

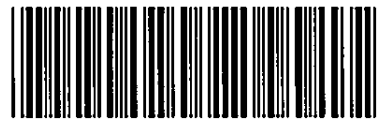
London Merchant Securities Limited

Directors' report and financial statements

31 December 2007

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London Merchant Securities Limited

Directors' report and financial statements

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Directors

J D Burns
N Q George
C J Odom
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 Stoy Hayward LLP
55 Baker Street
London
W1U 7EU

London Merchant Securities Limited

Directors' report

Change in ownership

On 1 February 2007, the Company was acquired by Derwent London plc. Accordingly, the following changes have taken place:

- the Company de-listed from the London Stock Exchange,
- the Company reduced its issued share capital,
- the Company was re-registered as a private limited company

Business Review

The Company is a holding company. On 1 February 2007, the whole of the issued share capital of the Company was acquired by Derwent London plc. Following this date, the Company continued to operate as an intermediate holding company. The directors foresee no material change in the nature of the Company's activities.

Net assets as at 31 December 2007 decreased by 0.2% to £727.1 million (2006: £728.8 million).

Operating loss for the year was £1.4 million (2006: £12.6 million), while loss after tax was £21.6 million (2006: £25.8 million loss).

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 2007, Return on Equity was 7.2% (2006: 16.5%).

The Company's strategy is the same as the Group's strategy – to deliver an above average annualised total return to shareholders of Derwent London plc.

The principal risks that the Company faces have been identified as finance related (for example rise in interest rates), property related (for example fall in asset values on the properties held by subsidiary undertakings, rise 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 4. A dividend of £53,987,909 was paid during the year (2006: £312,328,426).

A charitable donation of £1 million was made during the year to the Rayne Foundation, a charitable organisation of which The Hon R A Rayne is chairman, in order to discharge its obligations (2006: £nil).

Directors and directors' interests

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

J D Burns (appointed 1 February 2007)
J De Moller (resigned 1 February 2007)
B Duroc-Danner (resigned 1 February 2007)
N R Friedlos (resigned 18 July 2007)
N Q George (appointed 1 February 2007)
P Grant (resigned 1 February 2007)
G Green (resigned 1 February 2007)
D Newell (resigned 1 February 2007)
C J Odom (appointed 1 February 2007)
M A Pexton (resigned 1 February 2007)
The Hon R A Rayne (resigned 1 February 2007)
S P Silver (appointed 1 February 2007)
D G Silverman (appointed 16 June 2008)
P M Williams (appointed 1 February 2007)

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

Directors' report (*continued*)

Auditors

During the year KPMG Audit plc resigned as auditor of the Company in accordance with Section 392 of the Companies Act. As a result BDO Stoy Hayward LLP was appointed as auditor to fill the casual vacancy and its appointment until the end of the next period for appointing auditors under section 485(2) of the Companies Act 2006 has been confirmed by way of a written resolution by the eligible members of the Company.

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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The financial statements are required by law to 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 year.

In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable 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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

By order of the board

TJ Kite
Secretary



25 Savile Row
London
W1S 2ER

19th September 2008

Independent auditor's report to the shareholders of London Merchant Securities Limited

We have audited the financial statements of London Merchant Securities Limited for the year ended 31 December 2007 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses, note of historical cost profits and losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements.

BDO Stoy Hayward LLP

BDO Stoy Hayward LLP
Chartered Accountants and Registered Auditors
London

18 September 2008

London Merchant Securities Limited

Profit and loss account

for the year ended 31 December 2007

	Note	For the year ended 31 December 2007 £'000	For the 9 months ended 31 December 2006 £'000
Net rental income from investment properties	2	(1)	-
Other income		5	-
Administrative expenses		(1,436)	(12,566)
Operating loss	3	(1,432)	(12,566)
Profit on disposal of investment property		2,702	201
Profit on disposal of subsidiary undertaking		967	-
Provision against amounts due from subsidiary undertakings	4	(25,535)	-
Interest receivable	5	85	2
Interest payable	6	(11,368)	(8,598)
Dividends receivable		13,041	-
Loss on ordinary activities before taxation		(21,540)	(20,961)
Tax on loss on ordinary activities	7	(16)	(4,834)
Loss for the financial period	16	(21,556)	(25,795)

All amounts relate to continuing activities

The notes on pages 7 to 18 form part of these financial statements

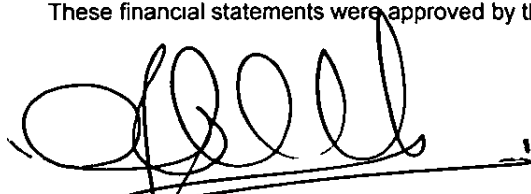
London Merchant Securities Limited

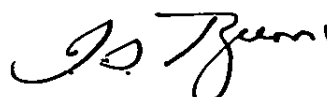
Balance sheet

at 31 December 2007

	Note	2007 £'000	2007 £'000	2006 £'000	2006 £'000
Fixed assets					
Tangible assets	9		-		2,275
Investments	10		579,259		453,280
			<u>579,259</u>		<u>455,555</u>
Current assets					
Debtors	11	326,408		463,354	
Cash at bank and in hand		-		29	
		<u>326,408</u>		<u>463,383</u>	
Creditors amounts falling due within one year	13	(5,285)		(16,831)	
		<u></u>		<u></u>	
Net current assets			<u>321,123</u>		<u>446,552</u>
Total assets less current liabilities			<u>900,382</u>		<u>902,107</u>
Creditors amounts falling due after more than one year	14		(173,274)		(173,228)
			<u></u>		<u></u>
Net assets			<u>727,108</u>		<u>728,879</u>
Capital and reserves					
Called up share capital	15		82,563		82,538
Share premium account	16		22,200		22,015
Capital reduction account	16		10,892		10,892
Revaluation reserve	16		509,543		438,099
Profit and loss account	16		101,910		175,335
			<u>727,108</u>		<u>728,879</u>
Equity shareholders' funds	17		<u>727,108</u>		<u>728,879</u>

These financial statements were approved by the board of directors on 18th September 2008 and were signed on its behalf by


Director
C J ODOM


Director
J D BURNS

The notes on pages 7 to 18 form part of these financial statements

London Merchant Securities Limited

Statement of total recognised gains and losses

for the year ended 31 December 2007

	For the year ended 31 December 2007 £'000	For the 9 months ended 31 December 2006 £'000
Loss for the financial period	(21,556)	(25,795)
Unrealised surplus on revaluation of properties	-	14
Unrealised surplus on revaluation of subsidiary undertakings	73,563	191,986
Total recognised gains and losses relating to the financial period	52,007	166,205

Note of historical cost profits and losses

for the year ended 31 December 2007

	For the year ended 31 December 2007 £'000	For the 9 months ended 31 December 2006 £'000
Reported loss on ordinary activities before taxation	(21,540)	(20,961)
Realisation of property revaluation surplus of previous years	2,119	-
Historical cost loss on ordinary activities before taxation	(19,421)	(20,961)
Historical cost loss on ordinary activities after taxation	(19,437)	(25,795)

The notes on pages 7 to 18 form part of these financial statements

London Merchant Securities Limited

Notes

(forming part of the financial statements)

1 Accounting policies

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

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules, as modified by the revaluation of certain properties and in accordance with the Companies Act 1985

Under Financial Reporting Standard 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a 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

Investment properties

Tangible assets consist solely of investment properties and, as defined by SSAP19, are revalued annually by independent valuers in accordance with the Appraisal and Valuation Standards published by The Royal Institution of Chartered Surveyors and are included in the balance sheet on the basis of market value less the UITF28 lease incentive debtor. The aggregate surplus or deficit arising from such revaluation is transferred to the revaluation reserve. However, if on an individual property, a deficit arising from a valuation below cost is expected to be permanent, it is charged to the profit and loss account with any subsequent reversal being credited to the same.

A property in the course of development is stated at its value at the time it was so designated, plus subsequent development costs less any permanent diminution in value. All outgoings, excluding interest, which can be fairly attributed to a development are considered development costs. The property is revalued once the certificate of practical completion has been issued.

Disposal of properties

The disposal of investment properties is accounted for on completion of contract. On disposal, any gain or loss is calculated by reference to the valuation at the last year end plus subsequent additions in the year.

Taxation

The charge for taxation is based on the profit for the period 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.

London Merchant Securities Limited

Notes (continued)

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 2007 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, permanent diminutions in value are taken to the Company profit and loss account.

London Merchant Securities Limited

Notes (continued)

2 Net rental income from investment properties

	For the year ended 31 December 2007 £'000	For the 9 months ended 31 December 2006 £'000
Property outgoings less amounts recovered from tenants	(1)	-

3 Operating loss

Audit fees have been paid by Derwent London plc (2006 £120,000 for the audit of the Company's annual accounts, £49,000 for the audit of the Company's subsidiaries pursuant to legislation)

The Company does not have any employees (2006 nil) and there were no directors' emoluments (2006 £nil)

4 Provision against amounts due from subsidiary undertakings

The provision relates to the potential non-recoverability of amounts due from subsidiary undertakings as the result of the net deficit position of these subsidiary undertakings

5 Other interest receivable and similar income

	For the year ended 31 December 2007 £'000	For the 9 months ended 31 December 2006 £'000
Short term deposits	16	2
Other	69	-
	<u>85</u>	<u>2</u>

6 Interest payable and similar charges

	For the year ended 31 December 2007 £'000	For the 9 months ended 31 December 2006 £'000
Interest on debenture	11,368	8,598

London Merchant Securities Limited

Notes (continued)

7 Tax on loss on ordinary activities

	For the year ended 31 December 2007	For the 9 months ended 31 December 2006
	£'000	£'000
Analysis of charge in the period		
Adjustments in respect of prior periods	10	262
Group relief	-	1,884
Total current tax	10	2,146
Deferred tax		
Origination/reversal of timing differences	6	2,688
Total deferred tax	6	2,688
Total tax on loss on ordinary activities	16	4,834

Factors affecting the tax charge for the period

The current tax charge for the period is higher (2006 higher) than the standard rate of corporation tax in the UK of 30% (2006 30%). The differences are explained below

	For the year ended 31 December 2007	For the 9 months ended 31 December 2006
	£'000	£'000
Current tax reconciliation		
Loss on ordinary activities before taxation	(21,540)	(20,961)
Current tax at 30% (2006 30%)	(6,462)	(6,288)
Effects of		
Group dividends	(3,912)	-
Group relief claimed not paid	(4,949)	-
Adjustments to tax charge in respect of previous periods	10	262
Expenses not deductible for tax purposes	7,823	3,356
Utilisation of losses	-	(2,688)
Discontinued operations	-	97
Transfer pricing adjustment	8,020	7,407
Revaluation and indexation	(520)	-
Current tax charge for the period	10	2,146

8 Dividend

	For the year ended 31 December 2007	For the 9 months ended 31 December 2006
	£'000	£'000
Dividend paid - 16 35p per share (2006 94 6p per share)	53,988	312,327

London Merchant Securities Limited

Notes (continued)

9 Tangible fixed assets

Investment properties	Freehold £'000
Valuation	
At 1 January 2007	2,275
Additions	23
Disposals	(2,298)

At 31 December 2007

-

Historical cost of revalued assets

£'000

At 31 December 2007

-

At 31 December 2006

39

The investment properties were independently valued by CB Richard Ellis, Chartered Surveyors, of London as at 31 December 2006 on the basis of "Market Value" in accordance with the Appraisal and Valuation Standards of The Royal Institution of Chartered Surveyors

10 Investments

The investments in subsidiary undertakings are as follows

2007
£'000

Valuation	
At 1 January 2007	453,280
Additions	52,416
Revaluation surplus	73,563

At 31 December 2007

579,259

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

London Merchant Securities Limited

Notes (continued)

10 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
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

11 Debtors

	2007 £'000	2006 £'000
Amounts owed by group undertakings	321,295	461,973
Taxation and social security	27	-
Corporation tax	4,959	1,048
Deferred tax asset (note 12)	92	98
Prepayments and accrued income	21	235
Other debtors	14	-
	326,408	463,354

All amounts fall due for payment within one year

London Merchant Securities Limited

Notes (continued)

12 Deferred tax asset

	2007 £'000	2006 £'000
Provision for deferred taxation		
At 1 January	98	98
Charge to the profit and loss for the period	(6)	-
At 31 December	92	98

The deferred tax asset is made up of

Losses brought forward	92	98
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13 Creditors' amounts falling due within one year

	2007 £'000	2006 £'000
Bank loans and overdrafts	1	-
Amounts owed to group undertakings	1,894	1,884
Accruals and deferred income	3,303	13,084
Other creditors	87	1,863
	5,285	16,831

14 Creditors: amounts falling due after more than one year

	2007 £'000	2006 £'000
6 5% Secured Bond 2026	173,274	173,228

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

	2007 £'000	2006 £'000
Borrowings		
Repayable after more than five years	173,274	173,228

London Merchant Securities Limited

Notes (continued)

15 Share capital

At 31 December 2007

	25p ordinary shares	A shares 25/280p	B shares 25/280p	C shares 25/280p
Authorised Number				
At 1st January 2007	400,000,000	-	-	-
Subdivision & reclassification of shares	(330,250,888)	1,219,964,560	88,003,595,680	3,246,688,400
Cancellation of shares for consideration as set out below				
Issue of new shares and cancellation	330,250,888	(1,219,964,560)	(88,003,595,680)	(3,246,688,400)
At 31 December 2007	400,000,000	-	-	-

Allotted, called up and fully paid

Number				
At 1st January 2007	330,153,971	-	-	-
Issue of shares	96,917	-	-	-
Subdivision & reclassification of shares	(330,250,888)	1,219,964,560	88,003,595,680	3,246,688,400
Cancellation of shares	-	(1,219,964,560)	(88,003,595,680)	(3,246,688,400)
Issue of new shares and cancellation	330,250,888	-	-	-
At 31 December 2007	330,250,888	-	-	-

	25p ordinary shares £'000	A shares 25/280p £'000	B shares 25/280p £'000	C shares 25/280p £'000
Authorised				
At 1st January 2007	100,000	-	-	-
Subdivision & reclassification of shares	(82,563)	1,089	78,575	2,899
Cancellation of shares for consideration as set out below	-	(1,089)	(78,575)	(2,899)
Issue of new shares and cancellation	82,563	-	-	-
At 31 December 2007	100,000	-	-	-

Allotted, called up and fully paid

At 1st January 2007	82,538	-	-	-
Issue of shares	25	-	-	-
Subdivision & reclassification of shares	(82,563)	1,089	78,575	2,899
Cancellation of shares	-	(1,089)	(78,575)	(2,899)
Issue of new shares and cancellation	82,563	-	-	-
At 31 December 2007	82,563	-	-	-

London Merchant Securities Limited

Notes (continued)

15 Share capital (continued)

Sub-division and reclassification of existing shares

On 1 February 2007 each share was sub-divided into 280 ordinary shares of 25/280 pence each in the capital of the Company and such ordinary shares were reclassified into A Shares, B Shares and C Shares

The authorised share capital of the Company of £100,000,000 was divided into ordinary shares of 25 pence each (the "Ordinary Shares"), A ordinary shares of 25/280 pence each (the "A Shares"), B ordinary shares of 25/280 pence each (the "B Shares") and C ordinary shares of 25/280 pence each (the "C Shares")

The A Shares, the B Shares and the C Shares ranked equally with and had the same rights as those attaching to the Ordinary Shares. Each A Share conferred upon the holder thereof the right to receive one penny in cash, each B Share conferred upon the holder the right to receive ten New Derwent Shares for every 18,760 B Shares and each C Share conferred on the holder thereof the right to receive £1 in nominal amount of Loan Notes for every 100 C Shares

Cancellation of A shares, B shares and C shares and issue of new LMS shares

The issued share capital of the Company was reduced by cancelling and extinguishing the A Shares, the B Shares and the C Shares. The authorised share capital of the Company was increased to its former amount by the creation of new LMS Shares. The reserve arising in the books of account of the Company as a result of this reduction of capital was applied by the Company in paying up in full at par these new LMS Shares which were allotted, issued (free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature whatsoever) and credited as fully paid to Derwent London plc (Derwent)

Following this, the authorised share capital of the Company was £100,000,000 divided into 400,000,000 ordinary shares of 25 pence each

Consideration for cancellation of A shares, B shares and C shares and issue of new LMS shares

In consideration of the cancellation of the A Shares Derwent paid one penny in cash for each A Share held by each holder immediately following the sub-division and reclassification of LMS Shares

In consideration for the cancellation of the B Shares Derwent issued to the holders of B Shares ten New Derwent Shares for every 18,760 B Shares held by such holder immediately following the sub-division and reclassification of LMS Shares

In consideration for the cancellation of the C Shares Derwent issued £1 in nominal amount of Loan Notes for every 100 C Shares held by such holder immediately following the sub-division and reclassification of LMS Shares

The New Derwent Shares were issued credited as fully paid and free from all liens, charges, encumbrances and, (subject to the Articles of Association of Derwent) rights of pre-emption and other third party rights of any nature whatsoever and ranked par passu in all respects with all other Derwent ordinary shares in issue including the right to receive all dividends, distributions and other entitlements made or paid or declared thereon

London Merchant Securities Limited

Notes (continued)

15 Share capital (continued)

During the year 96,917 (2006 934,693) Ordinary shares were issued for an average consideration of 202p (2006 151 7p) each under the LMS Executive Share Option Scheme. In the nine months ended 31 December 2006, 217,785 Ordinary shares were issued under SAYE Scheme

At 31 December 2006

	25p Ordinary shares	27 18/41p Deferred Ordinary shares	27 18/41p Unclassified shares
Authorised Number			
At 1 April 2006	-	358,152,526	6,291,918
Conversion	400,000,000	(358,152,526)	(6,291,918)
At 31 December 2006	400,000,000	-	-

	25p Ordinary shares	27 18/41p Deferred Ordinary shares
Allotted, called up and fully paid Number		
At 1 April 2006	-	329,001,493
Conversion	329,001,493	(329,001,493)
Issued during the period	1,152,478	-
At 31 December 2006	330,153,971	-

	25p Ordinary shares £'000	27 18/41p Deferred Ordinary shares £'000	27 18/41p Unclassified shares £'000
Authorised			
At 1 April 2006	-	98,274	1,726
Conversion	100,000	(98,274)	(1,726)
At 31 December 2006	100,000	-	-

	25p Ordinary shares £'000	27 18/41p Deferred Ordinary shares £'000
Allotted, called up and fully paid		
At 1 April 2006	-	90,275
Conversion	82,250	(90,275)
Issued during the period	288	-
At 31 December 2006	82,538	-

London Merchant Securities Limited

Notes (continued)

15 Share capital (continued)

Reorganisation of the share capital

Pursuant to the demerger of the Company's investment division in June 2006, the Company's share capital was reorganised into ordinary shares of 25p each and special interest shares, relating to the investment division of 2 18/41p each

Leo Capital plc (the demerged investment division and now called LMS Capital plc) then acquired from the shareholders the special interest shares in return for Leo Capital ordinary shares. The special interest shares were then acquired by the Company from Leo Capital plc for £1 and cancelled to be replaced by New Investment Shares upon which a dividend in specie was declared. This dividend in specie comprised the Group's Investment Division plus cash.

16 Reserves	Share premium account £'000	Capital reduction account £'000	Profit and loss account £'000	Revaluation reserve £'000
At 1 January 2007	22,015	10,892	175,335	438,099
Issues of shares during the year	185	-	-	-
Revaluation of subsidiary undertakings	-	-	-	73,563
Realisation of revaluation surpluses of previous years	-	-	2,119	(2,119)
Dividend paid	-	-	(53,988)	-
Loss for the financial year	-	-	(21,556)	-
At 31 December 2007	22,200	10,892	101,910	509,543

17 Reconciliation of movements in equity shareholders' funds

	2007 £'000	2006 £'000
Loss for the financial period	(21,556)	(25,795)
Dividend paid	(53,988)	(15,064)
Dividend in specie	-	(297,263)
	(75,544)	(338,122)
Other recognised gains and losses relating to the period	73,563	192,000
Issue of share capital	210	1,615
Issue of employee share options	-	563
Deferred tax benefit on issue of employee share options	-	(148)
	(1,771)	(144,092)
Net movement in shareholders' funds	728,879	872,971
Closing shareholders' funds	727,108	728,879

London Merchant Securities Limited

Notes (continued)

18 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 £142.7 million (2006: £122.7 million).

19 Charges

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

20 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.

During the year, the Company made a payment of £1 million to the Rayne Foundation, a charitable organisation of which The Hon. R. A. Rayne is chairman, in order to discharge its obligations.

21 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.