LONDON AND MANCHESTER (TRUSTEES) LIMITED

REPORT AND ACCOUNTS 1992

Registered Company Number 1086662

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 1992

The directors submit their report and the financial statements for the year ended 31 December 1992.

ACTIVITIES

This company acts as a trustee company for other companies in the London and Manchester group.

DIRECTORS

The directors listed below served throughout the year ended 31 December 1992. None of the directors serving at the end of the year had any beneficial interest in shares of the company at the beginning or end of the year, but had the following interest in shares of the ultimate parent company, London and Manchester Group plc.

	Number of 25p shares	
	1.1.92	31.12.92
D M Hall	5,079	5,079
L A Smith	4,566	5,130

During the year the following options to subscribe for shares in London and Manchester Group plc were granted or exercised.

	Number of 25p shares	
	Granted	Exercised
D M Hall	30,139	-
L A Smith	553	564

DIRECTORS' AND OFFICERS' INSURANCE

During the year the ultimate parent company maintained cover for the company's directors and officers under a directors' and officers' liability insurance policy, as permitted by section 310 of the Companies Act 1985.

On behalf of the board

A R Swinburne-Johnson
Secretary

Winslade Park
Exeter
EX5 1DS

26 January 1993

REPORT OF THE AUDITORS TO THE MEMBERS OF
LONDON AND MANCHESTER (TRUSTEES) LIMITED

We have audited the financial statements on pages 3 and 4 in accordance with Auditing Standards.

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 1992 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Peat Marwick

KPMG PEAT MARWICK

Chartered Accountants
Registered Auditors

Linacre House
Southernhay East
Exeter
EX1 1UG

26 January 1993

BALANCE SHEET AS AT 31 DECEMBER 1992

	Note	1992 £	1991 £
CURRENT ASSETS			
Debtors (all due within one year)			
Amounts owed by group undertakings			
- Parent and fellow subsidiary undertakings		100	100
NET CURRENT ASSETS		100	100
TOTAL ASSETS LESS CURRENT LIABILITIES		100	100
CAPITAL AND RESERVES			
Called up share capital	4	100	100

DIRECTOR

D M Hall

NOTES to the accounts

1 APPROVAL OF ACCOUNTS

The accounts on pages 3 and 4 were approved by the board of directors on 26 January 1993.

2 ACCOUNTING POLICIES

The accounts have been drawn up under the historical cost convention and in accordance with applicable accounting standards.

3 PROFIT AND LOSS ACCOUNT

During the financial year and the preceeding financial year the company did not trade on its own account and received no income and incurred no expenditure. Consequently, during those years the company made neither a profit nor a loss.

4 SHARE CAPITAL

	1992 £	1991 £
Authorised	100	100
Allotted, called up and fully paid		
100 ordinary shares of £1 each	100	100

5 ULTIMATE PARENT COMPANY

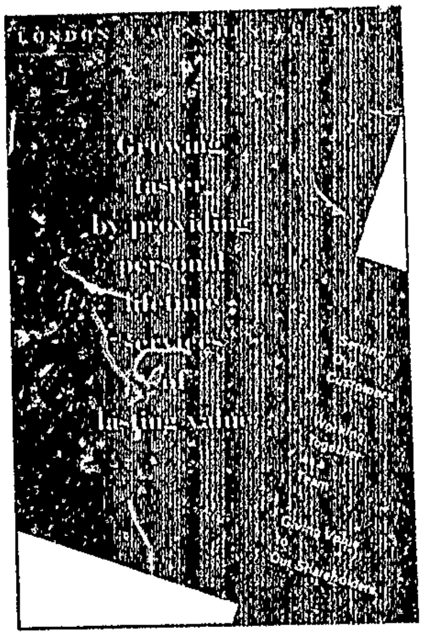
The ultimate parent company is London and Manchester Group plc, a company incorporated in Great Britain and registered in England. Copies of the accounts of London and Manchester Group plc may be obtained on application to the Secretary, London and Manchester Group plc, Winslade Park, Exeter EX5 1DS.

CONTENTS

"Growing faster by providing personal lifetime services of lasting value"

LONDON & MANCHESTER markets a range of financial products and services to its clearly defined customer base. The core business is life assurance and pensions.

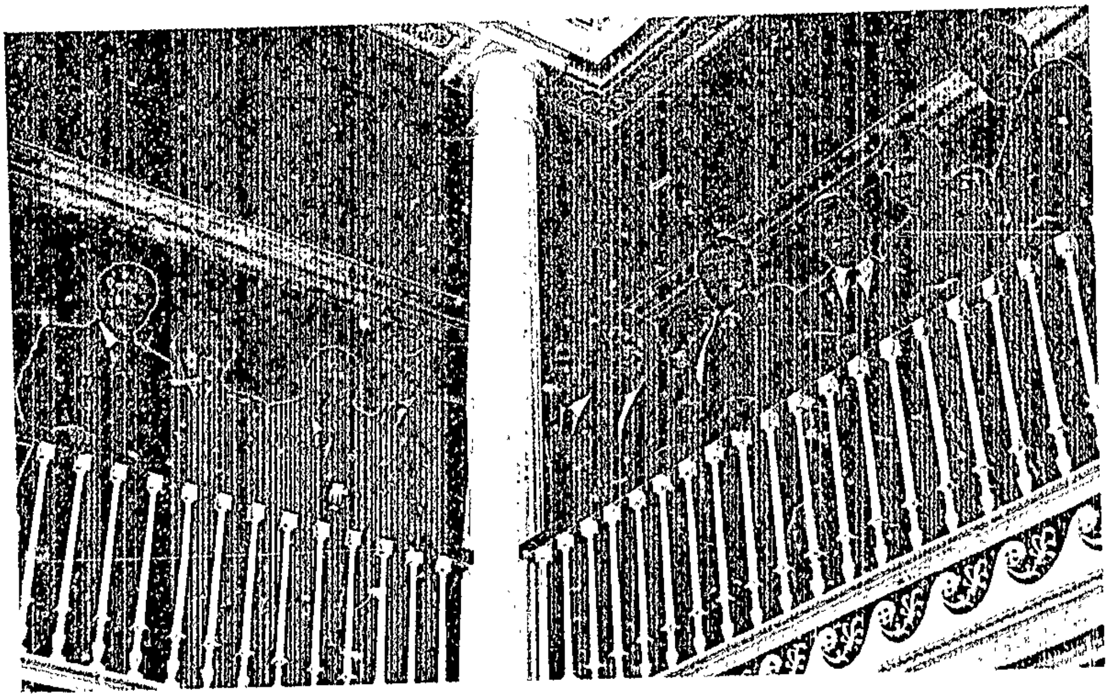
Products and services are distributed through direct sales forces and both tied and independent intermediaries. Consumer finance and estate agency branch networks bring high street distribution of not only the core products but also further products and services relevant to the lifetime needs of customers.



The business is underpinned by a strong and consistently successful investment management record with funds under management exceeding £2 billion.

LONDON & MANCHESTER has an unswerving commitment to its Mission Statement, a primary aspect of which is the quality of service provided to customers.

DIRECTORS



From the left:

T. A. Pyne, F.I.A.
Group Chief Executive

Appointed an executive director in 1986. Joined the Group from Welfare Insurance in 1977 as Assistant Actuary and held a number of executive posts before being appointed General Manager (Finance) in 1983, Finance Director in 1986 and Deputy Group Chief Executive in 1990. He was appointed Group Chief Executive on 1 January 1992.

J. M. Thomson, M.A.
Chairman

Appointed a non-executive director in 1974, Deputy Chairman in 1983 and Chairman in 1985. He is also Chairman of Borthwicks plc, Vice Chairman of J. Bibby & Sons plc, a director of Scottish and Newcastle plc and Thames Water Plc. Chairman of the Remuneration Committee. He will be retiring as Chairman on 2 June 1993.

R. D. C. Hubbard, F.C.A.
Deputy Chairman

Appointed a non-executive director in 1989 and Deputy Chairman in June 1992. Chairman of Powell Duffryn plc and Andrew Sykes plc, a director of Blue Circle Industries plc, Shandwick plc and TR City of London Trust plc. Member of the Audit and Remuneration Committees. He will be succeeding Mr. Thomson as Chairman on 2 June 1993.

The Rt. Hon. Lord Wakehurst, M.A., LL.B.
Deputy Chairman

Appointed a non-executive director in 1966 and Deputy Chairman in 1970. He is also Chairman of Anglo & Overseas Trust plc, The Overseas Investment Trust plc, Morgan Grenfell Equity Income Trust plc and Morgan Grenfell Trust Managers Limited. Chairman of the Audit Committee and a member of the Remuneration Committee.

D. J. Newman, F.P.M.I.

Appointed an executive director in 1988. Joined the Group from Welfare Insurance in 1977 and held a number of senior positions in the Pensions Division before his appointment as General Manager in 1983. Now Group Marketing and Pensions Director and Managing Director of London and Manchester (Pensions) Limited and London and Manchester (Managed Funds) Limited.

Miss K. M. Jenkins, B.A., M.Sc.

Appointed a non-executive director in 1989. A former civil servant with a variety of senior posts including Head of Prime Minister's Efficiency Unit (1986-1989). Until March 1991 director responsible for personnel and industrial relations at Royal Mail and currently an independent consultant. Member of the Remuneration Committee.

D. M. Jackson, B.Sc., F.C.A.

Appointed an executive director in 1992. After varied financial management and auditing experience in the profession and commerce, he joined the Group as Assistant General Manager (Audit and Compliance) in 1988. He was appointed General Manager (Finance) in October 1990 and Group Finance Director in November 1992.

D. C. Bourdon, F.I.A.

Appointed a non-executive director in 1986. Previously a director of the Prudential Assurance Company, he has held a number of senior posts in the insurance industry and is a past Chairman of The Industrial Life Offices Association. Member of the Audit and Remuneration Committees.

S. McClean, B.A.

Appointed an executive director in 1987. After varied investment management experience in the City of London, he joined the Group as Investment Manager in 1984. Now Group Investment and Life Director and Managing Director of London and Manchester Assurance Company Limited.

J. Leigh Pemberton, C.B.E., M.A., M.B.A.

Appointed a non-executive director in 1983. Deputy Chairman of Whatman plc, Chairman of Mid Kent Holdings plc and a director of Fleming Fledgeling Investment Trust plc and Understanding Industry Trust. Member of the Audit and Remuneration Committees.

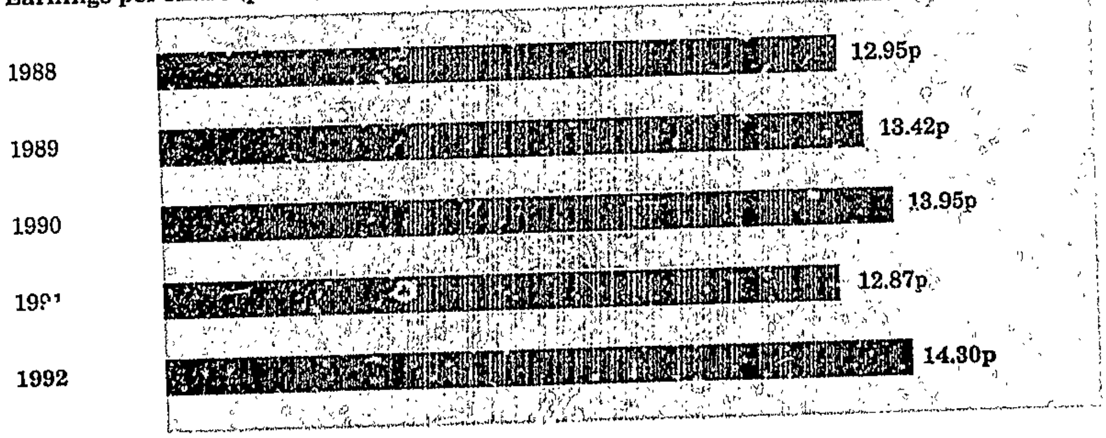
EXECUTIVE MANAGEMENT

T. A. Pyne, F.I.A.	Group Chief Executive
A. R. Swinburne-Johnson, F.C.A.	General Manager (Group Audit and Compliance)
C. A. Donaldson, B.Sc., A.R.C.S., F.I.A.	Compliance Officer
Life Assurance	
S. McClean, B.A.	Managing Director
J. J. Cummings, M.A., F.I.A.	Deputy Managing Director
E. Allison	Assistant General Manager (Directions)
P. L. Burrows	Home Service Business Director
G. S. Clarkson, LL.M.	Life Broker Business Director
K. E. Curran	Assistant General Manager (Group Mortgage Services)
P. Drury, B.Sc. A.R.C.S., F.I.A.	Finance Director
D. M. Hall	Administration Director
I. J. Harrisson, F.C.I.I.	Assistant General Manager (Customer Service Centre)
L. A. Smith	Director (Marketing Services)
D. L. Winter, Dip. Man., M.B.A.	Assistant General Manager (Life Broker Operations)
Pensions and Managed Funds	
D. J. Newman, F.P.M.I.	Managing Director
R. H. C. Minting, B.Sc., F.I.A.	Deputy Managing Director and Finance Director
L. A. Smith	Director (Marketing Services)
P. A. Stanbridge, F.C.I.I., A.P.M.I.	Director (Client Services)
P. A. Treseder, B.Sc., A.C.I.I.	Consultancy Director
Investment Management	
S. McClean, B.A.	Managing Director
R. W. Ammon, F.I.A.	Director (Treasury)
R. J. Foord, B.Sc.	Director (Stock Exchange)
D. Low, F.R.I.C.S.	Director (Property)
Consumer Finance	
I. S. Cummine	Joint Managing Director
J. B. Wanless, B.Sc., F.C.A.	Joint Managing Director
Residential Estate Agency	
M. Burdick, F.R.I.C.S.	Deputy Chairman
R. C. J. Barber, F.R.I.C.S.	Director
N. L. Friend, F.[illegible]	Director
J. W. Hughes, F.C.A.	Finance Director
C. D. King, B.Sc., M.I.P.M.	Director
M. B. Saunders, F.N.A.E.A.	Director
Commercial Property Services	
D. Low, F.R.I.C.S.	Managing Director
J. W. Hughes, F.C.A.	Finance Director
Residential Mortgages	
D. M. Jackson, B.Sc., F.C.A.	Managing Director
R. J. Alexander, B.Sc., F.C.A.	Finance Director
Group Management Services	
D. M. Jackson, B.Sc., F.C.A.	Joint Managing Director
W. H. Lea, M.Sc.	Joint Managing Director
R. J. Alexander, B.Sc., F.C.A.	Assistant General Manager (Group Finance)
H. M. Bridgeman, F.C.I.I., D.M.S	Assistant General Manager (Group Personnel)
D. A. Earle, B.Sc., F.C.A., F.T.I.I.	Assistant General Manager (Group Taxation)
A. S. Woodward, LL.B.	Assistant General Manager (Group Legal)

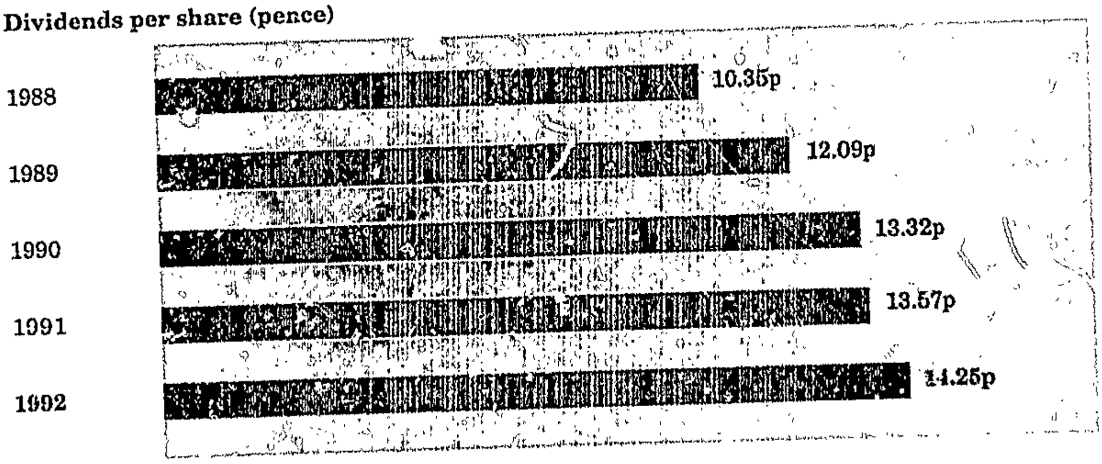
LONDON
& MANCHESTER

FINANCIAL HIGHLIGHTS

Earnings per share (pence)



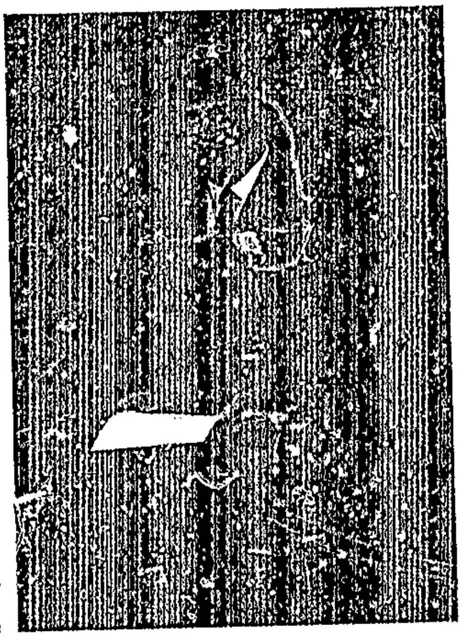
Dividends per share (pence)



	1988 £000	1989 £000	1990 £000	1991 £000 (restated)	1992 £000
Transfers from life revenue accounts	14,080	16,884	19,051	22,527	28,001
Results of non-insurance activities	4,504	2,252	1,300	(2,049)	(6,518)
Other income and expenses	1,623	1,657	1,440	2,088	1,925
Profit for the financial year	14,636	15,617	16,562	2,210	17,106
Cost of dividends	11,878	14,206	15,884	16,231	17,059

CHAIRMAN'S STATEMENT

Hopes of economic recovery in 1992 proved groundless. The recession, with its pernicious consequences, continued unabated. Unemployment rose remorselessly. Signs of recovery by the year end were at best tentative. Given the huge boost provided by the involuntary devaluation of sterling in September, the economy will not be truly on the mend without a sustained improvement in exports. And that will not be easy with Germany, the UK's major EC customer, now in deep recession.



Sterling's enforced exit from the ERM reflects no credit on the authorities in either Whitehall or Threadneedle Street. The consequential lurch in official policy from controlling inflation as its primary aim to going for growth should fool no one. Plus ça change: we are back on the dreary old stop-go routine again — but without the external discipline of the ERM imposed to curb our spendthrift ways.

The nation's economic problems are compounded by an awesome potential level of public sector borrowing of £50 billion in 1993-94. With few easy pickings from further privatisations in the offing, the authorities are in a strait-jacket. Predictably tax increases — both direct and indirect — are on the way.

There is mounting concern about the adequacy of the existing mechanism for monitoring retail financial services. The proposed Personal Investment Authority will not be effective unless we have a level playing field, with the inclusion of the banks and building societies. Self regulation has not worked; the case for a statutory body is becoming compelling.

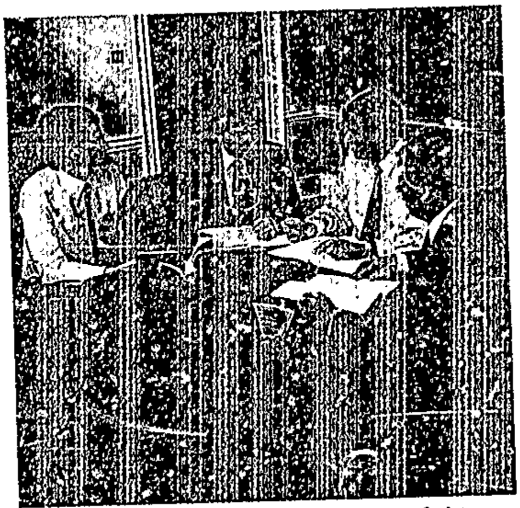
Our core life and pensions businesses taken as a whole performed well, with especially commendable contributions by Home Service, Pensions and Managed Funds. Our fund management team again excelled, winning a major annual award from Money Management magazine for the third time in four years.

Predictably, the non-insurance businesses performed poorly, with the exception of consumer finance which made its first significant profit contribution.

As previously announced, I shall be stepping down as chairman at the forthcoming annual general meeting. It has been a privilege to serve the Group in this capacity for the past eight years, during which I have enjoyed magnificent support from London and Manchester's senior management team. I wish them and the company well. My successor is R. D. C. Hubbard.

GROUP CHIEF EXECUTIVE'S REVIEW

Against a difficult economic background, it is a source of some satisfaction that continuing progress was made in growing the core life and pensions business whilst, at the same time, giving full attention to our commitment to quality of customer service by focusing only on new business production of acceptable quality and profitability. The clarity of strategic focus and intent engendered by the strong commitment of management and staff alike to the Mission and Values initiative launched in January 1992 has served the Group well during the difficult trading conditions of 1992.



Tom Pyne, Group Chief Executive, centre of picture, at a meeting with members of his executive management team.

Group profit and dividends

Group profit after tax amounted to £17.1m (1991 £15.4m, before extraordinary items), giving rise to earnings per share of 14.30p (1991 12.87p). Within this global result, the core life and pensions businesses performed exceptionally well, with increased profit transfers from the life, pensions and managed funds companies of £16.8m, £2.2m and £0.4m respectively, all combining to give an aggregate rate of growth in excess of 20%. The life profit includes a proportion of the transfer of the assumed long term rate of return on the shareholders' share of the life fund assets, in accordance with the agreement reached with the Department of Trade and Industry in June 1992.

Regrettably, the non-insurance businesses again performed poorly overall, with the increasingly depressed conditions in the property markets militating against a return to profitability in the residential estate agency and mortgage businesses.

The Group has a reputation for being shareholder friendly, evidenced by its performance over the last decade in rewarding shareholders with one of the best records in the sector in terms of dividend growth. The Board remains committed to a progressive dividend policy which seeks to deliver real growth and which takes particular account of the inherent strength and stability of earnings from the core life and pensions businesses. Accordingly and in the light of the increased profit transfers referred to above, the Board is recommending the payment of a final dividend of 9.60p per share, resulting in a total dividend for the year of 14.25p, an increase of 5%.

"a reputation for being shareholder friendly."

Life bonus rates

Whilst property markets remained weak during 1992, other investment markets were more buoyant and produced a satisfactory overall rate of return on the invested assets of the life fund. It has been a feature of the Group's activities in recent years that our fund management team has achieved, consistently, excellence in fund performance, to the benefit

GROUP CHIEF EXECUTIVE'S REVIEW

of policyholders and shareholders alike. 1992 was no exception. Once again the Group won a major investment award. However, rates of reversionary bonus have also to be set in the context of prospective investment returns and, in common with many other commentators, it is our view that the 1990's are likely to be characterised by an economic climate which will result in lower nominal levels of return. On the other hand, being accompanied by lower levels of inflation, attractive rates of real return should continue to be available.

The Board has decided, acting upon the advice of the appointed actuary to the life company, to reduce the level of the main simple reversionary bonus rates and the additional reversionary bonus rates. Policyholders, however, will continue to enjoy a full share of the return on their investment and the practical effects of this decision will lead to virtually unchanged payouts on policies maturing in 1993. Ordinary Branch policyholders receiving their maturity proceeds in 1993 will typically have enjoyed annualised rates of return on their net premiums paid of some 11.9% p.a. and 12.7% p.a. for 10 year and 25 year policy terms respectively.

The Group has been at the forefront of additional disclosure to shareholders of information relating to their interest in the capital of the life fund. I am pleased to report that this inherited estate has increased from £108.5m to £111.9m during 1992, after taking account of the transfer of the assumed long term rate of return on this capital.

Progress of our business in 1992

It has again been pleasing to see the benefits of our diversified distribution strategy coming through so strongly in terms of both volume and the defensive qualities of a spread of outlets. The performances of Home Service division (including the Directions direct sales force) and especially Pensions division were very strong. However, it has not been a good year for our Life Broker division.

The Group has an unswerving commitment to its Mission Statement, a primary aspect of which is the quality of service provided to the customer. It follows axiomatically that there is no place within the Group for business practices which compromise or fall short of that ideal. Whilst our Home Service and Pensions divisions continued to champion that cause, regrettably, some business written by Appointed Representatives of Life Broker division in 1990 and 1991 had been found to be of doubtful quality and the result of poor selling practices. The Group has accepted the disciplinary action taken by its regulator, LAUTRO, and has taken immediate and stringent action to improve the performance of its network. The reduction in the number of tied firms from 562 to 230 will continue to have a detrimental effect on growth in gross new business during 1993 but will lead ultimately to

Members of the Home Financial Services sales with Tom Pyne at a regional conference in Es

GROUP CHIEF EXECUTIVE'S REVIEW

improved quality of business, enhanced profitability and a standard of service to customers in line with both our corporate values and the performance achieved consistently by our Home Service and Pensions divisions.

The property-related non-insurance businesses have had another very difficult year, with the residential housing market remaining immobilised by the combination of falling prices and the actuality or fear of unemployment. These circumstances affect both our residential mortgage and property agency operations and it is with regret that we have to report pre-tax losses for those two businesses of £3.7m and £3.4m respectively compared with £0.2m and £2.8m in the previous year. It is scant comfort to record that behind those results lie a significant strengthening of residential mortgage loss provisioning and further gains in our market share of housing transactions completed.

The commercial property market also continued its malaise, jolted from time to time by the demise of major development and construction companies. Against that austere background, our commercial agency business, Lintotts, performed remarkably well in returning a small profit for the year, much against the sector trend. We continue to manage actively our closed book of commercial property loans and to review our exposure frequently. It remains the opinion of the Board that the provisions established in 1991 for this book of business remain adequate.

Finally, our consumer finance business, Welcome Financial Services, celebrated its third year of operation by making a very satisfactory contribution of £0.4m to Group pre-tax profits. It is a source of some satisfaction that this business has reached profitability so speedily following the investment necessary to create a 37-branch, 16,000-customer, £20.9m loan book business. In addition, Welcome has met our objective of becoming a major source of new business to our life company, generating £0.5m of new annual premium income in 1992.

The acquisition in February 1993 of a portfolio of £26.3m of hire purchase loans, largely funded by £22.1m of bank finance on a non recourse basis, offers a good opportunity to enhance Welcome's success in selling other group products to some 14,000 new customers and will further improve its profitability.

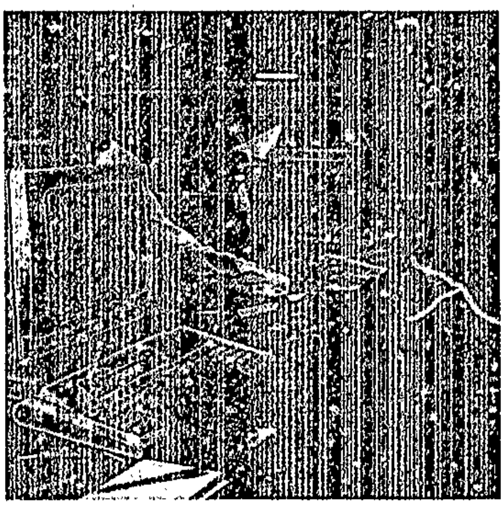
The future of the business

The financial services industry is undergoing and will continue to undergo significant structural change and, in my view, will polarise: successful businesses will have clear strategy and focus, financial strength and a span of distribution capability, all backed by excellence in fund management skills and an unwavering commitment and ability to deliver quality of service to customers. We intend to build on these strengths and the position already achieved in these areas. We also intend to use the ability to respond quickly inherent in our flexible and flat management structure to ensure our position as a successful player in the market.

"commitment to quality of customer service."

GROUP CHIEF EXECUTIVE'S REVIEW

In pursuit of that strategy, the major themes of 1992 have been, firstly, a ruthless approach to cost management in order to enhance future value-for-money to our customers and returns to our shareholders; and secondly, a major drive to enhance the quality of service to our customers, culminating in the introduction at the beginning of this year of a new Customer Service Centre at Winslade Park. The centre provides a single focus for customer enquiries, irrespective of what type of business the customer holds with the life company or what source of distribution originally introduced the customer, all backed up by the very latest in computer and telecommunications technology. This new initiative has made an auspicious start and has been well received by customers, field staff and intermediaries.



The new Customer Action Line opened in January 1993 providing a single focus for customer enquiries to be answered promptly and efficiently.

Management and staff

The management and staff of the Group have worked very hard indeed throughout 1992 to achieve the results before you. At the same time as that effort has been given, they have also had to take the brunt of the inevitably difficult decisions which flow from a commitment to attack stringently the cost base of the Group. In our case, those decisions comprised a freeze on salaries in 1992 and a restructuring and redundancy programme which will reduce the establishment of permanent jobs at Winslade Park from 1200 to 1000.

I reiterate my remark of last year that the quality of our staff is a major asset and, whilst it is customary to thank them for their efforts at the conclusion of a report such as this, it is offered with particular gratitude on this occasion.

"the quality of our staff is a major asset."

Finally, 1993 will see the retirement of our present Group Chairman, John Thomson. I and my colleagues would wish to record our personal appreciation of his contribution to the Group and his wise counsel over many years.

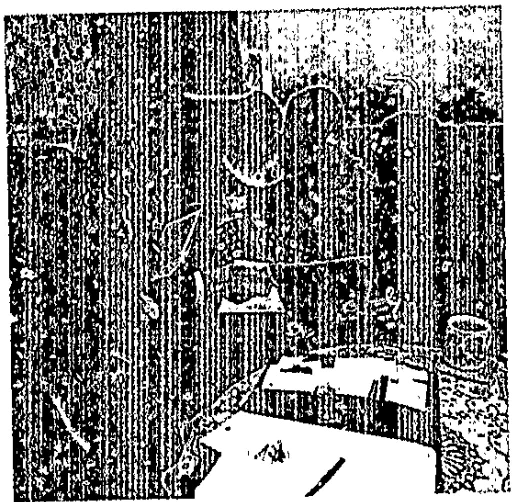
OPERATIONS REVIEW

LIFE ASSURANCE

The Group offers a wide range of individual life and pensions, savings and protection products through two of its primary distribution channels — Home Service and Life Broker. Both with profits and unit linked investment products are available, with a home collection service provided to Industrial Branch customers.

1992 was a difficult year for the life assurance industry with the depth and duration of the recession continuing to defy original expectations and rising unemployment damaging the willingness of customers to commit to medium to long term savings contracts. It is therefore pleasing to report continuing strength of the Home Service division which produced another year of excellent new business growth.

The foundation stone of the division is the regular premium collection relationship with the customer established through the Industrial Branch. The target market for this service remains substantial and during the year the market share increased both because of higher productivity and the success achieved by the new grade of field staff that was introduced with the specific aim of attracting new customers.



Peter Phillips, Home Service Adviser calls on customers at their home to discuss their financial affairs.

Ordinary Branch annual premium business sold through the traditional Home Service sales force (but paid via direct debit) reflected the difficult economic conditions but single premiums were buoyant particularly in relation to personal pension plans.

For 1993, the division has set itself a target that demands a significant expansion of its Ordinary Branch business. In part this will be achieved by the establishment of an additional sales team to introduce a more frequent financial review service to existing Ordinary Branch clients.

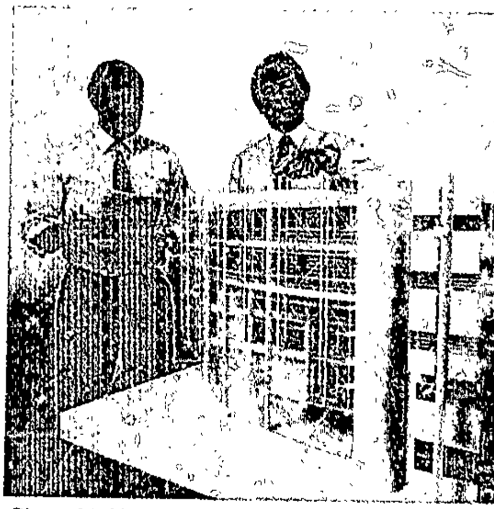
The other major plank of the division continues to be the development of the new distribution channel — 'Directions'. Growth in 1992 was slower than planned because of difficulties experienced in recruiting the calibre of staff needed in sufficient quantities. Despite this, new annual premiums generated by 'Directions' almost doubled. By the end of 1993 it is planned to have 250 sales consultants. Following encouraging results achieved in a pilot exercise with one of the Group's residential estate agents, it has been decided that the ongoing financial advice to customers introduced by the estate agency network is best provided by 'Directions'.

The new business results of the Home Service division were, once again, excellent and compare very favourably with its competitors. New annual premiums grew 5% to £17.8m. Industrial Branch contributed £8.5m (an increase of 6%) and Ordinary Branch £9.3m (an increase of 4%). Within the Ordinary Branch, 'Directions' increased its new annual premium business to just under £2.0m. Single premiums rose sharply by 48% to £28.6m with personal pensions business responsible for 80% of this total.

OPERATIONS REVIEW

LIFE ASSURANCE

Life Broker division experienced an exceedingly difficult year. Equivalent new annual premiums (using the standard industry basis which includes 10% of single premiums) were down a third, although single premiums were up 18% at £43.6m. The primary focus of attention was to re-establish the operational integrity of the business and to remedy certain compliance weaknesses which were exposed by a rigorous review of systems and procedures. This process has been completed and new procedures which are believed to be in advance of industry standards have been put in place. This re-focusing on those Appointed Representatives willing and able to write quality business in sufficient volumes to justify the considerable support provided, inevitably resulted in a shrinking of the network. For 1993 the priority is to expand the size and profitability of the network from its reduced base.



Simon McClean, Group Investment and Life Directo (left) and David Low, Group Property Manager, discus a model of the 'Island Site' development in the City o London for a Marks & Spencer store and offices.

As mentioned in last year's Group Chief Executive's review every part of the life assurance company has reviewed its operations in order to improve the quality and cost effectiveness of the service it provides to both internal and external customers. The most noteworthy change that resulted from these reviews was a radical restructuring of the administration functions. This involved the creation of a Customer Service Centre which ensures the provision of the same high quality service to all customers regardless of the distribution channel which deals with them. The key to the success of this was the setting up of a Customer Action Line which provides a responsive service without disturbing the smooth and efficient running of the support departments. The Customer Action Line employs the latest computer and telecommunications technology to empower trained staff to deal instantaneously with routine enquiries and to ensure that service standards are met. This improved level of service has been achieved at a substantially reduced cost.

1992 was another year of good relative and absolute investment performance, with funds under management growing to £1,371m. The ability to demonstrate to customers superior returns on their investments reinforces confidence and provides opportunities to develop these relationships.

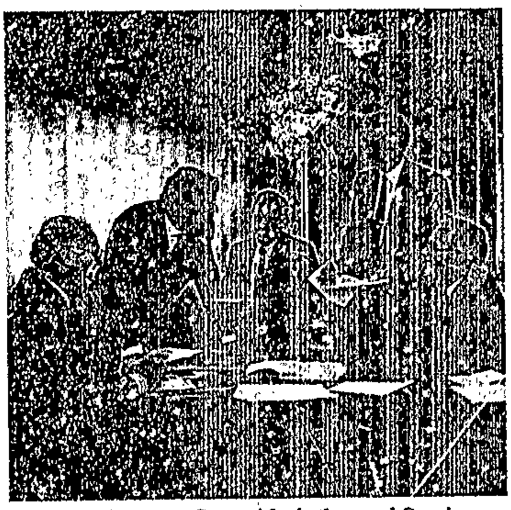
The investment returns achieved during the year enabled pay-outs under with profit policies to be maintained in general terms, despite the reduction in bonus rates referred to in the Group Chief Executive's review. The effect on the normal transfer from the life funds to the profit and loss account was more than offset by the transfer of part of the investment return from the inherited estate, producing an aggregate result of £16.8m, an increase of 22% over 1991.

OPERATIONS REVIEW

PENSIONS AND MANAGED FUNDS

The two pensions companies offer a range of specialist products and services to the corporate employee benefit market through national consultants and pensions brokers. These intermediaries operate as independent advisers under the Financial Services Act. During 1992 both companies continued to enhance their reputation in terms of innovative product design, service quality and investment performance.

For London and Manchester (Pensions) Limited, the year was dominated by the continued impact of the recession on its target market of medium-sized companies and the additional uncertainties caused by the pensions legislative environment. Against this background, total new annual premium growth of 3%, net of reassurance, was a creditable achievement. The growth in pensions business (i.e excluding Group Life and PHI) was 6%. This success was largely attributable to a strategy of targeting companies which already operate a final salary scheme and where product and technical expertise can help contain or reduce pension costs. This area of the market also helped to generate the excellent single premium result of £44.7m, an increase of 32% over the previous year. A transfer of £2.2m has been made to the profit and loss account, building on the substantially enhanced transfer of £2.0m made in 1991. Funds under management at the end of 1992 totalled over £600m.


David Newman, Group Marketing and Pensions Director, standing, at a monthly meeting with his regional managers.

Service has become an important factor in the corporate market and the quality initiatives first launched in 1990 now place the business in a strong position. During 1992 comprehensive service standards were published which are being communicated to all clients as part of a commitment to quality and improved client communication. The company's reputation in its chosen market as a service leader has been established. A further strength is the continued excellent investment results, where a consistent high ranking compared to competitors has been achieved in the mixed fund sector.

An important social objective should be to ensure that retired people have an adequate and secure income which maintains its purchasing power. However, demographic and economic pressures make it highly unlikely that state pension schemes will ever be able to provide acceptable living standards for the majority of retired people. This will become increasingly evident with the move into the 21st century as the age dependency ratio of the number of retired people as a proportion of those who are earning changes. Well designed occupational pension schemes have proved to be the most cost effective means of providing adequate retirement income and it is vital that a legislative environment is once again created where employers are given the encouragement and confidence to provide these valuable benefits in the future.

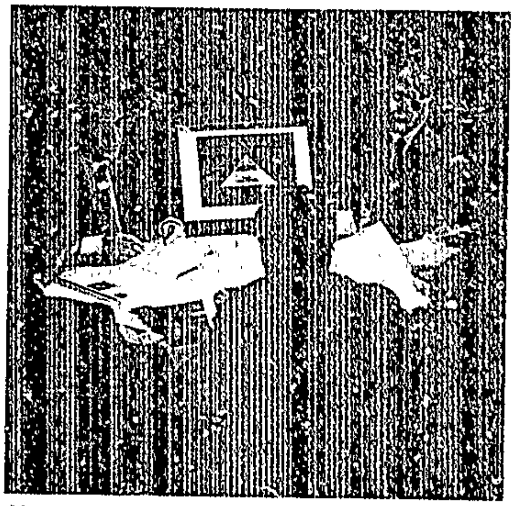
OPERATIONS REVIEW

PENSIONS AND MANAGED FUNDS

London and Manchester (Managed Funds) Limited achieved an outstanding result with £158.2m in new premium income, including £54.4m from the Group's pension scheme, compared with £24.9m in 1991. This reflects the continued successful investment performance and the company's acceptance within the specialist intermediary market. Significant landmarks were reached during the twelve months. In particular, funds under management grew from £130m to over £300m and the number of clients increased by 80% to over 150.

With the 10th anniversary of the company occurring in 1993, London and Manchester (Managed Funds) Limited is now successfully established as a leading investment manager of corporate pension funds, with long term top quartile performance.

The transfer to profit and loss account was £0.4m compared with £0.1m for 1991.



Managed Funds Consultancy Director, Phil Treseder (left) and Investment Manager, Richard Foord, making a presentation to pension fund trustees.

INVESTMENT MANAGEMENT

A comprehensive portfolio of unit trusts is available to investors providing coverage of the major capital markets. The Group also offers a personal equity plan (PEP) linked to a selection of its in-house unit trusts.

1992 was another successful year for the investment team, who were the winners of the Money Management award for the best investment performance of a large insurance group for the third time in the last four years.

In July 1992 a new company, London and Manchester (Portfolio Management) Limited, was established to manage the stock exchange assets of other companies in the Group. It made a modest profit in its first half year of trading. A similar company will be established in 1993 to manage the property assets of companies in the Group.

Last year's report referred to the re-acquisition of the 'Island Site' in the City of London for £17.5m, the site having previously been sold by the life company for some £75m. Excellent progress has been made with the plans for this development. The planning permission has been improved and is now for a 97,000 square foot department store with offices of 186,000 square foot alongside and above it. Marks & Spencer has contracted to buy a long leasehold interest in the store and it is expected that construction work will start in earnest soon.

OPERATIONS REVIEW

CONSUMER FINANCE

Welcome's home budget service is proving attractive to customers. Ravinder Soomal from the company's Wolverhampton office discusses the service with a prospective customer.

The Group is continuing to develop its consumer finance business, Welcome Financial Services. Whilst unsecured and hire purchase loans continue to be successfully marketed at attractive margins, a special feature of the business has been the home budget service, now introduced to over 3,000 customers. Sales of life assurance through the branches on behalf of the life company totalled £0.5m. More than 90% of customers elected to support their loan commitments with payment protection insurance which secures their repayments in the unfortunate event of sickness or unemployment.

Receivables totalled £20.9m at the end of 1992 (1991 £10.0m), with customers serviced through 37 branches mainly in the North of England and the Midlands. The business is characterised by the careful underwriting of the loan portfolio, with customers being interviewed in branch offices and visited in their homes prior to offers being made. As reported in the Group Chief Executive's review on page 8, an additional £26.3m of receivables were purchased in February 1993.

The trading profit for the year was £386,000 (1991 £39,000).

PROPERTY AGENCY

Residential

The residential property market experienced a particularly difficult year with national statistics showing that the number of properties sold in 1992 fell by 13% over 1991 and, on average, house prices reduced by 8%. This impacted on the Group's estate agency network, comprising Carson & Co, Chappell & Matthews, Friend & Falcke, Fulfords and Palmer Snell. The net result for 1992 was a loss of £3.5m (1991 £2.8m), with 5,200 houses sold (1991 5,900).

The property market in 1992 showed some prospect of a recovery after the General Election result and the network was in profit during July and August. However, with the reintroduction of Stamp Duty in August followed by Black Wednesday in September, the confidence that was slowly building up was destroyed and only in December were there any encouraging signs that confidence was returning with an increase in applicant activity and more sales being arranged than at the same time last year.

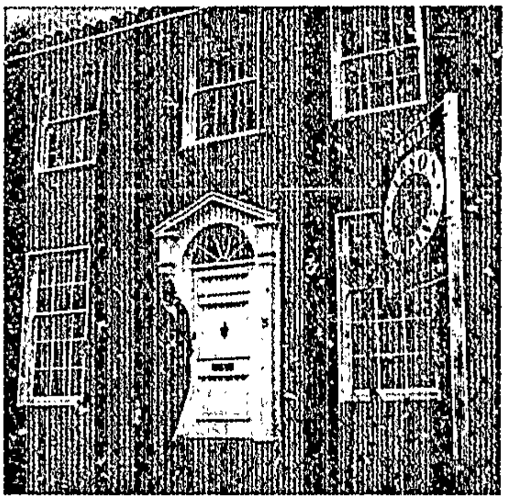
The strategy during this unprecedented recession has been to maintain a high quality network, to increase market share and to control costs, the latter having been reduced for three consecutive years. This approach will ensure that there will be maximum benefit when

OPERATIONS REVIEW

PROPERTY AGENCY

the anticipated upturn arrives. During the year, Fulfords took the opportunity to acquire, for a nominal consideration, Viner Carew, a long established four-branch firm of estate agents in the Plymouth area.

The network generated, through its 87 branches spanning southern England, £0.9m of new equivalent annualised premiums in 1992, making it the largest single source of new business for the life company.



In 1992 the Group's estate agency network sold 5,200 houses and was the largest single source of new business for the life company.

Commercial

The commercial property market remained depressed for a further year. This applied particularly to Central London, the main operating area of Leslie Lintott & Associates. Despite this, it was a commendable achievement to record yet another profit.

Throughout the year Lintotts concentrated on its core activities of agency, investment, project co-ordination, rating and rent reviews.

RESIDENTIAL MORTGAGES

The decision to restrict new on-balance sheet lending and replace the supply of mortgages to the Group's distribution outlets with agency relationships with other lenders has been fully vindicated by the deteriorating market conditions experienced in 1992. Against this background the stance towards provisioning has been to take a more prudent view.

Provisions charged in the year were £9.4m (1991 £5.7m).

With increased wholesale funding margins also having an adverse impact, the business incurred a trading loss of £3.7m for the year (1991 £0.2m), but the fall in base rates in the final quarter of 1992 resulted in an increased spread between the mortgage rate and cost of funds, compared to earlier in the year. The portfolio declined from £580m to £504m.

The policy of being as helpful as possible to customers, without prejudicing the business' financial performance, will continue in 1993.

DIRECTORS' REPORT

The directors have pleasure in presenting their report and the accounts of the Group, comprising London and Manchester Group plc (the Company) and its subsidiaries, for the year ended 31 December 1992.

GROUP ACTIVITIES

London and Manchester Group plc is an investment holding company. Its insurance subsidiaries conduct ordinary and industrial life assurance, pensions, managed funds and annuity business. Its other subsidiaries provide property agency services, mortgage and consumer finance, unit trust and investment management services. All business is transacted in the United Kingdom.

A review of the Group's operations, recent events and likely future developments is given on pages 6 to 15.

FINANCIAL RESULTS

Shareholders' fund

The profit for the year amounted to £17,106,000 (1991 £15,374,000, before extraordinary items).

The directors recommend the payment of a final dividend of 9.60p per share which, with the interim dividend of 4.65p per share paid on 18 November 1992, will make a total of 14.25p per share for the year ended 31 December 1992, at a cost of £17,059,000. The retained profit for the year to be transferred to reserves is £47,000. The directors are proposing to seek shareholders' approval to introduce a scrip dividend alternative at an Extraordinary General Meeting of the Company to be held immediately prior to the Annual General Meeting. Shareholders will then be offered the choice of taking shares in lieu of cash in respect of the final dividend.

The results for the year are set out in the consolidated profit and loss account on page 24. The comparative figures for 1991 have been restated to include the goodwill written off on closed businesses, in accordance with the ruling of the Urgent Issues Task Force of the Accounting Standards Board. In the 1991 accounts this was dealt with as a movement on reserves. Information relating to turnover and profit before tax by business activity is given in notes 2 and 3 on page 30.

Life fund

Gross premium income amounted to £461,203,000 (1991 £294,625,000) and investment income amounted to £117,673,000 (1991 £116,462,000). The premium income includes £54,416,000 (1991 £1,750,000) received from the trustees of the London and Manchester Group Pension Scheme.

A sum of £30,500,000 (1991 £45,500,000) has been transferred from the investments revaluation reserve to the life revenue account primarily to provide for terminal bonuses.

The life fund at 31 December 1992 amounted to £2,293,669,000 (1991 £1,843,660,000).

DIRECTORS' REPORT

ACTUARIAL VALUATIONS

The recommendations of the appointed actuaries of the insurance subsidiaries have been adopted. The bases of valuation of the liabilities have not been changed to an extent which is material to the overall results.

The allocation of the distributed surplus is shown below.

Allocation to policyholders

	1992 £000	1991 £000
Industrial life	26,998	40,272
Ordinary life	36,228	42,416
	63,226	82,688

Allocation to shareholders

	1992 £000	1991 £000
Industrial life	3,000	4,475
Ordinary life	13,775	9,213
Pensions and Managed Funds	2,550	2,100
	19,325	15,788

Each appointed actuary has confirmed that he will sign and deposit with the Secretary of State for Trade and Industry the certificates required by legislation affecting insurance companies in respect of the year ended 31 December 1992.

EMPLOYEES

The average number of persons employed by the Group in the year ended 31 December 1992 was 3,452 (1991 3,211) and their aggregate remuneration was £50,751,000 (1991 £47,981,000).

The directors recognise that employees should be kept as fully informed as is both feasible and practicable concerning the activities and progress of the Group This is achieved through regular meetings between management and staff and with the staff union and the publication of the Group's newspaper, Impact, which is produced four times a year and circulated to employees. The directors encourage staff to be involved in the Group's performance through employee share schemes.

During the year the Group continued its policy regarding the employment of disabled persons. Applications for employment by disabled persons are given full and fair consideration having regard to their particular aptitudes and abilities. Disabled persons employed by the Group are offered the same opportunities as other employees in respect of training, career development and promotion.

DIRECTORS' REPORT

DIRECTORS

Mr D. M. Jackson was appointed a director of the Company on 4 November 1992. Other directors listed below served throughout the year ended 31 December 1992. The number of shares of the Company in which they had a beneficial interest (as defined by the Companies Act 1985) is shown below. In addition, Mr D. A. L. Jubb was a director of the Company until 3 June 1992.

		Number of 25p shares	
		1.1.92	31.12.92
J. M. Thomson		10,000	10,000
The Rt. Hon. Lord Wakehurst		2,332	2,332
D. C. Bourdon		1,000	1,000
R. D. C. Hubbard		625	625
D. M. Jackson	(on appointment)	1,722	1,722
Miss K. M. Jenkins		—	600
J. Leigh Pemberton		500	500
S. McClean		8,453	8,453
D. J. Newman		20,623	20,623
T. A. Pyne		18,471	18,471

The directors' interests in options to subscribe for ordinary shares in the Company are shown below.

Employee Share Option Scheme—

			Number of 25p shares		
	Exercise date	Exercise price	Granted in year	Exercised in year	Balance at 31.12.92
D. M. Jackson	26.6.97	177.9p	4,724	—	4,724
S. McClean	26.6.97	177.9p	4,724	—	4,724
D. J. Newman	29.6.93	242.5p	—	—	1,4[illegible]
	27.6.95	235.4p	—	—	3,059
T. A. Pyne	29.6.93	242.5p	—	—	890
	26.6.97	177.9p	3,797	—	3,797

The options are exercisable within six months of the exercise date.

DIRECTORS' REPORT

Executive Share Option Scheme—

			Number of 25p shares		
	Exercise date	Exercise price	Granted in year	Exercised in year	Balance at 31.12.92
D. M. Jackson	2.11.92	295.0p	—	—	27,118
	7.11.93	313.4p	—	—	19,144
	1.5.95	219.0p	31,965	—	31,965
S. McClean	3.7.89	183.0p	—	—	54,645
	6.5.91	272.4p	—	—	27,533
	2.11.92	295.0p	—	—	42,372
	1.5.95	219.0p	68,494	—	68,494
D. J. Newman	3.7.89	183.0p	—	—	81,967
	2.11.91	268.6p	—	—	23,454
	2.11.92	295.0p	—	—	26,101
	1.5.95	219.0p	42,924	—	42,924
T. A. Pyne	3.7.89	183.0p	—	—	98,361
	6.5.91	272.4p	—	—	27,533
	2.11.92	295.0p	—	—	45,762
	1.5.95	219.0p	95,434	—	95,434

The options are exercisable within seven years of the exercise date.

At 8 April 1993 the directors' interests were the same as at 31 December 1992.

In accordance with the Articles of Association Mr D. C. Bourdon, Mr R. D. C. Hubbard and Miss K. M. Jenkins, each of whom is a non-executive director and does not have a contract of service with the Company, retire by rotation and, being eligible, they offer themselves for re-election.

Mr D. M. Jackson was appointed a director of the Company on 4 November 1992 and, being eligible, he offers himself for election at the Annual General Meeting. Mr D. M. Jackson has a contract of service with the Company which is terminable by him on 3 months' notice and by the Company on 24 months' notice.

There were no contracts of significance to the business of the Group which subsisted during or at the end of the year in which any director of the Company had a material interest.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

During the year the Company maintained cover for its directors and officers and those of its subsidiary companies under a directors' and officers' liability insurance policy, as permitted by section 310 of the Companies Act 1985.

FIXED ASSETS

Information relating to the fixed assets of the Company is given in note 17 to the accounts.

POLITICAL AND CHARITABLE CONTRIBUTIONS

No money was contributed for political purposes by the Group during the year. The total of charitable donations was £57,000 (1991 £54,000).

DIRECTORS' REPORT

SUBSTANTIAL INTERESTS

At 8 April 1993 the register of substantial interests recorded the following interests of 3 per cent or more in the share capital of the Company.

	Per cent
Schroders plc	8.43
Britannic Assurance plc	6.89
M&G Group PLC	5.62
BAT Industries plc	4.15
Bank of Scotland	3.32

CLOSE COMPANY STATUS

The Company is not a close company within the meaning of the Income and Corporation Taxes Act 1988 and there has been no change in this respect since 31 December 1992.

AUDITORS

In accordance with section 385 of the Companies Act 1985, a resolution for the reappointment of KPMG Peat Marwick as auditors of the Company will be proposed at the Annual General Meeting.

On behalf of the board
A. R. Swinburne-Johnson
Secretary

13 April 1993

AUDITORS' REPORT

TO THE MEMBERS OF LONDON AND MANCHESTER GROUP plc

We have audited the accounts on pages 22 to 43 in accordance with Auditing Standards.

In our opinion, the balance sheet of the Company gives a true and fair view of the state of its affairs at 31 December 1992 and has been properly prepared in accordance with the Companies Act 1985 and the consolidated accounts have been properly prepared in accordance with the provisions of the Companies Act 1985 applicable to insurance companies.

KPMG Peat Marwick
Chartered Accountants
Registered Auditors

London and Exeter
13 April 1993

ACCOUNTING POLICIES

The principal accounting policies of the Group are as follows:

a **Accounting convention.** The accounts are drawn up under the historical cost convention, as modified by the inclusion of subsidiary companies and investments on the bases set out respectively in paragraphs d and e below.

b **Basis of preparation.** The consolidated accounts are prepared in accordance with the special provisions applicable to insurance groups set out in section 255A of and Schedule 9A to the Companies Act 1985. The balance sheet of the Company is prepared in accordance with section 226 of and Schedule 4 to the Companies Act 1985. The accounts are also prepared in accordance with applicable accounting standards and the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers.

c **Basis of consolidation.** The consolidated accounts of the Group include the accounts of the subsidiary companies. The accounts of the principal subsidiary companies are made up to 31 December. Goodwill, representing the excess of the book cost of subsidiaries over the fair value of the assets acquired, is charged to reserves in the year of acquisition and written back in the year of disposal or cessation. Additional goodwill arising from the payment of deferred consideration is charged to reserves once it can be reasonably estimated.

d **Subsidiary companies.** The subsidiaries of the Company are included in its balance sheet at book cost plus retained post-acquisition reserves. Where the consideration for the acquisition of a subsidiary company includes shares the book cost excludes an amount equivalent to the premium on the shares issued, in accordance with the provisions of section 133 of the Companies Act 1985. The net surplus arising is taken to revaluation reserve. No account is taken of the value to the Company of the long term business of the insurance subsidiaries.

e **Investments.** These are included in the balance sheets as follows:
Listed securities at middle market price.
Unlisted securities at directors' valuation based on professional advice.
Unit trust units at bid price.
Mortgages at cost less provisions.
Freehold and leasehold properties at open market value as assessed by independent professional advisers and the Group's professional surveyors, all of whom are members of the Royal Institution of Chartered Surveyors.

f **Development property.** Development property is included in the balance sheets at the lower of cost and net realisable value. Cost includes all direct costs, appropriate overheads and the cost of external finance up to the date of completion.

g **Loans receivable.** These are included in the balance sheet net of provisions for doubtful debts. Such provisions cover both specific doubtful loans and potential losses. Movements in the provision are charged against profits.

h **Foreign currencies.** Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in a foreign currency are translated into sterling at the rates ruling on the balance sheet date.

ACCOUNTING POLICIES

i Investment profits and losses. In the consolidated accounts realised investment profits and losses, net of taxation where appropriate, together with unrealised appreciation and depreciation of investments are carried to:
Profit and loss account in respect of mortgages.
The life revenue account in respect of investments relating to policies linked to market values and certain other investments.
Investments revaluation reserve in respect of other investments.
In the Company's accounts realised investment profits and losses are taken to profit and loss account and unrealised appreciation and depreciation of investments is taken to revaluation reserve.

j Profit from insurance activities. The transfer of shareholders' profit from the life revenue account is determined annually by actuarial valuation and is grossed up by the estimated tax in the long term fund attributable to such transfer.

k Income and expenditure. Premiums — these are stated before reassurance and are accounted for when due for payment in respect of with-profit and non-profit policies and when the liability is established in respect of investment linked policies.
Investment income — dividends are shown gross or grossed up for the imputed tax credit and are included if the investments to which they relate are declared ex-dividend within the year. Interest and rents are shown gross and are included on the accruals basis.
Claims — these are stated before reassurance and are accounted for when the claim becomes due or is notified in respect of with-profit and non-profit policies and when the policy ceases to participate in the relevant investment fund in respect of investment linked policies.
Expenses — these include commission and depreciation. Computer equipment and software, motor vehicles and office equipment are depreciated over a period not exceeding five years and office furniture over ten years, on the straight line basis. Expenses which relate to the inception of consumer finance loans are deferred and amortised over the length of each loan on the sum of the digits method. Where, during the period of deferment, a loan is repaid, the deferred expenditure relating to the loan is charged against profits.

l Funding costs. Fees incurred in arranging borrowing facilities are amortised over the period of the facility or in proportion to the amounts drawn down. Profits and losses arising from treasury transactions, including medium term interest rate swaps, are credited or charged to funding costs on the accruals basis over the life of the underlying contracts.

m Pension costs. The Group operates a pension scheme covering the majority of employees. Payments made to the scheme and charged to expenses are calculated with actuarial advice and represent a proper charge to cover the accruing liabilities on a continuing basis.

n Taxation. Provision for taxation is made on realised profits and income earned to date. Special rules apply to the taxation of insurance companies. Deferred tax is calculated on the liability basis in respect of the taxation, or relief from taxation, which is expected to arise in the foreseeable future from timing differences, other than in respect of the timing difference relating to the pension scheme funding where full provision is made.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 1992

	Note	1992 £000	1991 £000
			(restated) (note 11)
Insurance activities			
Transfer from life revenue account		19,325	15,788
Attributable taxation		8,676	6,739
		28,001	22,527
Shareholders' investment income		2,716	3,059
	2	30,717	25,586
Non-insurance activities			
Charges, commissions and fees		20,810	19,364
Interest receivable		74,271	95,958
Administrative expenses		(38,451)	(30,987)
Interest payable		(63,148)	(86,384)
	3	(6,518)	(2,049)
Other			
Interest payable		(169)	(269)
Expenses		(622)	(702)
		(791)	(971)
Profit for the year before exceptional item		23,408	22,566
Exceptional item	5	—	(1,339)
Profit for the year before taxation		23,408	21,227
Taxation	10	6,291	5,751
Profit for the year after taxation		17,117	15,476
Minority interests		(11)	(102)
Profit for the year before extraordinary items		17,106	15,374
Extraordinary items	11	—	(13,164)
Profit for the financial year		17,106	2,210
Interim dividend		5,566	5,298
Proposed final dividend		11,493	10,933
		17,059	16,231
Retained profit (loss) for the year	25	47	(14,021)
Earnings per share	13	14.30p	12.87p

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 1992

	Note	1992 £000	1991 £000 (restated) (note 15)
Investments			
Government securities		7,425	4,151
Debenture and loan stocks		6,958	5,090
Convertible securities		848	359
Preference shares		297	2,532
Ordinary shares		8,098	5,092
Mortgages		581,137	663,413
		604,763	680,637
Current assets	14	130,577	112,920
Current liabilities	15	(81,914)	(272,781)
		653,426	520,776
Deferred liabilities	16	(616,222)	(486,115)
		37,204	34,661
Life fund — net assets		2,293,669	1,843,660
		2,330,873	1,878,321
Capital and reserves			
Share capital	21	29,926	29,890
Share premium account	23	236	4,462
Reserves	25	6,973	16
		37,135	34,368
Minority interests		69	293
		37,204	34,661
Life fund		2,293,669	1,843,660
		2,330,873	1,878,321

COMPANY BALANCE SHEET

AS AT 31 DECEMBER 1992

	Note	1992 £000	1991 £000 (restated) (note 17)
Fixed assets			
Investments	17	93,040	67,250
Current assets			
Debtors	19	93,297	54,059
Cash at bank and in hand		—	11,709
		93,297	65,768
Creditors — amounts falling due within one year	20	(35,034)	(25,095)
Net current assets		58,263	40,673
Total assets less current liabilities		151,303	107,923
Creditors — amounts falling due after more than one year	20	(95,282)	(54,032)
		56,021	53,891
Capital and reserves			
Share capital	21	29,926	29,890
Share premium account	23	236	4,462
Revaluation reserve	24	5,905	6,414
Other reserves	24	10,670	6,201
Profit and loss account	24	9,284	6,924
		56,021	53,891

J. M. Tho[illegible]n
T. A. Pyne } Directors

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 1992

	Note	1992 £000	1991 £000
Net cash inflow (outflow) from operating activities	26	(10,526)	7,357
Servicing of finance			
Loan stock interest paid		(122)	(107)
Dividends paid to shareholders		(16,499)	(16,202)
Dividends paid to minority interests		(135)	—
Net cash outflow from servicing of finance		(16,756)	(16,309)
Taxation			
Tax recovered		3,216	3,135
Investing activities			
Purchase of investments		(125,551)	(164,744)
Sale of investments		198,037	149,364
Other cash outflows from investing activities		(355)	(230)
Utilisation of fair value provisions		(32)	(970)
Net cash inflow (outflow) from investing activities		72,099	(16,580)
Net cash inflow (outflow) before financing		48,033	(22,397)
Financing			
Issue of share capital		279	893
New loans		191,694	72,254
Repayment of loans		(248,312)	(37,252)
Net cash inflow (outflow) from financing		(56,339)	35,895
Increase (decrease) in cash and cash equivalents	27	(8,306)	13,498

CONSOLIDATED LIFE REVENUE ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 1992

	Note	1992 £000	1991 £000
Income			
Premiums	7	461,203	294,625
Less: Reassurance		15,749	9,322
		445,454	285,303
Investment income		117,673	116,462
Transfer from investments revaluation reserve		30,500	45,500
		593,627	447,265
Expenditure			
Claims under policies paid and outstanding:			
Deaths and disability benefits		26,137	27,106
Maturities		79,497	78,167
Surrenders		103,037	85,562
Bond withdrawals		3,982	4,315
Annuities		7,209	7,436
		219,862	202,586
Less: Reassurance		5,119	8,431
		214,743	194,155
Expenses	9	79,840	83,850
Taxation	10	6,556	5,304
		301,139	283,318
		292,488	163,947
Adjustment of book value of linked and other investments to year-end market value		129,303	81,003
Addition to fund		421,791	244,950
Fund at the beginning of the year		1,617,452	1,388,290
		2,039,243	1,633,240
Transfer to profit and loss account		19,325	15,788
Fund at the end of the year		2,019,918	1,617,452

CONSOLIDATED LIFE BALANCE SHEET

AS AT 31 DECEMBER 1992

	Note	1992 £000	1991 £000
Investments			
Government and local government securities		268,878	229,127
Debenture and loan stocks		227,859	203,321
Convertible securities		8,365	9,832
Preference shares		9,658	4,973
Ordinary shares		1,008,152	686,086
Unit trusts		399,585	382,517
Mortgages and loans		24,832	22,960
Loans to fellow subsidiary companies		32,499	24,055
Freehold and leasehold properties		181,870	192,234
		2,161,698	1,755,105
Current assets	14	182,295	139,631
Current liabilities	15	(45,677)	(46,434)
Deferred liabilities	16	(4,647)	(4,642)
		2,293,669	1,843,660
Life fund			
Life revenue account		2,019,918	1,617,452
Investments revaluation reserve		273,751	226,208
		2,293,669	1,843,660

NOTES TO THE ACCOUNTS

1 Approval of accounts

The accounts on pages 22 to 43 were approved by the board of directors on 13 April 1993.

2 Profits from insurance activities

	Industrial life £000	Ordinary life £000	Pensions and Managed Funds £000	Total £000
1992				
Transfer from life revenue account	3,000	13,775	2,550	19,325
Attributable taxation	1,286	6,189	1,201	8,676
	4,286	19,964	3,751	28,001
Shareholders' investment income	—	—	2,716	2,716
	4,286	19,964	6,467	30,717
1991				
Transfer from life revenue account	4,475	9,213	2,100	15,788
Attributable taxation	2,034	4,005	700	6,739
	6,509	13,218	2,800	22,527
Shareholders' investment income	—	—	3,059	3,059
	6,509	13,218	5,859	25,586

3 Profits from non-insurance activities

	Investment management £000	Consumer finance £000	Property agency £000	Mortgages £000	Total £000
1992					
Charges, commissions and fees	4,018	1,924	13,594	1,274	20,810
Interest receivable	220	5,627	525	67,899	74,271
Administrative expenses	(4,055)	(5,200)	(17,405)	(11,791)	(38,451)
Interest payable	(3)	(1,965)	(98)	(61,082)	(63,148)
	180	386	(3,384)	(3,700)	(6,518)
1991					
Charges, commissions and fees	3,265	876	15,097	126	19,364
Interest receivable	309	2,180	391	93,078	95,958
Administrative expenses	(3,441)	(2,188)	(17,727)	(7,631)	(30,987)
Interest payable	(1)	(829)	(247)	(85,307)	(86,384)
	132	39	(2,486)	266	(2,049)
Exceptional item (note 5)	—	—	—	(1,339)	(1,339)
	132	39	(2,486)	(1,073)	(3,388)

NOTES TO THE ACCOUNTS

4 Net assets employed by activity

	1992 £000	1991 £000
Industrial life	—	—
Ordinary life	—	—
Pensions and Managed Funds	23,863	21,457
Investment management	1,219	1,385
Consumer finance	2,998	1,336
Property agency	6,625	9,252
Mortgages	(1,112)	(5,436)
Unallocated net assets	3,611	6,367
	37,204	34,661

None of the above net assets are directly attributable to the Group's industral life and ordinary life activities. The solvency margin and working capital requirements of these activities are met from the retained reserves held within the life fund.

5 Exceptional item

	1992 £000	1991 £000
Losses on commercial mortgages	—	(1,339)

6 Premium income

	Industrial life £000	Ordinary life £000	Pensions and Managed Funds £000	Total £000
1992				
Total premium income	38,684	184,482	275,932	499,098
Less: intra-group premiums	—	—	(37,895)	(37,895)
	38,684	184,482	238,037	461,203
1991				
Total premium income	37,144	163,804	135,323	336,271
Less: intra-group premiums	—	—	(41,646)	(41,646)
	37,144	163,804	93,677	294,625

NOTES TO THE ACCOUNTS

7 Analysis of premium income

	1992 £000	1991 £000
Life assurance	**139,185**	127,853
General annuity	**461**	556
Pensions	**317,814**	161,915
Permanent health	**3,743**	4,301
	461,203	294,625

Unit linked premiums amounted to — life assurance £56m (1991 £58m) and pensions £282m (1991 £137m); group premiums amounted to — pensions £229m (1991 £85m) and permanent health £3m (1991 £4m).

8 New premiums written

New annual premiums and the amount of single premiums are as follows:

	Industrial life	Ordinary life		Pensions and Managed Funds	
	Annual £000	Single £000	Annual £000	Single £000	Annual £000
1992					
Life assurance	8,452	21,473	16,036	—	—
General annuity	—	461	—	—	—
Pensions	—	48,998	8,497	202,477	8,191
Permanent health	—	—	762	—	129
	8,452	70,932	25,295	202,477	8,320
1991					
Life assurance	7,954	15,089	23,900	—	—
General annuity	—	556	—	—	—
Pensions	—	39,259	10,514	59,150	8,248
Permanent health	—	—	587	—	275
	7,954	54,904	35,001	59,150	8,523

9 Expenses

	Life fund	
	1992 £000	1991 £000
Underwriting expenses	**77,313**	81,283
Investment expenses	**2,527**	2,576
	79,840	83,859

NOTES TO THE ACCOUNTS

10 Taxation

	Shareholders' fund		Life fund	
	1992 £000	1991 £000	1992 £000	1991 £000
a Tax charges. The charges for taxation are made up as follows:				
UK corporation tax	73	129	(2,807)	(1,451)
Group relief	(3,018)	(569)	3,018	2,690
Double tax relief	—	—	(259)	(137)
Tax on franked investment income	266	429	6,128	6,544
Foreign taxes	—	—	368	208
Deferred taxation	1,186	(550)	(688)	(828)
Prior year adjustments	(892)	(427)	796	(1,722)
	(2,385)	(988)	6,556	5,304
Taxation attributable to shareholders' transfer from life revenue account	8,676	6,739	—	—
	6,291	5,751	6,556	5,304
b Corporation tax on realised capital gains				
Charged (credited) to investments revaluation reserve	(168)	(713)	4,319	5,068
Charged (credited) to investments revaluation reserve — prior year adjustments	(261)	—	(2,000)	—
Charged to life revenue account (adjustment of book value of linked and other investments to year end market value)	—	—	1,922	2,067
	(429)	(713)	4,241	7,135
c Deferred taxation. The potential deferred tax liability, or deferred tax relief, comprises				
Provided in the accounts:				
Short term and other timing differences	63	(9)	2,355	2,390
Timing difference on pension scheme funding	1,244	—	1,577	1,443
Trade losses carried forward	(1,089)	—	—	—
Relief for commercial loan provisions	(2,135)	(2,228)	—	—
Relief for life assurance expenses	—	—	(3,770)	(3,064)
	(1,917)	(2,237)	162	769
Not provided in the accounts:				
Unrealised appreciation (depreciation) of investments				
Chargeable to investments revaluation reserve	(6,575)	(406)	5,506	(1,689)
Chargeable to life revenue account	—	—	10,708	5,043
Relief for commercial property loan provisions	—	(886)	—	—
Relief for life assurance expenses	—	—	(8,681)	(6,153)
Other timing differences	(254)	(204)	—	—
	(6,829)	(1,496)	7,533	(2,799)

Deferred tax relief has been allowed for on certain commercial loan provisions on the assumption that profits will be available for group relief in the future.

NOTES TO THE ACCOUNTS

10 Taxation (continued)

d Advance corporation tax recoverable. An amount of £2.6m (1991 £3.6m) advance corporation tax recoverable on dividends payable after the balance sheet date is included in tax recoverable in current assets of the life fund.

e Capitalised interest. The tax charge in the consolidated profit and loss account is net of tax relief attributable to capitalised interest of £0.07m (1991 £0.05m).

f Corporation tax. Corporation tax has been charged at 33% (1991 33.25%) other than on certain income and profits of the life fund to which the rate of 25% (1991 25%) has been applied.

11 Extraordinary items

	1992 £000	1991 £000
Losses on commercial mortgages	—	(9,692)
Losses on property development loans	—	(7,949)
	—	(17,641)
Tax relief	—	4,345
	—	(13,296)
Minority interest	—	132
	—	(13,164)

During 1991 the decision was taken to cease commercial property lending activities. The above amounts include provisions against outstanding loans, an estimate of the costs associated with winding up the portfolios and the trading result since the date of cessation. The tax relief included above comprises group relief £2,121,000 and deferred tax relief £2,224,000. The losses on property development loans have been restated to include the goodwill of £1,741,000 written off on closed businesses, in accordance with the ruling of the Urgent Issues Task Force of the Accounting Standards Board. In the 1991 accounts this was dealt with as a movement on reserves.

12 Profit and loss account

In accordance with the provisions of section 230 of the Companies Act 1985 a separate profit and loss account of the Company has not been reproduced. The profit of the Company for the financial year amounted to £19,419,000 (1991 £16,319,000).

13 Earnings per share

Earnings per share has been based on profits of £17,106,000 (1991 £15,374,000) and 119,633,291 (1991 119,430,346) shares, being the weighted average number of shares in issue.

NOTES TO THE ACCOUNTS

14 Current assets — Group

	Shareholders' fund		Life fund	
	1992 £000	1991 £000	1992 £000	1991 £000
Outstanding premiums	—	—	15,978	6,191
Outstanding interest, dividends and rents	12,972	15,730	11,053	10,063
Interest accrued	192	243	8,919	8,151
Taxation recoverable	5,086	5,963	18,749	12,254
Securities sold for subsequent settlement	722	2,448	9,602	10,304
Amount due from life fund	19,325	15,788	—	—
Loans receivable	20,902	9,958	—	—
Development property	3,389	1,302	19,875	—
Other debtors and prepayments (note 34)	37,121	18,346	15,419	24,137
Cash — on deposit	28,689	41,153	80,008	65,477
— in hand and on current account	2,179	1,989	2,692	3,054
	130,577	112,920	182,295	139,631

15 Current liabilities — Group

	Shareholders' fund		Life fund	
	1992 £000	1991 £000	1992 £000	1991 £000
Claims outstanding	—	—	5,073	6,795
Proposed dividend	11,493	10,933	—	—
Provision for taxation	595	198	1	53
Securities purchased for subsequent settlement	945	1,103	5,978	11,300
Amount due to shareholders' fund	—	—	19,325	15,788
Other creditors and accrued charges	17,768	18,741	11,549	12,114
Redeemable loan stock (note 20)	1,062	1,124	—	—
Bank loans and overdrafts	50,051	240,682	3,751	384
	81,914	272,781	45,677	46,434

Included in other creditors is a provision for anticipated losses and reorganisation costs of £126,000 (1991 £nil) relating to certain acquisitions. During the year £148,000 (1991 £nil) was added to the provision and £22,000 (1991 £631,000) of the provision was utilised. No part of the provision has been released unused or applied for another purpose.

Bank loans and overdrafts include £26.3m (1991 £228.0m) secured by fixed and floating charges over the assets of certain subsidiary companies.

The information disclosed above and in note 16 in relation to bank loans at 31 December 1991 has been restated to reflect a correction to the maturity dates of a subsidiary company's borrowings and the consequent transfer of £63,972,000 from deferred liabilities to current liabilities in the consolidated balance sheet.

NOTES TO THE ACCOUNTS

16 Deferred liabilities — Group

	Shareholders' fund		Life fund	
	1992 £000	1991 £000	1992 £000	1991 £000
Redeemable loan stock (note 20)	282	282	—	—
Other loans	32,499	24,055	241	236
Bank loans	583,441	461,778	4,406	4,406
	616,222	486,115	4,647	4,642

Bank loans totalling £492.8m (1991 £412.4m) are secured by fixed and floating charges over the assets of certain subsidiary companies. The bank loans are repayable as follows: one to two years £195.7m (1991 £26.1m) and two and five years £392.1m (1991 £440.1m). Other loans comprises (i) an unsecured fixed interest loan from the life fund of £24,055,000 (1991 £24,055,000) carrying a commercial rate of interest and repayable in December 2009 or earlier on one year's notice and (ii) an unsecured floating rate loan from the life fund of £8,444,000 (1991 £nil) repayable in July 1995. The loan of £241,000 (1991 £236,000) is secured by a second fixed charge over an investment property and a floating charge over the other assets of a subsidiary company.

17 Fixed asset investments — Company

	Shares in subsidiary undertakings (unlisted) £000	Loans to subsidiary undertakings (unlisted) £000	Total £000
At 1 January 1992	40,606	23,061	63,667
Prior year adjustment	3,583	—	3,583
As restated	44,189	23,061	67,250
Additions	18,491	14,135	32,626
Intra-group transfers	(2,815)	—	(2,815)
Disposals	—	(5,212)	(5,212)
Revaluation adjustment	1,191	—	1,191
At 31 December 1992	61,056	31,984	93,040

The shares in subsidiary undertakings are included in the Company's balance sheet at book cost plus retained post-acquisition reserves. This basis of accounting is adopted in order to reflect more fairly the book value of the Company's interest in its subsidiary undertakings. The balance sheet value of shares in subsidiary undertakings at 1 January 1992 has been restated to take account of a correction to their book cost. The credit arising has been taken to reserves (note 24). The historical cost of the shares in subsidiary undertakings at 31 December 1992 amounted to £56,173,000 (1991 £41,359,000).

Additions to shares in subsidiary undertakings includes £98,000 in respect of the acquisition of Viner Carew, a residential estate agency and £110,000 in respect of the acquisition of the minority shareholding in a subsidiary company. These acquisitions have been accounted for in accordance with the principles of acquisition accounting.

Included in loans to subsidiaries are long-term advances of £11,484,000 (1991 £13,061,000) from the Company to subsidiaries of London and Manchester (Mortgages) Limited which have no fixed repayment term and which have been subordinated to those company's bank borrowings. In addition the Company has undertaken to ensure that London and Manchester (Mortgages) (No. 1) Limited has at all times sufficient liquid funds to enable it to meet its obligations for the repayment of bank borrowings.

NOTES TO THE ACCOUNTS

17 Fixed asset investments — Company (continued)
The subsidiaries of the Company which are significant in relation to the affairs of the Group are listed below. All are incorporated in Great Britain and registered in England and 100 per cent of the ordinary share capital is held in all cases. The principal country of operation of each company is Great Britain.

London and Manchester Assurance Company Limited	Life Assurance
London and Manchester (Pensions) Limited	Pensions
London and Manchester (Managed Funds) Limited	Managed Funds
London and Manchester (Portfolio Management) Limited	Investment Management
London and Manchester (Trust Management) Limited	Unit Trust Management
London and Manchester (Consumer Finance) Limited	Consumer Finance
London and Manchester (Agency Services) Limited	Residential Estate Agency
Leslie Lintott and Associates Limited	Commercial Property Services
London and Manchester (Mortgages) Limited	Mortgages
London and Manchester (Management Services) Limited	Management Services

18 Ten per cent shareholdings
At 31 December 1992 the Group had an interest of ten per cent or more in the capital of a number of companies, the attributable results of which are not significant to the Group. Details of these interests have not been disclosed in order to avoid providing particulars of excessive length.

19 Debtors — Company

	1992 £000	1991 £000
Amounts owed by subsidiary undertakings	91,468	52,634
Taxation recoverable	394	272
Other debtors	1,435	1,153
	93,297	54,059

Other debtors falling due after one year amount to £879,000 (1991 £879,000).

20 Creditors — Company

	Amounts falling due within one year		Amounts falling due after more than one year	
	1992 £000	1991 £000	1992 £000	1991 £000
Bank loans and overdrafts	20,345	11,075	95,000	53,750
Amounts owed to subsidiary undertakings	692	690	—	—
Redeemable loan stock	1,062	1,124	282	282
Proposed dividend	11,493	10,933	—	—
Other creditors	1,442	1,273	—	—
	35,034	25,095	95,282	54,032

The redeemable loan stock was issued in part consideration for the acquisition of certain subsidiary companies and is repayable up to 1997 at par. It was issued at par and is unsecured.

NOTES TO THE ACCOUNTS

21 Share capital

	1992 £000	1991 £000
Authorised	35,000	35,000
Allotted, called up and fully paid 119,705,851 (1991 119,562,161) shares of 25p each	29,926	29,890

During the year the Company made the following issues of 25p shares:

	Number of shares	Aggregate nominal value £000	Total proceeds £000
Employee share option scheme	93,403	23	187
Executive share option scheme	50,287	13	92
	143,690	36	279

22 Share options

At 31 December the following share options were outstanding:

Period during which exercisable	Exercise price	Number of 25p shares 1992	1991
Within six months from			
29 June 1993	242.5p	135,700	158,843
30 June 1994	247.9p	100,000	146,160
27 June 1995	235.4p	392,018	543,962
27 June 1996	266.9p	262,311	390,436
26 June 1997	177.9p	926,271	—
Within seven years from			
3 July 1989	183.0p	623,774	674,061
6 May 1991	272.4p	117,107	142,805
2 November 1991	268.6p	23,454	23,454
2 November 1992	295.0p	368,844	388,300
3 May 1993	308.2p	115,184	115,184
7 November 1993	313.4p	80,565	80,565
2 May 1994	352.0p	82,385	82,385
1 May 1995	2[illegible]9.0p	408,688	—
4 November 1995	237.4p	45,863	—

The Company has a commitment to issue shares to a maximum value of £2,880,000 in respect of deferred consideration. This is dependent upon the future profit performance of certain subsidiary companies. The share issues are due between 1996 and 1998 at market prices ruling at the time.

23 Share premium account

	1992 £000	1991 £000
At 1 January	4,462	3,648
Premium on shares issued during the year	243	814
Capital reduction	(4,469)	—
At 31 December	236	4,462

NOTES TO THE ACCOUNTS

23 Share premium account (continued)
At an Extraordinary General Meeting of the Company held on 3 June 1992 a resolution to reduce the share premium account by £4,469,000 was approved. The sanction of the High Court was obtained in July 1992. The capital reserve arising on the reduction of the share premium account has been credited to other reserves.

24 Reserves — Company

	Revaluation reserve £000	Other reserves £000	Profit and loss account £000
At 1 January 1992	3,692	5,340	6,924
Prior year adjustment (note 17)	2,722	861	—
As restated	6,414	6,201	6,924
Profit (loss) after taxation	21,498	—	(5,193)
Intra-group dividends	(24,612)	—	24,612
Revaluation movement	2,605	—	—
Capital reduction (note 23)	—	4,469	—
	5,905	10,670	26,343
Dividends payable	—	—	17,059
At 31 December 1992	5,905	10,670	9,284

The revaluation reserve comprises the net surplus arising on the revaluation of the subsidiary companies over their book cost to the Company. Other reserves at 31 December 1992 comprises the aggregate amount of reserves arising from past share premium account reductions.

The distributable reserves of the Company at 31 December 1992 amounted to £9,284,000 (1991 £6,924,000).

25 Reserves — Group

	Investments revaluation reserve £000	Other reserves £000	Profit and loss account £000	Total £000
At 1 January 1992	5,979	(13,317)	7,354	16
Retained profit for the year	—	—	47	47
Realised and unrealised gains	2,697	—	—	2,697
Transfer of realised investment gains	(3,000)	—	3,000	—
Capital reduction (note 23)	—	4,469	—	4,469
Goodwill written off	—	(256)	—	(256)
Goodwill adjustment	—	(197)	197	—
At 31 December 1992	5,676	(9,301)	10,598	6,973

The goodwill adjustment relates to a revision to the amount of goodwill transferred to profit and loss account in 1991 in respect of closed businesses.

Other reserves at 31 December 1992 comprises the aggregate amount of reserves arising from past share premium account reductions, net of cumulative goodwill written off amounting to £19,971,000 (1991 £19,518,000).

NOTES TO THE ACCOUNTS

26 Net cash inflow (outflow) from operating activities

The net cash inflow (outflow) from operating activities reconciles to the operating profit as follows:

	1992 £000	1991 £000
Profit for the year before taxation	23,408	21,227
Extraordinary items	—	(15,900)
Attributable tax on transfers from life funds	(8,676)	(6,739)
Deferred expenses	(1,513)	(786)
Loan stock interest payable	143	230
Provision for loan losses	10,345	22,572
Increase in debtors	(24,931)	(12,910)
Increase in amount due from life fund	(3,537)	(741)
Increase (decrease) in creditors	(3,672)	3,284
Tax on franked investment income included within operating income	(265)	(429)
Tax deducted from investment and interest income	(1,828)	(2,451)
Net cash inflow (outflow) from operating activities	(10,526)	7,357

27 Change in cash and cash equivalents

	1992 £000	1991 £000
At 1 January	30,432	16,934
Net cash inflow (outflow)	(8,306)	13,498
At 31 December	22,126	30,432

28 Analysis of cash and cash equivalents

	1992 £000	1991 £000
Cash — on deposit	28,689	41,153
— in hand and on current account	2,179	1,989
Bank loans and overdrafts	(8,742)	(12,710)
	22,126	30,432

NOTES TO THE ACCOUNTS

29 Changes in financing

	Share capital £000	Loans £000
At 1 January 1992	34,352	715,211
Cash inflows from financing	279	191,694
Cash outflows from financing	—	(248,312)
	34,631	658,593
Non-cash movement — share premium reduction	(4,469)	—
At 31 December 1992	30,162	658,593

	Share capital £000	Loans £000
At 1 January 1991	33,459	680,209
Cash inflows from financing	893	72,254
Cash outflows from financing	—	(37,252)
At 31 December 1991	34,352	715,211

30 Directors' emoluments

	1992 £000	1991 £000
Fees	98	92
Additional emoluments for management services	606	600
Pension contributions	36	30
Compensation on retirement from office	14	—
	754	722

Chairman	£102,194	£97,416
Highest paid director	£160,528	£157,657
All directors	Number	Number
£10,001 to £15,000	1	1
£15,001 to £20,000	4	3
£20,001 to £25,000	1	1
£75,001 to £80,000	1	—
£95,001 to £100,000	—	2
£100,001 to £105,000	2	—
£120,001 to £125,000	—	1
£130,001 to £135,000	—	1
£155,001 to £160,000	1	1
£160,001 to £165,000	1	—

Five directors (1991 four) have waived their rights to receive directors' fees amounting in aggregate to £53,750 (1991 £60,000). Four directors have waived their rights to receive directors' fees in the future amounting in aggregate to £60,000 per annum. No performance related bonuses are payable to executive directors by reference to the Group's results for 1992.

NOTES TO THE ACCOUNTS

31 Transactions involving directors and other officers

a Directors. Each executive director is permitted to have loans, secured on that director's main residence, on the same terms and conditions as those available to employees. Non-executive directors may have loans for house purchase on the same terms and conditions as apply to such loans made in the ordinary course of business.

	1991 £000	Maximum in year £000	1992 £000
J. M. Thomson	25	25	—
D. A. L. Jubb	49	49	30
D. M. Jackson	63	70	70
S. McClean	80	100	100
D. J. Newman	58	58	—
T. A. Pyne	30	30	30

All interest was paid as it became due.

b Other officers. One other officer of the Company had a loan outstanding at 31 December 1992, amounting to £10,000.

32 Auditors' remuneration

Amounts payable to the auditors of the Company and its subsidiaries for the year totalled £460,000 of which £234,000 related to statutory audit services and £226,000 to other professional services. The amount payable for statutory audit services for 1991 was £236,000.

33 Interest payable

Interest payable on bank loans, overdrafts and loans wholly repayable within five years amounted to £71,095,000 (1991 £88,710,000) of which £200,000 (1991 £150,000) has been added to property development costs.

34 Depreciable assets

The written down value of depreciable assets of £15,720,000 (1991 £14,773,000) is included in current assets under 'Other debtors and prepayments' (note 14). The depreciation charged in the year amounted to £4,403,000 (1991 £4,379,000).

35 Lease commitments

At 31 December the Group had the following operating lease commitments:

	Land and buildings		Other	
	1992 £000	1991 £000	1992 £000	1991 £000
Expiring — within 1 year	43	1	27	2
— within 2-5 years	449	461	114	32
— after 5 years	3,035	2,948	22	23
	3,527	3,410	163	57

36 Contingent liabilities

The Company has guaranteed the obligations of its subsidiary companies, London and Manchester (Mortgages) (No. 5) Limited and London and Manchester (Commercial Mortgages) Limited, in respect of their bank borrowings which at 31 December 1992 amounted to £124,000,000 (1991 £14,000,000).

NOTES TO THE ACCOUNTS

37 Pension scheme

The Group operates a defined benefit scheme to which the majority of employees belong. The assets of the scheme are held in a separate trustee administered fund.

The pension charge for the Group has been assessed with the advice of an actuary who is an employee of the Group. The latest actuarial valuation of the scheme was carried out as at 31 March 1992. The valuation method used was the projected unit method.

The main assumptions used are as follows:

	1992	1991
Rate of investment return	9.0% p.a.	9.0% p.a.
Rate of earnings increase	8.0% p.a.	8.0% p.a.
Rate of pension increase	4.5% p.a.	4.5% p.a.
Rate of dividend increase	4.0% p.a.	4.0% p.a.
Rate of membership withdrawal	According to the scheme's experience	

At the date of the latest valuation, the market value of the assets was £134.2m and the actuarial value of the assets represented 148% of the value of the accrued pension benefits. The pension scheme surplus is being amortised over the estimated remaining service lives of employees. The majority of this is credited to the life revenue account and therefore does not directly affect the profit and loss account.

After deducting £9.4m (1991 £5.2m) from the regular cost in respect of the pension scheme surplus there was a pensions credit to the Group of £4.1m (1991 £0.5m). At 31 December 1992 the actual funding was £9.1m (1991 £5.0m) in excess of the pension charge and this sum is included as an asset in the consolidated balance sheet.

FIVE YEAR REVIEW

	1988 £000	1989 £000	1990 £000	1991 £000 (restated)	1992 £000
Consolidated results					
Transfers from life revenue accounts					
— Industrial life	5,235	6,220	6,454	6,509	4,286
— Ordinary life	8,577	9,997	11,397	13,218	19,964
— Pensions and Managed Funds	268	667	1,200	2,800	3,751
Results of non-insurance activities					
— Investment management	24	45	78	132	130
— Consumer finance	—	—	—	39	386
— Property agency	2,409	457	(231)	(2,486)	(3,384)
— Mortgages	2,071	1,750	1,453	236	(3,700)
Other income and expenses					
— Interest and investment income	3,011	3,078	2,797	2,790	2,547
— Expenses	(668)	(675)	(613)	(702)	(622)
— Employee profit sharing scheme	(720)	(746)	(744)	—	—
Profit before exceptional items	20,207	20,793	21,791	22,566	23,408
Exceptional items	—	—	355	(1,339)	—
Profit before taxation	20,207	20,793	22,146	21,227	23,408
Taxation	(5,571)	(5,174)	(5,663)	(5,751)	(6,291)
Profit after taxation	14,636	15,619	16,483	15,476	17,117
Minority interests	—	(2)	79	(102)	(11)
Profit before extraordinary items	14,636	15,617	16,562	15,374	17,106
Extraordinary items	—	—	—	(13,164)	—
Profit for the financial year	14,636	15,617	16,562	2,210	17,106
Cost of dividends	11,[illegible]78	14,206	15,884	16,231	17,059
Earnings per share (pence)	12.95p	13.42p	13.95p	12.87p	14.30p
Dividends per share (pence)	10.35p	12.09p	13.32p	13.57p	14.25p
Industrial life					
New annual premiums	5,989	6,530	6,911	7,954	8,452
Premium income	34,303	35,099	35,711	37,144	33,684
Investment income	30,182	34,883	32,280	29,606	24,938
Cost of reversionary bonuses	21,600	24,892	25,685	24,522	13,573
Provision for terminal bonus	13,500	17,100	16,200	15,750	13,425
Ordinary life					
New annual premiums	22,274	29,741	34,102	35,001	25,295
Annual premium income	77,402	85,150	99,688	108,900	113,551
Single premium income	20,687	34,906	31,667	54,904	70,932
Investment income	42,842	46,330	44,711	47,193	48,455
Cost of reversionary bonuses	19,262	22,034	24,677	28,016	21,828
Provision for terminal bonus	13,050	14,850	14,400	14,400	14,400
Pensions and Managed Funds					
New annual premiums	9,350	8,375	9,132	8,523	8,320
Annual premium income	17,609	25,799	31,617	34,527	35,559
Single premium income	21,910	43,018	31,784	59,150	202,477
Investment income	23,607	30,254	37,270	39,663	44,280
Life fund	1,506,565	1,780,354	1,599,713	1,843,660	2,293,669

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LONDON AND MANCHESTER GROUP plc

SHAREHOLDER INFORMATION

FINANCIAL CALENDAR

Annual General Meeting	2 June 1993
1992 final dividend paid	17 June 1993
1993 half year results and interim dividend announced	28 September 1993
1993 interim dividend paid	30 November 1993
1993 preliminary results and final dividend announced	11 April 1994
Annual Report and Accounts issued	13 May 1994
Annual General Meeting	8 June 1994

REGISTERED OFFICE AND CHIEF OFFICE
Winslade Park, Exeter EX5 1DS. Telephone 0392 444888.

LONDON OFFICE
Eldon House, Eldon Street, London EC2M 7LB. Telephone 071 247 2000.

REGISTRARS
National Westminster Bank PLC, Registrar's Department, P.O. Box No. 82, Caxton House, Redcliffe Way, Bristol BS99 7NH. Telephone 0272 306536.

CAPITAL GAINS TAX
For the information of shareholders who held shares on 31 March 1982, the market value as at 31 March 1982 of each share in the Company after adjusting for full acceptance of the rights and capitalisation issues in 1986 was 52.5p. However, as such adjustments depend on individual circumstances, shareholders are recommended to consult their professional advisers.

LONDON AND MANCHESTER GROUP plc

NOTICE OF MEETING

Notice is hereby given that the Annual General Meeting of the Company will be held at Armourers' Hall, 81 Coleman Street, London EC2R 5BJ, on Wednesday 2 June 1993 at 12.25 p.m., or immediately after the conclusion of the Extraordinary General Meeting, if later, for the following purposes:

1 To receive the directors' report and the audited accounts for the year ended 31 December 1992.
2 To declare a dividend in respect of the year ended 31 December 1992.
3 To elect and re-elect directors.
4 To reappoint auditors and authorise the directors to fix their remuneration.
5 To consider and, if thought fit, pass the following special resolution:

THAT the directors being generally authorised for the purposes of section 80 of the Companies Act 1985 ("the Act") to allot relevant securities (as defined therein) of the Company be and they are hereby empowered to allot equity securities (as defined in section 94 of the Act) for cash as if section 89(1) of the Act did not apply to any such allotment provided that this power shall be limited to allotments of equity securities:

(a) made in connection with a rights issue in accordance with the terms of sections 89 and 90 of the Act but subject to the directors having the right:

(i) to sell for the benefits of shareholders who are citizens of or resident in any overseas territory where in the opinion of the directors it would, when the offer of equity securities is made, be illegal or unduly costly or impracticable for the Company to make or for those shareholders to accept such offer, the equity securities to which they would otherwise be entitled; and

(ii) to aggregate and sell for the benefit of the Company all fractions of a share which may arise in apportioning the equity securities among shareholders; or

(b) made for cash (otherwise than pursuant to sub-paragraph (a) above) not exceeding 5 per cent of the share capital of the Company in issue on 2 June 1993, and for this purpose an issue of securities convertible into shares shall be deemed to be an allotment of the number of shares which would be required to satisfy the conversion rights attached to those securities in full at the initial conversion price provided for in the terms and conditions of the issue

and shall expire upon the conclusion of the next following Annual General Meeting.

Explanatory note: This resolution seeks to renew the power given to the directors at the Annual General Meeting last year to allot equity securities as if the statutory pre-emption rights did not apply. This power is due to expire at the conclusion of the forthcoming Annual General Meeting. As at 8 April 1993 the issued share capital of the Company amounted to 119,763,323 shares of 25p each, 5 per cent of which amounted to 5,988,166 shares of 25p each.

On behalf of the board
A R. Swinburne-Johnson
Secretary

Winslade Park,
Exeter EX5 1DS
7 May 1993

Any member entitled to attend, speak and vote at this meeting may appoint a proxy (who need not be a member) to attend, speak and, on a poll, vote on his behalf. A form of proxy is included on page 47 and this, or some other instrument of proxy (together with any authority under which it is signed) must reach the Company's registrars, National Westminster Bank PLC, Registrar's Department, Caxton House, Redcliffe Way, Bristol BS99 7YA, not later than 12.25 p.m. on Monday 31 May 1993. The register of directors' interests required under section 325 of the Companies Act 1985 will be available for inspection at the meeting and copies of the directors' contracts of service will be similarly available for inspection at the registered office of the Company during usual business hours from 7 May 1993 to 2 June 1993 inclusive and at Armourers' Hall for 15 minutes immediately prior to and during the meeting.

LONDON
& MANCHESTER

FORM OF PROXY

ANNUAL GENERAL MEETING 2 JUNE 1993

I, the undersigned, being a member of London and Manchester Group plc, hereby appoint the Chairman of the Meeting or ____________________ as my proxy to vote for me on my behalf at the Annual General Meeting to be held on Wednesday 2 June 1993 and at any adjournment thereof as indicated below:

Resolutions	For	Against
1 To receive the directors report and the audited accounts for the year ended 31 December 1992		
2 To declare a dividend in respect of the year ended 31 December 1992		
3 To elect the following director, appointed since the last Annual General Meeting: Mr D. M. Jackson		
4 To re-elect the following directors, who retire at the meeting: Mr D. C. Bourdon		
Mr R. D. C. Hubbard		
Miss K. M. Jenkins		
5 To reappoint auditors and authorise the directors to fix their remuneration		
6 To empower the directors to allot equity securities		

Dated this ____________________ day of ____________________ 1993

Name (in full) ____________________
(in block letters)

Joint Holders (if any) ____________________

____

Signature ____________________

Address ____________________

1 Please indicate with an X in the appropriate boxes how you wish your votes to be cast. If no such indication is given, the proxy will vote or abstain as he thinks fit.

2 A member may appoint a proxy of his own choice. If you wish to make such an appointment, delete the words 'the Chairman of the Meeting' and insert the name of the person to be appointed as your proxy in the space provided.

3 A corporation should execute this proxy under its common seal or under the hand of some officer or attorney duly authorised in that behalf.

4 In the case of joint holders, any one of them may sign. The vote of the senior who tenders a vote will be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority will be determined by the order in which the names stand in the register.

5 To be valid, this form of proxy duly completed must be deposited (together with the power of attorney or other authority, if any, under which it is signed) at the office of the Company's registrars, National Westminster Bank PLC, Registrar's Department, at the address shown overleaf, not later than 12.25 p.m. on Monday 31 May 1993.

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BUSINESS REPLY SERVICE
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National Westminster Bank PLC,
Registrar's Department,
P.O. Box No. 82,
Caxton House,
Redcliffe Way,
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BS99 7YA

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