongsıde other employees ın the Company's ***Sharesave Scheme***, establıshed under the Save As You Earn legıslatıon Under the Scheme employees made regular payments ınto a savıngs account whıch, after a pre-determıned penod, could be used to purchase shares at a pnce set at the start of the savıngs penod

Notice periods

Executıve dırectors' contracts were rollıng contracts termınable wıth one year's notıce The appoıntment penods for non-executıves was three years or untıl they were due for retırement by rotatıon, whıchever was the earlıer

Executıve dırectors' contracts contaıned no specıfic provısıon for payments on termınatıon of employment, other than followıng a change of control, where there was provısıon for payment of 95% of annual salary and benefits In determınıng the amount of any termınatıon payment the Board would take ınto account the duty of the executıve to mıtıgate loss

Executive directors' servıce contracts

The contracts of servıce for Mr R A Rayne, Mr M A Pexton and Mr N R Fnedlos were dated 28 March 2003 and provıded for termınatıon on one year's notıce There were no specıfic provısıons for compensatıon upon early termınatıon of the contract, except followıng a change of control where there was provısıon for payment of 95% of annual salary and benefits

Non-executive dırectors' appointment letters

New letters of appoıntment were ıssued to all non-executıve dırectors holdıng office on 1 May 2003
Dr Duroc-Danner's appoıntment letter was dated 1 September 2004 The appoıntment penods for non-executıves was three years or untıl they were due for retırement by rotatıon, whıchever was the earlıer Theır appoıntment letters dıd not contaın compensatıon provısıons ın the event of early termınatıon

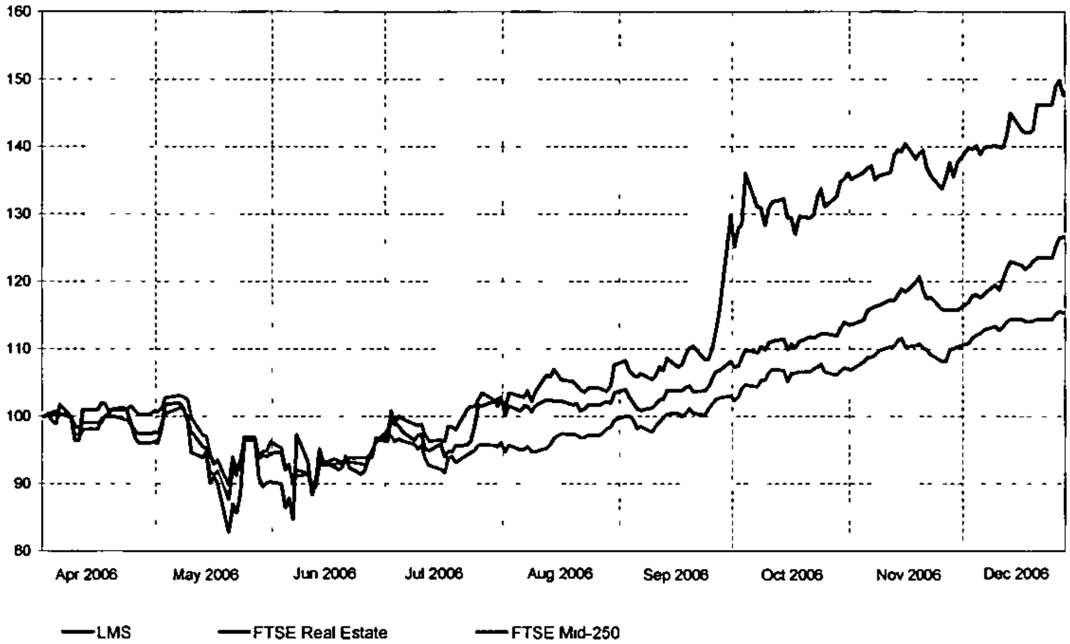
The auditors are required to report on the information contained in the following sections of the report

Performance Graphs

The graphs below show the total return for holders of LMS Ordınary shares for the last nıne month, three and five year accountıng penods endıng 31 December 2006 Also shown are the total shareholder return for the FTSE 250 Index and the FTSE Real Estate Index, whıch have been selected as broad-based comparatıve ındıces for quoted companıes In all cases dıvıdends are assumed to have been reınvested at the date of payment

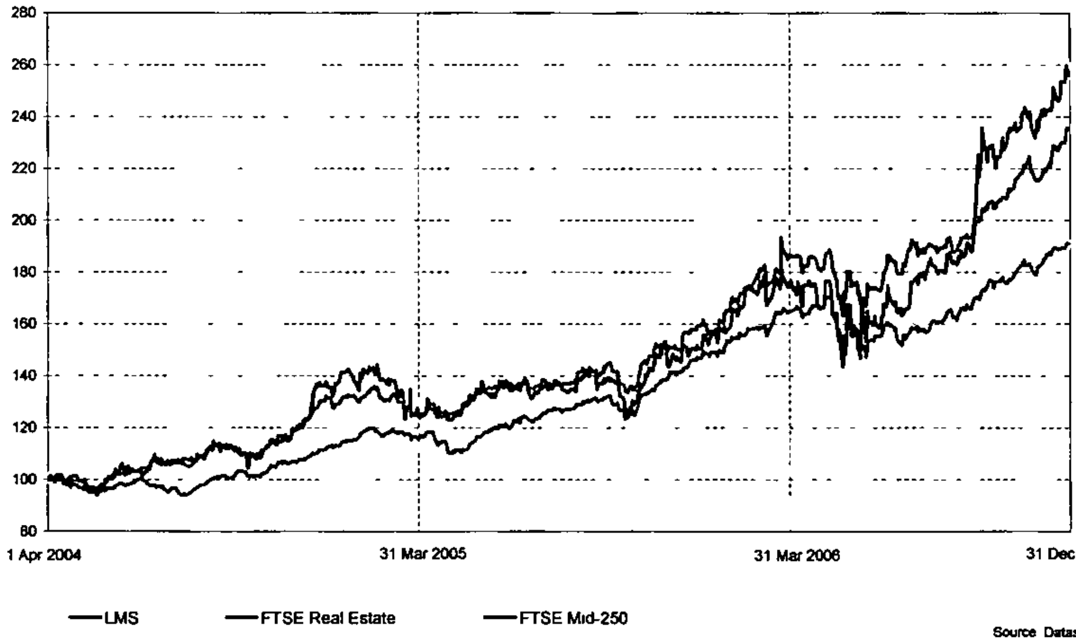
Directors' Remuneration Report continued

Total Shareholder Return to 31 December 2006 (measured over the last nine month accounting period)



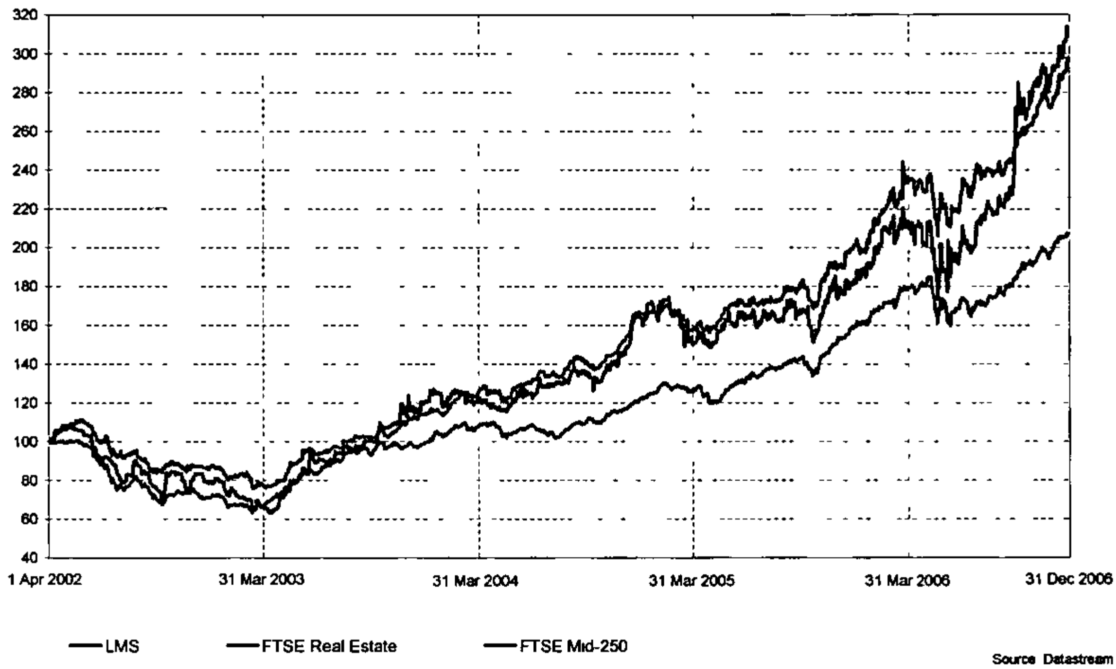
Source Datastream

Three Year Total Shareholder Return to 31 December 2006 (measured over the last three accounting periods)



Source Datastream

Directors' Remuneration Report continued



Directors' emoluments

Name	Basic salary (Note 1)	Fees	Bonus	Benefits (Note 2)	Total excluding pensions Dec 2006	Total excluding pensions Mar 2006	Share option gains Dec 2006	Share option gains Mar 2006
	£000	£000	£000	£000	£000	£000	£000	£000
Executive								
NR Friedlos	188	-	237	21	446	508	1,173	-
MA Pexton	188	-	237	27	452	510	742	-
Hon RA Rayne	374	-	474	22	870	994	-	-
Non-executive								
Dr BJ Duroc-Danner	-	26	-	-	26	35	-	-
PJ Grant	-	47	-	-	47	62	-	-
GC Greene	-	99	-	-	99	132	-	-
Mrs J de Moller	-	26	-	-	26	35	-	-
D Newell	-	32	-	-	32	42	-	-
Total	750	230	948	70	1,998	2,347	-	-

Notes to the Table

1 A percentage of the basic salaries of The Hon R A Rayne and Mr M A Pexton was re-charged to LMS Capital plc in accordance with the Transitional Arrangement agreement entered into when LMS Capital plc demerged from the Company in June 2006

Directors' Remuneration Report continued

2 Benefits were comprised of car allowance, private medical insurance, unapproved life insurance, the value of shares granted under the Company's Share Incentive Plan, reimbursement of income tax, national insurance and compensation for lost SAYE options resulting from being forced to exercise options within three years of their grant date

3 Mr W Millsom retired as a director in July 2002 but continued as a consultant to the Company During the period to 31 December 2006 he received a fee of £134,000 and benefits of £2,000, bringing total emoluments for the year to £136,000 (31 March 2006 £180,000)

4 The basic annual salaries payable to executive directors with effect from 1 April 2006 were unchanged, as follows Mr R A Rayne £499,000, Mr N R Friedlos £250,000, Mr M A Pexton £250,000

5 The annual fees payable to non-executive directors with effect from 1 April 2006 were unchanged, as follows Mr G C Greene £132,500, Mr P J Grant £62,500, Mr D Newell £42,500, other non-executives £35,000

6 Following the merger of the Company with Derwent Valley Holdings plc on 1 February 2007, Mr Rayne resigned as a director and the change of control provision was triggered in his employment contact In accordance with the provision, he received his salary for January 2007 of £42,000 and a final payment of £965,000

7 Following the merger of the Company with Derwent Valley Holdings plc on 1 February 2007, Mr Pexton resigned as a director and the change of control provision was triggered in his employment contact In accordance with the provision, he received his salary for January 2007 of £21,000, benefits for January 2007 of £3,000 and a final payment of £537,000

Directors' share options and long-term incentive awards

The number of shares subject to options/awards as at 31 December 2006 is set out below

Name and Scheme	Exercise Price[2] (p)	Ordinary Balance at 31 December 2006	Ordinary Balance at 1 April 2006[2]	First exercise Date[1]	Expiry Date[1]
NR Friedlos[4]					
Executive	85 07	0	280,145	01 Apr 2006	01 Apr 2013
Executive	112 48	0	253,528	29 Aug 2006	29 Aug 2013
Executive	148 06	0	162,086	01 Sept 2007	01 Sept 2014
Executive	179 56	139,229	139,229	28 June 2008	28 June 2015
SAYE	106 34	0	8,674	01 Feb 2007	31 July 2007
MA Pexton					
Executive	112 48	0	203,734	29 Aug 2006	29 Aug 2013
Executive	148 06	0	162,086	01 Sept 2007	01 Sept 2014
Executive	179 56	0	139,229	28 June 2008	28 June 2015
SAYE	106 34	0	8,674	01 Feb 2007	31 July 2007
Hon RA Rayne[4]					
Executive	142 34	1,510,188	1,510,188	05 Jan 2004	05 Jan 2011
Executive	112 48	439,621	439,621	29 Aug 2006	29 Aug 2013
Executive	148 06	336,840	336,840	01 Sept 2007	01 Sept 2014
Executive	179 56	277,759	277,759	28 June 2008	28 June 2015

Notes to the Table

1 The first exercise date shown in the table above was in each case three years from the date of grant Under the rules of the LMS Executive Share Option Scheme and the LMS Sharesave Scheme, if the Company enters into a Scheme of Arrangement options may be exercisable earlier than three years from the date of grant Pursuant to the demerger of Leo Capital plc, a Scheme of Arrangement was sanctioned by the Court on 8 June 2006 and the Remuneration Committee treated the performance conditions for grants under the Executive Share Option Scheme as satisfied All options are therefore now exercisable

Directors' Remuneration Report continued

2 As a result of the Scheme of Arrangement, the Company's issued share capital was consolidated into 25p ordinary shares This resulted in the number of options granted, and the option price, being amended The option price was reduced by a factor of 1 222409 and the number of options increased by a factor of 1 222409 This resulted in the overall value of the options granted remaining the same as before the Scheme of Arrangement

3 Prior to the Scheme of Arrangement, the performance condition for the executive options first exercisable in January 2004 was that in *any* three year period following the grant of the options shareholders' funds must increase by a percentage greater than the increase in the Retail Prices Index plus 9% The performance condition for the options first exercisable in April 2006 and August 2006 was that in the *first* three year period following the grant of the options shareholders' funds must increase by a percentage greater than the increase in the Retail Prices Index plus 9% The performance condition for the options first exercisable in September 2007 and June 2008 was that the Total Shareholder Return (TSR) over the first three year period after grant must exceed the arithmetic average of the TSR for the FTSE 250 and the TSR for the FTSE Real Estate index for the same period

4 Following the merger of the Company with Derwent Valley Holdings plc, both Mr Friedlos and Mr Rayne rolled their unexercised executive share options over London Merchant Securities plc shares into Derwent London executive share options Their entitlement are shown in the Derwent London plc Report & Accounts and the options remain exercisable

5 The market price of an Ordinary share at 31 December 2006 was 305 50p and the range during the period was 188p to 310p

Pensions

During the period Mr R A Rayne left the LMS (1973) Pension Scheme, which is an Inland Revenue approved defined benefit scheme, of which the principal features for executive directors are a normal retirement age of 60 and a pension at normal retirement age after twenty years' service of two-thirds of final pensionable salary An augmented transfer payment of £10 million was made, representing the amount reserved for him and funded in the Scheme on an ongoing valuation basis, including the past service reserve No further pension contribution will be made

Mr N R Friedlos and Mr M A Pexton received pension contributions of £38,000 (31 March 2006 £50,000) and £38,000 (31 March 2006 £50,000) respectively during the period

Directors' share interests

At 31 December 2006 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 31 December 2006 Ordinary	At 31 March 2006 Ordinary
Beneficial		
Dr BJ Duroc-Danner	150,000	-
NR Friedlos	67,028	19,994
PJ Grant	1,247	1,247
GC Greene	16,400	16,400
Mrs J de Moller	20,000	20,000
D Newell	10,000	10,000
MA Pexton	76,139	63,778
Hon RA Rayne	7,645,793	7,645,793
Non-beneficial		
GC Greene	7,294,156	7,294,156
Hon RA Rayne	21,698,658	21,582,900

Directors' Remuneration Report continued

Increases in directors' shareholdings between 1 January 2007 and 1 February 2007, when the Company de-listed were as follows

Beneficial	Ordinary
NR Friedlos	1,874
MA Pexton	993

N R Friedlos
Director

6 July 2007

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' Report and the group and parent company financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law they have elected to prepare the group financial statements in accordance with IFRS as adopted by the EU and applicable laws and have decided to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The group financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and performance of the group, the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation

The parent company financial statements are required by law to give a true and fair view of the state of affairs of the parent company

In preparing the group and parent 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,
- for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU,
- for the parent company financial statements state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and parent company will continue in business

The directors are responsible for keeping proper accounting records that 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 Company and to prevent and detect fraud and other irregularities

Independent auditors' report to the members of
London Merchant Securities Limited (formerly London Merchant Securities plc)

We have audited the Group and Parent Company financial statements (the "financial statements") of London Merchant Securities Limited for the period ended 31 December 2006 which comprise the Consolidated Income Statement, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Recognised Income and Expense and the related notes These financial statements have been prepared under the accounting policies set out therein We have also audited the information in the Directors' Remuneration report that is described as having been audited

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

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU, and for preparing the Parent Company financial statements and the Directors' Remuneration report in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of directors' responsibilities on page 10

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements

We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements Our responsibilities do not extend to any other information

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration report to be audited It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed

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

Independent auditors' report to the members of
London Merchant Securities Limited (formerly London Merchant Securities plc)

Opinion
In our opinion

• the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2006 and of its profit for the period then ended,

• the Parent Company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Parent Company's affairs as at 31 December 2006,

• the financial statements and the part of the Directors' Remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation, and

• the information given in the Directors' report is consistent with the financial statements

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

6 July 2007

London Merchant Securities Limited (formerly London Merchant Securities plc)

CONSOLIDATED INCOME STATEMENT
For the nine months ended 31 December 2006

	Notes	Nine months ended 31 December 2006 £000	Year ended 31 March 2006 £000
Turnover	5	**49,112**	61,404
Cost of sales		**(4,419)**	(5,207)
Gross profit		**44,693**	56,197
Exceptional administrative expenses			
- in relation to merger transaction expenses	6	**(11,075)**	-
- in relation to change in share options on de-merger	6	**(1,497)**	-
- in relation to de-merger transaction expenses	6	**-**	(9,347)
Share option costs and change in fair value		**(7,397)**	(327)
Other administrative expenses		**(10,323)**	(10,112)
Administrative expenses		**(30,292)**	(19,786)
Operating profit before net profit on investments		**14,401**	36,411
Realised gains on disposal of investments		**67**	9,234
Unrealised gains on investments		**173,902**	149,963
Operating profit		**188,370**	195,608
Finance income		**3,621**	2,188
Finance costs on repurchase of debt		**-**	(3,355)
Other finance costs		**(21,247)**	(26,654)
Net finance costs	10	**(17,626)**	(27,821)
Share of (loss)/profit of joint venture after tax		**(66)**	2,548
Profit before tax on continuing operations		**170,678**	170,335
Income tax expense	11	**(46,991)**	(36,848)
Profit on continuing operations		**123,687**	133,487
Loss on discontinued operations	2	**(2,442)**	(6,890)
Profit for the period/year		**121,245**	126,597
Attributable to			
- Equity holders of the parent	26	**114,504**	109,442
- Minority interest		**6,741**	17,155
Profit for the period/year		**121,245**	126,597

An interim dividend of 1 2p per share was declared on 22 November 2006 and no final dividend has been declared (31 March 2006 interim dividend declared was 2 0p together with a final dividend 4 6p making a total dividend of 6 6p)

London Merchant Securities Limited (formerly London Merchant Securities plc)

CONSOLIDATED BALANCE SHEET
At 31 December 2006

	Notes	31 December 2006 £000	31 March 2006 Property £000	31 March 2006 Investments £000	31 March 2006 Total £000
Non-current assets					
Intangible assets	12	-	-	33,645	33,645
Investment properties	13	1,230,700	1,023,565	-	1,023,565
Property, plant and equipment	14	59,605	53,139	6,925	60,064
Investment in joint venture	15	10,809	7,870	269	8,139
Other investments	17	8,213	2,824	187,557	190,381
Pension scheme surplus	9	859	1,703	-	1,703
Deferred tax assets	24	7,418	5,916	69	5,985
Total non-current assets		1,317,604	1,095,017	228,465	1,323,482
Current assets					
Inventories		-	-	4,586	4,586
Trading properties	18	260	375	-	375
Trade and other receivables	19	21,655	20,866	24,987	45,853
Cash and cash equivalents	20	5,707	52,889	47,551	100,440
Total current assets		27,622	74,130	77,124	151,254
Total assets		1,345,226	1,169,147	305,589	1,474,736
Current liabilities					
Borrowings	22	3,458	4,696	8,152	12,848
Trade and other payables	21	39,034	36,907	20,860	57,767
Tax liabilities		483	4,730	857	5,587
Total current liabilities		42,975	46,333	29,869	76,202
Non-current liabilities					
Borrowings	22	464,902	404,573	5,477	410,050
Deferred tax provision	24	140,608	91,428	199	91,627
Other payables		7,144	2,414	581	2,995
Total non-current liabilities		612,654	498,415	6,257	504,672
Total liabilities		655,629	544,748	36,126	580,874
Net assets		689,597	624,399	269,463	893,862
Equity					
Issued share capital	25	82,538			90,275
Share premium	26	22,015			20,687
Capital reduction reserve	26	10,892			2,868
Revaluation reserve	26	32,825			26,897
Other reserves	26	2,850			2,235
Retained earnings	26	482,912			683,960
Equity attributable to equity shareholders of the parent		634,032			826,922
Minority interest	26	55,565			66,940
Total equity		689,597			893,862

The financial statements on pages 13 to 48 were approved by the Board of Directors on 6th July 2007 and were signed on its behalf by

N R Friedlos
Director

London Merchant Securities Limited (formerly London Merchant Securities plc)

CONSOLIDATED STATEMENT OF CASH FLOWS
For the nine months ended 31 December 2006

	Notes	31 December 2006 £000	31 March 2006 £000
Cash flow from operating activities			
Profit for the period		122,996	126,597
Depreciation		839	2,679
Impairment of goodwill		-	2,667
Foreign exchange (gains)/losses		(2,626)	856
Share of operating loss/(profit) of joint venture		66	(2,548)
Profit on disposal of investment properties and other investments		(2,271)	(22,927)
Gains on revaluation of properties and investments		(170,370)	(148,328)
Investment income		(5,201)	(3,488)
Interest expense (net)		20,765	34,796
Tax expense		48,095	46,794
Change in fair value of interest rate derivatives		3,107	-
Equity settled share based payment expenses		413	327
Operating profit before changes in working capital and provisions		15,813	37,425
(Increase)/decrease in trade and other receivables		(5,253)	446
Decrease in inventories		391	1,304
(Decrease)/increase in trade and other payables		(1,398)	9,175
(Decrease)/increase in provisions and employee benefits		(742)	34,727
Cash generated from operations		8,811	83,077
Interest paid		(17,856)	(34,119)
Tax paid		(4,741)	(2,414)
Net cash flow from operating activities		(13,786)	46,544
Cash flow from investing activities			
Acquisitions of investments		(15,773)	(62,536)
Proceeds from sale of investments		1,960	9,109
Acquisition of property, plant and equipment		(3,712)	(10,568)
Proceeds from sale of plant and equipment		-	7,007
Property developments and investment property acquisitions		(38,267)	(27,145)
Proceeds from sale of investment properties		9,547	91,186
Purchase of subsidiaries and joint venture (net of cash acquired)		-	(6,164)
Disposal of subsidiaries (net of cash disposed of)		(538)	38,216
Repayment of debt of subsidiaries disposed of		-	(20,652)
Investment income received		5,201	3
Interest received		516	1,674
Net cash from investing activities		(41,066)	20,130
Cash flows from financing activities			
Drawdown of new loans		65,945	229,852
Repayment of borrowings		(6,008)	(216,099)
Dividends paid – equity shareholders		(15,064)	(21,402)
Dividends paid – minority interests		(15,730)	-
Cash element of in specie dividend		(65,000)	-
Proceeds from issue of share capital		1,616	399
Net cash from financing activities		(34,241)	(7,250)
Net (decrease)/increase in cash and cash equivalents		(89,093)	59,424
Cash and cash equivalents at 1 April		94,963	35,499
Effect of exchange rate fluctuations on cash held		(163)	40
Cash and cash equivalents at end of period	20	5,707	94,963

London Merchant Securities Limited (formerly London Merchant Securities plc)

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE
For the nine months ended 31 December 2006

	31 December 2006 £000	31 March 2006 £000
Foreign exchange translation differences	(2,493)	2,942
Revaluation of owner-occupied property and assets under construction	5,928	14,566
Movement in deferred tax liability on revaluation of owner-occupied property and assets under construction	(1,235)	(4,060)
Effective portion of changes in fair value of interest rate cash flow hedges	4,440	(626)
Deferred tax on change in fair value of interest rate cash flow hedges	(1,332)	188
Actuarial losses on defined benefits pension scheme	(2,043)	(570)
Deferred tax on actuarial gains taken directly to equity	613	171
Net profit recognised directly in equity	3,878	12,611
Profit for the period	121,245	126,597
Total recognised income and expense for the period	125,123	139,208
Attributable to		
Equity holders of the parent	118,382	122,053
Minority interest	6,741	17,155
Total recognised income and expense for the period	125,123	139,208

1. Accounting Policies

(a) Basis of preparation

London Merchant Securities Limited (formerly London Merchant Securities plc) ('the Company') is a company domiciled in the United Kingdom

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group") and equity account the Group's interest in its jointly controlled entity The parent company financial statements present information about the Company as a separate entity and not about its Group

The Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs") The Company has elected to prepare its parent company financial statements in accordance with UK GAAP, these are presented on pages 49 to 53

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements

The financial statements are prepared on the historical cost basis, except that the following assets and liabilities are stated at their fair value derivative financial instruments, investment property, assets under construction, owner occupied property and Investment Division investments

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenses, in particular in relation to valuation of investment property, valuation of investments and pension scheme actuarial assumptions Although management considers that these estimates and assumptions are reasonable, actual results may differ from those estimates

(b) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities In assessing control, potential voting rights that presently are exercisable or convertible are taken into account The accounts of subsidiaries are included in the consolidated interim accounts from the date that control commences until the date that control ceases

Application of the IFRS definition of a subsidiary to the LMS Group results in two distinct types of entity being classified as subsidiary undertakings

First, are those entities in both the Property Division and the Investment Division, through which LMS undertakes its business activities of owning, managing and developing properties and making and managing investments

Second, as part of its Investment Division activities, the Group made investments in portfolio companies which in some cases, by virtue of the size of the shareholding or other control rights may result in those portfolio investments falling within the definition of subsidiaries These portfolio investment companies are consolidated, although they were managed by the Group as portfolio investments held for capital appreciation The consolidated results of these entities are shown as separate business segments

(ii) Joint ventures

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement The consolidated accounts include the Group's share of the total recognised gains and losses of joint ventures on an equity accounted basis, from the date that joint control commences until the date that joint control ceases

Accounting Policies (continued)

(c) Segment reporting

A segment is a distinguishable component of the Group that reflects the way the Group manages its business, and which is subject to risks and rewards that are different from those of other segments

The Group has identified four segments for financial reporting purposes

- **Property** – comprising the results and assets employed in the Group's business of owning, managing and developing properties
- **Investment management** – comprising the results and assets employed in the Group's business of making and managing investments for capital appreciation in portfolio companies and funds
- **Energy Cranes International Limited** - as explained above, the Group was required to consolidate certain of its portfolio companies These investments were managed by the Group as part of its portfolio held for capital appreciation This segment comprises the consolidated results and assets of Energy Cranes International Limited, which manufactures cranes and provides crane-related services to the offshore energy industry, and by virtue of its size constitutes a separate business segment
- **Consolidated LMS investments** – the consolidated results and assets of all other LMS managed portfolio companies that were held and managed as investments but required to be consolidated, are grouped together as one business segment

(d) Goodwill and impairment

All business combinations are accounted for by applying the purchase method Goodwill has been recognised in acquisitions of subsidiaries In respect of business acquisitions that have occurred since 1 April 2004, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired In respect of acquisitions prior to this date, goodwill is included on the basis of its deemed cost at 1 April 2004, which represents the amount recorded under previous GAAP

Negative goodwill arising on an acquisition is recognised directly in the income statement

Goodwill is subject to annual impairment reviews or more regularly where indication of impairment exists An impairment loss in respect of goodwill is not reversed Goodwill is considered to have an indefinite life and therefore is not amortised but stated at cost less any accumulated impairment losses

An impairment loss is recognised whenever the carrying amount of goodwill or its cash-generating unit exceeds its recoverable amount

Goodwill was tested for impairment at 1 April 2004, the date of transition of IFRSs, even though no indication of impairment existed

(e) Property assets

(i) Investment Property

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both Leasehold properties are classified and accounted for as investment property where the Group holds the property to earn rental income, capital appreciation or both Investment properties are stated at fair value An external, independent valuer, having an appropriate recognised professional qualification and recent experience in the location and category of property being valued, values the portfolio every six months The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion Additional disclosure on the basis of the fair value is included in the Investment Property note to the balance sheet

Any gain or loss arising from a change in fair value is recognised in the income statement Rental income from investment property is accounted for as described in the accounting policy "Revenue"

Accounting Policies (continued)

(ii) Investment Property under development

Existing investment properties which are being redeveloped for continued future investment use are measured at fair value and remain classified as investment property

(iii) Assets under Construction

Property assets acquired with the intention of subsequent development as investment property are included as Assets under Construction within property, plant and equipment, until the construction or development is complete, at which time they are reclassified as investment property Assets under construction are included in the balance sheet at fair value, determined by an independent valuer on the same basis as used for investment properties Changes in fair value of Assets under Construction are accounted for as set out in the Accounting Policy "Property, Plant and Equipment"

(iv) Owner occupied property

Property occupied by the Group for its own purposes is included in property, plant and equipment and stated at fair value Changes in fair value are accounted for as set out in the accounting policy "Property, Plant and Equipment"

(v) Trading property

Properties included in inventory are those which were acquired exclusively with a view to resale or development and resale Property in inventory is held at the lower of cost and net realisable value

(vi) Expenditure prior to the commencement of a development

Expenditure incurred in connection with developments, including the cost of obtaining the necessary planning consents, prior to the commencement of the development, are capitalised as part of the cost of the development where it is probable that the costs will be recovered via a resulting increase in value of the development property

Where it is not probable that the costs will add value to the property or the scheme is aborted, the costs are written off to the income statement

Early stage costs incurred prior to the preparation of submission of a planning application, including costs in relation to evaluation of development options and establishing the feasibility of proposed schemes, are written off to the income statement in the period in which they are incurred

(f) Property, plant and equipment

(i) Assets

Property, plant and equipment includes

- Owned property occupied by the Group
- Assets under construction for future investment use
- Equipment, principally office and IT equipment, used by the Group

Assets under construction and owned property occupied by the Group are stated at fair value Equipment is stated at cost less accumulated depreciation

(ii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of each item of property, plant and equipment Land and Assets under construction are not depreciated The estimated useful lives are as follows

- buildings 30 years
- plant and equipment 3 - 5 years

Accounting Policies (continued)

The residual value is reassessed annually

(iii) Treatment of gains and losses arising on revaluation of property, plant and equipment

If the carrying amount of an asset is increased as a result of revaluation, the increase is credited directly to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset which previously had been charged to the income statement

If the carrying amount of the asset is decreased as a result of the revaluation, the decrease is recognised in the income statement, except to the extent that it reverses previous revaluation increases on the same asset which have been credited to the revaluation reserve, in which case it is charged against the revaluation reserve

(g) Investment Division investments

Investments are included in the balance sheet at fair value with changes in fair value taken through the income statement Fair values have been determined by the directors in accordance with industry guidelines These guidelines require the valuer to make judgments as to the most appropriate valuation method to be used and the results of the valuations Each investment is reviewed individually with regards to the stage, nature and circumstances of the investment and the most appropriate valuation method selected Investments are reviewed and revalued every six months

Those investments that would otherwise be associated undertakings are treated in the same way as all other investments in accordance with the requirements for venture capital companies set out in IAS 28 – Investments in Associates

i) Quoted investments

Quoted investments for which an active market exists are valued at the closing bid price on the balance sheet date Quoted investments which are subject to contractual restrictions on when they may be sold, are valued at the closing bid price on the balance sheet date, discounted in accordance with industry guidelines as appropriate

ii) Unquoted Direct Investments

Unquoted direct investments for which there is no ready market are valued using the most appropriate valuation technique with regard to the stage and nature of the investment Valuation methods that may be used include

- Recent investments are valued based on the cost of the investment
- Investments in which there has been a recent funding round involving significant financing from new investors are valued at the price of the recent funding, discounted if a new investor is motivated by strategic considerations
- Investments in an established business which is generating sustainable profits and positive cash flows are valued using earnings multiples
- Investments in a business whose value is derived mainly from its underlying net assets rather than its earnings are valued on the basis of net asset valuation
- Investments in an established business which is generating sustainable profits and positive cash flows but for which other valuation methods are not appropriate are valued by calculating the discounted cash flow of future cash flows or earnings
- Investments in a business which is not generating sustainable profits or positive cash flows and for which there has not been any recent independent funding are valued by calculating the estimated discounted cash flow of the investment to the investors This valuation basis will primarily be used to determine whether there is any impairment to the carrying value of the asset and, due to the subjective nature of the calculation and the dependence on the outcome of unknown future events, will only give rise to a valuation increase in exceptional circumstances and where there is also additional significant evidence of an increase in value, such as additional funding or profit generation

Accounting Policies (continued)

iii) Funds

The General Partners of the funds are, in most cases, providing periodical valuations on a fair value basis The Group adopts the General Partner valuation provided it is satisfied that the valuation methods used by the funds are not materially different from the Group valuation methods

(h) Inventories

Inventories are stated at the lower of cost and net realisable value Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses

The cost of inventories is based on the first-in-first-out method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition In the case of manufactured inventories and work in progress, cost includes a share of overheads based on normal operating capacity

(i) Cash and cash equivalents

Cash and cash equivalents comprises cash balances and call deposits Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows

(j) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to sterling at the foreign exchange rate ruling at that date Foreign exchange differences arising on translation are recognised in the income statement Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to sterling at foreign exchange rates ruling at the dates the fair value was determined

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to sterling at foreign exchange rates ruling at the balance sheet date Revenues and expenses of foreign operations are translated at average foreign exchange rates for the relevant period

Exchange differences arising from the translation of the net investment in foreign operations are taken to translation reserve They are recycled and recognised in profit or loss upon disposal of the operation

(k) Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to interest rate risks arising from operational, financing and investment activities

Derivative financial instruments are recognised initially at fair value Subsequently, the gain or loss on remeasurement to fair value is recognised immediately in the income statement, except where derivatives qualify for cash flow hedge accounting in which case any gain or loss is taken to equity Any gain or loss arising on measurement to fair value of ineffective hedges is recognised in the income statement When a hedging instrument expires, is sold or ceases to qualify as a hedge, any cumulative gain or loss remains in equity until the hedged transaction is recognised in the income statement If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties

Accounting Policies (continued)

(l) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis

(m) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the period to which they relate

(ii) Defined benefit plans

The Group's net obligation in respect of defined benefit post-employment plans, including pension plans, is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted The discount rate is the yield at the balance sheet date on AA credit rated bonds that have maturity dates approximating the terms of the Group's obligations The calculation is performed by a qualified actuary using the projected unit credit method

(iii) Share based payment transactions

The share option programme allows Group employees to acquire shares of the Company The fair value of options granted is recognised as an employee expense with a corresponding increase in equity The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options The fair value of the options granted is measured using a Black-Scholes valuation model, taking into account the terms and conditions upon which the options were granted

The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting

(n) Revenue

(i) Rental income and operating lease incentives

Rental income from operating leases of investment property is recognised in profit or loss on a straight-line basis over the term of the lease Lease incentives granted are recognised as an integral part of the total rental income

Operating lease incentives include rent free periods and other incentives (such as contributions towards fitting out costs) given to lessees on entering into lease agreements In accordance with SIC 15 'Operating Lease Incentives', rent receivable in the period from lease commencement to lease end or tenant break option if appropriate, is spread evenly over the term of the lease The cost of other incentives is spread evenly over the term of the lease

(ii) Goods sold and services rendered

Revenue from the sale of goods is recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the buyer Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the balance sheet date The stage of completion is assessed by reference to surveys of work performed No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods No revenue is recognised if there is significant continuing management involvement with the goods

Accounting Policies (continued)

(o) Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested, dividend income, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognised in the income statement

Interest income is recognised in the income statement as it accrues, using the effective interest method Dividend income is recognised in the income statement on the date the entity's right to receive payments is established, which in the case of quoted securities is the ex-dividend date

(p) Income tax

Income tax on the profit or loss for the periods presented comprises current and deferred tax Where income tax relates to items recognised directly in equity the tax charge or credit is also recognised directly in equity All other tax is recognised in the income statement

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes The following temporary differences are not provided for goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, other than in business combinations The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised

Deferred tax on the revaluation of properties is calculated taking account of the benefit of indexation relief The impact of this is disclosed in note 24

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend

(q) Non-current assets held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through sale rather than through continuing use

A discontinued operation is a component of the Group's operations that either has been disposed of, or is classified as held for sale, which represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale

2. Segmental income statement

	Nine months ended 31 December 2006 DISCONTINUED Consolidated				
	Investment Management £000	Energy Cranes £000	LMS investments £000	Inflexion £000	Total £000
Turnover	20	22,856	2,963	-	25,839
Cost of sales		(18,914)	(1,724)		(20,638)
Gross profit	20	3,942	1,239	-	5,201
Administrative expenses	(1,319)	(2,186)	(1,934)		(5,439)
Operating profit/(loss) before net profit on investments	(1,299)	1,756	(695)	-	(238)
Realised gains on disposal of investments	1,843	-	-	-	1,843
Unrealised losses on investments	(3,532)	-	-	-	(3,532)
Investment income	-	-	361	-	361
Operating profit/(loss)	(2,988)	1,756	(334)	-	(1,566)
Finance income	33	-	3	-	36
Other finance costs	-	(408)	(140)	-	(548)
Net finance income/(costs)	33	(408)	(137)	-	(512)
Profit/(loss) before tax	(2,955)	1,348	(471)	-	(2,078)
Income tax expense					
- current	(481)	(299)	-	-	(780)
- deferred	416	-	-	-	416
Income tax expense	(65)	(299)	-	-	(364)
Profit/(loss) on discontinued operations	(3,020)	1,049	(471)	-	(2,442)

The discontinued activities relates to the results of the LMS Investment Division for the period from 1 April to 9 June 2006, the date of the de-merger

2. Segmental income statement (continued)

	Year ended 31 March 2006 DISCONTINUED				
	Investment Management £000	Energy Cranes £000	Consolidated LMS investments £000	Inflexion £000	Total £000
Total turnover	135	75,980	10,831	43,564	130,600
Cost of sales	-	(61,681)	(8,009)	(18,763)	(88,453)
Gross profit	135	14,299	2,822	24,891	42,147
Administrative expenses	(6,680)	(9,454)	(5,796)	(22,821)	(44,751)
Operating profit/(loss) before net profit on investments	(6,545)	4,845	(2,974)	2,070	(2,604)
Realised gains on disposal of investments	5,858	-	1,332	6,503	13,693
Unrealised gains/(losses) on investments	(2,284)	-	649	-	1,675
Operating profit/(loss)	(2,971)	4,845	(3,660)	8,573	6,707
Finance income	206	-	63	1,031	1,300
Other finance costs	(41)	(1,708)	(713)	(2,569)	(5,031)
Net finance costs	165	(1,708)	(650)	(1,538)	(3,771)
Profit/(loss) before tax	(2,806)	3,137	(4,310)	7,035	3,056
Income tax expense					
- current	(816)	(1,313)	64	(738)	(2,803)
- deferred	(7,143)	-	-	-	(7,143)
	(7,959)	(1,313)	64	(738)	(9,940)
Profit/(loss) for the year	(10,765)	1,824	(4,246)	6,297	(6,890)

3. Segmental analysis of net assets

	Year ended 31 March 2006				
	INVESTMENTS				
	Investment Management £000	Energy Cranes £000	Consolidated LMS investments £000	Inflexion £000	Total £000
Non-current assets					
Intangible assets	-	20,332	13,313	-	**33,645**
Property, plant and equipment	-	5,176	1,749	-	**6,925**
Investment in joint venture	-	269	-	-	**269**
Other investments	186,349	-	1,208	-	**187,557**
Pension scheme surplus	-	-	-	-	**-**
Deferred tax assets	(8)	-	77	-	**69**
Total non-current assets	**186,341**	**25,777**	**16,347**	**-**	**228,465**
Current assets					
Inventories	-	4,586	-	-	**4,586**
Trade and other receivables	1,018	19,887	4,005	77	**24,987**
Cash and cash equivalents	870	2,467	1,072	43,142	**47,377**
Total current assets	**1,888**	**26,940**	**5,077**	**43,219**	**77,124**
Total assets	**188,229**	**52,717**	**21,424**	**43,219**	**305,589**
Current liabilities					
Borrowings	-	7,703	449	-	**8,152**
Trade and other payables	629	14,557	4,213	1,461	**20,860**
Tax liabilities	379	478	-	-	**857**
Total current liabilities	**1,008**	**22,738**	**4,662**	**1,461**	**29,809**
Non-current liabilities					
Borrowings	-	4,612	865	-	**5,477**
Deferred tax provision	-	-	199	-	**129**
Other payables	-	190	391	-	**581**
Total non-current liabilities	**-**	**4,802**	**1,455**	**-**	**6,257**
Total liabilities	**1,008**	**27,540**	**6,117**	**1,461**	**36,126**
Net assets	**187,221**	**25,177**	**15,307**	**41,758**	**269,463**

4. Discontinued operations – additional information

On 12 April 2006 the Company announced details of the demerger of its Investment business The demerger proposals were approved by shareholders at an Extraordinary General Meeting on 17 May 2006 and the capital reconstruction was sanctioned by the Court and the demerger became effective on 9 June 2006 The effect of the demerger on the continuing London Merchant Securities Group is to leave it with its Property Division assets

Disposal of the Investment business

On 9 June 2006, the Group disposed of its Investment businesses through the de-merger into Leo Capital plc (now LMS Capital plc) which listed on the AIM market The following Investments businesses were de-merged Energy Cranes International Limited, Offshore Tool & Energy, Entuity and AssetHouse

The net assets de-merged were as follows

	At 9 June 2006 £000
Intangible assets	33,645
Property, plant and equipment	9,260
Other investments	189,232
Inventories	4,310
Trade and other receivables	55,852
Cash and cash equivalents	5,202
Total current liabilities	(43,991)
Total non current liabilities	(1,837)
Minority interests	(2,386)
Net assets	**249,287**
Cash dividend paid on de-merger	48,951
Total value	298,238
Net cash out flow arising on de-merger	
Cash dividend	(48,951)
Cash and cash equivalents disposed of	(5,202)
	(54,153)

Additional information on consolidated subsidiaries

The table below provides additional information on the portfolio companies consolidated within the "LMS Consolidated Investments" segment There were three such companies at 31 March 2006 For part of the period to 31 December 2006 three portfolio companies were consolidated, these however ceased to be subsidiaries on 9 June 2006

		Turnover 31 December 2006	Turnover 31 March 2006
Investment	**Activity**	**£000**	**£000**
Offshore Tool & Energy	Specialist engineering design and fabrication for the energy industry	2,217	8,326
Entuity	Network management software	718	2,130
AssetHouse	Content services infrastructure software	28	375

5 Turnover and gross profit

	Nine months ended 31 December 2006	Year ended 31 March 2006
Analysis of turnover for the period		
Gross rental income	40,602	56,914
Property trading income	8,510	4,490
	49,112	61,404

Analysis of gross profit for the period		
Net rental income	36,455	52,039
Net property trading income	8,238	4,158
	44,693	56,197

6. Exceptional administrative expenses

The exceptional item in the period ended 31 December 2006 represents transaction costs associated with the merger with Derwent Valley Holdings plc

The de-merger of the Investment Division resulted in changes in the Group's share option plans The accounting cost of which have been recognised as an exceptional item and represent

- the cost of accelerating the amortisation of the fair value of the share options calculated at the grant date, and
- the incremental movement in fair value of the options due to the performance criteria being treated as full satisfied at de-merger

The exceptional item in the year ended 31 March 2006 represents transaction costs associated with the de-merger of the Investment Division

7. Employees

	Nine months ended 31 December 2006			Year ended 31 March
	Continuing £000	Discontinued £000	Total £000	2006 £000
Wages and salaries	5,646	11,425	17,071	48,792
Share based payments	9,291	689	9,980	327
Social security costs	1,589	1,185	2,774	1,673
Pension contributions	865	182	1,047	1,210
	17,391	13,481	30,872	52,002

The average monthly number of employees (including executive directors) was

	Nine months ended 31 December 2006			Year ended 31 March
	Continuing number	Discontinued number	Total number	2006 Number
Property management	52	-	52	45
Investment management	3	6	9	14
Inflexion	-	-	-	12
Other Investment Division	-	264	264	1,366
Staff recharged to tenants	10	-	10	12
	65	270	335	1,449

The Other Investment Division allocation includes no people (31 March 2006 406) employed by Inflexion plc's consolidated subsidiaries, 228 people (31 March 2006 826) employed by ECI and 36 people (31 March 2006 134) employed by companies in the LMS consolidated subsidiaries segment

8. Expenses and auditors' remuneration

	31 December 2006 £000	31 March 2006 £000
Included in profit/(loss) are the following:		
Depreciation of property, plant and equipment (continuing operations)	472	1,975
Fees payable to the Company's Auditors for the audit of the Company's annual accounts	120	183
Fees payable to the Company's Auditors for other services		
- The audit of the Company's subsidiaries pursuant to legislation	49	50
- Taxation services	41	12
- Relating to merger with Derwent Valley Holdings plc	358	-
- Relating to demerger of Investment Division	-	2,075
- Other Audit related services	-	117

Included within the profit for the period are exceptional administrative expenses of £11 1 million relating to the merger with Derwent Valley Holdings plc, see note 31

9. Pension costs

The assets of the pension schemes are held separately from those of the Group companies The Group operates a defined benefit scheme which is contributory for members, provides benefits based on final pensionable salary and contributions are invested in a Unitised with Profit Policy with Sun Alliance and London Insurance Company Limited plus annuity policies held in the name of the Trustees

With effect from 6 April 2001 the Company introduced a plan to pay contributions to personal pensions established with a specific provider New employees are eligible to join this arrangement, the defined benefit scheme is closed to new entrants Inflexion plc, the Group's 58 8% owned subsidiary, pays contributions to personal pensions for its employees

The pension charge for the Group was £0 9 million (31 March 2006 £1 2 million), including £0 4 (31 March 2006 £0 6 million) relating to the LMS defined benefit scheme, £0 5 (31 March 2006 £0 1 million) relating to defined contribution pension schemes operated by companies in the consolidated investment portfolio companies

The pension charge for the defined benefit scheme is assessed in accordance with the advice of a qualified actuary The most important assumptions made in connection with the establishment of this charge were that interest will be earned on the fund at the rate of 5 2% per annum (31 March 2006 5%) and that salaries will be increased at 4 6% per annum (31 March 2006 4 6%) The market value of assets of the scheme at 31 December 2006 was £10 8 million (31 March 2006 £19 0 million) and the actuarial value of those assets on an ongoing basis represented 108 7% (31 March 2006 109 8%) of the benefit of £9 9 million (31 March 2006 £17 3 million) that had accrued to members allowing for expected future increases in earnings Net of the related deferred tax liability the pension surplus is £0 6 million (31 March 2006 £1 2 million)

9. Pensions costs (continued)

Defined benefit obligations

	31 December 2006 £000	31 March 2006 £000
Present value of funded obligations	(9,907)	(17,301)
Fair value of plan assets	10,766	19,004
Recognised surplus for defined benefit obligations	859	1,703

Movements in present value of defined benefit obligations recognised in the balance sheet

	31 December 2006 £000	31 March 2006 £000
Net surplus/ (liability) for defined benefit obligations at 1 April	1,703	(6,842)
Contributions by employer	1,363	9,847
Expense recognised in the income statement	(164)	(732)
Actuarial losses recognised in reserves	(2,043)	(570)
Net surplus for defined benefit obligations at end of period	859	1,703

Expense recognised in the income statement

	31 December 2006 £000	31 March 2006 £000
Current service costs	400	599
Interest on obligation	279	795
Expected return on plan assets	(515)	(662)
	164	732

The expense is recognised in the following line items in the income statement

	31 December 2006 £000	31 March 2006 £000
Administrative expenses	400	599
Other finance costs	279	795
Finance income	(515)	(662)
	164	732

The Group expects to contribute approximately £0 1 million to its defined benefit plans in the next financial year

Changes in the fair value of plan assets

	31 December 2006 £000	31 March 2006 £000
Fair value of plan assets at 1 April	19,004	7,437
Expected return	515	662
Total contributions	1,421	9,958
Benefits paid	(10,000)	(567)
Actuarial (losses)/ gains	(174)	1,514
Fair value of plan assets at end of period	10,766	19,004

The actual return on the plan assets for the period was £0 3 million (31 March 2006 £2 2 million)

9. Pensions costs (continued)

Changes in the present value of defined benefit obligations

	31 December 2006 £000	31 March 2006 £000
Defined benefit obligation at 1 April	17,301	14,279
Service cost	400	599
Interest cost	279	795
Member contributions	58	111
Benefits	(10,000)	(567)
Actuarial losses	1,869	2,084
Present value of defined benefit obligations at end of period	9,907	17,301

Experience gains and losses

	31 December 2006 £000	31 March 2006 £000	31 March 2005 £000	31 March 2004 £000	31 March 2003 £000
Experience (losses)/gain on plan assets	(174)	1,514	147	1,758	(1,597)
Experience (losses)/gain on plan liabilities	(1,869)	(2,084)	22	(3,617)	(3,582)

Analysis of plan assets

	31 December 2006 £000	31 March 2006 £000
Equities	8,710	15,826
Bonds	977	1,858
Property	255	660
Cash	824	660
Total	10,766	19,004

Principal actuarial assumptions

	31 December 2006 % per annum	31 March 2006 % per annum
Discount rate	5 20%	5 00%
Expected return on plan assets	6 50%	6 50%
Future salary increases	4 60%	4 60%
Inflation	3 10%	3 10%
Future pension increases	5 00%	5 00%

Defined contribution plans

The Group operates a defined contribution pension plan The total expense relating to these plans in the current period was £0 1 million (31 March 2006 £0 1 million) The total expense relating to defined contribution plans operated by companies in the LMS consolidated subsidiaries segment was £0 2 million (31 March 2006 £0 4 million)

10. Net finance costs

	31 December 2006 £000	31 March 2006 £000
Finance costs		
Interest expense		
- 6 5% Secured Bond 2026	8,531	11,375
- £375 million Revolving Bank Loan 2013	9,717	-
- £140 million Revolving Bank Loan 2012	-	7,380
- £60 million Revolving Bank Loan 2009	-	1,535
- Other mortgages and bank loans	1,866	2,947
- Amortisation of issue costs and discounts on issue of mortgages and bonds	854	288
- Bank loans and bank overdrafts	-	2,334
- Pension interest costs	279	795
	21,247	26,654
Finance income		
Pension return on plan assets	(515)	(662)
Exchange gains on dollar balances	(2,593)	-
Other interest income	(513)	(1,526)
	(3,621)	(2,188)
	17,626	24,466
Finance costs on repurchase of debt	-	3,355
	17,626	27,821

11 Income tax expense

Analysis of tax charge for the period

	31 December 2006 £000	31 March 2006 £000
UK Corporation tax on profit	1,072	1,297
Adjustments relating to prior years	163	43
Other overseas taxation	106	4,848
Current tax charge – continuing operations	**1,341**	**6,188**
Current tax charge – discontinued operations	780	2,803
Current tax charge – all operations	2,121	8,991
Deferred tax		
- Origination and reversal of capital allowances and other timing differences	(251)	1,328
- Deferred tax asset on repurchase of debt utilised	3,352	3,820
- Deferred tax on investment properties	33,545	31,466
- Deferred tax reversal on disposal of investment properties	(192)	(3,251)
- Deferred tax on other investments and other losses	9,105	(3,755)
- Adjustments relating to prior years	91	1,052
Deferred tax charge – continuing operations	**45,650**	**30,660**
Deferred tax charge – discontinued operations	(416)	7,143
Deferred tax charge – all operations	**45,234**	**37,803**
Tax on profit for the period – continuing operations	**46,991**	**36,848**

11. Income tax expense (continued)

Tax charge reconciliation

	31 December 2006 £000	31 March 2006 £000
Profit before taxation on continuing operations	170,678	170,335
Profit before taxation multipled by the standard UK rate of corporation tax at 30%	51,203	51,101
Non deductible expenses	3,892	3,168
Investment provisions not available for tax relief	113	-
Tax losses	8,665	-
Unused tax losses	-	(4,723)
Other tax losses carried forward	72	-
Indexation relief on property and investments	(18,031)	(12,794)
Difference in overseas tax rates	(180)	313
Non UK profits and losses not taxable	6	-
Adjustments relating to prior years	254	1,095
Share of joint venture profit and losses	20	(765)
Other adjustments	977	(547)
Tax charge for the period/year – continuing operations	**46,991**	**36,848**

12. Intangible assets

	31 December 2006 £000	31 March 2006 £000
Goodwill		
Cost		
Balance at 1 April	36,312	56,292
Acquisitions through business combinations	-	10,071
Disposal	-	(30,051)
Disposal through de-merger of Investment Division	(36,312)	-
At end of period/year	-	**36,312**
Amortisation and impairment		
Balance at 1 April	(2,667)	-
Impairment charge for period	-	(2,667)
Disposal through de-merger of Investment Division	2,667	-
At end of period/year	-	**(2,667)**
Net book value		
At end of period/year	-	**33,645**

13. Investment property

	Group Freehold £000	Group Leasehold unexpired term over 50 years £000	Group Leasehold unexpired term of 50 years or less £000	Total £000
Balance at 1 April 2006	899,933	118,293	5,339	**1,023,565**
Amount included in prepayments under SIC 15	6,534	179	141	**6,854**
	906,467	118,472	5,480	**1,030,419**
Additions	39,772	89	-	**39,861**
Disposals	(7,276)	-	-	**(7,276)**
Revaluation	158,698	15,116	552	**174,366**
Market value at 31 December 2006	1,097,661	133,677	6,032	**1,237,370**
Amount included in prepayments under SIC 15	(6,456)	(87)	(127)	**(6,670)**
Balance at 31 December 2006	**1,091,205**	**133,590**	**5,905**	**1,230,700**

13. Investment property (continued)

	Group Freehold £000	Group Leasehold unexpired term over 50 years £000	Group Leasehold unexpired term of 50 years or less £000	Total £000
Balance at 1 April 2005	827,247	94,394	4,372	**926,013**
Amount included in prepayments under SIC 15	8,361	111	138	**8,610**
	835,608	94,505	4,510	**934,623**
Additions	26,642	2,655	-	**29,297**
Disposals	(81,952)	-	-	**(81,952)**
Revaluation	126,169	21,312	970	**148,451**
Market value at 31 March 2006	906,467	118,472	5,480	**1,030,419**
Amount included in prepayments under SIC 15	(6,534)	(179)	(141)	**(6,854)**
Balance at 31 March 2006	899,933	118,293	5,339	**1,023,565**

Included within the revaluation is £0 5 million (31 March 2006 £0 2 million) relating to the movement in the grossed up headlease liabilities

Included within Investment Property is investment property under development of £152 9 million as at 31 December 2006 (31 March 2006 £117 6 million)

All investment properties and land and buildings held within property, plant and equipment have been valued at 31 December 2006 on the basis of 'market value' in accordance with the Approved Valuation Manual of the Royal Institution of Chartered Surveyors

98 4% by value of the properties have been valued by CB Richard Ellis, Chartered Surveyors The remaining 1 5% have been valued by Smiths Gore and 0 1% by reference to the subsequent sale price in January 2007 Swinton Shopping Centre, which is included in the Group's joint venture interests in note 15 and which is not included in the table above, has been valued by Colliers CRE

The historical cost of Group investment properties at 31 December 2006 was £389 8 million (31 March 2006 £352 2 million)

14. Property, plant and equipment

	Assets under construction £000	Owner occupied property £000	**Total Land and buildings £000**	**Plant and Equipment £000**	**Total £000**
Cost or valuation					
At 1 April 2006	47,000	5,110	**52,110**	**14,589**	**66,699**
Additions	951	-	**951**	**2,761**	**3,712**
Disposals of Investment Division assets	-	-	-	**(14,051)**	**(14,051)**
Revaluation	4,849	1,079	**5,928**	-	**5,928**
At 31 December 2006	52,800	6,189	**58,989**	**3,299**	**62,288**
Depreciation and impairment losses					
At 1 April 2006	-	210	**210**	**6,425**	**6,635**
Disposals of Investment Division assets	-	79	**79**	**760**	**839**
Depreciation charge for the period	-	-	-	**(4,791)**	**(4,791)**
At 31 December 2006	-	289	**289**	**2,394**	**2,683**
Net book value at 31 December 2006	**52,800**	**5,900**	**58,700**	**905**	**59,605**
Net book value at 1 April 2006	47,000	4,900	51,900	8,164	60,064

14. Property, plant and equipment (continued)

	Assets under Constructıon £000	Owner occupıed property £000	Total Land and buıldıngs £000	Plant and Equıpment £000	Total £000
Cost or valuatıon					
At 1 Apnl 2005	30,000	4,525	**34,525**	**15,836**	**50,361**
Addıtıons	3,019	-	**3,019**	**6,985**	**10,004**
Dısposals	-	-	**-**	**(8,232)**	**(8,232)**
Revaluatıon	13,981	585	**14,566**	**-**	**14,566**
At 31 March 2006	47,000	5,110	**52,110**	**14,589**	**66,699**
Depreciatıon and impairment losses					
At 1 Apnl 2005	-	105	**105**	**5,181**	**5,286**
Depreciatıon charge for the year	-	105	**105**	**2,574**	**2,679**
Dısposals	-	-	**-**	**(1,330)**	**(1,330)**
At 31 March 2006	-	210	**210**	**6,425**	**6,635**
Net book value at 31 March 2006	**47,000**	**4,900**	**51,900**	**8,164**	**60,064**
Net book value at 1 Apnl 2005	30,000	4,420	34,420	10,655	45,075

The hıstoncal cost of land and buıldıngs at 31 December 2006 was £26 2 mıllıon (31 March 2006 £25 2 mıllıon)

15. Investments in Joint Venture

	Country	Ownership 31 December 2006	31 March 2006
Joint Venture			
Mıller (Swınton) Lımıted	Unıted Kıngdom	50%	50%
Euro Mall Štěrboholy sa	Czech Republıc	50%	-

The valuatıon of the Group's share of the property asset held by Mıller (Swınton) Lımıted at 31 December 2006 was £18 5 mıllıon (31 March 2006 £19 0 mıllıon) The Group's share of the assocıated debt at 31 December 2006 was £11 5 mıllıon (31 March 2006 £11 8 mıllıon)

The Group's share of Mıller (Swınton) Lımıted's loss after tax for the penod to 31 December 2006 was £0 1 mıllıon (31 March 2006 Profit £2 5 mıllıon), ıncludıng unrealısed gaıns relatıng to the property asset held by that company

The valuatıon of the Group's share of the property asset held by Euro Štěrboholy sa as at 31 December 2006 was £3 0 mıllıon (31 March 2006 £ nıl)

The Group's share of Euro Štěrboholy sa's profit after tax for the penod to 31 December 2006 was £ nıl

16. Principal consolidated subsidiary undertakings

Property investment companies – 100% owned by Group

British Commercial Property Investment Trust Limited *
Caledonian Property Investments Limited *
Central London Commercial Estates Limited *
City Commercial Real Estate Investments Limited *
Goodge Street Properties Limited *
Greenwich Reach 2000 Limited *
Kensington Commercial Property Investments Limited *
Lion Property Investments Limited
Lioness Property Investments Limited
LMS (City Road) Limited *
LMS (Goodge Street) Limited *
LMS Leisure Investments Limited
LMS Properties Limited
LMS Shops Limited *
LMS Offices Limited *
LMS (Kingston) Limited *
Palaville Limited *
Rainram Investments Limited *
The New River Company Limited *
Urbanfirst Limited
West London & Suburban Property Investments Limited *
340 Pine Street Inc – USA *
Urbanfirst Investments Limited

Property investment companies – 55% owned by Group

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

Property investment companies – 58 5% owned by Group

Bargate Quarter Limited *

Property trading companies – 90% owned by Group

City Shops Limited *

Property trading companies – 100% owned by Group

Caledonian Properties Limited *
Corinium Estates Limited *
LMS Residential Limited *
LMS (Winchester Road) Limited *

Other subsidiary companies – 100% owned by Group

LMS (Outlets) Limited
LMS Finance Limited
LMS Finance (II) Limited *
LMS Industrial Finance Limited
LMS Industrial Finance (II) Limited *
LMS Services Limited
London Merchant Securities Inc – USA *
GVA Collyer Coxhead Tournus SA – France

* Indicates subsidiary undertakings held indirectly

Only the details of subsidiary undertakings principally affecting the profit and loss or the amount of assets of the Group are given A full list of Group companies will be included in the Company's annual return All subsidiaries have an accounting year ended 31 December except London Merchant Securities Inc and 340 Pine Street Inc, unless stated otherwise, are all incorporated in the United Kingdom Holdings are of ordinary shares with the exception of £6 3 million of preference shares in Urbanfirst Limited in addition to all of the ordinary shares in issue

17. Other investments

	Fund investments £000	Listed investments £000	Unlisted investments £000	Total £000
Group				
At 1 April 2006				
Investment management	72,445	56,821	57,083	**186,349**
Consolidated LMS investments	-	-	1,208	**1,208**
Investment Division	72,445	56,821	58,291	**187,557**
Property	2,770	54	-	**2,824**
	75,215	**56,875**	**58,291**	**190,381**
Additions at cost	9,645	681	2,404	**12,730**
Revaluations	(2,612)	(215)	(897)	**(3,724)**
Disposals	(1,164)	(467)	(311)	**(1,942)**
Disposal on de-merger of Investment Division	(73,407)	(56,820)	(59,005)	**(189,232)**
At 31 December 2006	**7,677**	**54**	**482**	**8,213**
Investment management	-	-	-	-
Consolidated LMS investments	-	-	-	-
Property	7,677	54	482	**8,213**
	7,677	**54**	**482**	**8,213**

	Fund investments £000	Listed investments £000	Unlisted investments £000	Total £000
Group				
At 1 April 2005				
Investment management	45,489	29,262	89,510	**164,261**
Consolidated LMS investments	-	-	2,126	**2,126**
Inflexion	842	14,579	-	**15,421**
	46,331	**43,841**	**91,636**	**181,808**
Additions at cost	28,584	9,804	23,433	**61,821**
Reclassification	8,271	13,756	(22,027)	-
Revaluation	12,171	12,756	(26,562)	**(1,635)**
Disposals	(20,142)	(23,282)	(8,189)	**(51,613)**
At 31 March 2006	**75,215**	**56,875**	**58,291**	**190,381**
Investment management	72,445	56,821	57,083	**186,349**
Consolidated LMS investments	-	-	1,208	**1,208**
Investment Division	72,445	56,821	58,291	**187,557**
Property	2,770	54	-	**2,824**
	75,215	**56,875**	**58,291**	**190,381**

The historical cost of Group investments at 31 December 2006 was £8 4 million (31 March 2006 £250 5 million)

18. Trading properties

	31 December 2006 £000	31 March 2006 £000
Trading properties	260	375

At 31 December 2006 the trading properties have been valued by C B Richard Ellis at £9 4 million (31 March 2006 £15 0 million)

19. Trade and other receivables

	31 December 2006 £000	31 March 2006 £000
Rents and service charges receivable	6,909	4,918
Corporation tax	50	77
Other debtors	3,313	31,357
Other prepayments and accrued income	11,383	9,501
	21,655	45,853

20 Cash and cash equivalents

	At 31 December 2006 Total £000	At 31 March 2006 Total £000
Bank balances	1,321	66,893
Call deposits	4,386	33,547
Cash and cash equivalents	5,707	100,440
Bank overdrafts	-	(5,477)
Cash and cash equivalents in the statement of cash flows	5,707	94,963

Cash and cash equivalents in the Investment Division as at 31 March 2006 includes £43 1 million held by Inflexion plc, following the sale of its assets, for distribution to Inflexion shareholders

21. Trade and other payables

	31 December 2006 £000	31 March 2006 £000
Rents received in advance	11,268	11,492
Other taxes and social security	1,799	2,955
Other creditors	7,177	14,656
Accruals	18,790	28,664
	39,034	57,767

22. Borrowings

	At 31 December 2006 Total £000	Year ended 31 March 2006 Total £000
Non-current borrowings		
6 5% Secured Bond 2026	173,228	173,158
£375 million Revolving Bank Loan 2013	265,537	206,352
Mortgages	24,819	23,516
Unsecured loans	1,318	1,547
Other non-current borrowings (all secured)		
- Energy Cranes International	-	4,612
- LMS consolidated entities	-	865
	464,902	410,050
Current borrowings		
Bank overdraft		
- LMS	-	71
- Energy Cranes International	-	5,406
	-	5,477
Bank loans		
- Property (all secured)	3,458	4,625
- Energy Cranes International	-	2,297
- Entuity	-	268
- Offshore Tool and Energy	-	181
	3,458	7,371
	3,458	12,848
Total borrowings	468,360	422,898

22. Borrowings (continued)

During the year to 31 March 2006 the Group restructured its borrowings, repaying outstanding balances on the revolving bank loans and certain mortgages A new £375 million bank loan was arranged, consisting of the following

- £125 million seven year term loan expiring 29 March 2013
- £210 million available on revolving basis for a seven year term expiring 29 March 2013
- £40 million available on a revolving basis on a seven year term expiring 29 March 2013, but conditional upon and only available for use in effecting the demerger of the Group's Investment Division (refer note 31)

The Secured Bond of £175 million is secured on all the assets of the Company and ten of its property owning subsidiaries

£1 3 million loans are unsecured All other bank loans and mortgages are secured by first charge on individual investment property assets

The Investment Division loans, all of which arise in the consolidated portfolio companies, are secured by a combination of fixed and floating charges over property and other assets of those companies

The maturity profile of the Group's borrowing is shown below

	31 December 2006 £000	Property £000	Investment 31 March 2006 £000	Total £000
Borrowings – Property				
- Repayable after more than five years	438,765	404,573	-	404,573
- Repayable within one and two years	26,137	4,696	-	4,696
- Repayable within one year	3,458	-	-	-
Other consolidated entities				
- Repayable after more than five years	-	-	635	635
- Repayable within two to five years	-	-	4,601	4,601
- Repayable within one to two years	-	-	241	241
- Repayable within one year	-	-	8,152	8,152
	468,360	409,269	13,629	422,898

Unamortised discount and issue costs

Unamortised discount and issue costs at 31 December 2006 amounted to £5 2 million (31 March 2006 £5 7 million) The balance at 31 December 2006 relates to

- £175 million Bonds 2026 (£1 8 million)
- £375 million Bank Loan 2013 (£3 4 million)

Unamortised issue costs of £0 5 million in connection with bank loans and mortgages repaid in the year have been charged to the income statement

Undrawn committed borrowing facilities

The Group's undrawn committed borrowing facilities at 31 March were

	31 December 2006 £000	31 March 2006 £000
Expiring within two to five years	-	-
Expiring after more than five years	106,000	125,000

22. Borrowings (continued)

Interest rates

The Group's Bond and mortgages, with the exception of the £2 million mortgage maturing 2017, are fixed rate

The £375 million seven year revolving bank loan is a floating rate loan The Group has restructured its previous interest rate hedging arrangement and put additional hedging in place in respect of a proportion of its seven year rate exposure

Borrowings

The interest rate profile of the Group's financial liabilities is

	31 December 2006			31 March 2006		
	£m	Effective Interest Rate	Weighted Average Life	£m	Effective Interest Rate	Weighted Average Life
Fixed Rate	396 8	5 9%	12 2 years	336 4	6 4%	14 0 yrs
Floating Rate	71 6	5 7%	6 0 years	86 5	5 6%	5 7 yrs
	468 4	5 9%	11 3 years	422 9	6 2%	12 3 yrs

Fixed rate financial liabilities include £200 million (31 March 2006 £140 million) of interest rate swaps at an effective interest rate of 4 9% and a weighted average life of 6 0 years

23. Financial Instruments

	31 December 2006					
	£ Sterling	US dollars	Total	£ Sterling	US dollars	Total
	31 December 2006			31 March 2006		
	£m	£m	£m	£m	£m	£m
Short-term borrowings						
Denomination of short-term borrowings	3 5	-	3 5	12 6	0 2	12 8
Long-term borrowings						
Denomination of long-term borrowings	464 9	-	464 9	409 2	0 9	410 1
Total borrowings	**468 4**	**-**	**468 4**	**421 8**	**1 1**	**422 9**
Effective interest rate of financial liabilities	5 9%	-	5 9%	6 2%	5 1%	6 2%
Weighted average period for which interest rates on the financial liabilities are fixed	11 3 years	-	11 3 years	12 3 yrs	1 2 yrs	12 3 yrs

At 31 March 2006 the US dollar denominated borrowings all relate to the Investment Division

Fair values

There is no material difference between book value and fair value for short-term debtors and creditors and these are not included in the disclosure relating to fair value, with the exception of short-term borrowings Cash deposits held by the Group are denominated £4 4 million sterling (31 March 2006 £30 7 million) and, £ nil million US dollars (31 March 2006 £2 8 million) and are predominantly held on short-term floating rate deposit accounts with a range of banks

23 Financial Instruments (continued)

Mark to market of long-term borrowing adjustment

	Book Value	Fair Value	Excess over book value	Book Value	Fair Value	Excess Over Book Value
	31 December 2006			31 March 2006		
	£m	£m	£m	£m	£m	£m
Property Division non-current borrowings						
6 5% Secured Bond 2026	173 3	200 1	26 8	173 2	205 8	32 6
£375m Revolving Bank Loan 2013	265 5	269 0	3 5	206 4	206 4	-
9 695% Mortgage 2018	20 0	28 1	8 1	20 0	29 9	9 9
6 7% Mortgage 2014	2 3	2 4	0 1	2 3	2 4	0 1
Floating rate Mortgage 2017	2 4	2 4	-	1 2	1 2	-
Unsecured loans	1 4	1 4	-	1 5	1 5	-
Investment Division non-current borrowings						
- Energy Cranes International	-	-	-	4 6	4 6	-
- LMS consolidated entities	-	-	-	0 9	0 9	-
	464 9	**503 4**	**38 5**	**410 1**	**452 7**	**42 6**
Less taxation			(11 6)			(12 8)
Less minority share			(2 5)			(3 1)
Group share of fair value adjustment (net of taxation)			**24 5**			**26 7**

Fair values of the liabilities have been calculated at the year end by taking market value, where available, or estimated early repayment costs for mortgages However, the Group is under no obligation to redeem borrowings until maturity at which time they are repayable at their nominal value

Financial instruments

Exposure to interest rate and currency risk arises in the normal course of the Group's business Derivative financial instruments are used to hedge exposure to fluctuations in interest rates

Interest rate risk

Hedging

The Group's principal floating rate exposure is on the Revolving Bank Loan 2013, and in respect of this loan it is the Group's policy that a substantial proportion of its exposure to changes in interest rates on borrowings is on a fixed rate basis

Interest rate swaps have been entered into to achieve an appropriate mix of fixed and floating rate exposure within the Group's policy The swaps mature over the next 7 years following the maturity of the related loans and have fixed swap rates of approximately 4 9%

At 31 December 2006 the Group had interest rate swaps with a notional contract amount of £200 million (31 March 2006 £140 million), all of which were deemed to be effective hedges The fair value adjustment arising in relation to these swaps at 31 December 2006 was £4 4 million credit (31 March 2006 £0 6 million debit), which was taken directly to reserves

23. Financial Instruments (continued)

Effective interest rates and repricing

In respect of income-earning financial assets and interest-beanng financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the penods in which they repnce

	31 December 2006				
	Effective interest rate	Total £m	Less than 1 year £m	1-2 years £m	More than 5 Years £m
Fixed rate					
6 5% Secured Bond 2026	6 6%	173 2	-	-	173 2
£375 Million Revolving Bank Loan					
2013 – hedged portion	5 0%	197 4	-	-	197 4
9 695% Mortgage 2018	9 7%	20 0	-	-	20 0
6 7% Mortgage 2014	6 8%	2 3	-	-	2 3
Other non-current borrowings	5 0%	3 9	2 4	-	1 5
	5 9%	396 8	2 4	-	394 4
Floating rate					
£375 Million Revolving Bank Loan					
2013 – unhedged portion	5 7%	68 1	68 1	-	-
Other bank debt	5 7%	3 5	3 5	-	-
	5 7%	71 6	71 6	-	-
Total	**5 9%**	**468 4**	**74 0**	**-**	**394 4**

	31 March 2006				
	Effective interest rate	Total £m	Less than 1 year £m	1-2 years £m	More than 5 Years £m
Fixed rate					
6 5% Secured Bond 2026	6 6%	173 2	-	-	173 2
£375 Million Revolving Bank Loan					
2013 – hedged portion	5 6%	140 0	-	-	140 0
9 695% Mortgage 2018	9 7%	20 0	-	-	20 0
6 7% Mortgage 2014	6 8%	2 3	-	-	2 3
Other non-current borrowings					
- LMS consolidated entities	4 9%	0 9	-	0 9	-
	6 4%	336 4	-	0 9	335 5
Floating rate					
£375 Million Revolving Bank Loan					
2013 – unhedged portion	5 4%	66 4	66 4	-	-
Floating rate mortgage 2017	5 4%	1 2	1 2	-	-
Other bank debt	5 4%	4 6	4 6	-	-
Other non-current borrowings	6 2%	14 3	14 3	-	-
	5 6%	86 5	86 5	-	-
Total	**6.2%**	**422.9**	**86 5**	**0 9**	**335 5**

24. Deferred Tax

	Assets	Liabilities	Net	Assets	Liabilities	Net
	31 December 2006			31 March 2006		
	£000	£000	£000	£000	£000	£000
Plant and equipment	-	(8,252)	(8,252)	-	(8,404)	**(8,404)**
Investment and other property	-	(130,954)	(130,954)	-	(96,441)	**(96,441)**
Capital losses	2,570	-	2,570	12,388	-	**12,388**
Interest rate swaps	-	(1,144)	(1,144)	188	-	**188**
Employee benefits	-	(258)	(258)	-	(511)	**(511)**
Share option costs	1,277	-	1,277	-	-	**-**
Provisions	1,007	-	1,007	1,222	-	**1,222**
Tax value of revenue losses	2,564	-	2,564	5,916	-	**5,916**
Tax assets/(liabilities)	7,418	(140,608)	(133,190)	19,714	(105,356)	**(85,642)**
Set off of tax	-	-	-	(13,729)	13,729	-
Net tax assets/(liabilities)	**7,418**	**(140,608)**	**(133,190)**	**5,985**	**(91,627)**	**(85,642)**

	Balance at 1 April 2006 £000	Recognised in Income £000	Recognised in Reserves/Equity £000	Balance at 31 December 2006 £000
Plant and equipment	(8,404)	152	-	**(8,252)**
Investment and other property	(96,441)	(33,278)	(1,235)	**(130,954)**
Capital losses	12,396	(9,826)	-	**2,570**
Interest rate swaps	188	-	(1,332)	**(1,144)**
Employee benefits	(511)	(360)	613	**(258)**
Share option costs	-	1,425	(148)	**1,277**
Provisions	1,343	(336)	-	**1,007**
Tax value of revenue losses	5,916	(3,352)	-	**2,564**
	(85,513)	(45,575)	(2,102)	**(133,190)**
Discontinued operations	(129)	416	(287)	-
	(85,642)	(45,159)	(2,389)	(133,190)
Share of tax on joint venture investment property – recognised in profit before tax		(75)		
		(45,234)		

24. Deferred Tax (continued)

	Balance at 1 April 2005 £000	Recognised in Income £000	Recognised in Reserves/Equity £000	Balance at 31 March 2006 £000
Plant and equipment	(9,274)	870	-	**(8,404)**
Investment and other property	(62,952)	(29,429)	(4,060)	**(96,441)**
Capital losses	16,135	(3,747)	-	**12,388**
Interest rate swaps	-	-	188	**188**
Employee benefits	2,052	(2,734)	171	**(511)**
Other items	(148)	1,468	(98)	**1,222**
Tax value of revenue losses	11,361	(5,445)	-	**5,916**
	(42,826)	(39,017)	(3,799)	**(85,642)**
Discontinued operations	(115)	-	115	-
	(42,941)	(37,017)	(3,684)	**(85,642)**
Share of tax on joint venture investment property – recognised in profit before tax		1,214		
		(37,803)		

The deferred tax liability on investment properties is calculated taking account of the benefit of indexation relief The impact of this is to reduce the liability by £97 8 million at 31 December 2006 (31 March 2006 £77 6 million)

25. Called up share capital

	Authorised 25p Ordinary	Authorised $27\ ^{18}/_{41}p$ Ordinary	Authorised $27\ ^{18}/_{41}p$ Unclassified	Allotted called up and fully paid $27\ ^{18}/_{41}p$ Ordinary	Allotted called up and fully paid $27\ ^{18}/_{41}p$ Deferred Ordinary
Number of shares					
At 31 March 2005	-	358,152,526	6,291,918	-	328,932,816
Issued during the year	-	-	-	-	68,677
At 31 March 2006	-	358,152,526	6,291,918	-	329,001,493
Conversion	400,000,000	(358,152,526)	(6,291,918)	329,001,493	(329,001,493)
Issued during the period/year	-	-	-	1,152,478	-
Number of shares At 31 December 2006	**400,000,000**	**-**	**-**	**330,153,971**	**-**
Nominal value					
At 31 March 2006	-	98,273,559	1,726,441	-	90,255,956
Issued during the year	-	-	-	-	18,844
At 31 March 2006	-	98,273,559	1,726,441	-	90,274,800
Issued during the period/year	-	-	-	-	-
Conversion	100,000,000	(98,273,559)	(1,726,441)	82,250,373	(90,274,800)
Issued during the period/year	-	-	-	288,120	-
Nominal value At 31 December 2006	**100,000,000**	-	-	82,538,493	-

During the year 934,693 Ordinary shares were issued for an average consideration of 151 7p each under the LMS Executive Share Option Scheme and 217,785 Ordinary shares were issued under SAYE Scheme

25. Called up share capital (continued)

Reorganisation of the share capital

Pursuant to the demerger of the Company's investment division in June 2006, the Company's share capital was reorganised into ordinary shares of 25p each and special interest shares, relating to the investment division of 2 18/41p each

Leo Capital plc (the demerged investment division and now called LMS Capital plc) then acquired from the shareholders the special interest shares in return for Leo Capital ordinary shares The special interest shares were then acquired by the Company from Leo Capital plc for £1 and cancelled to be replaced by New Investment Shares upon which a dividend in specie was declared This dividend in specie comprised the Group's Investment Division plus cash
Options to subscribe for shares under the Company's share option scheme are listed in the table below which shows both the adjusted price and the previous price Performance conditions exist for options granted under the LMS Executive Share Option Scheme These are explained in the tables below

31 December 2006
Executive Share Option Scheme

Number	Class	Exercise price	Grant date	Vesting conditions	Date from Which exercisable	Expiry date
1,510,188	Ordinary	142 3p	5 January 2001	Notes 1 & 5	5 January 2004	5 January 2011
439,621	Ordinary	112 5p	29 August 2003	Notes 2 & 5	29 August 2006	28 August 2013
384,836	Ordinary	148 1p	1 September 2004	Notes 3 & 5	1 September 2007	2 September 2014
424,231	Ordinary	179 6p	28 June 2005	Notes 3 & 5	28 June 2008	28 June 2015
267,928	Ordinary	215 5p	31 August 2006	Notes 3 & 5	31 August 2009	31 August 2016

31 March 2006
Executive Share Option Scheme

Number	Class	Exercise price	Grant date	Vesting conditions	Date from Which exercisable	Expiry date
50,524	Ordinary	195½p	28 July 2000	Notes 1 & 5	27 July 2003	27 July 2010
357,787	Ordinary	189½p	28 July 2000	Notes 1 & 5	27 July 2003	27 July 2010
5,630	Ordinary	161½p	5 January 2001	Notes 1 & 5	5 January 2004	5 January 2011
1,263,562	Ordinary	174p	5 January 2001	Notes 1 & 5	5 January 2004	5 January 2011
340,650	Ordinary	104p	1 April 2003	Notes 2 & 5	1 April 2006	31 March 2013
1,617,431	Ordinary	137½p	29 August 2003	Notes 2 & 5	29 August 2006	28 August 2013
1,739,849	Ordinary	181p	1 September 2004	Notes 3 & 5	1 September 2007	2 September 2014
1,183,934	Ordinary	219½p	28 June 2005	Notes 3 & 5	28 June 2008	28 June 2015

Sharesave Scheme

Number	Class	Exercise price	Grant date	Vesting conditions	Date from Which exercisable	Expiry date
8,265	Ordinary	122½p	27 July 2001	Notes 4 & 5	1 September 2006	31 March 2007
70,401	Ordinary	104½p	27 July 2001	Notes 4 & 5	1 September 2006	31 March 2007
74,901	Ordinary	104½p	27 July 2001	Notes 4 & 5	1 September 2008	31 March 2009
19,299	Ordinary	130p	23 December 2003	Notes 4 & 5	1 February 2007	31 July 2007
36,571	Ordinary	130p	23 December 2003	Notes 4 & 5	1 February 2009	31 July 2009
23,225	Ordinary	130p	23 December 2003	Notes 4 & 5	1 February 2011	31 July 2011

In March 1998, the Company established a qualifying employee share ownership trust (QUEST) to acquire Ordinary and Deferred Ordinary shares of the Company for supply to employees exercising options under the LMS Savings-Related Share Option Scheme The Trustee of the QUEST is LMS QUEST Trustee Limited, which is a wholly-owned subsidiary of the Company All employees of the Company, including executive directors of the Company (except The Hon R A Rayne), are potential beneficiaries under the QUEST At 31 December 2006, the QUEST held 115,758 Ordinary shares at a cost and valuation of £0 1 million (31 March 2006 117,778 ordinary shares at a cost and valuation of £0 1 million)

25. Called up share capital (continued)

Vesting conditions notes

1 Vesting is after a performance condition has been satisfied The performance condition for the executive options granted in July 2000 and January 2001 is that in any three year period following the grant of the options shareholders' funds must increase by a percentage greater than the increase in the Retail Prices Index plus 9%

2 Vesting is after a performance condition has been satisfied The performance condition for the executive options granted in April 2003 and August 2003 is that in the first three year period following the grant of the options shareholders' funds must increase by a percentage greater than the increase in the Retail Prices Index plus 9%

3 Vesting is after a performance condition has been satisfied The performance condition for the executive options granted after September 2004 is that the Total Shareholder Return (TSR) over the first three year period after grant must exceed the arithmetic average of the TSR for the FTSE 250 and the TSR for the FTSE Real Estate index for the same period

4 Under the Scheme employees make regular payments into a savings account which, after a pre-determined period of 3, 5 or 7 years, can be used to purchase shares at a price set at the start of the savings period

5 The first exercise date shown in the table above is in each case three years from the date of grant Under the rules of the LMS Executive Share Option Scheme and the LMS Sharesave Scheme, if the Company enters into a Scheme of Arrangement options may be exercisable earlier than three years from the date of grant Pursuant to the demerger of Leo Capital plc a Scheme of Arrangement was sanctioned by the Court on 8 June 2006 and the Remuneration Committee treated the performance conditions for grants under the Executive Share Option Scheme as satisfied All options, including those under the LMS Sharesave Scheme, are therefore exercisable at the date of the demerger

6 The first exercise date shown in the table above is in each case three years from the date of grant Under the rules of the LMS Executive Share Option Scheme and the LMS Sharesave Scheme, if the Company enters into a Scheme of Arrangement options may be exercisable earlier than three years from the date of grant Pursuant to the merger with Derwent Valley Holdings plc, a Scheme of Arrangement was sanctioned by the Court on 31 January 2007 and the Remuneration Committee treated the performance conditions for grants under the Executive Share Option Scheme outstanding at that date as satisfied All options, including those under the LMS Sharesave Scheme, are therefore exercisable at the date of the merger

	31 December 2006		31 March 2006	
	Weighted average exercise price	Number Of options	Weighted Average Exercise price	Number of options
Outstanding at 1 April	170 4	6,792,029	157 9p	5,932,532
Conversion of shares	31 4	1,458,770	-	-
Granted during the period	215 5	284,633	219 5p	1,183,934
Exercised during the period	139 6	(5,491,923)	123 3p	(223,608)
Lapsed during the period	215 5	(16,705)	112 0p	(100,829)
Outstanding at the end of the period	150 4	3,026,804	170 4p	6,792,029
Exercisable at the end of the period	150 4	3,026,804	-	-

The weighted average share price at the date of exercise of share options exercised during the year was 249 8p (31 March 2006 231 3p)

The options outstanding at the year end have an exercise price in the range of 112 5p to 215 5p (2005 104p to 219½p), and a remaining weighted average contractual life of 6 0 years (31 March 2006 7 1 years)

The following information was used in the determination of the fair value of options granted during the year The Black-Scholes option pricing model has been used

	31 December 2006	31 March 2006
Share price at date of grant (31 March 2006 restated – 223 5p)	217 3p	182 8p
Exercise price (31 March 2006 restated – 219 5p)	215 5p	179 6p
Expected volatility	20 0%	20%
Term of option	3 years	3 years
Dividend yield	3 0%	3%
Risk free interest rate	4 1%	4 12%

26. Reserves

	Share Premium Account £000	Capital reduction reserve £000	Revaluation reserve £000	Translation reserve £000	Hedging reserve £000	Profit and loss account £000	Total parent equity £000	Minority Interest £000	Total equity £000
At 1 April 2006	20,687	2,868	26,897	2,673	(438)	683,960	**736,647**	66,940	**803,587**
Issue of shares during the period	1,328	-	-	-	-	-	**1,328**	-	**1,328**
Surplus on revaluation of property, plant and equipment	-	-	5,928	-	-	-	**5,928**	-	**5,928**
Deferred tax on surplus on revaluation of property, plant and equipment	-	-	-	-	-	(1,235)	**(1,235)**	-	**(1,235)**
Actuarial loss on defined Benefit pension scheme	-	-	-	-	-	(2,043)	**(2,043)**	-	**(2,043)**
Deferred tax on actuarial losses taken to reserves	-	-	-	-	-	613	**613**	-	**613**
Issue of employee share options	-	-	-	-	-	563	**563**	-	**563**
Deferred tax on issue of employee share options	-	-	-	-	-	(148)	**(148)**	-	**(148)**
De-merger disposal adjustment	-	-	-	-	-	-	**-**	(2,386)	**(2,386)**
Exchange difference	-	-	-	(2,493)	-	-	**(2,493)**	-	**(2,493)**
Change in nominal value of share capital	-	8,024	-	-	-	-	**8,024**	-	**8,024**
Effective portion of changes in fair value of interest rate cash flow hedges	-	-	-	-	4,440	-	**4,440**	-	**4,440**
Deferred tax on changes in fair value of interest rate cash flow hedges	-	-	-	-	(1,332)	-	**(1,332)**	-	**(1,332)**
Profit for the period	-	-	-	-	-	114,504	**114,504**	6,741	**121,245**
Dividends paid	-	-	-	-	-	(15,064)	**(15,064)**	(15,730)	**(30,794)**
Dividend in specie	-	-	-	-	-	(298,238)	**(298,238)**	-	**(298,238)**
At 31 December 2006	22,015	10,892	32,825	180	2,670	482,912	**551,494**	55,565	**607,059**

	Share premium account £000	Capital Reduction reserve £000	Revaluation reserve £000	Translation reserve £000	Hedging reserve £000	Profit and loss account £000	Total parent equity £000	Minority interest £000	Total Equity £000
At 1 April 2005	20,575	2,868	12,331	(269)	-	600,151	**635,656**	52,435	**688,091**
Issue of shares during the year	112	-	-	-	-	-	**112**	-	**112**
Surplus on revaluation of property, plant and equipment	-	-	14,566	-	-	-	**14,566**	-	**14,566**
Deferred tax on surplus on revaluation of property, plant and equipment	-	-	-	-	-	(4,060)	**(4,060)**	-	**(4,060)**
Actuarial loss on defined benefits pension scheme	-	-	-	-	-	(570)	**(570)**	-	**(570)**
Deferred tax on actuarial losses taken directly to equity	-	-	-	-	-	171	**171**	-	**171**
Issue of employee share options	-	-	-			327	**327**	-	**327**
Deferred tax benefit on issue of employee share options	-	-	-	-	-	(99)	**(99)**	-	**(99)**
Exchange difference	-	-	-	2,942	-	-	**2,942**	-	**2,942**
Acquisition of subsidiaries	-	-	-	-	-	-	**-**	(9,311)	**(9,311)**
Effective portion of changes in fair value of interest rate cash flow hedges	-	-	-	-	(626)	-	**(626)**	-	**(626)**
Deferred tax on changes in fair value of interest rate cash flow hedges	-	-	-	-	188	-	**188**	-	**188**
Other	-	-	-	-	-	-	**-**	7,907	**7,907**
Profit for the year	-	-	-	-	-	109,442	**109,442**	17,155	**126,597**
Dividends paid	-	-	-	-	-	(21,402)	**(21,402)**	(1,246)	**(22,648)**
At 31 March 2006	20,687	2,868	26,897	2,673	(438)	683,960	**736,647**	66,940	**803,587**

27. Reconciliation of movement in equity

For the year ended 31 December 2006

	31 December 2006 £000	31 March 2006 £000
Shareholders' funds at 1 April	826,922	725,912
Issue of shares	1,615	131
Issue of employee share options	563	327
Deferred tax benefit on issue of employee share options	(148)	(99)
	828,952	726,271
Total recognised income and expense for the period	118,382	122,053
Dividends	(15,064)	(21,402)
Dividend in specie in connection with de-merger of Investment Division	(298,238)	-
Shareholders' funds at end of period	**634,032**	**826,922**

28. Capital commitments

	31 December 2006 £000	31 March 2006 £000
Property Division	59,237	68,981
Investment Division		
- commitments by LMS Capital	-	69,034
Total	59,237	138,015

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

30. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed

31. Subsequent events

On 14 November 2006 the Company announced details of the proposed merger with Derwent Valley Holdings plc The merger proposals were approved by shareholders at an Extraordinary General Meeting on 10 January 2007 and the merger was sanctioned by the Court and became effective on 31 January 2007

Company Balance Sheet
At 31 December 2006

	Notes	31 December 2006 £000	31 March 2006 £000
Fixed assets			
Investment properties	b	2,275	2,175
Investments - consolidated subsidiary undertakings	c	453,280	299,381
		455,555	301,556
Current assets			
Debtors	d	461,368	760,632
Cash at bank		29	5
		461,397	760,637
Creditors amounts falling due within one year	e	(14,845)	(16,064)
Net current assets		446,552	744,573
Total assets less current liabilities		902,107	1,046,129
Creditors amounts falling due after more than one year	f	(173,228)	(173,158)
Net assets		728,879	872,971
Capital and reserves			
Called up share capital		82,538	90,275
Share premium account	h	22,015	20,687
Capital reduction account	h	10,892	2,868
Revaluation reserve	h	438,099	280,166
Profit and loss account	h	175,335	478,975
Equity shareholders' funds		728,879	872,971

The Company's loss for the period amounted to £25 8 million (31 March 2006 £74 4 million loss) The accounts on pages 49 to 53 were approved by the Board of Directors on 6 July 2007 and were signed on its behalf by

N R Friedlos
Director

Company reconciliation of movements in shareholders' funds
For the nine months ended 31 December 2006

	31 December 2006 £000	31 March 2006 £000
Loss for the financial period/year	(25,795)	(74,388)
Dividends paid	(15,064)	(21,402)
Dividend in specie	(297,263)	-
Loss transferred from reserves	(338,122)	(95,790)
Revaluation of investment property and subsidiary undertakings	192,000	227,111
Issue of shares	1,615	131
Issue of employee share options	563	328
Deferred tax benefit on issue of employee share options	(148)	(99)
Movement in shareholders' funds	(144,092)	131,681
Shareholders' funds at 1 April	872,971	741,290
Shareholders' funds at end of period/year	728,879	872,971

Notes
(forming part of the financial statements)

a Accounting policies

The Company financial statements have been prepared under UK GAAP, rather than under IFRS which has been adopted for Group reporting

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules, except for investment properties and investment in subsidiaries which are stated at their fair value

Under Section 230(4) of the Companies Act 1985 the Company is exempt from the requirement to present its own profit and loss account These financial statements present information about the Company as an individual undertaking and not about its group

Net rental income

Rental income is recognised on an accruals basis Rent increases arising from rent reviews are taken into account when such reviews have been settled with tenants

Investment properties

In accordance with SSAP 19 'Accounting for Investment Properties', investment properties are revalued annually at open market value determined in accordance with the Appraisal and Valuation Manual of the Royal Institute of Chartered Surveyors Revaluation surpluses and temporary deficits are included in the revaluation reserve, permanent deficits being taken through the profit and loss account

No depreciation or amortisation is provided in respect of freehold investment properties and leasehold investment properties with over 20 years to run This treatment, which is in accordance with SSAP 19, may be a departure from the requirements of the Companies Act concerning depreciation of fixed assets However, these properties are not held for consumption but for investment and the directors consider that systematic annual depreciation would be inappropriate

The accounting policy adopted is therefore necessary for the financial statements to give a true and fair view Depreciation or amortisation is only one of many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified

Taxation

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

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

Deferred tax assets and liabilities arise from timing differences between the recognition of gains and losses in the accounts and their recognition in a tax computation

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

Subsidiary undertakings valuation

The Company's investments in the shares of Group undertakings are stated at directors' valuation on a basis which takes account of the net assets of the undertakings at 31 December 2006 which will include the professional valuation of properties Surpluses and temporary deficits arising from the directors' valuation are taken to revaluation reserve in the Company balance sheet, permanent diminutions in value are taken to the Company profit and loss account

b) Tangible fixed assets

	Freehold 31 December 2006 £000	Freehold 31 March 2006 £000
Investment Properties		
Valuation		
At 1 April	2,175	375
Surplus on revaluation	100	1,800
At end of period/year	2,275	2,175
Historical cost of revalued assets		
At end of period/year	39	39

The investment properties have been independently valued by CB Richard Ellis, Chartered Surveyors, of London as at 31 December 2006 on the basis of "Market Value" in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors

c) Investments – consolidated subsidiary undertakings

	31 December 2006 £000	31 March 2006 £000
At 1 April at valuation	299,381	387,066
Additions at cost	-	7,000
Surplus on revaluation of subsidiary undertakings	183,280	225,311
Disposals	(29,381)	(319,996)
At end of period/year	453,280	299,381

d) Debtors

	31 December 2006 £000	31 March 2006 £000
Amounts owed by subsidiary undertakings	460,089	753,889
Corporation tax	946	1,799
Deferred tax asset	98	2,786
Other debtors	-	2,021
Other prepayments and accrued income	235	137
At end of period/year	461,368	760,632

e) Creditors: amounts falling due within one year

	31 December 2006 £000	31 March 2006 £000
Bank overdrafts	-	24
Amounts owed to subsidiary undertakings	-	4,393
Other creditors	1,761	2,191
Accruals	13,084	9,456
At end of period/year	14,845	16,064

f) Creditors: amounts falling due after more than one year

	31 December 2006 £000	31 March 2006 £000
6 5% Secured Bond 2026	173,228	173,158
At end of penod	173,228	173,158

The Secured Bond of £175 milion is secured on all the assets of the Company The maturity profile of the Company's borrowing is shown below

	31 December 2006 £000	31 March 2006 £000
Borrowings		
Repayable after more than five years	173,228	173,158
Repayable within one year	-	24
	173,228	173,182

g) Provisions for liabilities and charges

	31 December 2006 £000	31 March 2006 £000
Provision for deferred taxation on accelerated capital allowances and other timing differences		
At 1 April	-	56
Movements in provision during the year	-	(56)
At end of period	-	-

h) Reserves

	Share premium account £000	Capital reduction account £000	Revaluation Reserve £000	Profit and Loss account £000	Total £000
At 31 March 2006	20,687	2,868	280,166	478,975	782,696
Issues of shares during the period	1,328	-	-	-	1,328
Change in nominal value of share capital	-	8,024	-	-	8,024
Surplus on revaluation of investment properties	-	-	14	-	14
Surplus on revaluation of subsidiary undertakings	-	-	191,986	-	191,986
Realisation of revaluation surpluses of previous years	-	-	(34,067)	34,067	-
Issue of employee share options	-	-	-	563	563
Deferred tax benefit on issue of employee share options	-	-	-	(148)	(148)
Dividends paid	-	-	-	(15,064)	(15,064)
Dividend in specie	-	-	-	(297,263)	(297,263)
Retained loss for the period	-	-	-	(25,795)	(25,795)
At 31 December 2006	22,015	10,892	438,099	175,335	646,341

Details of the Company's share capital are given in note 25