

Hermes Property Unit Trust

Quarterly Update - December 2003



Overview

By the end of December 2003 Hermes had completed its three year strategy for recovering the Trust's performance. This culminated in the Trust becoming the top performing Balanced Property Unit Trust for 2003, producing a total return to unitholders of 12.5% on a net asset value basis. This is over 2% ahead of the index return of 10.4% for the peer group.

In the final quarter of 2003 the Trust issued new units to the value of £10 million. During 2003 the Trust attracted five new unitholders and many existing unitholders increased their holdings. The secondary market remained active. Further new units have been created early in 2004, for some £6 million.

Two significant investments have taken place in the first quarter of 2004. Firstly the Trust has increased its exposure to the industrial sector by the purchase of a distribution unit at Stake Hill in Manchester for £8.5 million at a yield of 7.2%. More recently the Trust has acquired a 12.5% stake in a portfolio of four factory outlet centres, acquired from Freepoint. The Trust co-invests alongside other Hermes' clients in this portfolio, which provides exposure to a dynamic sector of the retail market.

Planning permission for the redevelopment at Carmel House, Sheffield into four retail units was granted during the period. Negotiations are in hand with potential retailers to secure a high element of pre-letting ahead of commencing the development. Sales continued from the Dawn Hill Limited Partnership, with only 5 properties (gross value £15.8m) remaining. It is anticipated that these remaining assets will be sold in 2004.

The future strategy for the Trust is to sustain this performance track record through significant added-value activity. The Trust is now a core stock amongst its peer group and has a portfolio with a stable platform upon which to grow in the future. It offers a well diversified portfolio with a high quality retail weighting (62%) including a retail warehouse exposure of 31%. In addition, the City of London office portfolio will benefit from the evident stabilisation as this market starts to move ahead from 2005 onwards. There is also considerable potential in the development programme for the Regal Road Industrial Estate, Stratford-upon-Avon, and for the redevelopment of Carmel House, Sheffield. The new investment in the Hermes Factory Outlets partnership provides a key added value opportunity.

Other investment activity will also focus on more dynamic sectors of the market which can generate outperformance with controlled risk in special project situations. The Trust will continue to recycle mature assets into more profitable projects as appropriate. Finally, the Trust will continue to benefit from Hermes' unique investment management style - which remains analytical, flexible and and always innovative.

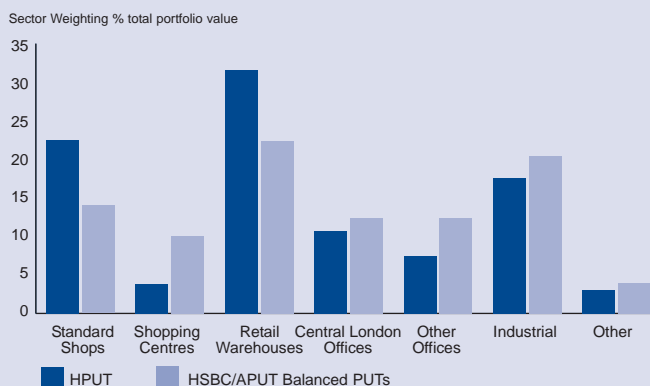
Key Statistics

As at December 2003

Gross asset value	£423.6m
Net Asset Value	£419.9m
Directly held properties	33
Indirect Property vehicles	3
Offer Price	£4.234
Bid Price	£4.006
Net asset value per unit	£4.057
Number of unitholders	146
Distribution per unit (December Quarter Distribution paid in February 2004)	6.3p
Distribution per unit (per annum to December 2003)	23.8p
Yield on opening offer price	5.6%
Annual return to Unitholders	12.5%
Quarterly Return	2.2%

Portfolio Structure Comparison

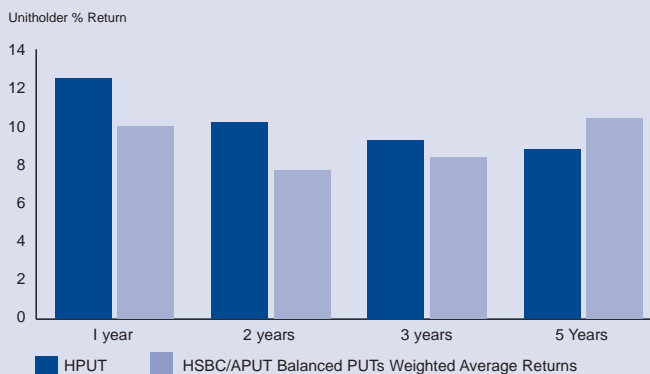
As at December 2003



Source: Hermes Property Asset Management and HSBC Pooled Property Funds Survey December 2003
Note: Structure excludes Alban Gate (sold End June 2003) and Undistributed Income from Dawnhill LP NAV

Unitholder Performance

As at December 2003



Source: Hermes Property Asset Management and HSBC Pooled Property Funds Survey December 2003

Capital Value - Direct Portfolio and Joint Ownerships

As at December 2003

	Capital Value £000	Income £000	Net Initial Yield %	ERV £000	Net Reversionary Yield %
Shops	80,100	5,182	6.12	5,752	6.79
Office	67,505	5,354	7.50	5,262	7.37
Industrial	74,230	5,550	7.07	5,787	7.37
Retail Warehouse	103,110	6,205	5.69	6,919	6.34
Shopping Centre	15,900	1,045	6.21	1,096	6.52
Leisure	12,600	898	6.74	987	7.41
	353,445	24,234	6.48	25,803	6.90

Indirect Holdings 53,160

Source: Hermes Property Asset Management.

Top 10 Holdings by Value Band

As at December 2003

Property	Sector	Lot Size
Maybird Centre, Stratford-upon-Avon	Retail Warehouse	Over £30m
Broadway 2, Bexleyheath	Retail Unit	£20m to £30m
Tower Hill Retail Limited Partnership	Retail Warehouse	£20m to £30m
7 Bishopsgate, London EC2	Office	£20m to £30m
Hardwick Road Retail Park, Kings Lynn	Retail Warehouse	£15m to £20m
New Bond Street Centre, Weymouth	Shopping Centre	£15m to £20m
Arcadia, Hayes Road, Southall	Industrial / Warehouse	£15m to £20m
2 Cavendish Square, London W1	Office	£15m to £20m
The Broadway, Wimbledon SW19	Retail Unit	£10m to £15m
Holford Industrial Estate, Birmingham	Industrial Warehouse	£10m to £15m

Source: The Property Manager - December 2003

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Distributions

Net income is distributed quarterly on 15 February, 15 May, 15 August and 15 November for the periods ended 25 December, 25 March, 24 June and 29 September respectively, or as close as practicable to those dates. Income accrues monthly to unitholders to each Registration date (usually 26th of each month). Distributions are made net of Income tax and management expenses.

Purchase of Units

Units may be purchased at Offer price on twelve Subscription dates annually. These are normally 26 January, 26 February, 26 March, 26 April, 26 May, 25 June, 26 July, 26 August, 30 September, 26 October, 26 November and 26 December or the next following business day. The minimum investment is 1,000 units and applications must be in multiples of 1,000.

The Offer price is calculated as the fair value of a unit, based on an independent valuation of the Trust's assets, plus the estimated acquisition costs of property. This currently stands at 4.6%.

Redemption of Units

Unitholders wishing to redeem their units must notify the Committee of Management in writing, to take effect at the next following Notice Date,

being 26 March, 25 June, 30 September and 26 December. The Committee of Management will notify those unitholders of the Bid price of units within six weeks of the Notice Date. In normal circumstances the redemption proceeds will be paid to unitholders on the next following Notice Date. In exceptional circumstances the Committee of Management may defer the redemption of some or all of the units for up to nine months.

The Bid price is calculated as the fair value of a unit, based on an independent valuation of the Trust's assets, less the estimated selling costs of property. This currently stands at 1.3%.

Transfer of Units

The Trust Manager may be able facilitate the early encashment of units by unitholders wishing to dispose of some or all of their units should there be known purchasers of units. The manager makes no charge for this service.

The transfer price would be agreed between the parties in such circumstances, and the transfer would be effective on the next following Registration date. The buyer will be required to pay Stamp Duty Reserve Tax at 0.5% of the consideration to the Trust.

About Hermes

Hermes is a leading pension fund investment manager, independent of any broader financial services organisation. Hermes currently invests approximately £44bn (31/12/03) on behalf of over 200 clients including pension funds, insurance companies, government entities and financial institutions, as well as charities and endowments. However, Hermes' largest client is the British Telecom Pension Scheme (BTPS), who as owner of Hermes, gives its investment management perspective a unique insight and close alignment to the needs of other long-term investors and pension funds.

Investment Strategy

Hermes' market-leading investment strategy has for many years been based on the index/specialist approach and is increasingly being adopted by other large pension funds. Hermes manages a variety of strategies:

- Global (& regional) Index Matching
- Government & Corporate Fixed Income
- UK & European Focus Funds
- Specialist Active Management
- Property
- Small Companies
- Private Equity
- "Net Zero" Enhanced indexing

Important Notes for Investors

The Hermes Property Unit Trust is categorised as an unregulated collective investment scheme. The Trust is not authorised, or otherwise approved by the FSA and, as an unregulated scheme, cannot be marketed to the general public in the UK. For the avoidance of doubt, any offer or promotion of units in the Trust is not directed at private customers. Pursuant to the Financial Services and Markets Act 2000 (the "Act"), the only categories of persons in the UK to whom this document may be distributed are those set out in the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001 and the FSA Handbook. The transmission of this document to any other person in the UK is unauthorised and may contravene the Act. Additionally units in the Trust may only be held by funds which are exempted from capital gains tax. Nothing in this document should be construed as investment advice.

Units in the Trust are not within the wider or narrower range of investments under the Trustee Investments Act 1961.

Investors must satisfy themselves that they have adequate investment powers and should note that units in the Trust constitute an investment which is not readily realisable for the purposes of the FSA rules.

In order to comply with the Financial Services and Markets Act 2000 (Promotion of Collective Investment Scheme) (Exemptions) Order 2001 and the FSA Handbook, when offering units in the Trust to smaller Exempt Funds, typically those with assets under £10m, special care should be taken to ensure that an investment in the Trust is suitable and information should be sought regarding the applicant's circumstances and investment objectives.

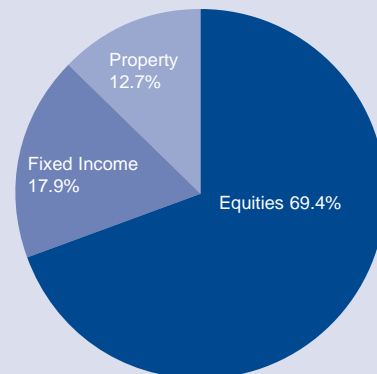
The main aim of the Trust is to generate, for its unitholders, a combination of capital appreciation and income from real property assets.

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Asset Split
As at December 2003



Investors are reminded that as the value of the investments may fluctuate in price and the income from units may go down as well as up and there is no assurance that investors will get back the amount invested. Past performance is not necessarily a guide to future returns.

Property valuation is based on a valuer's opinion.

While units in the Trust may ordinarily be redeemed, investors should be aware that the Committee of Management has the right to defer the operation of any redemption notice in the circumstances listed in the section on "Disposal of Units by Redemption", and in such circumstances investors may not be able to readily realise their investment.

Units in the Trust are intended to represent a medium to long term investment and should not be regarded as a short term holding. The Trust is not an authorised unit trust scheme for the purposes of the Financial Services and Markets Act 2000 and the Income and Corporation Taxes Act 1988.

The Trust is constituted by an amended and restated trust deed (the "Trust Deed") between the Committee of Management and the Trustee. The Trust Deed ensures control by the unitholders through their power to appoint the members of the Committee of Management. The Committee of Management may, subject to the approval of unitholders, remove the Trustee. Copies of the Trust Deed may be inspected or obtained from the offices of the Trust Manager at a price not exceeding £10 per copy.

All figures, unless otherwise stated, are sourced from Hermes.

