

**Portman Investments
(Baker Street) Limited**

Directors' report and financial statements

31 March 2003

Registered in England and Wales number 806862



Portman Investments (Baker Street) Limited

Directors' report and financial statements

<i>Contents</i>	<i>Page</i>
Directors' report	1 - 3
Directors' responsibilities statement	4
Independent auditor's report	5
Profit and loss account	6
Balance sheet	7
Cash flow statement	8
Statement of total recognised gains and losses	9
Notes	10 - 17

Portman Investments (Baker Street) Limited

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 March 2003.

Financial review

The results for the year are set out in the profit and loss account on page 6. An interim dividend of £2,000,000 (2002: £2,000,000) was paid during the year. A final dividend of £ 969,890 (2002: £658,000) is recommended.

Principal activities

The Company is a property investment Company. The directors foresee no material change in the nature of the Company's activities.

Properties

The Company's properties were revalued at 31 March 2003 as set out in Note 7 to the financial statements.

Directors and directors' interests

The directors who held office during the year were as follows:

NGE Driver
NTJ Groves (appointed 7 November 2002)
RN Lay
W Millsom (alternate to NGE Driver)
M Newman (resigned 7 November 2002)
HR Seaborn

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the Company or its subsidiary undertakings.

The interests of the directors in the shares of the Company's ultimate holding company and fellow subsidiary undertakings are set out below; their interests at the beginning of the year or date of appointment are shown in brackets.

Portman Investments (Baker Street) Limited

Directors' report (continued)

Directors' interests at 31 March 2003

London Merchant Securities plc

	27 18/41p Ordinary	27 18/41p Deferred Ordinary	Executive 32.25p options	Executive 149p options	Executive 178.5p options	Executive 114.5p options	SAYE 40.5p options	SAYE 65.25p options	SAYE 104.5p options
NGE Driver	213,102 (209,443)	575,000 (477,930)	0 (575,000)	961,656 (961,656)	- (-)	347,601 -	19,259 (19,259)	17,931 (17,931)	3,708 (3,708)
NTJ Groves	3,695 (2,555)	24,734 (24,734)	- (-)	- (-)	33,337 (33,337)	82,972 (82,972)	24,074 (24,074)	8,965 (8,965)	12,308 (12,308)
RN Lay	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)
W Millsom	382,127 (382,127)	309,288 (274,121)	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)
HR Seaborn	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)

In accordance with the terms of the London Merchant Securities Executive Share Option Scheme

- i) options were granted in 1992 to subscribe for 27 18/41p Deferred Ordinary shares in London Merchant Securities plc at 32.25p per share. These options were exercised on 24 September 2002;
- ii) options were granted in 2000 to subscribe for 27 18/41p Deferred Ordinary shares in London Merchant Securities plc at 178.5p per share. The expiry date of these options is 27 July 2010;
- iii) options were granted in 2001 to subscribe for 27 18/41p Deferred Ordinary shares in London Merchant Securities plc at 131.5p per share. These options were re-priced at 149p per share on 4 September 2002. The expiry date of these options is 5 January 2011; and
- iv) options were granted in 2002 to subscribe for 27 18/41p Deferred Ordinary shares in London Merchant Securities plc at 114.5p per share. The expiry date of these options is 4 September 2012.

In accordance with the terms of the London Merchant Securities Savings-Related Share Option Scheme:

- i) options were granted in 1996 to subscribe for 27 18/41p Deferred Ordinary shares in London Merchant Securities plc at 40.5p per share. The expiry date of these options is 30 September 2003; and
- ii) options were granted in 1998 to subscribe for 27 18/41p Deferred Ordinary shares in London Merchant Securities plc at 65.25p per share. The expiry date of these options is 30 September 2005; and
- iii) options were granted in 2001 to subscribe for 27 18/41p Deferred Ordinary shares in London Merchant Securities plc at 104.5p per share. The expiry date of these options is 28 February 2005.

Directors' report (*continued*)

Auditor

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

By order of the board



SC Mitchley
Secretary

Carlton House
33 Robert Adam Street
London
W1U 3HR

5 November 2003

Portman Investments (Baker Street) Limited

Directors' responsibilities statement

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

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

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

Independent auditor's report to the members of Portman Investments (Baker Street) Limited

We have audited the financial statements on pages 6 to 17.

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

Respective responsibilities of directors and auditor

The directors are responsible for preparing the directors' report and, as described on page 4, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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

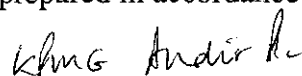
Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company at 31 March 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

2 December 2003

Portman Investments (Baker Street) Limited

Profit and loss account

for the year ended 31 March 2003

	Note	2003 £	2002 £
Net rental income from investment properties	2	4,789,873	4,616,480
Sundry income		6	3,303
Administrative expenses	3	(15,236)	(18,850)
Operating profit		4,774,643	4,600,933
Interest receivable	4	150,078	171,154
Interest payable	5	(1,939,000)	(1,939,003)
Gain on sale of investment properties		-	57,500
Dividends receivable		879,847	858,200
Profit on ordinary activities before taxation		3,865,568	3,748,784
Tax on profit on ordinary activities	6	(895,716)	(884,922)
Profit on ordinary activities after taxation		2,969,852	2,863,862
Transfer to capital reserve		-	(40,250)
Dividends paid and proposed		(2,969,890)	(2,658,000)
Retained (loss)/profit for the financial year		(38)	165,612
Retained profit / (loss) brought forward		44	(165,568)
Retained profit carried forward		6	44

All turnover and results are derived from continuing activities.


Portman Investments (Baker Street) Limited


Balance sheet

at 31 March 2003

	Note	£	2003 £	£	2002 £
Fixed assets					
Tangible assets	7		69,467,000		66,291,000
Investment in subsidiary undertakings	8		1,302		1,302
			<u>69,468,302</u>		<u>66,292,302</u>
Current assets					
Debtors	9	18,361,807		19,025,037	
Cash at bank and in hand		3,000,687		2,002,243	
		<u>21,362,494</u>		<u>21,027,280</u>	
Creditors: amounts falling due within one year	10	(2,788,587)		(2,454,510)	
			<u>18,573,907</u>		<u>18,572,770</u>
Net current assets					
			<u>88,042,209</u>		<u>84,865,072</u>
Total assets less current liabilities					
Creditors: amounts falling due after more than one year	11	(20,000,000)		(20,000,000)	
Provisions for liabilities and charges	12	(170,236)		(169,061)	
			<u>(20,170,236)</u>		<u>(20,169,061)</u>
Net assets			<u>67,871,973</u>		<u>64,696,011</u>
Capital and reserves					
Called up share capital	13		51,800		51,800
Revaluation reserve	14		62,894,095		59,718,095
Capital reserve	14		4,926,072		4,926,072
Profit and loss account			6		44
			<u>67,871,973</u>		<u>64,696,011</u>
Equity shareholders' funds	17				
			<u>67,871,973</u>		<u>64,696,011</u>

These financial statements were approved by the board of directors on 5/11/2003 and were and were signed on its behalf by:


NGE Driver
Director


RN Lay
Director

Portman Investments (Baker Street) Limited

Cash flow statement

for the year ended 31 March 2003

		2003	2002
	Note	£	£
Net cash inflow from operating activities	15	4,767,111	4,535,486
Returns on investments and servicing of finance			
Interest received		154,297	168,414
Interest paid		(1,939,000)	(1,939,003)
Net cash outflow from returns on investment and servicing of finance		(1,784,703)	(1,770,589)
Tax paid		(945,248)	(1,081,558)
Capital expenditure and financial investment			
Sale of investment property		-	57,500
Additions to freehold property		-	400
Cash inflow from capital expenditure and financial investment		-	57,900
Equity dividends received		858,200	694,600
Equity dividends paid		(2,658,000)	(2,757,000)
		(1,799,800)	(2,062,400)
Cash outflow before use of liquid resources and financing		237,360	(321,161)
Financing			
Decrease in loans to group undertakings	16	761,084	317,818
Increase / (decrease) in cash	16	2,002,243	(3,343)

Reconciliation of net cash flow to movement in net debt

for the year ended 31 March 2003

Increase / (decrease) in cash in the year	2,002,243	(3,343)
Cash movement from decrease in debt financing	15,090,305	(317,818)
Change in net debt resulting from cash flows	17,092,548	(321,161)
Movement in net debt in the year 16	17,092,548	(321,161)
Net debt at 31 March 2002	(2,907,452)	(2,586,291)
Net debt at 31 March 2003	(2,670,092)	(2,907,452)

Portman Investments (Baker Street) Limited

Statement of total recognised gains and losses *for the year ended 31 March 2003*

	2003 £	2002 £
Profit for the financial year	2,969,852	2,863,862
Unrealised surplus/(deficit) on revaluation of properties	3,176,000	(212,600)
	<hr/>	<hr/>
Total recognised gains and losses relating to the financial year	6,145,852	2,651,262
	<hr/>	<hr/>

Portman Investments (Baker Street) Limited

Notes

(forming part of the financial statements)

1 Accounting policies

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

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules, modified to include revaluation of investment properties.

The company is exempt by virtue s.228 of the Companies Act 1985 from the requirement to prepare group accounts.

Interest and outgoings on development properties

All interest and outgoings incurred in respect of development properties are charged to profit and loss account as incurred.

Investment properties

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

No depreciation or amortisation is provided in respect of freehold investment properties and leasehold investment properties with over 20 years to run. This treatment, which is in accordance with SSAP 19, may be a departure from the requirements of the Companies Act concerning depreciation of fixed assets. However, these properties are not held for consumption but for investment and the directors consider that systematic annual depreciation would be inappropriate. The accounting policy adopted is therefore necessary for the accounts to give a true and fair view. Depreciation or amortisation is only one of the many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

Repairs and renewals

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

Portman Investments (Baker Street) Limited

Notes (continued)

1 Accounting policies (continued)

Deferred taxation

Deferred taxation is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19. Deferred tax is measured on a non-discounted basis.

2 Net rental income from investment properties

	2003 £	2002 £
Gross rental income	5,157,710	5,045,685
Rent payable	(51,886)	(79,076)
Amortisation of leasehold properties	-	(68,000)
Other property outgoings less amounts recovered from tenants	(315,951)	(282,129)
	<hr/> 4,789,873	<hr/> 4,616,480

3 Administrative expenses

	2003 £	2002 £
Auditors' remuneration :		
Audit fees	4,000	3,543
Other services	823	-
	<hr/> 4,823	<hr/> 3,543

The Company does not have any employees and there were no directors' emoluments (2002: £nil).

4 Interest receivable

	2003 £	2002 £
Group undertakings	17,983	18,372
Short term deposits	132,095	152,782
	<hr/> 150,078	<hr/> 171,154

Portman Investments (Baker Street) Limited

Notes (continued)

5 Interest payable

	2003 £	2002 £
Mortgage interest	1,939,000	1,939,000
Other loans and bank overdrafts	-	3
	<hr/>	<hr/>
	1,939,000	1,939,003
	<hr/>	<hr/>

6 Tax on profit on ordinary activities

	2003 £	2002 £
Analysis of charge for year		
Corporation tax :		
Current year	894,541	869,434
Prior year	-	(3,329)
Taxation on disposal of investment properties	-	17,250
	<hr/>	<hr/>
Total current tax	894,541	883,355
	<hr/>	<hr/>

	2003 £	2002 £
Deferred tax		
Origination and reversal of capital allowances and other timing differences	1,175	1,567
	<hr/>	<hr/>
Total deferred tax	1,175	1,567
	<hr/>	<hr/>
	<hr/>	<hr/>
Tax on profit on ordinary activities	895,716	884,922
	<hr/>	<hr/>

Portman Investments (Baker Street) Limited

Notes (continued)

6 Tax on profit on ordinary activities (continued)

Factors affecting the tax charge for the year

The tax assessed for the year is higher than that at the standard rate of corporation tax for the year.

The differences are explained below:

	2003 £	2002 £
Profit on ordinary activities before taxation	3,865,568	3,748,784
Profit on ordinary activities multiplied by the standard UK rate of corporation tax at 30%	1,159,670	1,124,635
Capital allowances for year in excess of depreciation	(1,175)	(1,567)
Intercompany dividends receivable	(263,954)	(257,460)
Items disallowable for tax	-	20,400
Adjustments in respect of prior years	-	(3,329)
Other items	-	676
Corporation tax charge for the year	894,541	883,355

7 Tangible assets

Investment properties	Freehold £	Long leasehold £	Short leasehold £	Total £
<i>Valuation</i>				
At 31 March 2002	1,345,000	64,831,000	115,000	66,291,000
Transfers	-	115,000	(115,000)	-
Surplus on revaluation	95,000	3,081,000	-	3,176,000
At 31 March 2003	1,440,000	68,027,000	-	69,467,000

Historical cost of revalued assets

At 31 March 2003 and 31 March 2002	7,836,845
------------------------------------	-----------

The investment properties have been independently valued by Cluttons, Chartered Surveyors, of London as at 31 March 2003 on the basis of "Open Market Value" in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors.

Portman Investments (Baker Street) Limited

Notes (continued)

8 Investment in subsidiary undertakings

The investments in Subsidiary undertakings are as follows:

Name	Percentage holding	Country of registration	Activity
Portman Investments (Gloucester Place) Limited	100	England and Wales	Dormant
Portman Investments (Farnham) Limited	100	England and Wales	Property investment

In the opinion of the directors the investment in the subsidiary undertakings is worth at least the amount shown in these financial statements. The holdings are of ordinary shares.

9 Debtors

	2003 £	2002 £
Due from tenants	176,592	284,853
Amounts owed by group undertakings:		
Fellow subsidiary undertakings	14,393,246	15,090,305
Dividends receivable	879,847	858,200
Amounts owed by shareholder	2,641,500	2,641,500
Other debtors	268,855	141,097
Prepayments and accrued income	1,767	9,082
	<hr/>	<hr/>
	18,361,807	19,025,037
	<hr/>	<hr/>

10 Creditors: amounts falling due within one year

	2003 £	2002 £
Rent received in advance	1,137,979	1,126,734
Amounts owed to group undertakings	64,025	-
Corporation tax	265,301	316,008
Other taxation and social security	10,603	7,998
Other creditors	306,502	342,145
Accruals	34,287	3,625
Proposed dividend	969,890	658,000
	<hr/>	<hr/>
	2,788,587	2,454,510
	<hr/>	<hr/>

Portman Investments (Baker Street) Limited

Notes (continued)

11 Creditors: amounts falling due after more than one year

	2003 £	2002 £
Details of the long term mortgages are as follows:		
9.695% Mortgage 2018	20,000,000	20,000,000
	<hr/>	<hr/>
	20,000,000	20,000,000
	<hr/>	<hr/>

Certain of the Company's properties have been charged to secure these loans.

12 Deferred taxation

	2003 £	2002 £
<i>Provision</i>		
At 31 March 2001	169,061	167,494
Provision during the year	1,175	1,567
	<hr/>	<hr/>
At 31 March 2002	170,236	169,061
	<hr/>	<hr/>

13 Called up share capital

	2003 £	2002 £
<i>Authorised, allotted, called up and fully paid</i>		
28,490 'A' Ordinary shares of £1 each	28,490	28,490
23,310 'B' Ordinary shares of £1 each	23,310	23,310
	<hr/>	<hr/>
	51,800	51,800
	<hr/>	<hr/>

Portman Investments (Baker Street) Limited

Notes (continued)

14 Reserves

	Capital £	Revaluation £
At 31 March 2002	4,926,072	59,718,095
Surplus on revaluation of investment properties	-	3,176,000
	<hr/>	<hr/>
At 31 March 2003	4,926,072	62,894,095
	<hr/>	<hr/>

No provision has been made for any taxes which might become payable in the event of future sales or deemed disposals of these properties at their book values. In the opinion of the directors any such contingent liability would not exceed £278,000 (2002:£130,000).

15 Reconciliation of operating profit to net cash inflow from operating activities

	2003 £	2002 £
Operating profit	4,774,643	4,600,933
Amortisation charges	-	68,000
(Increase)/decrease in debtors	(16,401)	90,445
Increase/(decrease) in creditors	8,869	(223,892)
	<hr/>	<hr/>
Net cash inflow from operating activities	4,767,111	4,535,486
	<hr/>	<hr/>

16 Analysis of net debt

	31.3.2003 £	Cash flow £	31.3.2003 £
Cash at bank and in hand	2,002,243	998,444	3,000,687
Debt due within one year			
Loans to group undertakings	15,090,305	(761,084)	14,329,221
Debt due after more than one year			
Mortgages	(20,000,000)	-	(20,000,000)
	<hr/>	<hr/>	<hr/>
	(2,907,452)	237,360	(2,670,092)
	<hr/>	<hr/>	<hr/>

Portman Investments (Baker Street) Limited

Notes (continued)

17 Reconciliation of movements in shareholders' funds

	2003 £	2002 £
Profit for the financial year	2,969,852	2,863,862
Dividends	(2,969,890)	(2,658,000)
Other recognised gains and losses relating to the year (net)	3,176,000	(212,600)
	<hr/>	<hr/>
Net movement in shareholders' funds	3,175,962	(6,738)
Opening shareholders' funds	64,696,011	64,702,749
	<hr/>	<hr/>
Closing shareholders' funds	67,871,973	64,696,011
	<hr/>	<hr/>

18 Capital Commitments

	2003 £	2002 £
Contracted	150,000	-
	<hr/>	<hr/>
	150,000	-
	<hr/>	<hr/>

19 Ultimate parent company

The Company is a member of the London Merchant Securities Group and the Company's ultimate parent company is London Merchant Securities plc, which is registered in England and Wales. Copies of the accounts of the above company may be obtained at the following address: Carlton House, 33 Robert Adam Street, London W1U 3HR.