

Registered No. 349201



A25 *ALTQNUOJ* 0200
COMPANIES HOUSE 29/04/04

St. MODWEN PROPERTIES PLC

Annual Report 2003

Access 18, Avonmouth, Bristol — a 212-acre former smelting plant acquired May 2003 for regeneration as a major employment park.
Phase I (4 acres) — completed. Phase II (34 acres) — planning application submitted. Phase III (174 acres) — site clearance and demolition under way.

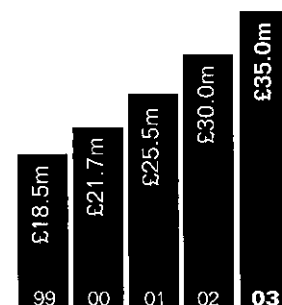
Contents

Financial Highlights	1	Corporate Governance	28
Chairman's Statement	3	Directors' Remuneration Report	31
The Chairmanship of Sir Stanley Clarke	4	Group Profit and Loss Account	36
Chief Executive's Operational Review	6	Balance Sheets	37
Review of Major Projects	15	Group Cash Flow Statement	38
Environmental Impact	18	Supplementary Statements	39
Financial Review	20	Accounting Policies	40
Analysis of the Portfolio	23	Notes to the Accounts	41
Directors and Advisers	24	Five Year Record	56
Shareholder Information	25	Auditors' Report to the Members	57
Directors' Report	26	Annual General Meeting	58
Directors' Responsibilities	27	Notice of Meeting	59

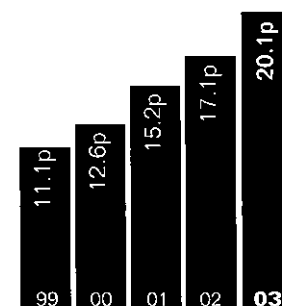
Visit our website on **www.stmodwen.co.uk**

Financial Highlights

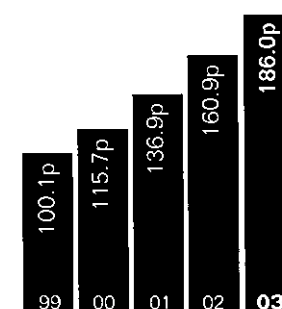
Profit before tax up 17%
to £35m



Earnings per share up 18%
to 20.1p

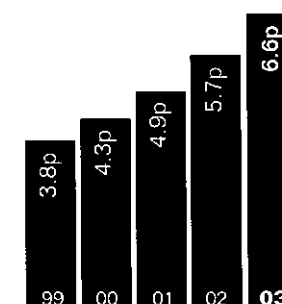


Net assets per share up 16%
to 186.0p



“Eleventh
successive year
of record results.”

Dividend per share up 16%
to 6.6p



Longbridge, Birmingham: 228 acres (edged red) — acquired and leased back to MG Rover in December 2003.
40 acres (edged yellow) — appointed as developer by Advantage West Midlands.

“The hopper of land and
property opportunities is
at its highest level ever.”

Chairman's Statement

RESULTS

After 18 years as Executive Chairman of your company, I intend to retire from that position at the Annual General Meeting and to pass the chairmanship on to Anthony Glossop with great confidence for the company's future. I am delighted to report on an eleventh successive year of record results and confirm to you that the company is in good heart and in its strongest position ever.

Profits before tax increased by 17% to £35.0m (2002: £30.0m), earnings per share grew by 18% to 20.1p (2002: 17.1p) and net assets per share increased by 16% to 186.0p (2002: 160.9p).

The results include a 38% growth in net rental income, a 5% growth in property profits and a £14.5m (4%) revaluation uplift on the investment property portfolio.

We have worked hard to bring forward the latent value in two of our associated operations. We exchanged our 35% holding in Northern Racing for a 27.2% holding in The Chepstow Racecourse PLC, an AIM listed company, thus giving greater financing flexibility for our racecourse operations in the future, establishing a value for our interest and creating a cleaner exit opportunity if ever that was appropriate.

Immediately after the year end, we sold our investment in the Pubmaster operation to Punch Taverns realising a profit of £4.9m which will be recognised in the 2004 accounts.

Our key performance measurement of total pre-tax return on average shareholder funds was 24.1% (2002: 25.2%).

DIVIDEND

Your board is recommending a final dividend of 4.4p (2002: 3.8p) per ordinary share, making a total distribution for the year of 6.6p (2002: 5.7p), an increase of 16%. This final dividend will be paid on 30 April 2004 to shareholders on the register on 13 April 2004.

STRATEGY

Your board continues to have total confidence in the company's strategy of adding value through active management and regeneration in our specialised areas of property expertise via a network of regional offices. The key to the strategy is to maintain a growing land and property bank of well-located future opportunities.

We were again successful in adding to the hopper including major acquisitions at Avonmouth, Kirkby, Longbridge and Llanwern. Additionally, we have been successful in being selected as preferred developer by several more local authorities and regional development agencies. The total estate continues to expand, which underpins the company's long-term future profitability.

DIRECTORS AND EMPLOYEES

These results, and indeed the repeated success of the company throughout the period of my chairmanship, could not have been achieved without an exceptional team of people at all levels. My personal appreciation goes to my board colleagues, all the employees and to you, our shareholders, for your continued support over my time as Chairman of

your company. It has been a source of great encouragement to me.

The succession plans have been considered carefully and have been implemented over recent years. When I step down as chairman following the Annual General Meeting, it is intended that Anthony Glossop, currently Deputy Chairman and Chief Executive, will become Executive Chairman and Bill Oliver will succeed him as Chief Executive. I will remain on the board as a non-executive director and am very pleased to have been invited to become Life President.

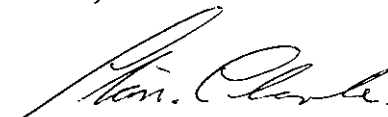
Going forward, your company will continue to be led by a strong, well-balanced team, committed to the continuation of the company's successful strategy, in which I intend to play my part.

At the Annual General Meeting, Sir David Trippier will step down as non-executive director, having completed 12 years' service. I would like to thank him for his valued contribution to the success of the company.

PROSPECTS

The company's hopper of land and property opportunities is at its highest level ever, and the current financial year has started exceptionally well. Including the surplus arising from the Pubmaster transaction, we have already exchanged or completed on transactions that will give rise to profits in excess of £20m.

Once again, I am delighted to be looking forward with confidence to your company achieving another record year.



Sir Stanley W. Clarke CBE, DL, Hon. D.Univ.
Chairman

16 February 2004

The Chairmanship of Sir Stanley Clarke (1986–2004)

St. Modwen originated in 1966 with the creation by Sir Stanley Clarke and his brother-in-law, Jim Leavesley of a development company to undertake the redevelopment of a large maltings complex in Burton upon Trent, Staffordshire.

The company prospered and was later absorbed into Sir Stanley Clarke's private group of construction and house-building operations, Clarke Securities. By the mid 1980s St. Modwen was a well respected developer of industrial and distribution sheds from Devon and Kent to the North West, operating through a network of regional offices often in partnership with local authorities.

In 1986, St. Modwen came to the market with its reverse into Redman Heenan International plc, a former engineering group, whose chief executive was Anthony Glossop, which had been restructured into a property investment operation. The company at that time had net assets of 10p per share and was projecting a pre-tax profit of £1m.

In its early quoted years, St. Modwen may have looked like a conventional property developer/trader of the period with profits growing rapidly from £1m to £10m in 1989. However, the seeds of its future shape were already being sown with its selection in 1987 as the developer of the Stoke National Garden Festival site, the acquisition of Uttoxeter Racecourse in 1988 and the development of the Octagon shopping centre, Burton upon Trent in 1989.

St. Modwen was not unaffected by the property collapse in 1990 but it always remained profitable

and never ceased active development. As a result, with a revised strategy based on regeneration and rental income, it came out of that period stronger than before.

From 1992 onwards, with the acquisition of Leegate shopping centre in South London, it established a strong position in regenerating tired town centres. It is now involved in more than a dozen such projects.

It took advantage of the decline in the country's heavy industries to develop, either outright or in joint venture, numerous former collieries and steelworks, reclaiming hundreds of acres of brownfield land for residential and commercial use.

Elsewhere, it has worked in close partnership with many of the leading manufacturers to restructure their businesses, releasing surplus land for regeneration.

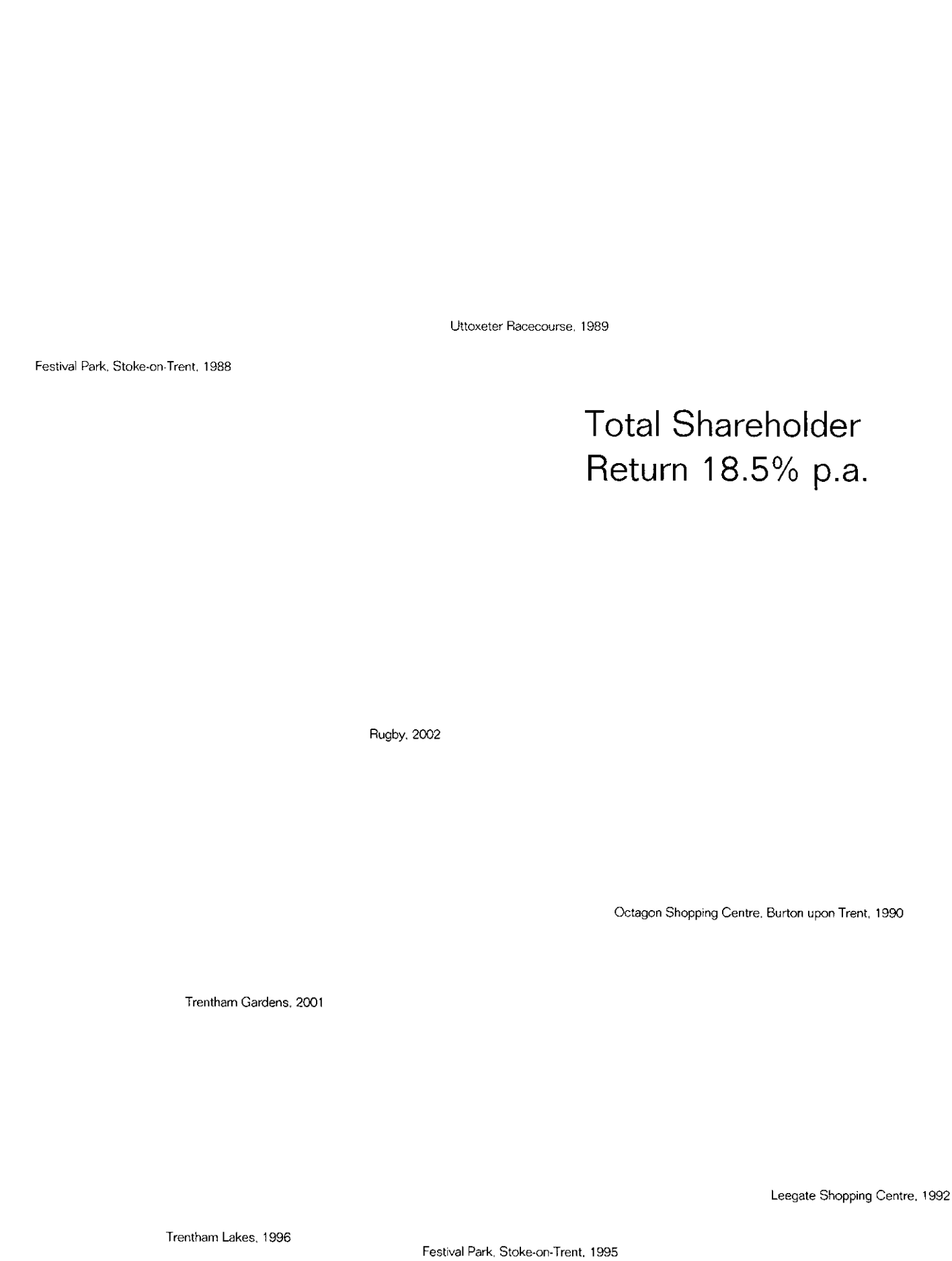
Throughout this period the principles established by Sir Stanley Clarke in those early years, have stood the company in good stead – a network of regional offices, partnerships with local authorities and landowners, a reputation for delivery and integrity and the building up of a team of committed executives and surveyors capable of taking the business forward into the future.

In all this, the company has benefited immeasurably from the vision and leadership of its Chairman, Sir Stanley Clarke, who also contributed significantly to the community during this time, being awarded the CBE in 1990 and receiving a knighthood in 2001 for services to the community in Staffordshire.

1986–2004

Eighteen years of vision and leadership

Highlights from the Annual Reports



Chief Executive's Operational Review

Left to right:

Anthony Glossop *Deputy Chairman and Chief Executive, Richard Froggatt* *Executive Director, Bill Oliver* *Managing Director*

HIGHLIGHTS OF THE YEAR

Another year of record property profits has been achieved from a broad-based development and disposal programme. Over 50 transactions contributed to total property profits of £25.2m with no single scheme dominating and eight schemes earning in excess of £1m.

We continued to concentrate on the distribution, retail and residential land sectors, where demand for our development products remained strong.

Stoke-on-Trent continued to emerge as a major distribution hub, based upon the A50 link between the M6 and M1 motorways. Our 400-acre Trentham Lakes development is well positioned to take advantage of this demand and during the year we sold

3 distribution facilities: 152,000 sq. ft. constructed for Pets at Home, 317,000 sq. ft. for Screwfix and 37,135 sq. ft. for Littlewoods.

In retail development, we were particularly active with the sale of the second phase of our 121,500 sq. ft. town centre scheme at Castle Walk, Newcastle under Lyme and the sale of our retail schemes at Belle Vale, Tipton, Connahs Quay and Mold, following the completion of their programmes of redevelopment or refurbishment. In Widnes, through our joint venture company with Halton Borough Council, we completed an extremely complex site assembly process for the provision of an 87,000 sq. ft. store for Asda, and the construction and sale of a 50,000 sq. ft. leisure and retail complex for JJB Sports.

A 317,000 sq. ft. warehouse and office facility, constructed and fitted out for Screwfix at Trentham Lakes, Stoke-on-Trent.

“Over 50
transactions
contributed to
total property
profits of £25.2m.”

A 50,000 sq. ft. leisure and retail complex developed in joint venture with
Halton Borough Council and pre-let to JJB Sports at Widnes.

Chief Executive's Operational Review

A 70,000 sq. ft. industrial building constructed for Mapei at Coombs Wood, Halesowen on a 43-acre former steelworks site developed through a joint venture with Corus plc.

The Government's requirement that 60% of new housing be built on previously used land has further strengthened the commitment to our brownfield residential land programme. During the year we completed the ground reclamation and site modelling at Norton Colliery, Stoke-on-Trent, which enabled two residential land sales totalling 18 acres to be completed. At Newton-le-Willows, St Helens, on a site purchased from Alstom in December 2002, we have entered into a joint venture agreement with an adjoining landowner and have submitted a planning application for 40 acres of residential development. We anticipate carrying out demolition and site infrastructure during 2004.

Our 2003 development programme also included the speculative construction of a further 57,000 sq.

ft. phase of the Etruria Valley Trade Park, Stoke-on-Trent, of which three of the four units were sold to occupiers in the year. At the Orbital Centre, Cannock, we completed the sale of the 80,000 sq. ft. factory and headquarters building, let to Finning UK which we constructed in 2002.

At Avonmouth, Bristol on the 212-acre former Britannia Zinc site, the first phase of development comprising two industrial buildings totalling 62,000 sq. ft. was completed and the first building was let to Travis Perkins and sold to an investor during the year.

At Coombs Wood, Halesowen, two units were constructed and sold during the year: a 70,000 sq. ft. industrial unit for Mapei and a 10,000 sq. ft. office for Accessible Hire.

“Adding value through
active management
and regeneration.”

A 121,500 sq. ft. shopping centre development at Castle Walk,
Newcastle-under-Lyme, completed and sold in 2003.

New retail units constructed at Edmonton Green Shopping Centre, Enfield, where
a major £60m mixed-use redevelopment scheme will commence in 2004.

Development was also carried out at Watling Street
Business Park, Cannock with the speculative
construction of six small business units totalling
11,118 sq. ft.; at Edmonton Green Shopping
Centre, Enfield where three new retail units totalling
12,000 sq. ft. were constructed, two of which have
been let to Bon Marche and Ethel Austin; and at
Kirkby Shopping Centre, Liverpool, where the
Market Hall was redeveloped to provide three
additional retail units and eight kiosks were
constructed in the malls.

Construction commenced on a speculative 18,000
sq. ft. hi-tech building at Woodingdean Business
Park, Brighton and upon a 270,000 sq. ft.
manufacturing, distribution and head office complex
for Duraflex at Tewkesbury. Both projects are due
for completion in 2004.

Chief Executive's Operational Review

As reported in the Chairman's Statement, significant progress was also made during the year with our property-related investments in Northern Racing and Pubmaster.

The revaluation of our investment properties by £14.5m equates to an increase of 3.7%. This arose partly from an improvement in yields on our shopping centres of around 0.5% in the period, but also by adding value through new construction, new lettings and rent reviews at Cranfield, Edmonton, Thurleigh and Wythenshawe.

One of the indicators within our business of the potential for future property profits is that year-on-year we continue to make progress in obtaining planning consents. This process, particularly for the

large mixed-use schemes, continues to become more complex and protracted, but the range and extent of the hopper gives us the ability to operate successfully within these constraints.

During the year, we were successful in progressing planning permissions at Trentham Gardens, Stoke-on-Trent; at Friars Terrace, Stafford for an 86,000 sq. ft. Tesco supermarket; and for a 95,000 sq. ft. expansion of the industrial space at the Wigan Enterprise Park.

Planning permission was also obtained, in principle, for the redevelopment of the Brighton West Pier. However, uncertainty on future costs and delays caused the Heritage Lottery Fund to withdraw their support in January 2004. Without this support, the

A 270,000 sq. ft. manufacturing, distribution and head office complex under construction for Duraflex at Tewkesbury, Gloucestershire. Completion due in 2004.

Cranfield Technology Park, a joint venture with Cranfield University, where we manage 77,000 sq. ft. of high tech/office space on flexible leases.

project is not viable. Although we still intend to see whether there is any possibility of resuscitating the scheme, we have made full provision in these accounts for all costs incurred.

On our larger schemes, extensive master planning, ground investigation and environmental and transport assessments are often required prior to the submission of specific planning applications. Significant progress was made during 2003 at Rugby, upon the sites acquired from Marconi and Alstom; at Longbridge where an outline planning permission over 40 acres has now been submitted; and at Dursley, where we are intending to create an exemplar urban village.

Chepstow, one of nine racecourses owned by The Chepstow Racecourse PLC, in which the company has a 27.2% shareholding.

THE HOPPER

We continued to fill the hopper throughout the year. The acquisition of a £113m portfolio of nineteen sites on 500 acres from Alstom through our KPI joint venture; 73 acres from Corus at Darlington and 212 acres at Avonmouth, Bristol from Britannia Zinc, boosted the hopper to record levels.

Chief Executive's Operational Review

Equally importantly during 2003 we continued to form additional development relationships with government bodies and local authorities. These joint ventures, often structured via development agreements and hence not as capital intensive as direct acquisition, are becoming an increasingly important part of our bank of future development opportunities.

A development agreement was signed during the year for an urban village on 92 acres at Dursley, Gloucestershire with South West Regional Development Agency (SWRDA) and heads of terms agreed for the regeneration of Hatfield Town Centre with Welwyn Hatfield District Council and English Partnerships. At Harpurhey, Manchester, we acquired an existing Asda store and in partnership

with Asda and Manchester City Council, we have commenced redevelopment of this District Centre to provide 120,000 sq. ft. of new retail space together with a new leisure centre and market for the Council.

After the year end, the hopper was boosted further with the completion of three major acquisitions and we are pursuing a number of smaller sites.

At Longbridge, Birmingham, we purchased 228 acres from MG Rover on a sale and leaseback basis for £42.5m. MG Rover have been granted a 35-year lease at an initial rent of £3.6m with 2.5% fixed annual uplifts. The lease allows MG Rover flexibility to surrender land surplus to its operational requirements.

A 92-acre former manufacturing site being redeveloped as an urban village at Dursley, Gloucestershire, in joint venture with SWRDA.

A mixed-use regeneration of Hatfield town centre in joint venture with English Partnerships and Welwyn Hatfield District Council.

The company has also acquired the remaining 50% share of the Kirkby Shopping Centre, Merseyside from our joint venture partner Mars Pension Trustees, with whom we have jointly owned the centre since 2001. The consideration was £11.25m with an initial yield of 7.6%. Master plans are being prepared for a redevelopment of the centre and surrounding area for discussion with Knowsley Borough Council.

At Llanwern, South Wales, we have acquired 600 acres of non-operational land from Corus for £17.5m.

We are also extremely pleased to confirm that we have been selected as the preferred development partner by Bedford Borough Council for a comprehensive renewal and redevelopment of Bedford's bus station area comprising a new food supermarket, a department store, additional retail, leisure and residential uses; and by SWRDA for a 33-acre industrial development at Ludgershall, Wiltshire.

“We continued to form additional development relationships with government bodies and local authorities.”

Chief Executive's Operational Review

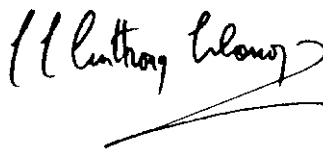
The Mead — an initial phase of redevelopment, completed and let during the year at Farnborough, Hampshire.

FUTURE YEARS

We have made our strongest-ever start to a new financial year, with the sales completed after the year end of our Pubmaster investment, the first phase of our Worcester retail park development and 8 acres of residential land at Springfields, Stoke-on-Trent, contributing to a total of over £20m of profits already completed or under contract.

Beyond 2004, we are marshalling the progress of the major schemes in the hopper to meet the growth required. Significant progress is expected to be made during 2004 on our town centre schemes at Edmonton, Farnborough and Wembley; a factory outlet scheme and superstore at Walsall; and our

heritage and leisure development at Trentham Gardens, Stoke-on-Trent. These and numerous other schemes currently being worked on will form the backbone of our development programme for 2005 and onwards.



Anthony Glossop

Deputy Chairman and Chief Executive
16 February 2004

Review of Major Projects

CASTLE HILL, DUDLEY, WEST MIDLANDS

148-acre mixed heritage, leisure and residential scheme which will comprise:

- A state-of-the-art zoo, a separate attraction based on the medieval castle and a new dinosaur attraction
- 60,000 sq. ft. of heritage craft and tourism merchandising
- 40,000 sq. ft. of restaurants
- 80,000 sq. ft. of garden centre
- 281 dwellings
- Additional leisure opportunities

PARTNER: Dudley Metropolitan Borough Council

COMPLETED VALUE: £100m

TIMESCALE: Planning application submitted for potential start on site in phases from 2005. Completion of main phases by 2010.

CRANFIELD UNIVERSITY TECHNOLOGY PARK, CRANFIELD, BEDFORDSHIRE

100-acre technology park adjoining university campus and airfield

Managed complex of 77,000 sq. ft. comprising:

- Cranfield Innovation Centre — 37,000 sq. ft. in suites from 250 to 1,750 sq. ft. on extremely flexible lease terms
- Derwent House & Trent House — accommodation in suites from 2,000 to 6,000 sq. ft. on medium term leases
- Buildings from 5,000 sq. ft. to 200,000 sq. ft. to meet the individual needs of businesses and further speculative phases

PARTNER: Cranfield University

TIMESCALE: Further speculative phase in 2004. Completion over next decade.

EDMONTON GREEN SHOPPING CENTRE

London N19

Mixed use extension of existing shopping centre, comprising:

- 65,000 sq. ft. foodstore
- 150,000 sq. ft. of additional retail/leisure and restaurants
- 55,000 sq. ft. leisure centre with 25 m. swimming pool
- Primary health care centre
- 177 residential apartments
- Bus terminal
- 1,000 car parking spaces
- Refurbishment of existing mall

PARTNER: London Borough of Enfield

COMPLETED VALUE: £65m

TIMESCALE: Initial phases and enabling works completed. Start on site in phases from 2004. Completion of main phases by 2006.

ELEPHANT & CASTLE SHOPPING CENTRE

London SE1

Mixed use shopping centre comprising:

- 135,000 sq. ft. retail
- 90,000 sq. ft. leisure
- 95,000 sq. ft. offices
- 125 car parking spaces

PARTNER: A Key Property Investments development

TIMESCALE: The shopping centre lies at the heart of a major regeneration initiative being promoted by the London Borough of Southwark for implementation over the next decade.

Review of Major Projects

ETRURIA VALLEY, FESTIVAL PARK, STOKE-ON-TRENT

A major extension of the company's flagship Festival Park development. Opened in 1999 after £5m of reclamation and infrastructure work. Over 200,000 sq. ft. of offices and business space has been completed. Further speculative phases are planned in 2004. Planning on the final 90 acres is being discussed.

PARTNERS: Stoke-on-Trent City Council and Corus plc

COMPLETED VALUE: £150m

TIMESCALE: Completion over the next decade.

FARNBOROUGH TOWN CENTRE, HAMPSHIRE

Mixed use extension/redevelopment of existing shopping area, comprising:

- 65,000 sq. ft. foodstore
- 150,000 sq. ft. of additional retail/leisure and restaurants
- Hotel
- 130 residential apartments
- Leisure complex

PARTNERS: A Key Property Investments development in collaboration with Rushmoor Borough Council

COMPLETED VALUE: £75m

TIMESCALE: Early enabling phases completed in 2003. Detailed planning submitted for main development with potential commencement in late 2004 and completion in 2006.

HATFIELD TOWN CENTRE, HERTFORDSHIRE

Mixed use regeneration comprising:

- 165,000 sq. ft. of retail/leisure and restaurants
- 25,000 sq. ft. healthy living centre
- 162 residential apartments
- 543 multi-storey car parking spaces
- 10,000 sq. ft. market hall

PARTNERS: Welwyn Hatfield District Council and English Partnerships

COMPLETED VALUE: £65m

TIMESCALE: Detailed planning submitted with potential commencement in 2006 and completion in 2007.

LEICESTER ROAD AND MILL ROAD, RUGBY

70-acre employment sites adjoining Rugby railway station.

- Existing buildings in excess of 1m sq. ft. for short/medium term income.

Medium term strategy to:

- Develop master plan for site in conjunction with planning authority and rail authority
- Bring forward site for mixed-use development including:
 - Housing
 - Retained and new employment
 - Retail and local amenities
 - Community facilities

PARTNERS: A Key Property Investments development in collaboration with Alstom and Marconi

COMPLETED VALUE: £60m

TIMESCALE: Master planning to commence in early 2004. Scheme has 6-8 year delivery programme.

QUINTON BUSINESS PARK, BIRMINGHAM

Business Park at western gateway to Birmingham city. Immediately adjacent to J3, M5.

- 260,000 sq. ft. high quality space with generous car parking
- Proceeding in phases
- Phase I — 55,000 sq. ft. completed and let
- Phase II — 50,000 sq. ft. planned for 2004

PARTNER: Birmingham City Council

COMPLETED VALUE: £65m

TIMESCALE: Next phase from late 2004. Overall completion by 2007.

SHANNONS MILL, WALSALL, WEST MIDLANDS

The West Midlands Factory Outlet Centre.

- 250,000 sq. ft. of outlet shopping incorporating character 4 storey Victorian clothing mill
- 100,000 sq. ft. superstore
- 1,500 car park spaces
- Local highway improvement to speed access to J9 and J10 of the M6.

PARTNER: Domalex Properties Limited

COMPLETED VALUE: £75m

TIMESCALE: Start mid-2004. Trading October 2005.

TRENTAM LAKES, STOKE-ON-TRENT

Mixed use development of 400-acre former colliery site for a wide range of leisure, office, industrial and warehouse development.

Developments to date include distribution centres for Screwfix Direct (317,000 sq. ft.), HW Plastics (178,000 sq.ft) and Pets at Home (152,000 sq. ft.) as well as an Express Holiday Inn Hotel, Harvester Restaurant, Greens Health & Fitness Club and car showrooms.

Over one million sq. ft. has been developed on this site.

PARTNER: Stoke-on-Trent City Council

COMPLETED VALUE: £200m

TIMESCALE: Further speculative phase in 2004. Completion over next decade.

VULCAN INDUSTRIAL ESTATE, NEWTON-LE-WILLOWS

Regeneration of redundant employment complex to provide:

- 630 dwellings
- A local centre comprising: convenience foodstore, public house, health centre, pharmacy, nursery, veterinary surgery
- Sports and recreational facilities

PARTNERS: A Key Property Investments development in collaboration with Alstom and Ashtenne PLC

COMPLETED VALUE: £75m

TIMESCALE: Start on site from 2004. Completion by 2008.

Environmental Impact

St. Modwen is committed to improving the built environment of the country. The company's projects seek to transform areas of dereliction and decay into sustainable communities. The company's commitment to the environment is demonstrated in many ways:

REGENERATION

The company acquires opportunities in tired town centres and brownfield industrial sites, often with significant contamination issues. The company uses its expertise to remediate sites by seeking wherever possible to treat or recycle materials on site, removing them to landfill only as a last resort. Infrastructure will be provided or upgraded to alleviate traffic problems. Public transport and alternative transport solutions will be adopted wherever practicable. New developments are built with good quality landscaping and provision of public open spaces.

The company enters into long-term land recycling projects, such as the 165-acre former British Steel site at Festival Park, Stoke-on-Trent, the home of the 1986 National Garden Festival. This was acquired in 1988 and has since been developed to provide around one million square feet of retail warehouse, office and industrial accommodation. It has been extended by a further 145 acres of derelict land, the remediation and development of which will continue over the next decade. Similarly, the 400-acre site at Trentham Lakes which was acquired from British Coal in 1996 and 1999 has been substantially reclaimed to transform a colliery into a business, leisure and distribution park, and a residential area. In the period under review, the acquisition of a heavily contaminated 212-acre site from Britannia Zinc offers significant opportunities for regeneration of the site of a former zinc smelter.

The company uses its remediation skills to create good quality residential land from land previously used by heavy industry. This is of significant benefit in avoiding the use of greenfield sites for development, and is strongly supported by current government policy. The company has brought into development approximately 150 acres of this type of land over the past five years and potentially has a further 800 acres in the Hopper.

All property developed by the company has a fully traceable audit trail resulting in a Land Quality Statement for the end user which identifies ground conditions, gas and other monitoring, remediation work done, and test results. Remediation activity is based on a thorough assessment of the sources, pathways and targets of risk factors. Wherever possible, the company uses on-site containment or treatment techniques, and avoids merely moving waste to landfill sites.

LOCAL COMMUNITIES

The company seeks to build and develop sustainable communities from its regeneration projects. This is achieved by putting in place a robust infrastructure, including transport links, and community facilities including schools, medical and leisure centres, social clubs, libraries, and local shops. Some of these are provided through planning agreements, others on a voluntary basis. Recent examples include:

- The provision of land for the Donna Louise Trust Children's Hospice at Trentham Lakes, Stoke-on-Trent for a consideration of 50% of the market value.
- The provision of rent-free accommodation for a credit union and arts workshops in Edmonton Green Shopping Centre.
- The construction of community and recreation facilities at Hilton Business Park, value £500,000, part of a £7.5m package of community and infrastructure benefits funded by this scheme.

Demolition in progress at Britannia Zinc, Avonmouth.

Master plan of the heritage leisure project at Trentham Gardens, Stoke-on-Trent.

Community involvement in the company's projects is essential for their ultimate success. Consequently, extensive consultation is undertaken via public and individual meetings with tenants' associations, residents' groups and local councillors. Local press are kept informed of all developments, and planning issues are freely and openly debated with interested parties. The company has built strong and enduring relationships over many years in those areas in which it operates, and is proud to be seen as a key member of these communities.

HERITAGE

The company's heritage activities enable buildings and facilities of national significance, such as Trentham Gardens, to be restored for the future enjoyment of the nation. Working in partnership with local authorities and national organisations, including English Heritage and English Nature, the company aims to deliver sensitive restoration underpinned by a sustainable, commercial rationale.

SUSTAINABILITY BY DESIGN

The company embraces the philosophy that "sustainable development is about creating a better life for everyone, now and for generations to come. It means that our economy, environment and social well-being are interdependent. It means protecting, and where possible, enhancing the environment; ensuring we satisfy people's basic needs, such as providing warm homes and safe streets, and giving the opportunity to achieve their potential through education, good health and employment" (The joint Government/Local Government report "Local Quality of Life Count — in a Nutshell")

The company seeks to use sustainable designs in its developments, to minimise the impact of new buildings on the environment. Recent examples include:

- Improving the flow characteristics of the Barton Brook and flood storage to the River Trent at Barton Business Park, by the construction of three lakes and 2.4 kilometres of ditches (all designed to encourage native flora and fauna).
- Improving the water quality at Barton Business Park by the use of reed beds.
- Recycling over 100,000 tonnes of foundations and slab roadway materials at Hem Heath Colliery, for re-use on site.

The Dursley Urban Village Project (under a development agreement with the South West Regional Development Agency for the former Lister Petter site) has been designed as an exemplar scheme of sustainability, involving:

- Reclaiming the site, including tips and foundry sand deposits.
- Harnessing the river Cam for hydroelectricity, and opening up the river to provide an ecological corridor through the site.
- Installing photovoltaic cells and water conservation measures in at least 50% of the houses.
- Recovering energy from the Lister Petter engine test beds.
- Building a sustainable urban drainage system incorporating swales and a balancing lake.
- Providing live/work units within the residential element, and small units for start-up businesses and training facilities.

MANAGEMENT RESPONSIBILITY

Because of the importance to the company of environmental and social issues, these areas are the responsibility of the Chief Executive.

Financial Review

PROFIT AND LOSS ACCOUNT

Net rental income received in the year, including our share of rent from joint ventures, increased by 38% (£10.1m) to £36.5m. The portfolio of 19 industrial properties, acquired from Alstom in December 2002, accounted for £5.3m. Other properties acquired or constructed during the year accounted for £1.1m of this increase, while the full-year impact of acquisitions made in 2002 was £3.0m.

On an annualised basis, the gross portfolio rent receivable as at 30 November 2003, including our share of rent from joint ventures, increased by 13% (£4.4m) to £38.9m. Acquisitions net of disposals added £4.1m, with new lettings and rent reviews net of vacations and surrenders increasing the portfolio rent by £0.3m.

Property profits (which comprise profits on sale of both development and investment properties, whether classified as work in progress or fixed assets) increased by 5% in the year to £25.2m (2002: £24.0m). These profits were achieved from a broad range of more than 50 projects, of which 8 contributed more than £1m. The large number of transactions reflects both the company's proactive approach to selling any assets to which value can no longer be added, and the strong market conditions into which we were able to sell. In accordance with our prudent accounting policies we have made full provision against our exposure to the Brighton West Pier project, from which the Heritage Lottery Fund withdrew support in January 2004.

Overheads increased significantly during the year by £4.5m to £13.3m, principally as a result of accounting for share options and pensions costs, and the impact of increased employee numbers.

As reported last year, the board has adopted the policy of satisfying employee share options, when exercised, by purchasing the required number of shares in the market, rather than issuing new share capital, which would dilute returns for existing shareholders. With 6.2m shares under option (held by 110 employees), and a significant share price increase in the year, the impact has been a charge to the profit and loss account of £4.2m (2002: £1.8m).

The triennial valuation of the company's final salary pension scheme was undertaken as at 5 April 2003. This showed a deficit of £3.9m. In common with most other similar schemes, the deficit arose from a combination of poor equity investment returns and increasing liabilities. The company has therefore provided £1.2m in the accounts for the year ended 30 November 2003, a sum which includes the

Tim Haywood *Finance Director*

RESULTS SUMMARY

2003 was our eleventh consecutive year of profits growth. The pre-tax profit for the year to 30 November 2003 increased by 17% to £35.0m (2002: £30.0m).

Earnings per share increased by 18% to 20.1p (2002: 17.1p), and total dividends increased by 16% to 6.6p per share (2002: 5.7p).

Retained profits of £16.2m combined with £15.4m of total revaluation surpluses to produce a 16% increase in net assets per share to 186.0p (2002: 160.9p).

Our corporate objective remains to double net asset value per share every five years. In the five years ended 30 November 2003 we have exceeded this target, with net asset value per share increasing by 127%, pre-tax profit by 124% and dividends per share by 100%.

“Our corporate objective remains to double net asset value per share every five years.”

Comparison of Actual Investment Portfolio Returns with the Investment Property Databank (IPD)

Periods to 30 November 2003

regular cost of current service, and the amortisation of the past service deficit, as required under SSAP 24. Previously the company and its employees had enjoyed many years' contribution holiday, as the scheme had been in surplus.

Finance Costs have increased to £15.9m (2002: £13.2m). Average group borrowings increased by £9m to £165m in the year, and average joint venture borrowings increased by £92m to £160m as a result of the Alstom acquisition. The cost of this increase in total debt was partially offset by falling interest rates. The weighted average rate of interest payable as at 30 November 2003 remains at 6.4% for company borrowings (2002: 6.4%) and has fallen to 5.3% for joint ventures (2002: 6.2%).

The group's borrowings are at variable rates of interest. However we actively manage our interest rate exposure, primarily by way of interest rate swaps, and have been able to lock in to the recent favourably low rates for a three to five year period. At the year end, 96% of company net borrowings were hedged in this way (2002: 62%), and 58% of joint venture borrowings (2002: 75%)

The Group does not capitalise interest on its developments or its investments. All interest is written off as it arises.

Taxation — the effective rate of tax charge for the year, including provision for deferred taxation, was 28.4% (2002: 28.1%). It is anticipated that, with the continued utilisation of capital allowances, the effective rate will remain below the standard rate of Corporation Tax.

BALANCE SHEET

Investment Properties — the total value of investment properties, including 100% of joint ventures, increased by £109m during the year to £475m. Expenditure on the portfolio totalled £128m, of which £113m was in our 50% joint venture company Key Property Investments Limited, in respect of the acquisition of the Alstom portfolio.

The independent valuation at 30 November 2003 resulted in an uplift on our share of this portfolio of 3.7% (£14.5m). This revaluation increase represents real added value from the management and development of specific assets within the portfolio, and includes £6m as a result of yield shifts on the retail properties. Although many of our sites are situated in disadvantaged areas that currently qualify for relief from Stamp Duty Land Tax, this temporary benefit has not been recognised within the valuation.

The Group measures the ungeared returns from its investment portfolio against the Investment Property Data Bank (IPD) all property total return index. St. Modwen continues strongly to out-perform this index, as shown by the chart above.

Other Investments — during the year we exchanged our 35% investment in Northern Racing Limited in exchange for a 27.2% stake in The Chepstow Racecourse PLC, an AIM-listed company. This transaction has been accounted for in accordance with UITF 31 (Exchanges of businesses). As a result, the Statement of Total Recognised Gains and Losses includes a gain of

Financial Review

£0.9m relating to the profit made on the notionally realised proportion of the sale. The carrying value of our investment in The Chepstow Racecourse PLC at 30 November 2003 is £8.6m. This represents the fair value of the assets acquired, plus post-acquisition profits. Under UITF 31, we are not permitted to recognise the AIM market value of our 27.2% stake, which, at the share price of 203.5p on 30 November 2003, was £19.5m.

Our investment in Pubmaster was sold in December 2003, realising a surplus of £4.9m.

Current assets — the value of work in progress fell to £77.5m (2002: £101.1m). This reduction reflects the active programme of development completions in the year.

GEARING AND FINANCING

As a result of the strong programme of sales towards the end of the year, group net borrowings have decreased to £135m (2002: £174m), representing a gearing ratio of 60% (2002: 89%). This was lower than our preferred gearing range of 75% to 125%, but gave us ample headroom and flexibility to move swiftly to undertake the post-year end programme of acquisitions. Following the Longbridge, Kirkby and Llanwern acquisitions, which have been partly financed by further disposals in December, group borrowings stand at £170m and gearing at 71%. At this level, we still have uncommitted existing facilities in excess of £90m, which provides significant resources for current developments and further acquisitions.

In addition, the group's share of debt within joint ventures, which is secured solely upon the assets within the relevant joint venture, was £97.2m (2002: £42.1m).

The group is financed by shareholders' funds and bank debt of varying maturity profiles, appropriate to the needs of the group and reflecting the type of assets in which it invests. At 30 November 2003, the weighted average debt maturity was 5 years (2002: 6 years).

Bank facilities, excluding joint ventures, totalled £219m at the year end (2002: £228m), with a further facility of £32m having been provided post year-end by Royal Bank of Scotland for the Edmonton Green Shopping Centre development.

Net Asset Value per share

In calculating the net assets per share of 186.0p, a provision has been made for the deferred tax that would become payable should all the capital allowances claimed to date be clawed back. The company actively manages its tax affairs to ensure that this situation will not arise, and accordingly has calculated an adjusted net asset value without such an adjustment. This provides a notional uplift of £3.9m or 3.2p per share (2002: £3.6m or 3.0p per share).

The effect of the fair value adjustment (FRS13) of marking the group's interest rate derivatives to current market value would be to produce a notional liability after tax of £0.3m or 0.2p per share (2002: £2.0m or 1.7p per share). The effect of providing deferred tax on future disposals of investment properties would be to produce a notional liability of £18.3m or 15.1p per share (2002: £17.1m or 14.2p per share).

The calculation of adjusted net asset value also contains an adjustment to restate the company's investment in The Chepstow Racecourse PLC to market value, which provides a notional uplift after tax of £7.6m or 6.3p per share.

The adjusted net asset value after these adjustments has increased by 22% to 180.2p (2002: 148.0p) (see Note 22). Triple net asset value has increased by 18% to 170.7p (2002: 145.0p).

SHAREHOLDER RETURNS

Over the five year period ended 31 December 2003, the total shareholder return was 34.7% per annum compared with 0.4% from the FTSE Real Estate index, and -3.4% from the All-Share index. (source: HSBC/Datastream).

The increase in the share price during the year, to 258.5p at 30 November 2003, lifted the company into the FTSE 250.



Tim Haywood
Finance Director
16 February 2004

Analysis of the Portfolio

as at 30 November 2003

Portfolio Book Value

	South £m	Midlands £m	North £m	Total £m	Held by Group Companies* £m	Held by Joint Ventures £m	Rent- Roll £m	Square Feet '000
Retail	147.1	30.1	27.7	204.9	118.0	86.9	17.9	2,634
Industrial	64.1	147.3	82.6	294.0	154.8	139.2	28.4	18,340
Office	30.2	8.3	1.0	39.5	28.6	10.9	3.0	430
	241.4	185.7	111.3	538.4	301.4	237.0	49.3	21,404

Portfolio Analysis

“The 3.7% revaluation increase represents real added value from the management and development of specific assets.”

Directors and Advisers

Auditors

Ernst & Young LLP

Registrars

**Lloyds TSB
Registrars**

Stockbrokers

HSBC

Non-Executive Directors *Left to right*

Christopher Roshier^{*†} MA, FCA

Aged 57. Appointed a Director in 1987. He is a Chartered Accountant with over 20 years' experience in Corporate Finance. Chairman of the company's Audit and Remuneration Committees and Senior Independent Director. Currently he is a director of Gibbs & Dowdy PLC, Cypressstree International Fund PCC Limited, Equity Holdings Limited and chairman of Global Computer Holdings Limited.

Ian Menzies-Gow^{*} MA

Aged 61. Appointed a Director in 2002. Formerly Chairman of Geest PLC and prior to that held senior executive positions within the Hanson Group. Currently Chairman of Derbyshire Building Society.

Sir David Trippier^{*} RD, JP, DL, MSI

Aged 57. Appointed a Director in 1992. Minister for Construction and Urban Affairs 1987-1989. He is currently Chairman of W. H. Ireland Group PLC, stockbrokers, and Murray V.C.T. Plc. He is also a director of a number of other listed and private companies, including Granada Television Limited. He is retiring from the board in 2004.

James Shaw^{*} FRICS

Aged 59. Appointed a Director in 2001. Previously Property Director of Associated British Ports Holdings plc, Managing Director of Thorn High Street Properties and Property Director of Courage.

Executive Directors

Sir Stanley Clarke^{*†} CBE, DL, Hon. D.Univ.

Chairman

Aged 70. Appointed a Director in 1986. Formed St. Modwen Developments Limited in 1966. He will retire as Chairman at the conclusion of the Annual General Meeting, but it is intended that he will remain on the board as a non-executive director and Life President. He is also chairman of The Chepstow Racecourse PLC.

Anthony Glossop[†] MA

Deputy Chairman, Chief Executive

Aged 62. Appointed a Director in 1976. Previously Chief Executive of Redman Heenan International plc. It is intended that he will be appointed Executive Chairman to succeed Sir Stanley Clarke. He is also a non-executive director of The Chepstow Racecourse PLC, and of Robinson & Sons Limited.

Bill Oliver BSc, FCA

Managing Director

Aged 47. Appointed a Director in 2000. Previously Finance Director of Dwyer Estates plc. It is intended that he will succeed Anthony Glossop as Chief Executive.

Richard Froggatt FRICS

Executive Director

Aged 54. Appointed a Director in 1995. Previously a director of Savills and Managing Director of Wilson Bowden Properties Limited.

Tim Haywood MA, FCA

Finance Director

Aged 40. Appointed a Director in 2003. Previously Chief Financial Officer of Hagemeyer (UK) Limited.

^{*} Member of Audit and Remuneration Committees

[†] Member of Nomination Committee

Shareholder Information

Financial Calendar

Record date for 2003 final dividend	13 April 2004
Annual General Meeting	23 April 2004
Payment of 2003 final dividend	30 April 2004
Announcement of 2004 interim results	July 2004
Payment of 2004 interim ordinary dividend	September 2004
Announcement of 2004 final results	February 2005

Ordinary Shareholdings at 30 November 2003

	Shareholders		Shares	
	No.	%	No.	%
By shareholder				
Directors and connected persons	20	0.4	52,601,385	43.5
Individuals	4,305	87.3	17,032,848	14.1
Insurance companies, nominees and pension funds	512	10.4	49,240,507	40.8
Other limited companies and corporate bodies	96	1.9	1,899,214	1.6
	<u>4,933</u>	<u>100.0</u>	<u>120,773,954</u>	<u>100.0</u>

	Shareholders		Shares	
	No.	%	No.	%
By shareholding				
Up to 500	1,250	25.4	315,961	0.3
501 to 1,000	909	18.4	706,191	0.6
1,001 to 5,000	1,832	37.1	4,355,484	3.6
5,001 to 10,000	421	8.5	3,082,917	2.5
10,001 to 50,000	366	7.4	7,584,289	6.3
50,001 to 100,000	55	1.1	3,892,281	3.2
100,001 to 500,000	57	1.2	11,813,932	9.8
500,001 to 1,000,000	22	0.5	16,650,307	13.8
1,000,001 and above	21	0.4	72,372,592	59.9
	<u>4,933</u>	<u>100.0</u>	<u>120,773,954</u>	<u>100.0</u>

Principal institutional shareholders at 30 November 2003

	Shares	
	No.	%
Henderson Global Investors	8,437,358	7.0
Legal & General Investment Management Limited	3,748,059	3.1
Co-operative Insurance Society Limited	3,211,000	2.7
M & G Investment Management Limited	2,928,440	2.4
ING Investment Management	2,351,343	2.0
Barclays Global Investors Limited	2,214,929	1.8
Threadneedle Asset Management Limited	1,670,100	1.4
Framlington Investment Management Limited	1,670,000	1.4
Baring Asset Management Limited	1,551,032	1.3
Merrill Lynch Investment Managers	1,467,838	1.2

Directors' Report

The directors present their report together with the audited accounts for the year ended 30 November 2003.

REVIEW OF RESULTS, ACTIVITIES AND FUTURE PROSPECTS

The pre-tax profit for the year was £35.0m. The retained profit of £16.2m is to be transferred to revenue reserves.

The company acts as the holding company of a group of property investment and development companies.

A review of activities is given in the Operational and Financial Reviews on pages 6 to 23. The Chairman comments on future prospects in his statement on page 3.

DIVIDEND

The directors recommend the payment of a final dividend of 4.4p (2002: 3.8p) per ordinary share to be paid on 30 April 2004 to shareholders on the register on 13 April 2004. An interim dividend of 2.2p (2002: 1.9p) was paid on 12 September 2003.

GOING CONCERN

The directors are of the opinion that, having regard to the bank and loan facilities available to the group, there is a reasonable expectation that the group has sufficient working capital to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

DIRECTORS AND THEIR INTERESTS

The names of the directors of the company are set out on page 24.

Sir Stanley Clarke, who is aged 70, will retire as Chairman of the company at the conclusion of the Annual General Meeting but will continue as a non-executive director, subject to re-election in accordance with Companies Act requirements. The board proposes to appoint Sir Stanley as Life President of the company.

In accordance with the provisions set out in Section 1 of the Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003 ("the Code"), Christopher Roshier and Anthony Glossop offer themselves for re-election to the board. The reasons for this are set out on page 28.

Richard Froggatt and Tim Haywood will retire from the board in accordance with the provisions of the company's Articles of Association and offer themselves for re-election.

Sir David Trippier will retire as a director of the company at the Annual General Meeting, and will not seek re-election.

None of the directors had any material interest in contracts with the group, except as disclosed below:

During the year, the company disposed of its shareholding in Northern Racing Limited in exchange for shares in The Chepstow Racecourse PLC. The company's Chairman, Sir Stanley Clarke, had a material interest in this transaction as a result of his 65% shareholding in Northern Racing and his 29.9% shareholding in The Chepstow Racecourse PLC. Although this transaction did not fall within the definition of a transaction with a related party within the meaning of the Listing Rules of the UKLA, the board nevertheless, as a matter of good governance, sought and obtained approval to the transaction from shareholders at an Extraordinary General Meeting held on 6 October 2003.

DIRECTORS' INTERESTS IN ORDINARY SHARES

The interests of the directors, and their families, in the issued share capital of the company are shown below:

	30 November 2003	30 November 2002
Beneficial		
Sir Stanley Clarke	27,043,854	27,043,854
C. C. A. Glossop	1,130,299	1,130,299
R. L. Froggatt	92,000	90,000
C. E. Roshier	10,417	10,417
J. N. Shaw	10,000	10,000
Sir David Trippier	18,400	18,400
Non-beneficial		
Sir Stanley Clarke	849,567	849,567
C. C. A. Glossop	30,000	30,000

The above interests do not include shares held under the share option schemes described in the Directors' Remuneration Report on pages 31 to 35.

There has been no change in these interests since 30 November 2003.

SUBSTANTIAL INTERESTS

As at 16 February 2004 in addition to those noted above, the company had been notified of the following interests in more than 3% of its issued share capital:

Shareholder	Percentage of Ordinary Share Capital
J. D. Leavesley and connected parties	14.3%
Henderson Global Investors	7.0%

CREDITOR PAYMENT POLICY

It is the group's policy to agree terms and conditions for its business transactions with its suppliers. The group seeks to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods and services in accordance with the agreed terms and conditions.

During the year ended 30 November 2003 trade creditors represented an average of 32 days' purchases (2002: 26 days).

EMPLOYEES

The group encourages employee involvement and places emphasis on keeping its employees informed of the group's activities and performance. A performance related annual bonus scheme and share option arrangements are designed to encourage employee involvement in the success of the group.


The group operates a non-discriminatory employment policy under which full and fair consideration is given to disabled applicants and to the continued employment of staff who become disabled.

The group operates a pension scheme which is open to all employees — see page 44.

Approved by the board of directors and signed on behalf of the board

Tim Haywood
Secretary
16 February 2004

Registered Office:
Lyndon House
Hagley Road
Birmingham B16 8PE
Company number 349201



Directors' Responsibilities in Relation to Financial Statements

The following statement, which should be read in conjunction with the Auditors' Report to the Members set out on page 57, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the financial statements. Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group as at the end of the financial year and of the profit or loss of the group for that period. In preparing these financial statements, the directors have

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- followed applicable accounting standards.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Corporate Governance

St. Modwen is committed to good corporate governance. The board of directors exercises effective control over the group and its activities while recognising its responsibility to shareholders and other interested parties. The procedures for applying these principles within the group are set out below. This should be read in conjunction with the Directors' Remuneration Report on pages 31 to 35.

Throughout the year ended 30 November 2003 the company has been in compliance with the Code, except for the following matters:

- The Code recommends that at least half the board, excluding the Chairman, should comprise non-executive directors determined by the board to be independent. The board of St. Modwen, excluding the Chairman, comprises four executive and four non-executive directors. Neither Christopher Roshier nor Sir David Trippier would qualify under the Code to be considered independent as each has served as a director for more than nine years. However, all non-executive directors are considered by the board to be independent of management and free from any business or other relationship which could interfere with the exercise of their independent judgement. The length of service of Christopher Roshier (16 years) is not considered to impair his independence, but rather to provide a depth of knowledge, insight into the business and commitment to the company which enables him more fully to carry out his duties. In accordance with the Code, he is standing for re-election at the forthcoming Annual General Meeting. Sir David Trippier is not seeking re-election this year, and will be replaced in due course by a suitably qualified independent individual.
- The Code recommends that a chief executive should not go on to be chairman of the same company. The business model which the company has adopted since 1986 has required two experienced individuals active in the business in the roles of Executive Chairman and Chief Executive. The latter is wholly responsible for the profitability of the company and its internal operations. The Executive Chairman, in addition to his normal role as Chairman, supports the Chief Executive in key external business relationships, on major projects, and in matters affecting the company's reputation and integrity. Taking into account his detailed knowledge of the business, and his reputation in the wider business community, the board believes that the current Chief Executive and Deputy Chairman, Anthony Glossop, is the best candidate for the position of Chairman. The board has consulted with major shareholders who fully support this view. In order to endorse this decision, an ordinary resolution to reappoint Anthony Glossop as a director will be placed before shareholders at the Annual General Meeting.

BOARD COMPOSITION AND COMMITTEES

The board currently comprises five executive directors (including the Chairman) and four non-executive directors. This composition provides an appropriate blend of experience and qualifications, and the number of non-executives provides a strong base for ensuring appropriate corporate governance of the company. The board meets formally 11 times a year and its decisions are implemented by the executive directors. Every director attended all 11 meetings in the year, except for Sir Stanley Clarke and James Shaw (10), and Tim Haywood (appointed in April 2003) (8).

The board has agreed that in view of his chairmanship of both the Remuneration and Audit Committees, Christopher Roshier is identified as the senior independent director. He is available for consultation by shareholders, whenever appropriate.

The reappointment of non-executive directors is not automatic. It is intended that appointments will be for an initial term of three years, which may be extended by mutual agreement. Prior to each non-executive offering himself to the members for re-election his reappointment must be confirmed by the Chairman in consultation with the remainder of the board. The terms and conditions of appointment of non-executive directors are available for inspection at the company's registered office during normal business hours, and at the AGM.

The board is supplied with timely and relevant information regarding the business, by monthly and ad hoc reports, by site visits and presentations from members of the management team and by meetings with key partners. Where appropriate, the company provides the resources to enable directors to update and upgrade their knowledge. Through the company secretary, the board is informed of all corporate governance issues.

The criteria used for evaluating individual executive directors' performance are included in the Directors' Remuneration Report. Individual non-executive directors' performance is reviewed by the Chairman and Chief Executive. The performance of the board as a whole is continuously assessed in the context of the company's achievement of its strategic objectives and total shareholder return targets. Feedback is sought through external surveys from shareholders, analysts and other professionals within the investment community following the regular briefings, presentations and site visits undertaken by the company. In support of the principles of good corporate governance, the board has appointed the following committees, all of which have formal terms of reference which are available for inspection by shareholders.

a) Remuneration Committee

The composition and function of the Remuneration Committee are set out in the Directors' Remuneration Report on pages 31 to 35.

The Remuneration Committee met formally once during the year, the meeting being attended by all members.

b) Audit Committee

The Audit Committee is chaired by the senior independent director and comprises all of the non-executive directors. Two meetings were held during the year and additional meetings may be requested by either the auditors or the non-executive directors. Both meetings were attended by all members of the Committee. The Finance Director attends part of these meetings but the Committee does meet without executive directors being present. The Committee has direct access to the auditors.

The Audit Committee's functions include:

- Ensuring that appropriate accounting systems and financial controls are in operation and that the company's financial statements comply with statutory and other requirements
- Receiving reports from and consulting with the external auditors
- Reviewing the interim and annual results and considering any matters raised by the auditors
- Monitoring the scope, cost-effectiveness and objectivity of the audit
- Monitoring the nature, scope and cost-effectiveness of non-audit services provided by the external auditors and ensuring that, where such services are provided, the objectivity and independence of the external auditors is safeguarded
- Making an annual assessment of the external auditors and recommending, or not, their reappointment
- Considering the need for an internal audit function.

c) Nominations Committee

The Nominations Committee comprises the Chairman, the Chief Executive and the senior independent director. The board's policy is for the Chairman to agree selection criteria for new members with all existing board members. The final decision on appointments rests with the full board, acting on the recommendations of the Nominations Committee.

RISK MANAGEMENT AND INTERNAL CONTROL

The board recognises that it has overall responsibility for the identification and mitigation of risks and the development and maintenance of an appropriate system of internal control.

Accordingly, as part of the annual strategic review process, a top-down risk assessment is undertaken, which has identified the following principal risks faced by the company:

- Securing development and investment opportunities
- Prior identification of macroeconomic and property market trends
- Changes in planning policy
- Structuring the financing of the company in an innovative and competitive manner
- Recruitment and retention of key executives with the skills necessary to implement the company strategy successfully
- Maintaining the company's high reputation.

The board believes that, although some of these issues are outside its control, it has clear strategies for identifying, dealing with, and mitigating the impact of each of these risks. The main strategies deployed include:

- Having a devolved management structure with regional offices covering local markets, whilst maintaining strong central control
- Marshalling its bank of development opportunities (the Hopper) to ensure a steady programme of activity
- Working in close partnership with local authorities and development agencies
- Committed financing arrangements with key banks
- Ensuring that excellent performance is rewarded with top quartile remuneration
- Aligning individual and corporate objectives via long-term and share-based incentive schemes
- Ensuring a culture, led from the board, of honesty, fairness and integrity throughout the company.

During the period under review the directors have reviewed the effectiveness of the system of internal control in accordance with the Turnbull guidance, through the production of a detailed report which covered: the group's control environment; the manner in which key business risks are identified; the adequacy of information systems and control procedures; and the manner in which any required corrective action is to be taken.

The group's key internal controls are centred on comprehensive monthly reporting from all activities which includes a detailed portfolio analysis, development progress reviews, a cash flow report and a comparison of committed expenditure against available facilities. These matters are reported to the board monthly, with reasons for any significant variances from budget. Detailed annual budgets are reviewed by the board and revised forecasts for the year are prepared on a regular basis.

Corporate Governance

There are clearly defined procedures for the authorisation of capital expenditure, purchases and sales of development and investment properties, contracts and commitments and there is a formal schedule of matters, including major investment and development decisions and strategic matters, that are reserved for board approval. Formal policies and procedures are in place covering all elements of health and safety and IT. The company's IT policies have been developed in co-operation with The Federation Against Software Theft.

Internal control, by its nature, provides only reasonable and not absolute assurance against material misstatement or loss. The directors continue, however, to strive to ensure that internal control and risk management are further embedded into the operations of the business by dealing with areas for improvement as they are identified.

In accordance with the Code, the board has reviewed the need to establish an internal audit function, but continues to believe that in a company of its size, where close control over operations is exercised by the executive directors, the benefits likely to be gained would be outweighed by the costs of establishing such a function.

SHAREHOLDER RELATIONS

The executive directors have a programme of meetings with institutional shareholders and analysts at which the company's strategy and most recently reported performance are explained and questions and comments made are relayed to the whole board. Annual visits are also arranged to sites of particular interest or significance to assist investors' understanding of the company's business. The company's Annual General Meeting is also used as an opportunity to communicate with private investors. In addition to the usual period for questions which is made available for shareholders at the Annual General Meeting, Christopher Roshier, the chairman of the Audit and Remuneration Committees, will be available to answer appropriate questions.

Copies of all press releases, investor presentations and Annual Reports are posted on the company's website (www.stmodwen.co.uk), together with additional details of major projects, key financial information and company background.

During the year the company was delighted to win the European Public Real Estate Best Performer 2002 award, in recognition of its outstanding performance, good active management and transparency for investors.

BUSINESS STANDARDS

The company demands the highest standards of integrity and professionalism, does not condone any form of corrupt behaviour in business dealings and has disciplinary procedures in place to deal with any illegal or inappropriate activities by employees.

HEALTH AND SAFETY

The company aims to safeguard the health and safety of the public and its employees by pursuing a policy which ensures that:

- Its business is conducted in accordance with standards that are in compliance with relevant statutory provisions for health and safety of staff and any other persons on company premises
- A safe and healthy working environment is established and maintained at all of the company's locations
- Managers at all levels regard health and safety matters as a prime management responsibility
- Sufficient financial resources are provided to ensure that policies can be carried out effectively
- Good standards of training and instruction in matters of health and safety are provided and maintained at all levels of employment
- Risk assessments are carried out where appropriate
- Co-operation of staff in promoting safe and healthy conditions and systems of work is required
- An adequate advisory service in matters of health and safety is provided and maintained

Detailed policies and procedures are documented and made available to all staff. The Health and Safety Forum, chaired by the Assistant Company Secretary, and reporting to the Chief Executive, meets regularly to discuss and resolve implementation issues. These procedures are reviewed by the board annually.

Directors' Remuneration Report

This report has been drawn up in accordance with the Code and has been approved by both the Remuneration Committee and the board. Shareholders will be invited to approve this report at the AGM. The Remuneration Committee's terms of reference are available for inspection on request.

The Companies Act requires certain parts of the Directors' Remuneration Report to be audited. The audited sections are highlighted.

COMPOSITION AND FUNCTION OF THE REMUNERATION COMMITTEE

The Remuneration Committee comprises Christopher Roshier, Ian Menzies-Gow, James Shaw and Sir David Trippier, who are all independent non-executive directors of the company, although Christopher Roshier and Sir David Trippier are not recognised as such by the Code due to their length of service. The Committee considers all aspects of the executive directors' remuneration and administers the company's share option schemes. The remuneration of the non-executive directors is considered by the board following recommendations by the executive directors. No director participates in setting his own remuneration. The Committee is also aware of the remuneration paid to executives below board level.

COMPLIANCE

With the exceptions noted on page 28, the company has complied throughout the period with the Code, and with the Directors' Remuneration Report Regulations 2002.

REMUNERATION POLICY

The objective of St. Modwen's remuneration policy is to attract, retain and motivate high calibre senior executives through competitive pay arrangements which are also in the best interests of shareholders. These include performance-related elements to align the interests of directors and shareholders and to motivate the highest performance.

The policy requires the highest level of performance from executives, based on individual performance assessments and by reference to pay levels in similar companies. Independent professional advice is sought from time to time to ensure that the policy remains appropriate. Such advice was last sought in January 2003.

BASE SALARIES

Each executive director receives a salary which reflects his responsibilities, experience and performance. Base salaries are reviewed annually and are established by reference to the median base salary for similar positions in comparable companies.

SERVICE CONTRACTS

All of the executive directors have notice periods of twelve months.

No director has any rights to compensation (apart from payment in lieu of notice, where appropriate).

The non-executive directors do not have service contracts.

Unless specifically approved by the board, executive directors are not permitted to hold external non-executive directorships.

Directors' Remuneration Report

PERFORMANCE-RELATED REMUNERATION

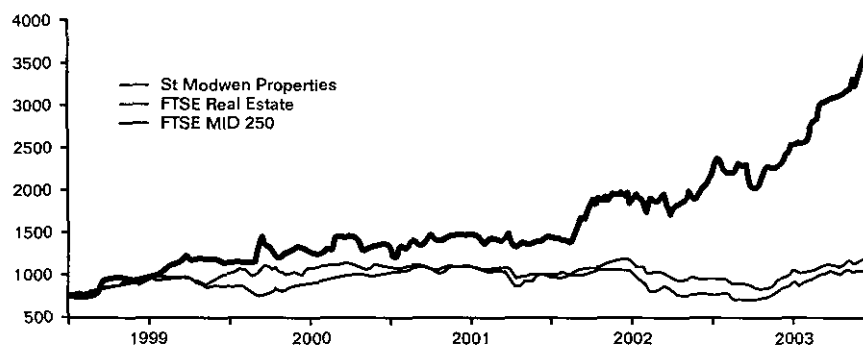
The Remuneration Committee has approved all performance-related remuneration in respect of the year to 30 November 2003, and the targets for achievement of such remuneration which were set at the beginning of the financial year.

Annual Bonus

Executive directors, with the exception of the Chairman, participate in a performance linked annual bonus scheme. The levels of bonus are determined by the Remuneration Committee, taking into account both the level of profit and other personal targets. Executive directors were eligible to receive a maximum bonus of 70% of salary in 2003, payable on the achievement by the company of a demanding budget for profit for the year to 30 November 2003, and on the achievement of a number of personal targets, set individually for each executive director. These include the achievement of a target net asset value per share, creation of a development programme for future years, support for the regional offices, and replacement of land used. The Chief Executive makes recommendations to the Remuneration Committee for the levels of bonus payable to executive directors (other than himself) for the achievement of these personal targets, and the levels of bonus payable are set by the the Remuneration Committee. Annual bonuses do not form part of pensionable pay.

For the year to 30 November 2003, the annual bonuses paid to directors as a percentage of annual salary were as follows: Anthony Glossop 70%; Bill Oliver 70%; Richard Froggatt 64%; Tim Haywood 61%.

Total Shareholder Return 1998 – 2003
St Modwen Properties vs FTSE Real Estate vs FTSE 250



Source: DATASTREAM

Deferred Bonus

In order to continue to attract and retain key executives, and to align their interests with those of shareholders, the board believes that long-term incentives should form an important part of a competitive benefits package.

Consequently, a resolution will be put before the Annual General Meeting, seeking shareholders' approval for the introduction of a performance-related bonus scheme for Mr Oliver, Mr Froggatt and Mr Haywood. Under the terms of the scheme, the annual performance bonus paid under the existing scheme will be matched and this amount held for payment at the end of three years. Payment of this deferred amount will be subject to the company's net asset value growth over the relevant three year period exceeding RPI plus 5% per annum and the continued employment by the company of the director concerned (except in certain circumstances, such as death during the deferral period). This scheme replicates arrangements already in place for senior management of the company below board level, under which a maximum of 100% of annual salary can be earned as bonus, of which 50% is deferred for three years.

The board has consulted on this scheme with major shareholders.

Share Options

The Remuneration Committee is responsible for supervising the company's Executive Share Option and Savings Related Share Option schemes in accordance with rules previously approved by shareholders. Executive directors (as well as other senior employees) are granted options over the company's shares. For options granted in 2003 under the company's Executive Share Option Scheme (as in other recent awards), the performance target set was 5% per annum real growth in net asset value per share over the three year period from the date of grant.

Executive directors may also participate in the company's savings-related share schemes on the same terms as all other employees.

Executive Share Option Schemes

Date of Grant	C. C. A. Glossop	W. A. Oliver	R. L. Froggatt	T. P. Haywood	Exercise Price	Exercise Period
March 1999*	132,878	—	—	—	—	Mar 2002–Mar 2005
August 1994	150,000	—	—	—	50.5p	Aug 1997–Aug 2004
September 1995	300,000	—	—	—	51.5p	Sept 1998–Sept 2005
November 1999	500,000	—	200,000	—	99.0p	Nov 2003–Nov 2009
March 2000	—	200,000	100,000	—	106.0p	Mar 2004–Mar 2010
September 2001	—	160,000	110,000	—	113.5p	Sept 2004–Sept 2011
September 2002	—	172,000	159,000	—	134.0p	Sept 2005–Sept 2012
As at 30 November 2002	1,082,878	532,000	569,000	—		
August 2003	—	112,000	90,000	70,000	200.0p	Aug 2006–Aug 2013
As at 30 November 2003	1,082,878	644,000	659,000	70,000		

* Granted under a long-term incentive plan which was discontinued in 1999.

Savings Related Schemes

	Balance at 30 Nov 2002	Exercised	Granted	Balance at 30 Nov 2003	Exercise Price	Exercise Period
C. C. A. Glossop	19,236	—	—	19,236	84.5p/103.5p	Oct 2004–Oct 2006
W. A. Oliver	16,304	—	—	16,304	103.5p	May 2006–Oct 2006
R. L. Froggatt	13,240	—	—	13,240	125.0p	Oct 2007–Mar 2008
T. P. Haywood	—	—	3,500	3,500	182.0p	Oct 2008–Mar 2009

The share price as at 30 November 2003 was 258.5p. The highest price during the year was 258.5p and the lowest price was 148p.

Directors' Remuneration Report**DIRECTORS' REMUNERATION**

The remuneration of the directors for the year ended 30 November 2003 was as follows:

	Salary/Fees £'000	Annual bonus £'000	Benefits £'000	Gains on share options £'000	Total emoluments excluding pensions and pension contributions 2003 £'000	2002 £'000
Executive						
Sir Stanley Clarke	221	—	80	—	301	293
C. C. A. Glossop	255	178	21	—	454	418
W. A. Oliver	217	157	22	—	396	294
R. L. Froggatt	180	115	22	—	317	344
T. P. Haywood	89	50	12	—	151	—
Non-Executive						
R. I. Menzies-Gow	25	—	—	—	25	8
C. E. Roshier	35	—	—	—	35	30
J. N. Shaw	25	—	—	—	25	22
Sir David Trippier*	25	—	—	—	25	22
J. D. Leavesley	—	—	—	—	—	9
C. H. Lewis	—	—	—	—	—	9
I. J. G. Napier	—	—	—	—	—	2
	<u>1,072</u>	<u>500</u>	<u>157</u>	<u>—</u>	<u>1,729</u>	<u>1,451</u>

All benefits arise from employment with the company, and do not form part of directors' final pensionable pay.

The figures above represent emoluments earned during the relevant financial year. Such emoluments are paid in the same financial year with the exception of performance related bonuses, which are paid in the year following that in which they are earned.

* Payments in respect of the services of Sir David Trippier as a director include amounts paid to Sir David Trippier & Associates Limited, a company which he controls.

During the year, payments of £3,000 each in respect of consultancy services provided were made to former directors J. D. Leavesley and C. H. Lewis

Total non-executive directors' fees have been set at a maximum of £100,000 (adjusted for RPI) since 1998. With the increasing complexity of the role, and the requirements of the Combined Code for additional numbers of non-executives, such a limit is no longer appropriate if the company is to attract and retain individuals of sufficient calibre. Consequently, a resolution will be put before the Annual General Meeting to increase this limit to £250,000.

The salaries of the executive directors have been increased with effect from 1 December 2003 to:

C. C. A. Glossop	£267,500	R. L. Froggatt	£189,000
W. A. Oliver	£250,000	T. P. Haywood	£155,000

PENSIONS

The company operates a pension scheme with both a defined benefits and defined contribution section, covering the majority of employees, including executive directors. In relation to the defined benefits section, benefits are based on years of credited service and final pensionable pay. The maximum pension generally payable under the scheme is two-thirds of final pensionable pay. It is not anticipated that there will be any further entrants to the defined benefits section of the scheme.

Membership of the defined contribution section is available to all permanent employees including directors joining the company after 6 April 1999. Contributions are invested by an independent investment manager.

Pension benefits earned by the director who is a member of the defined benefits scheme:

	Age at 30 November 2003	Increase in accrued pension £ p.a.	Accrued pension at 30 November 2003 £ p.a.
R. L. Froggatt	54	3,116	31,075

Notes relating to the defined benefits scheme:

1. No contributions are paid by members.
2. The increase in accrued pension during the year excludes any increase for inflation.
3. Accrued pension is that which would be paid annually at retirement age based on service to 30 November 2003.
4. Members have the option to pay Additional Voluntary Contributions; neither the contributions nor the resulting benefits are included above.
5. Normal retirement age is 60.
6. Death in service benefits amount to a lump sum equal to the greater of four times basic salary at death and four times the average of gross earnings in the last four years. In addition, a spouse's pension would be payable, equivalent to 50% of the full pension the member would have been entitled to had he worked to normal retirement age.
7. A spouse's pension of 50% of the full pension is payable after the death in retirement of a member.
8. Pension payments increase annually by the lower of the RPI increase and 5%.

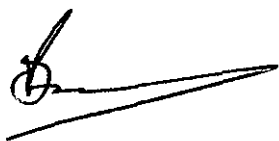
W. A. Oliver and T. P. Haywood are members of the defined contribution section of the Pension Scheme and contributions of £32,500 and £13,381 were made in respect of each of them during the period.

Sir Stanley Clarke is receiving a pension from the scheme equal to the maximum permitted by the Inland Revenue from an approved scheme based on his earnings and length of service.

C. C. A. Glossop, having attained the age of 60, has ceased to accrue rights to further pensionable service and he is deferring his entitlement to receive his pension.

Further information on the company's pension scheme is shown in note 10 on page 44.

Approved by the board and signed on its behalf by



Christopher Roshier
Chairman, Remuneration Committee
16 February 2004

Group Profit and Loss Account

For the year ended 30 November

	Notes	2003 £'000	2002 £'000
Turnover			
Group and share of joint ventures	1	136,081	136,893
Less: share of joint ventures turnover		(13,304)	(28,728)
		<u>122,777</u>	<u>108,165</u>
Operating profit			
Group operating profit		34,538	28,561
Share of operating profit in joint ventures		9,486	12,687
Share of operating profit in associates		1,550	1,093
	1	<u>45,574</u>	<u>42,341</u>
Profit on sale of investment properties	1	5,389	832
Net interest payable	2	<u>(15,937)</u>	<u>(13,161)</u>
Profit on ordinary activities before taxation	3	35,026	30,012
Taxation on profit on ordinary activities	6	<u>(9,954)</u>	<u>(8,448)</u>
Profit on ordinary activities after taxation		25,072	21,564
Equity minority interest		<u>(989)</u>	<u>(1,016)</u>
Profit attributable to shareholders		24,083	20,548
Dividends	7	<u>(7,914)</u>	<u>(6,846)</u>
Transferred to reserves		<u>16,169</u>	<u>13,702</u>
Basic earnings per ordinary share	8	20.1p	17.1p
Dividend per ordinary share	7	6.6p	5.7p

All activities derive from continuing operations.

A statement of the movement in reserves is shown in note 20 on page 54.

Balance Sheets

At 30 November

	Notes	GROUP		COMPANY	
		2003 £'000	2002 £'000	2003 £'000	2002 £'000
Fixed assets					
Tangible assets	11	269,023	270,007	1,399	1,517
Investments					
Joint ventures					
Share of gross assets		123,795	77,348		
Share of gross liabilities		(100,480)	(53,650)		
Share of net assets	12	23,315	23,698	23,315	23,698
Associated companies	12	9,198	7,514	8,598	6,914
Other investments	12	6,436	6,615	237,424	200,024
		<u>307,972</u>	<u>307,834</u>	<u>270,736</u>	<u>232,153</u>
Current assets					
Stocks	13	77,510	101,179	—	—
Debtors	14	23,801	10,072	77,395	62,921
Cash at bank and in hand		92	2,927	34	38
		<u>101,403</u>	<u>114,178</u>	<u>77,429</u>	<u>62,959</u>
Current liabilities					
Creditors: amounts falling due within one year	15	(50,881)	(53,091)	(115,148)	(66,023)
Net current assets/(liabilities)		<u>50,522</u>	<u>61,087</u>	<u>(37,719)</u>	<u>(3,064)</u>
Total assets less current liabilities		<u>358,494</u>	<u>368,921</u>	<u>233,017</u>	<u>229,089</u>
Creditors: amounts falling due after more than one year	16	(127,941)	(168,020)	(8,500)	(34,500)
Provisions for liabilities and charges	18	(2,970)	(3,979)	85	(272)
Equity minority interests		<u>(2,981)</u>	<u>(2,605)</u>	<u>—</u>	<u>—</u>
Net assets		<u>224,602</u>	<u>194,317</u>	<u>224,602</u>	<u>194,317</u>
Capital and reserves					
Called up share capital	19	12,077	12,077	12,077	12,077
Share premium account	20	9,167	9,167	9,167	9,167
Merger reserve	20	9	9	9	9
Capital redemption reserve	20	356	356	356	356
Revaluation reserve	20	89,974	80,191	188,234	148,485
Profit and loss account	20	113,019	92,517	14,759	24,223
Equity shareholders' funds		<u>224,602</u>	<u>194,317</u>	<u>224,602</u>	<u>194,317</u>
Net assets per ordinary share		186.0p	160.9p		
Fair value net assets per ordinary share	22	180.2p	148.0p		
Gearing		60%	89%		

The Report and Accounts were approved by the board of directors on 16 February 2004.

Signed on behalf of the board of directors by

Sir Stanley Clarke
T. P. Haywood

Group Cash Flow Statement

For the year ended 30 November

		2003	2002
	Notes	£'000	£'000
Net cash inflow from operating activities	21(a)	31,327	38,793
Dividends received from joint ventures		6,000	—
Returns on investments and servicing of finance			
Interest received		176	72
Interest paid		(11,124)	(10,312)
Net cash outflow from returns on investments and servicing of finance		(10,948)	(10,240)
Taxation		(4,571)	(7,170)
Capital expenditure and financial investment			
Additions to investment properties		(13,177)	(48,848)
Additions to operating properties and other tangible assets		(165)	(112)
Sale of investment properties		38,347	5,612
Sale of operating properties and other tangible assets		10	36
		25,015	(43,312)
Acquisitions and disposals			
Investment in joint ventures and associates		(217)	(4,861)
Equity dividends paid		(7,187)	(6,266)
Dividends paid to minority shareholders		(613)	—
Cash inflow/(outflow) before use of liquid resources and financing		38,806	(33,056)
Financing			
Redemption of loan notes		(19)	(48)
(Decrease)/increase in debt		(44,839)	36,046
Net cash (outflow)/inflow from financing	21(b)	(44,858)	35,998
(Decrease)/increase in cash in the year	21(b)	(6,052)	2,942
Reconciliation of net cash flow to movement in net debt			
(Decrease)/increase in cash		(6,052)	2,942
Cash flow from change in debt		44,839	(36,046)
Loan notes redeemed		19	48
Change in net debt resulting from cash flows		38,806	(33,056)
Net debt at 1 December		(173,774)	(140,718)
Net debt at 30 November		(134,968)	(173,774)

Supplementary Statements

For the year ended 30 November

	2003 £'000	2002 £'000
Group Statement of Total Recognised Gains and Losses		
Profit for the year	24,083	20,548
Taxation on realisation of prior years' revaluation surpluses	(1,231)	—
Unrealised surplus on revaluation of group investment properties	12,272	13,837
Unrealised surplus on revaluation of properties held by joint ventures	2,189	1,417
Unrealised surplus arising on acquisition by associate	886	—
Total recognised gains and losses since last annual report	38,199	35,802
	2003 £'000	2002 £'000
Note of Historical Cost Profits and Losses		
Reported profit on ordinary activities before taxation	35,026	30,012
Realisation of property revaluation gains/(losses) of earlier years	5,564	(1,657)
	40,590	28,355
Historical cost profit for the year after taxation, minority interests and dividends	21,733	12,045
	2003 £'000	2002 £'000
Group Reconciliation of Movements in Shareholders' Funds		
Profit attributable to shareholders	24,083	20,548
Dividends	(7,914)	(6,846)
	16,169	13,702
Unrealised surplus on revaluation of group investment properties	12,272	13,837
Unrealised surplus on revaluation of properties held by joint ventures	2,189	1,417
Unrealised surplus arising on acquisition by associate	886	—
Taxation on realisation of prior years' revaluation surpluses	(1,231)	—
Net addition to shareholders' funds	30,285	28,956
Opening shareholders' funds	194,317	165,361
Closing shareholders' funds	224,602	194,317

Accounting Policies

The accounts and notes have been prepared in accordance with applicable accounting standards.

Compliance with SSAP19 "Accounting for Investment Properties" requires departure from the Companies Act 1985 relating to depreciation and an explanation of the departure is given below.

Accounting Convention

The accounts have been prepared under the historical cost convention, modified by the revaluation of investment properties and shares in subsidiary and associated companies.

Basis of Consolidation

The group accounts consolidate the accounts of the company and its subsidiaries for the financial period ended 30 November 2003. Newly acquired subsidiaries are consolidated from the date control passes. Associated companies are consolidated using the equity accounting method and joint ventures are consolidated using the gross equity accounting method as required by FRS9.

Turnover and Profit Recognition

Turnover represents sales of development properties, rental income receivable in accordance with UITF28, other recoveries and income from leisure activities. Profit on development properties is recognised on legal completion of sale.

Tangible Fixed Assets

Depreciation is not provided on investment properties which are subject to annual revaluations. Other tangible fixed assets are depreciated by equal instalments over their expected useful lives at annual rates varying between 2% and 50%.

Investment in Subsidiary and Associated Companies

The investments in subsidiary and associated companies are included in the company's balance sheet at the company's share of net asset value. The valuation recognises the cost of acquisition, together with any unamortised goodwill and changes in the book values of the underlying net assets. The surplus or deficit arising on revaluation is transferred to reserves.

Acquisitions

On the acquisition of a business, including an interest in an associated undertaking, fair values are attributed to the group's share of the separable net assets. Any goodwill arising is amortised over its expected useful life, not exceeding 20 years.

The results and cash flows relating to a business are included in the consolidated profit and loss account and the consolidated cash flow statement from the date control passes.

Investment Properties

In accordance with SSAP19, investment properties are revalued annually and the aggregate surplus or temporary deficit is transferred to the revaluation reserve. No depreciation is provided in respect of investment properties.

The Companies Act 1985 requires all properties to be depreciated. However, this requirement conflicts with the generally accepted accounting principle set out in SSAP19. The directors consider that, because these properties are not held for consumption but for their investment potential, to depreciate them would not give a true and fair view, and that it is necessary to adopt SSAP19 in order to give a true and fair view.

If this departure from the Act had not been made, the profit for the financial year would have been reduced by depreciation. However, the amount of depreciation cannot reasonably be quantified because depreciation 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.

Stocks

Stocks and work in progress are stated at the lower of cost and net realisable value, less amounts invoiced on account. Transfers from investment properties to stock are made at value not cost.

Deferred Taxation

In accordance with FRS19, deferred taxation is provided at the rate ruling at the balance sheet date on timing differences which arise from the recognition of income and expenditure in differing periods for taxation and accounting purposes. Under this policy no provision has been made for the potential further liability to taxation which would arise in the event of the realisation of investment properties included at valuation in the accounts at the values attributed to them.

Interest

Interest incurred on properties in the course of development, whether for sale or retention as investments, is charged to the profit and loss account.

Pension Costs

Retirement benefits to employees in the group are provided by a scheme comprising both defined benefit and defined contribution sections which is funded by contributions from group companies and employees. Payments to pension funds are made in accordance with periodic calculations by professionally qualified actuaries in the case of the defined benefit section, and regularly as defined by the rules in the case of the defined contribution section.

The costs are charged to the profit and loss account, so as to spread the cost over the service lives of employees in the scheme in such a way that the pension cost is a substantially level percentage of current and expected future pensionable payroll.

Financial Instruments

Derivative instruments utilised by the group are interest rate caps, floors and swaps. The group does not enter into speculative derivative contracts. All such instruments are used for hedging purposes to alter the interest rate risk profile of underlying borrowings. Amounts payable or receivable in respect of such derivatives are recognised as adjustments to interest expense over the period of the contracts.

Notes to the Accounts

1. Turnover and Profit Analysis

	2003			2002		
	Turnover £'000	Cost of sales £'000	Profit £'000	Turnover £'000	Cost of sales £'000	Profit £'000
Rental income						
Group	31,608	(4,644)	26,964	25,835	(3,532)	22,303
Share of joint ventures	10,852	(1,370)	9,482	4,852	(799)	4,053
Property development						
Group	88,495	(68,792)	19,703	79,777	(65,351)	14,426
Share of joint ventures	2,452	(2,347)	105	23,876	(15,135)	8,741
Other activities	2,674	(1,533)	1,141	2,553	(1,920)	633
	<u>136,081</u>	<u>(78,686)</u>	<u>57,395</u>	<u>136,893</u>	<u>(86,737)</u>	<u>50,156</u>
Share of operating profit in associates			1,550			1,093
Administrative and other operating expenses						
Group			(13,270)			(8,801)
Share of joint ventures			(101)			(107)
Operating profit			45,574			42,341
Profit on sale of investment properties — group			5,213			832
— joint ventures			176			—
			<u>50,963</u>			<u>43,173</u>

2. Net Interest Payable

	2003 £'000	2002 £'000
Interest payable on bank and other loans and overdrafts	11,065	10,742
Interest receivable	(176)	(72)
Group interest charge	10,889	10,670
Share of joint ventures' net interest	4,746	2,320
Share of associated companies' net interest	302	171
	<u>15,937</u>	<u>13,161</u>

3. Profit on Ordinary Activities before Taxation

	2003 £'000	2002 £'000
The profit on ordinary activities before taxation is stated after charging:		
Depreciation of tangible fixed assets	194	221
Amortisation of investment in own shares	330	651
Amortisation of goodwill arising on acquisition of associate	12	—
Auditors' remuneration — audit services	49	55
— taxation advice	41	27
— advice on Chepstow transaction	20	—
	<u>1,006</u>	<u>954</u>

Remuneration for audit services for the company was £4,300 (2002: £4,200). For taxation advice the charge was £1,350 (2002: £27,000).

As disclosed in last year's Annual Report, Ernst & Young LLP, the auditors to the company, were paid an introductory fee of £500,000 and fees associated with the bank finance of £12,000 by our joint venture company Key Property Investments Limited, in connection with the acquisition in December 2002 of a group of property investment companies from the Alstom Group.

6. Taxation on Profit on Ordinary Activities

	2003	2002
£'000	£'000	£'000
(a) Analysis of Charge in Period		
<i>Current tax</i>		
UK corporation tax on profits of the period	9,124	4,513
Adjustments in respect of previous periods	(165)	(192)
	8,959	4,321
Share of joint ventures' taxation	1,214	3,122
Adjustments in respect of previous periods	34	20
	1,248	3,142
Share of associates' taxation	312	—
Adjustments in respect of previous periods	204	—
	516	—
Total current tax (note (b))	10,723	7,463
<i>Deferred tax</i>		
Origination and reversal of timing differences (note 18)	(1,009)	985
Share of joint ventures' origination and reversal of timing differences	240	—
Taxation on profits on ordinary activities	9,954	8,448

(b) Factors Affecting Tax Charge For Period

	2003	2002
£'000	£'000	£'000
Profit on ordinary activities before tax	35,026	30,012
Profit on ordinary activities at the standard rate of UK Corporation Tax	10,508	9,004
Disallowed expenses and non-taxable income	(142)	(207)
Capital allowances for period in excess of depreciation	(496)	(443)
Short-term timing differences	1,265	(636)
Net capital gains on disposal of investment properties	(375)	(115)
Other	(110)	32
Adjustments to tax charge in respect of previous periods (including joint ventures)	73	(172)
	10,723	7,463

(c) Factors That May Affect Future Tax Charges

Based on current capital investment plans, the group expects to continue to be able to claim capital allowances in excess of depreciation in future years. No provision has been made for deferred tax on gains recognised on revaluing investment properties to market value. Such tax would become payable only if the properties were sold. The total amount unprovided is £18.3m including share of joint ventures (2002: £17.1m).

7. Dividends

	2003	2002
	£'000	£'000
Ordinary 10p shares — proposed final dividend of 4.4p (2002: 3.8p)	5,274	4,547
— interim dividend of 2.2p (2002: 1.9p)	2,640	2,299
	7,914	6,846

Notes to the Accounts**4. Directors' Remuneration**

	2003 £'000	2002 £'000
Directors' emoluments		
Non-executive directors' fees	110	102
Executive directors' salaries and benefits	1,119	907
Executive directors' performance related payments	500	442
	1,729	1,451
Gains on the exercise of share options	—	—
Value of shares transferred in respect of long-term share incentive scheme	—	246
Pension to former directors	1	1
Consultancy payments to former directors	6	—
	1,736	1,698

Disclosure of individual directors' remuneration, is shown in the Directors' Remuneration Report on pages 31 to 35.

5. Employees

The average number of full-time employees (including directors) employed by the group during the year was as follows:

	2003 Number	2002 Number
Administration	18	18
Property	151	178
Other activities	43	35
	212	231

The total payroll costs of these employees were:

	£'000	£'000
Wages and salaries	7,261	5,644
Social security costs	757	538
Pension costs	1,269	15
	9,287	6,197

The total payroll costs were dealt with in the accounts as follows:

Property recoveries	1,673	1,106
Cost of sales	310	309
Overheads	7,304	4,782
	9,287	6,197

Notes to the Accounts

8. Earnings per Share

Earnings per ordinary share are calculated as follows:

- (a) Basic earnings per ordinary share are calculated by dividing the profit attributable to ordinary shareholders of £24,083,000 (2002: £20,548,000) by the weighted average number of shares in issue during the year (excluding the shares held for share incentive schemes which are owned by the company) of 119,820,493 (2002: 120,310,795).
- (b) As the group does not currently intend to issue shares to satisfy outstanding share options, there will be no dilution of earnings arising from the exercise of employee share options.

9. Profit of Parent Company

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these accounts. The loss for the financial year of the parent company was £485,000 (2002: £26,728,000 profit).

10. Pensions

The group operates a pension scheme in the UK with both defined benefit and defined contribution sections. The defined benefit section is closed to new members.

The pension cost figures used in these accounts comply with the current pension cost accounting standard SSAP24. The last formal actuarial valuation of the scheme was as at 5 April 2003, when the market value of the net assets of the scheme was £18,864,000. The valuation was performed using the projected unit method. The main actuarial assumptions were:

Investment rate of return: pre-retirement	6.2% p.a.
post-retirement	4.7% p.a.
Increase in earnings	5.6% p.a.
Increase in pensions	2.6% p.a.

The valuation showed a funding level of 82%.

Under transitional arrangements the group is required to disclose the following information about the scheme and the figures that would have been shown under FRS17 in the current balance sheet and profit & loss account.

A full actuarial valuation of the defined benefit section was carried out at 5 April 2003 and updated to 30 November 2003 by a qualified independent actuary. The major assumptions used by the actuary for FRS17 purposes were:

	At 30 November 2003	At 30 November 2002	At 30 November 2001
Rate of increase in salaries	5.77%	5.34%	5.30%
Rate of increase in deferred pensions	2.77%	2.34%	2.30%
Rate of increase in pensions in payment	2.77%	2.34%	2.30%
Discount rate	5.59%	5.72%	5.54%
Inflation assumption	2.77%	2.34%	2.30%

The fair values of assets in the defined benefit section of the scheme and the expected rate of return were:

	2003		2002		2001	
	%	£'000	%	£'000	%	£'000
Equities	6.52	12,002	6.26	10,327	6.12	13,288
Bonds	5.42	308	4.76	819	4.62	662
Property	6.52	7,327	6.26	6,854	6.12	7,161
Cash and other assets	5.02	637	4.76	633	4.62	389
		20,274		18,633		21,500
Actuarial value of liabilities		(21,625)		(17,154)		(17,133)
(Deficit)/surplus in the scheme		(1,351)		1,479		4,367
Related deferred tax asset/(liability)		405		(444)		(1,310)
Fair value pension (liability)/asset		(946)		1,035		3,057

10. Pensions continued

If the above pension liability/asset was recognised in the financial statements, the group's net assets and profit and loss reserve would be as follows:

	At 30 November 2003	At 30 November 2002
Net assets excluding pension liability/asset	224,602	194,317
Pension (liability)/asset	(946)	1,035
Net assets including pension liability/asset	223,656	195,352
	At 30 November 2003	At 30 November 2002
Profit and loss reserve excluding pension liability/asset	113,019	92,517
Pension (liability)/asset	(946)	1,035
Profit and loss reserve including pension liability/asset	112,073	93,552

Had FRS 17 been fully implemented, the amount which would be charged to operating profit is as follows:

	2003 £'000	2002 £'000
Current service cost	(704)	(543)
Employee contributions	13	9
Total operating charge	(691)	(534)

The amount which would be credited to other finance income is as follows:

	2003 £'000	2002 £'000
Expected return on pension scheme assets	1,118	1,266
Interest on pension scheme liabilities	(978)	(937)
Net return	140	329

The amounts which would be included within the statement of total recognised gains and losses are as follows:

	2003 £'000	2002 £'000
Difference between expected and actual return on assets (6.3%)	1,270	(3,052)
Experience gains and losses arising on the present value of scheme liabilities (6.9%)	(1,496)	(48)
Effects of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities (9.8%)	(2,124)	403
Total actuarial loss (10.9% of present value of scheme liabilities)	(2,350)	(2,697)

The movement in the scheme surplus during the year is as follows:

	2003 £'000	2002 £'000
Surplus in scheme at beginning of the year	1,479	4,367
Movement in year:		
Current service cost	(704)	(543)
Employee contributions	13	9
Employer contributions	71	14
Other finance income	140	329
Actuarial loss	(2,350)	(2,697)
(Deficit)/surplus in scheme at the year end	(1,351)	1,479

Notes to the Accounts

10. Pensions continued

Reconciliation of fall in value of scheme's assets to FRS 17 disclosures:

	Gross £'000	Tax £'000	Net £'000
Value of scheme's assets:			
(Deficit)/surplus in scheme at the end of year	(1,351)	405	(946)
Surplus in scheme at the start of year	1,479	(444)	1,035
Total fall in value during year	(2,830)	849	(1,981)
FRS 17 disclosure:			
Profit and Loss Account — operating charge	(691)	207	(484)
— other finance income	140	(42)	98
Statement of Total Recognised Gains and Losses	(2,350)	705	(1,645)
Employer contributions	71	(21)	50
	(2,830)	849	(1,981)

11. Tangible Fixed Assets

(a) Group	Freehold investment properties £'000	Long leasehold investment properties £'000	Operating properties £'000	Plant, machinery and equipment £'000	Total £'000
<i>Cost or valuation</i>					
At 30 November 2002	167,315	100,165	2,380	1,026	270,886
Additions	8,195	4,982	—	165	13,342
Transfers from work in progress	6,740	—	—	—	6,740
Disposals	(19,729)	(13,405)	—	(36)	(33,170)
Surplus on revaluation	5,592	6,680	—	—	12,272
At 30 November 2003	168,113	98,422	2,380	1,155	270,070
<i>Depreciation</i>					
At 30 November 2002	—	—	98	781	879
Charge for the year	—	—	42	152	194
Disposals	—	—	—	(26)	(26)
At 30 November 2003	—	—	140	907	1,047
Net book value					
At 30 November 2003	168,113	98,422	2,240	248	269,023
At 30 November 2002	167,315	100,165	2,282	245	270,007
<i>Tenure of operating properties:</i>					
Freehold			482		
Long leasehold			1,758		
			2,240		

11. Tangible Fixed Assets continued

	Long leasehold investment properties £'000	Plant, machinery and equipment £'000	Total £'000
(b) Company			
<i>Cost or valuation</i>			
At 30 November 2002	1,380	733	2,113
Additions	—	107	107
Deficit on revaluation	(130)	—	(130)
At 30 November 2003	1,250	840	2,090
<i>Depreciation</i>			
At 30 November 2002	—	596	596
Charge for the year	—	95	95
At 30 November 2003	—	691	691
Net book value			
At 30 November 2003	1,250	149	1,399
At 30 November 2002	1,380	137	1,517

(c) Freehold and long leasehold investment properties were valued as at 30 November 2003 by King Sturge & Co., Chartered Surveyors in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors, on the basis of open market value.

(d) Historical cost of investment properties

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Freehold investment properties	116,203	116,145	—	—
Long leasehold investment properties	70,375	77,021	2,770	2,770
	186,578	193,166	2,770	2,770

12. Investments held as Fixed Assets

	Investment in joint ventures £'000	Investment in associated companies £'000	Investment in own shares £'000	Other investments £'000	Total £'000
(a) Group					
At 30 November 2002	23,698	7,514	615	6,000	37,827
Investments in year	—	66	151	—	217
Share of revaluation of assets	2,189	886	—	—	3,075
Share of post-tax profits less losses	3,428	744	—	—	4,172
Dividends receivable	(6,000)	—	—	—	(6,000)
Amortisation and appropriation	—	(12)	(330)	—	(342)
At 30 November 2003	23,315	9,198	436	6,000	38,949
(b) Company					
At 30 November 2002	193,409	23,698	615	6,000	230,636
Investments in year	—	66	151	—	217
Revaluation of investments	37,579	(383)	—	—	38,814
Amortisation and appropriation	—	—	(330)	—	(330)
At 30 November 2003	230,988	23,315	436	6,000	269,337

Notes to the Accounts

12. Investments held as Fixed Assets continued

(c) Joint Ventures

	Key Properties Investments Limited £'000	Holaw (462) Limited £'000	Barton Business Park Limited £'000	Clarke London Limited £'000	Sowcrest Limited £'000	Great British Kitchen Company Limited £'000	Shaw Park Developments Limited £'000	Total £'000
Fixed assets	100,732	3,850	—	—	—	73	—	104,655
Current assets	14,112	102	1,918	20	2,004	—	984	19,140
Current liabilities	(2,613)	(116)	(503)	—	(83)	—	—	(3,315)
Non-current liabilities	(89,961)	(3,310)	(932)	—	(1,758)	(220)	(984)	(97,165)
	22,270	526	483	20	163	(147)	—	23,315

(d) Associated Companies

At 30 November 2003, the associated companies, which were registered and operated in England and Wales, were as follows:

	Percentage shareholding	Nature of principal business
The Chepstow Racecourse PLC	27%	Racecourse operator
Stoke-on-Trent Community Stadium Development Company Limited	15%	Stadium operator

The majority shareholder in The Chepstow Racecourse PLC is Sir Stanley Clarke.

The other shareholders in Stoke-on-Trent Community Stadium Development Company Limited are Stoke City Football Club Limited (49%) and the Council of the City of Stoke-on-Trent (36%). Stoke-on-Trent Regeneration Limited holds the remaining 15% of the equity in this company.

The accounts of The Chepstow Racecourse PLC are drawn up to 31 December each year. The accounts of Stoke-on-Trent Community Stadium Development Company Limited are drawn up to 31 May each year, and management accounts to 30 November 2003 have been used for consolidation purposes.

(e) Own Shares

Investment in own shares represents shares acquired by Mourant & Co. Trustees Limited in respect of share incentive schemes.

These shares are held at the lower of market value and residual value (being the lowest exercise price of any outstanding options).

908,689 shares with a market value of 258.5p per share were held at 30 November 2003 (2002: 1,128,858). Dividends have been waived on these shares. 132,878 of the shares are held under option to employees in the long-term share incentive scheme (2002: 132,878).

12. Investments held as Fixed Assets continued

(f) Subsidiary companies

At 30 November 2003, the principal subsidiaries, all of whom, with the exception of St. Modwen Enterprises Limited, were registered and operated in England and Wales, were as follows:

	Proportion of ordinary shares held	Nature of principal business
Blackpole Trading Estate (1978) Limited	100%	Property investors
Boltro Properties Limited	100%	Property investors
Chaucer Estates Limited	100%	Property investors
Lawnmark Limited	100%	Investment company
Leisure Living Limited	100%	Leisure operator
Redman Heenan Properties Limited	100%	Property investors
St. Modwen Developments Limited	100%	Property developers
St. Modwen Developments (Belle Vale) Limited	100%	Property investors
St. Modwen Developments (Edmonton) Limited	100%	Property investors
St. Modwen Developments (Kirkby) Limited	100%	Property investors
St. Modwen Developments (Quinton) Limited	100%	Property developers
St. Modwen Enterprises Limited	100%	Property investors
St. Modwen Investments Limited	100%	Property investors
St. Modwen Securities Limited	100%	Property developers
St. Modwen Ventures Limited	100%	Property investors
Walton Securities Limited	100%	Property investors
Worcester Retail Park (One) Limited	100%	Property investors
Worcester Retail Park (Two) Limited	100%	Property investors
Stoke-on-Trent Regeneration Limited	81%	Property developers
Stoke-on-Trent Regeneration (Investments) Limited	81%	Property investors
Uttoxeter Estates Limited	81%	Property developers
Widnes Regeneration Limited	81%	Property developers
Trentham Leisure Limited	80%	Property and leisure operator
Norton & Profit Developments Limited	75%	Property developers

St. Modwen Enterprises Limited was registered and operated in the Isle of Man.

The company is also the beneficial owner of the entire issued share capital of a number of non-trading companies.

13. Stocks

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Work in progress:				
Developments in progress	42,643	81,339	—	—
Income-producing development property	34,833	19,803	—	—
	77,476	101,142	—	—
Goods for resale	34	37	—	—
	77,510	101,179	—	—

Notes to the Accounts

14. Debtors:

Amounts falling due within one year

	Group		Company	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Trade debtors	2,822	1,022	1,072	19
Amounts due from subsidiaries	—	—	53,247	53,274
Amounts due from joint venture and associated companies	17,948	4,086	14,849	3,206
Other debtors	2,553	2,454	4,983	4,361
Prepayments and accrued income	478	2,510	3,244	2,061
	<u>23,801</u>	<u>10,072</u>	<u>77,395</u>	<u>62,921</u>

15. Creditors:

Amounts falling due within one year

	Group		Company	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Bank overdraft (secured on specific property assets)	3,664	447	17,107	12,902
Bank loan (secured on specific property assets)	3,000	7,760	—	—
Floating Rate Guaranteed Unsecured Loan Notes 2009	55	74	—	—
Floating Rate Unsecured Loan Notes 2005	400	400	—	—
Payments on account	11,564	8,886	—	—
Trade creditors	1,721	5,861	—	—
Amounts due to subsidiaries	—	—	83,752	35,514
Amounts due to joint venture and associated companies	—	9,456	—	9,456
Corporation tax	8,918	3,299	—	—
Other taxation and social security	2,164	3,481	—	26
Other creditors	766	232	486	13
Accruals and deferred income	13,355	8,648	8,529	3,565
Proposed dividend	5,274	4,547	5,274	4,547
	<u>50,881</u>	<u>53,091</u>	<u>115,148</u>	<u>66,023</u>

16. Creditors:

Amounts falling due after more than one year

	Group		Company	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Bank and other loans	<u>127,941</u>	<u>168,020</u>	<u>8,500</u>	<u>34,500</u>

17. Financial Instruments

The group's policies on derivatives and financial instruments are set out in the Financial Review on pages 20 to 22 and the accounting policies on page 40. The group does not trade in financial instruments. All financial instruments are denominated in sterling.

Short-term debtors and creditors have been omitted from all disclosures.

	Group 2003			Group 2002		
	Drawn £'000	Undrawn £'000	Total £'000	Drawn £'000	Undrawn £'000	Total £'000
(a) Maturity Profile of Committed Financial Liabilities						
One year	7,119	3,633	10,752	8,681	5,053	13,734
One to two years	14,244	9,339	23,583	2,963	1,797	4,760
Two to five years	68,744	69,194	137,938	115,057	44,228	159,285
More than five years	44,953	1,714	46,667	50,000	—	50,000
Gross financial liabilities	135,060	83,880	218,940	176,701	51,078	227,779

Interest payable on the loans repayable in more than five years is 1.425% above LIBOR. The weighted average period to maturity of borrowings was 5 years (2002: 6 years).

(b) Interest Rate Profile

The following interest rate profiles of the group's financial liabilities are after taking into account interest rate swaps entered into by the group.

	Total £'000	Floating rate financial liabilities* £'000	Fixed rate financial liabilities £'000	Fixed Rate Borrowings	
				Weighted average interest rate %	Weighted average time for which the rate is fixed (years)
At 30 November 2003	135,060	15,060	120,000	5.11	2
At 30 November 2002	176,701	96,701	80,000	5.64	3

* Of which £8,860,000 was hedged by interest rate options (2002: £28,100,000).

(c) Fair Values of Financial Assets and Liabilities

	2003		2002	
	Book Value £'000	Fair Value £'000	Book Value £'000	Fair Value £'000
Primary financial instruments:				
Fixed asset investments	6,000	6,000	6,000	6,000
Loans to joint ventures and associates	17,948	17,948	4,086	4,086
Income due from other investments	1,187	1,187	1,032	1,032
Cash	92	92	2,927	2,927
Loans from joint ventures and associates	—	—	(9,456)	(9,456)
Short-term loans	(7,119)	(7,119)	(8,681)	(8,681)
Long-term loans	(127,941)	(127,941)	(168,020)	(168,020)
Derivative financial instruments:				
Interest rate swaps and options	—	(328)	—	(2,863)

Market rates have been used to determine the fair value of derivative financial instruments.

Notes to the Accounts**17. Financial Instruments continued****(d) Hedging**

As explained in the financial review on pages 20 to 22, the group's policy is to hedge interest rate exposure by using derivative financial instruments.

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. Unrecognised gains and losses on instruments used for hedging, and the movements therein, are as follows:

	2003			2002		
	Gains £'000	Losses £'000	Net £'000	Gains £'000	Losses £'000	Net £'000
Unrecognised gains and losses at 1 December	—	(2,863)	(2,863)	—	(2,585)	(2,585)
Gains and losses from previous years that were recognised in the year	—	1,027	1,027	—	801	801
Gains and losses arising before 1 December that were not recognised in the year	—	(1,836)	(1,836)	—	(1,784)	(1,784)
Gains and losses arising in the year which were not recognised in the year	1,374	134	1,508	—	(1,079)	(1,079)
Unrecognised gains and losses on hedges at 30 November	1,374	(1,702)	(328)	—	(2,863)	(2,863)
Gains and losses expected to be recognised in the next financial year	441	(647)	(206)	—	(1,027)	(1,027)
Gains and losses expected to be recognised after the next financial year	933	(1,055)	(122)	—	(1,836)	(1,836)

18. Deferred taxation

	Provided		Unprovided	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
The amounts of deferred taxation provided and unprovided in the accounts are:				
Group				
Capital allowances in excess of depreciation	3,911	3,655	—	—
Other timing differences	(941)	324	—	—
	2,970	3,979	—	—
Revaluation of properties and gains rolled over (including share of joint ventures)	—	—	18,295	17,091
	2,970	3,979	18,295	17,091

18. Deferred taxation continued

	Provided		Unprovided	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Company				
Capital allowances in excess of depreciation	275	272	—	—
Other timing differences	(360)	—	—	—
Revaluation of properties	—	—	(348)	(522)
	<u>(85)</u>	<u>272</u>	<u>(348)</u>	<u>(522)</u>
Reconciliation of movement on deferred tax liability			Group	Company
			£'000	£'000
Balance as at 30 November 2002			3,979	272
Profit and loss account			(1,009)	(357)
Balance as at 30 November 2003			<u>2,970</u>	<u>(85)</u>

19. Called up share capital

	2003 £'000	2002 £'000
Authorised:		
Equity share capital		
150,000,000 Ordinary 10p shares	<u>15,000</u>	<u>15,000</u>
Allotted and fully paid:		
Equity share capital		
120,773,954 Ordinary 10p shares:	<u>12,077</u>	<u>12,077</u>

Details of options, outstanding at 30 November 2003, to acquire ordinary shares in the company under the option schemes were as follows:

Executive share option schemes	Price per share	Options outstanding	Exercisable between
	50.5p	150,000	August 1997 – August 2004
	51.5p	500,000	August 1998 – August 2005
	81.5p	235,000	March 2002 – March 2008
	103.5p	500,000	September 2003 – September 2009
	99.0p	700,000	November 2003 – November 2009
	106.0p	575,000	March 2004 – March 2010
	113.5p	1,022,500	September 2004 – September 2011
	134.0p	955,000	September 2005 – September 2012
	200.0p	862,000	August 2008 – August 2015
Savings related schemes			
	84.5p	112,621	October 2004 – April 2005
	103.5p	179,325	May 2006 – November 2006
	125.0p	218,445	October 2007 – April 2008
	182.0p	<u>146,125</u>	August 2008 – February 2009
		<u>6,156,016</u>	

Notes to the Accounts

20. Reserves

	Share premium account £'000	Merger reserve £'000	Capital redemption reserve £'000	Revaluation reserve £'000	Profit & loss account £'000
Group					
At 30 November 2002	9,167	9	356	80,191	92,517
Revaluation of investment properties	—	—	—	12,272	—
Realisation of prior years' revaluations	—	—	—	(5,564)	5,564
Share of joint ventures' revaluation of investment properties	—	—	—	2,189	—
Revaluation of associate	—	—	—	886	—
Retained profit for the year	—	—	—	—	16,169
Taxation on realisation of prior years' revaluations	—	—	—	—	(1,231)
At 30 November 2003	<u>9,167</u>	<u>9</u>	<u>356</u>	<u>89,974</u>	<u>113,019</u>
Company					
At 30 November 2002	9,167	9	356	148,485	24,223
Revaluation of investment properties	—	—	—	(130)	—
Realisation of prior years' revaluations	—	—	—	1,065	(1,065)
Revaluation of investments	—	—	—	38,814	—
Retained loss for the year	—	—	—	—	(8,399)
At 30 November 2003	<u>9,167</u>	<u>9</u>	<u>356</u>	<u>188,234</u>	<u>14,759</u>

21. Group Cash Flow Statement

(a) Reconciliation of operating profit to operating cash flows

	2003 £'000	2002 £'000
Operating profit	34,538	28,561
Depreciation and amortisation charges	536	872
(Increase)/decrease in debtors	(13,729)	345
Decrease/(increase) in stocks	16,929	(7,139)
(Decrease)/increase in creditors	(6,947)	16,154
Net cash inflow from operating activities	<u>31,327</u>	<u>38,793</u>

(b) Analysis of net debt

	At 30 November 2002 £'000	Cash Flows £'000	At 30 November 2003 £'000
Cash			
Cash at bank and in hand	2,927	(2,835)	92
Bank overdraft	(447)	(3,217)	(3,664)
	<u>2,480</u>	<u>(6,052)</u>	<u>(3,572)</u>
Debt			
Debt due within one year	(8,234)	4,779	(3,455)
Debt due after one year	(168,020)	40,079	(127,941)
	<u>(176,254)</u>	<u>44,858</u>	<u>(131,396)</u>
	<u>(173,774)</u>	<u>38,806</u>	<u>(134,968)</u>

22. Net asset value

	2003	2002
	p	p
Net assets per share	186.0	160.9
FRS 19 deferred tax provision for disposal of investment properties	(15.1)	(14.2)
Fair value of interest rate derivatives (post-tax)	(0.2)	(1.7)
	170.7	145.0
Fair value of investment in The Chepstow Racecourse PLC (post-tax)	6.3	—
FRS 19 deferred tax provision on potential clawback of capital allowances	3.2	3.0
Adjusted net assets per share	180.2	148.0

23. Commitments and contingencies

The company has guaranteed the loans and overdrafts of subsidiary companies, which at 30 November 2003 amounted to £122,441,000 (2002: £143,435,000), and has granted a fixed charge over its investment properties as security.

At 30 November 2003 the group had no contracted capital expenditure (2002: £2,200,000).

24. Related party transactions

Key Property Investments Limited ('KPI')

During the year the group lent a further £9,568,000 to KPI and the balance due from KPI at the year end was £11,448,000 (2002: £1,880,000).

Holaw (462) Limited ('Holaw')

The balance due from Holaw at the year end was £365,000 (2002: £365,000).

Barton Business Park Limited ('BBP')

During the year the group repaid its £9,438,000 loan and lent £10,370,000 to BBP. This balance was outstanding at the year end.

Sowcrest Limited ('Sowcrest')

During the year the group repaid its £18,000 loan and lent £80,000 to Sowcrest. This balance was outstanding at the year end.

Great British Kitchen Company Limited ('GBK')

During the year the group advanced a further £95,000 to GBK leaving a balance outstanding at the year end of £443,000 (2002: £348,000).

The Chepstow Racecourse PLC ('Chepstow')

The loan of £612,000 made in previous years was outstanding at the year end (2002: £612,000).

Shaw Park Developments Limited ('SPD')

During the year the group lent £975,000 to SPD. The balance was outstanding at the year end (2002: £nil).

25. Post-balance sheet events

Following the year end, the company completed three acquisitions: a 228-acre site at Longbridge from MG Rover on a sale and leaseback basis; 600 acres of non-operational land at Llanwern, bought from Corus; and the remaining 50% share of the Kirkby Shopping Centre from Mars Pension Fund. The total consideration for these transactions, which were funded within existing facilities, was £71.25m.

Five Year Record

	1999 £m	2000 £m	2001 £m	2002 £m	2003 £m
Rental income	23.2	26.9	27.3	30.7	42.5
Property Profits	11.1	13.7	16.1	24.0	25.2
Pre-tax profit	18.5	21.7	25.5	30.0	35.0
Net Assets Employed					
Investment properties	158.7	187.2	209.7	267.5	266.5
Investments	14.2	14.6	24.1	37.8	38.9
Work in progress	55.8	63.4	94.0	101.2	77.5
Other net liabilities	(20.4)	(24.2)	(21.7)	(38.4)	(23.3)
Net borrowings	(87.4)	(101.3)	(140.7)	(173.8)	(135.0)
	120.9	139.7	165.4	194.3	224.6
Financed by					
Share capital	12.1	12.1	12.1	12.1	12.1
Revaluation reserve	39.7	50.6	63.3	80.2	90.0
Profit and loss account	59.6	67.5	80.5	92.5	113.0
Other reserves	9.5	9.5	9.5	9.5	9.5
Shareholders' Funds	120.9	139.7	165.4	194.3	224.6
Earnings per share (pence)	11.1	12.6	15.2	17.1	20.1
Dividends per share (pence)	3.8	4.3	4.9	5.7	6.6
Dividend cover (times)					
Normal basis	2.9	2.9	3.1	3.0	3.0
On recurring income	1.1	1.1	1.2	0.6	0.9
Net assets per share (pence)	100.1	115.7	136.9	160.9	186.0
Increase on prior year	22%	16%	18%	18%	16%

Independent Auditors' Report to the Members of St. Modwen Properties PLC

We have audited the group's financial statements for the year ended 30 November 2003 which comprise Group Profit and Loss Account, Group Balance Sheet, Company Balance Sheet, Group Cash Flow Statement, Group Statement of Total Recognised Gains and Losses, and the related notes 1 to 25. These financial statements have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is identified 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 auditors' 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, the Directors' Remuneration Report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' Responsibilities.

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, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the group is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Directors' Report, unaudited part of the Directors' Remuneration Report, Chairman's Statement, Chief Executive's Operating Review, Financial Review and Corporate Governance Statement. 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 the United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

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

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 30 November 2003 and of the profit of the group for the year then ended and the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.


Ernst & Young LLP
Registered Auditor
Birmingham
16 February 2004

Annual General Meeting

In accordance with the Directors' Remuneration Report Regulations 2002, shareholders will be asked to approve the Directors' Remuneration Report (set out on pages 31 to 35) for the year ended 30 November 2003.

Shareholders will be asked to approve at the Annual General Meeting the following Resolutions as special business:

- Approval of the increased limit for total non-executive directors' fees, as described on page 34 (resolution 6).
- Approval of the deferred bonus scheme for the executive directors (excluding the chairman), as described on page 32 (resolution 7).

The following resolutions have become routine business at the Annual General Meetings of most public companies, including St. Modwen Properties PLC, and relate to:

- Renewal of the authority for the directors to allot relevant securities and the renewal of the powers for the directors to allot equity securities for cash (Resolutions 8 and 9).

The existing general authority of the directors to allot shares and the current disapplication of the statutory pre-emption rights expire at the conclusion of the forthcoming Annual General Meeting.

Article 8.2 of the company's Articles of Association contains a general authority for the directors to allot shares in the company for a period (not exceeding five years) ("the prescribed period") and up to a maximum aggregate nominal amount ("the Section 80 amount") approved by a Special or Ordinary Resolution of the company. Article 8.2 also empowers the directors during the prescribed period to allot shares for cash in connection with a rights issue and also to allot shares for cash in any other circumstances up to a maximum aggregate nominal amount approved by a Special Resolution of the company ("the Section 89 amount").

The board has no intention at present to exercise the authority to allot shares.

Resolution 8, which will be proposed as an Ordinary Resolution, provides for the Section 80 amount to be £2,922,605 (being an amount equal to the authorised but unissued share capital of the company at the date of this report and representing 24% of the company's issued share capital at that date).

Resolution 9, which will be proposed as a Special Resolution, provides for the Section 89 amount to be £603,870 (representing 5% of the company's issued share capital).

The prescribed period for which these powers and authorities are granted will expire at the conclusion of the Annual General Meeting to be held next year (or on 11 July 2005 if earlier) when the directors intend to seek renewal of the authorities.

- Renewal of the authority for the company to purchase certain of its own shares (Resolution 10).

This resolution renews an existing authority for a further year. The directors believe it is advantageous to have such authority but would only exercise it if it was believed to be in the best interests of shareholders. At present, the board has no intention to exercise the authority.

AUDITORS

Ernst & Young LLP have expressed their willingness to remain in office and a resolution to reappoint them as auditors of the company will be proposed at the forthcoming Annual General Meeting.

Notice of Meeting

Notice is hereby given that the sixty-third Annual General Meeting of St. Modwen Properties PLC will be held at noon on 23 April 2004 at the Ironmongers' Hall, Barbican, London EC2Y 8AA.

Ordinary Business

1. To receive and adopt the report of the directors and the accounts for the year ended 30 November 2003.
2. To declare a final ordinary dividend of 4.4p per share.
3. To re-elect as directors:
 - i. Sir Stanley Clarke (aged 70).
 - ii. Anthony Glossop.
 - iii. Christopher Roshier.
 - iv. Richard Froggatt, and
 - v. Tim Haywood.
4. To reappoint Ernst & Young LLP as auditors and to authorise the directors to determine their remuneration.
5. To approve the Directors' Remuneration Report contained on pages 31 to 35.

Special Business

To consider and, if thought fit, pass the following resolutions:

6. Ordinary Resolution

That the authority to pay directors' fees in accordance with Article 112.1 of the company's Articles of Association be and is hereby increased so that such fees paid in the aggregate to all such directors shall not in any year exceed

the sum of £250,000 exclusive of value added tax (if applicable) and such maximum shall be increased on each anniversary of the date of adoption of this resolution by the movement in the Index of Retail Prices.

7. Ordinary Resolution

That a deferred bonus scheme be introduced, in addition to the existing annual bonus scheme, with effect from the year commencing 1 December 2003, for the executive directors (excluding the Chairman), under the terms of which a maximum of 70% of salary could be earned per annum, payable after three years.

8. Ordinary Resolution

That the authority to allot relevant securities and equity securities conferred on the directors by Article 8.2 of the company's Articles of Association be and is hereby granted for the period ending on 21 July 2005 or at the conclusion of the next Annual General Meeting of the company to be held after the date of the passing of this Resolution (whichever is the earlier) and for such period the Section 80 amount shall be £2,922,605.

9. Special Resolution

That the power to allot relevant securities and equity securities conferred on the directors by Article 8.2 of the company's Articles of Association be and is hereby granted for the period ending on 21 July 2005 or at the conclusion of the next Annual General Meeting of the company to be held after the date of the passing of this Resolution (whichever is the earlier) and for such period the Section 89 amount shall be £603,870.

Notice of Meeting

10. Special Resolution

That, in accordance with Article 10 of its Articles of Association and Section 166 of the Companies Act 1985, the company be and is hereby granted general and unconditional authority to make market purchases (as defined in Section 163 of the Companies Act 1985) of any of its own ordinary shares on such terms and in such manner as the board of directors may from time to time determine PROVIDED THAT the general authority conferred by this Resolution shall:

- (a) be limited to 12,077,395 ordinary shares of 10p each;
- (b) not permit the payment per share of more than 105% of the average middle market price quotation on the London Stock Exchange for the ordinary shares on the five previous dealing days or less than 10p (in each

case exclusive of advance corporation tax (if any) and expenses payable by the company); and

- (c) expire on 21 July 2005 or at the conclusion of the next Annual General Meeting of the company to be held after the date of the passing of this Resolution (whichever is the earlier), save that if the company should before such expiry enter into a contract of purchase then the purchase may be completed or executed wholly or partly after such expiry.

Tim Haywood
Secretary
16 February 2004

Registered Office:
Lyndon House
Hagley Road
Birmingham B16 8PE
Company number 349201



Notes

1. A member entitled to attend and vote at this meeting may appoint another person (whether a member or not) as his/her proxy, to attend and, on a poll, vote for him/her. Forms of proxy, one of which is enclosed, must be signed by the appointer and must be lodged at the registrar's office at least 48 hours before the meeting. A proxy need not be a member of the company.
2. Copies of the contracts of service between the company and Sir Stanley Clarke, Mr C. C. A. Glossop, Mr W. A. Oliver, Mr R. L. Froggatt and Mr T. P. Haywood and the terms and conditions of appointment of the non-executive directors are available for inspection at the registered office of the company on each business day during normal business hours and will be available on the day of the meeting, at the place of the meeting, from at least 15 minutes prior to the meeting until its conclusion. A register of directors' interests will also be available for inspection from the commencement of the meeting until its conclusion.

3. In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, the company gives notice that only those shareholders entered on the relevant register of members (the "Register") for certificated or uncertificated shares of the company (as the case may be) at 6 p.m. on Wednesday 21 April 2004 (the "Specified Time") will be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at the time. Changes to entries on the Register after the Specified Time will be disregarded in determining the rights of any person to attend or vote at that meeting. Should the meeting be adjourned to a time not more than 48 hours after the Specified Time, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned meeting. Should the meeting be adjourned for a longer period, then to be so entitled, members must be entered on the Register at the time which is 48 hours before the time fixed for the adjourned meeting or, if the company gives notice of the adjourned meeting, at the time specified in the notice.

Castle Hill, Dudley — a 148-acre leisure and heritage scheme to be developed in partnership with Dudley Metropolitan Borough Council.

“The key to the strategy
is to maintain a growing
hopper of well-located
future opportunities.”

St. MODWEN PROPERTIES PLC

Head Office and Midlands Regional Office:

Lyndon House, Hagley Road, Edgbaston, Birmingham B16 8PE

Telephone: (0121) 456 2800 Facsimile: (0121) 456 1829

www: stmodwen.co.uk e-mail: info@stmodwen.co.uk

Regional Offices:

London and South East: Telephone: (020) 7499 5666 Facsimile: (020) 7629 4262

North Staffordshire: Telephone: (01782) 281844 Facsimile: (01782) 283670

Northern: Telephone: (01925) 825950 Facsimile: (01925) 284808