

Company number 7064

London Merchant Securities Limited

Directors' report and financial statements

31 December 2009

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London Merchant Securities Limited

Directors' report and financial statements

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Directors

J D Burns
N Q George
D M A Wisniewski
S P Silver
D G Silverman
P M Williams

Secretary and registered office

T J Kite
25 Savile Row
London
W1S 2ER

Company number

7064

Auditors

BDO LLP
55 Baker Street
London
W1U 7EU

London Merchant Securities Limited

Company number 7064

Directors' report

Principal activities and future developments

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

Net assets as at 31 December 2009 decreased by 9.99% from the previous year end to £455,275,000 (2008: £505,814,000).

The operating loss for the year was £39,000 (2008: profit of £80,000), while the profit after tax was £24,216,000 (2008: profit of £36,977,000).

The Board uses the following measure to monitor the performance of the Company:

Return on Equity – this is a measure of growth in Shareholders' funds per share, adding back any current year dividends. In the year ended 31 December 2009, Return on Equity was -9.99% (2008: -26.9%).

The Company is a subsidiary of Derwent London Plc. The Company's strategy is the same as the Group's strategy – to deliver an above average annualised total return to shareholders, which is achieved by adding value to buildings and sites through creative planning, imaginative design and enterprising lease management.

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

Financial review and dividends

The results for the year are set out in the profit and loss account on page 5. The directors do not recommend payment of a dividend (2008: £60,000,000).

No political or charitable donations were made during the year (2008: £nil).

Financial Instruments

Details of the use of financial instruments by the company are contained in note 11 of the financial statements.

Directors

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

J D Burns

N Q George

C J Odom (resigned 1 February 2010)

S P Silver

D G Silverman

P M Williams

D M A Wisniewski was appointed as a director on 1 February 2010.

Disclosure of information to auditors

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

London Merchant Securities Limited

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Directors' report (continued)

Auditors

BDO LLP have expressed their willingness to continue in office. Under the Companies Act 2006 section 487(2) they will be automatically re-appointed as auditors 28 days after these accounts are sent to the members, unless the members exercise their rights under the Companies Act 2006 to prevent their re-appointment.

Statement of directors' responsibilities in respect of the directors' report and the financial statements

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing those financial statements, the directors are required to

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the board



T J Kite

Secretary

25 Savile Row

London

W1S 2ER

7th May 2010

London Merchant Securities Limited

Company number 7064

Independent auditors' report to the members of London Merchant Securities Limited

We have audited the financial statements of London Merchant Securities Limited for the year ended 31 December 2009 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

London Merchant Securities Limited

Company number 7064

Independent auditors' report (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



Richard Kelly (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London
United Kingdom
7th May 2010

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

London Merchant Securities Limited*Company number 7064***Profit and loss account***for the year ended 31 December 2009*

	<i>Note</i>	2009 £'000	2008 £'000
Other income		-	96
Administrative expenses		(39)	(16)
		<hr/>	<hr/>
Operating (loss)/profit	2	(39)	80
Release of provision against amounts due from subsidiary undertakings	3	37,236	-
Impairment of valuation in subsidiary undertaking		(11,764)	(11,701)
Interest receivable	4	65	59
Interest payable	5	(11,428)	(11,498)
Dividends receivable		10,234	60,000
		<hr/>	<hr/>
Profit on ordinary activities before taxation		24,304	36,940
Tax on profit on ordinary activities	6	(88)	37
		<hr/>	<hr/>
Profit for the financial year	13	24,216	36,977
		<hr/>	<hr/>

All amounts relate to continuing activities

There is no difference between the results as stated and their historical cost equivalents

The notes on pages 8 to 13 form part of these financial statements

London Merchant Securities Limited


Company number 7064

Balance sheet

at 31 December 2009

	Note	2009 £'000	2009 £'000	2008 £'000	2008 £'000
Fixed assets					
Investment in subsidiary undertakings	8		300,053		380,988
Current assets					
Debtors	9	472,556		474,149	
Creditors amounts falling due within one year	10	(143,885)		(175,928)	
Net current assets			328,671		298,221
Total assets less current liabilities			628,724		679,209
Creditors amounts falling due after more than one year	11		(173,449)		(173,395)
Net assets			455,275		505,814
Capital and reserves					
Called up share capital	12		82,563		82,563
Share premium account	13		22,200		22,200
Capital reduction account	13		10,892		10,892
Revaluation reserve	13		236,517		311,272
Profit and loss account	13		103,103		78,887
Equity shareholders' funds	14		455,275		505,814

These financial statements were approved by the board of directors on 7th May 2010 and were signed on its behalf by


D G Silverman
 Director


P M Williams
 Director

The notes on pages 8 to 13 form part of these financial statements

London Merchant Securities Limited

Company number 7064

Statement of total recognised gains and losses

for the year ended 31 December 2009

	2009 £'000	2008 £'000
Profit for the financial year	24,216	36,977
Unrealised deficit on revaluation of subsidiary undertakings	(74,755)	(198,271)
Total recognised gains and losses relating to the financial year	<u>(50,539)</u>	<u>(161,294)</u>

The notes on pages 8 to 13 form part of these financial statements

London Merchant Securities Limited

Notes to the financial statements

1 Accounting policies

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

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules and in accordance with the Companies Act 2006

Under Financial Reporting Standard 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that its ultimate parent undertaking includes the Company in its own published consolidated financial statements

Net rental income

Rental income is recognised on an accruals basis. Rent increases arising from rent reviews are recognised as income when, either such reviews have been settled with tenants or, based on estimates, it is reasonable to assume they will be received

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes

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

Interest and other outgoings on property developments

Interest and other outgoings on vacant properties prior to redevelopment are treated as revenue expenditure and written off as incurred. Interest costs on properties in development are written off as incurred

Subsidiary undertakings' valuation

The Company's investments in the shares of Group undertakings are stated at directors' valuation on a basis which takes account of the net assets of the undertakings at 31 December 2009 which will include the professional valuation of properties. Surpluses and temporary deficits arising from the directors' valuation are taken to revaluation reserve in the Company balance sheet, impairments are taken to the Company profit and loss account

Finance Costs

Finance costs are charged to profit over the term of the debt so that the amount charged is at a constant rate on the carrying amount. Finance costs include issue costs, which are initially recognised as a reduction in the proceeds of the associated financial instrument

Financial Assets

Financial assets are measured initially and subsequently at amortised cost

Short term debtors and creditors have been excluded from the financial disclosures in note 11

Financial liability

Financial liabilities are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form

London Merchant Securities Limited

Notes to the financial statements (continued)

2 Operating (loss)/profit

Audit fees are paid by Derwent London plc

The Company does not have any employees (2008 nil) and there were no directors' emoluments (2008 £nil)

3 Provision against amounts due from subsidiary undertakings

The provision in 2008 related to the potential non-recoverability of amounts due from subsidiary undertakings as the result of the historic net liability position of these subsidiary undertakings. In 2009 a recapitalisation took place, giving these subsidiary undertakings a net assets position. As a result of this the provision was no longer deemed necessary and was written back to the profit and loss account.

4 Other interest receivable and similar income

	2009 £'000	2008 £'000
Other interest	65	59

5 Interest payable and similar charges

	2009 £'000	2008 £'000
Interest on bond	11,428	11,498

6 Tax on profit on ordinary activities

	2009 £'000	2008 £'000
Analysis of charge/(credit) in the year		
Current year tax	-	-
Adjustments in respect of previous periods	88	(129)
Total current tax	88	(129)
Deferred tax		
Origination/reversal of timing differences	-	92
Total deferred tax	-	92
Total tax on profit on ordinary activities	88	(37)

London Merchant Securities Limited

Notes to the financial statements (continued)

7 Tax on profit on ordinary activities (continued)

Factors affecting the tax charge for the year

The current tax charge for the year is lower (2008 lower) than the standard rate of corporation tax in the UK of 28% (2008 28.5%). The differences are explained below

	2009 £'000	2008 £'000
Current tax reconciliation		
Profit on ordinary activities before taxation	24,304	36,940
Current tax at 28% (2007 30%)	6,805	10,528
Effects of		
Group dividends	(2,865)	(17,100)
Group relief claimed not paid	(1,490)	(2,727)
Adjustments to tax charge in respect of previous periods	88	(129)
Differences between expenses and deductions for tax purposes	6	3,331
Release of provision in subsidiary	(7,132)	-
Transfer pricing adjustment	4,676	5,968
Current tax charge/(credit) for the year	88	(129)

7 Dividends payable

	2009 £'000	2008 £'000
Dividend paid - £nil per share (2008 18.17p per share)	-	60,000

8 Investment in subsidiary undertakings

	£'000
Valuation	
At 1 January 2009	380,988
Impairment of investments in subsidiaries	(11,763)
Revaluation of investment in subsidiaries	(74,755)
Further investment in subsidiaries	5,583
At 31 December 2009	300,053

Name	Percentage holding	Country of registration	Activity
LMS Outlets Limited	100	England and Wales	Property investment
L M S Properties Limited	100	England and Wales	Property investment
L M S Services Limited	100	England and Wales	Management services
Merchant Nominees Limited	100	England and Wales	Management services

London Merchant Securities Limited

Notes to the financial statements (continued)

8 Investment in subsidiary undertakings (continued)

Name	Percentage holding	Country of registration	Activity
LMS Leisure Investments Limited	100	England and Wales	Property investment
LMS Finance Limited	100	England and Wales	Short-term financing
Merchant Overseas Holdings Limited	100	England and Wales	Investment holding
Urbanfirst Limited	100	England and Wales	Property investment
L M S Industrial Finance Limited	100	England and Wales	Short-term financing and investment holding
London Merchant Securities Inc	53	United States	Property investment

Group accounts are not prepared because the Company is a wholly owned subsidiary of Derwent London plc, which is incorporated in England and Wales and prepares consolidated accounts which are publicly available

9 Debtors

	2009 £'000	2008 £'000
Amounts owed by group undertakings	472,540	472,936
Taxation and social security	9	10
Corporation tax	-	1,176
Prepayments and accrued income	-	20
Other debtors	7	7
	472,556	474,149

All amounts fall due for payment within one year

10 Creditors amounts falling due within one year

	2009 £'000	2008 £'000
Amounts owed to group undertakings	140,600	172,694
Accruals and deferred income	3,277	3,226
Other creditors	8	8
	143,885	175,928

London Merchant Securities Limited

Notes to the financial statements (continued)

11 Creditors amounts falling due after more than one year

	2009 £'000	2008 £'000
6.5% Secured Bond 2026	173,449	173,395

The fair value of the Bond is £101.31 per £100.00 (2008: £89.36 per £100.00). The Secured Bond of £175 million is secured on all the assets of the Company. The maturity profile of the Company's borrowing is shown below.

	2009 £'000	2008 £'000
Borrowings		
Repayable after more than five years	173,449	173,395

12 Share capital

	2009 £	2008 £
Authorised		
400,000,000 Ordinary shares of 0.25p each	100,000	100,000
Allotted, called up and fully paid		
330,252 Ordinary shares of 0.25p each	82,563	82,563

13 Reserves

	Share premium account £'000	Capital reduction account £'000	Revaluation reserve £'000	Profit and loss account £'000
At 1 January 2009	22,200	10,892	311,272	78,887
Revaluation of subsidiary investments	-	-	(74,755)	-
Profit for the financial year	-	-	-	24,216
At 31 December 2009	22,200	10,892	236,517	103,103

London Merchant Securities Limited

Notes to the financial statements (continued)

14 Reconciliation of movements in equity shareholders' funds

	2009 £'000	2008 £'000
Profit for the financial year	24,216	36,977
Other recognised gains and losses relating to the year	(74,755)	(198,271)
Dividend paid	-	(60,000)
Net movement in shareholders' funds	(50,539)	(221,294)
Opening shareholders' funds	505,814	727,108
Closing shareholders' funds	455,275	505,814

15 Contingent liabilities

No provision has been made for any taxes which might become payable in the event of future sales or deemed disposals of investments at their book values. In the opinion of the directors the maximum contingent liability would be £66.2 million (2008: £77.2 million).

16 Charges

There is a floating charge over the Company's assets to secure the £175,000,000 Bond.

17 Related party transactions

As a wholly owned subsidiary of Derwent London plc the Company has taken advantage of the exemption contained in Financial Reporting Standard 8 "Related party disclosures" and has therefore not disclosed transactions or balances with entities which form part of the group.

18 Parent company

The Company's ultimate parent company is Derwent London plc, a company incorporated in England and Wales, whose registered office is at 25 Savile Row, London, W1S 2ER. Copies of the consolidated group accounts can be obtained from this address.