

Company number: 00007064

**London Merchant Securities Limited**  
**Directors' report and financial statements**  
**31 December 2015**

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# London Merchant Securities Limited

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## Directors

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

## Secretary and registered office

T J Kite  
25 Savile Row  
London  
W1S 2ER

## Company number

7064

## Independent Auditors

PricewaterhouseCoopers LLP  
7 More London Riverside  
London  
SE1 2RT

# London Merchant Securities Limited

## 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.

The Company is a private limited company incorporated and domiciled in the UK. The address of its registered office is 25 Savile Row, London, W1S 2ER.

### Financial review and dividends

The results for the year are set out in the statement of comprehensive income on page 5. The directors do not recommend payment of a dividend (2014: £nil).

### Political contributions

There were no political contributions in the year (2014: £nil).

### Directors

The directors who held office during the year and up to the date of signing were as follows:

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

None of the above directors has an interest in the ordinary share capital of the company. The interests of the directors in the share capital of Derwent London plc, the company's parent company, are disclosed in the financial statements of that company.

### Disclosure of information to auditors

The directors who held office at the date of approval of the 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 establish that the Company's auditors are aware of that information.

### Independent auditors

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

# London Merchant Securities Limited

## Directors' report - Continued

### 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 prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

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 these 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 United Kingdom Accounting Standards, including FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of 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 safe guarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Small companies' exemption

This report has been prepared in accordance with the special provisions for small companies under Part 15 and section 417(1) of the Companies Act 2006.

By order of the board



T J Kite  
Secretary  
25 Savile Row  
London  
W1S 2ER

28 June 2016

# **London Merchant Securities Limited**

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

### **Report on the financial statements**

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#### **Our opinion**

In our opinion, London Merchant Securities Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2015 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.
- 

#### **What we have audited**

The financial statements, included within the Directors' report and financial statements (the "Annual Report"), comprise:

- the Balance sheet as at 31 December 2015;
- the Statement of comprehensive income for the year then ended;
- the Statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

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### **Opinion on other matter prescribed by the Companies Act 2006**

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In our opinion, the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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### **Other matters on which we are required to report by exception**

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#### **Adequacy of accounting records and information and explanations received**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

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#### **Directors' remuneration**

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

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#### **Entitlement to exemptions**

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.

# London Merchant Securities Limited

## ***Independent auditors' report to the members of London Merchant Securities Limited - Continued***

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### **Responsibilities for the financial statements and the audit**

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#### **Our responsibilities and those of the directors**

As explained more fully in the Statement of directors' responsibilities set out on page 2, 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 and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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#### **What an audit of financial statements involves**

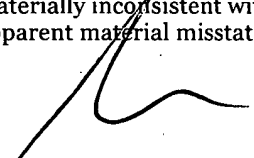
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Craig Hughes (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London

28 June 2016

# London Merchant Securities Limited

## Statement of comprehensive income for the year ended 31 December

	Note	2015 £	2014 £
Administrative expenses		-	(10,949)
Operating result/(loss)	3	-	(10,949)
Interest receivable and similar income	4	18,141,248	18,458,735
Interest payable and similar charges	5	(15,715,185)	(15,485,145)
Profit before taxation		2,426,063	2,962,641
Taxation		(1,049,115)	-
Profit on ordinary after taxation	6	1,376,948	2,962,641
Other comprehensive income:			
Fair value gains on revaluation of investments		273,641,136	263,761,464
Total comprehensive income for the financial year		275,018,084	266,724,105

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

# London Merchant Securities Limited

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## Balance sheet as at 31 December

	Note	2015 £	2014 £
Fixed assets			
Investments	7	1,125,919,529	852,278,393
		<hr/>	<hr/>
		1,125,919,529	852,278,393
Current assets			
Debtors: amounts falling due within one year	8	410,819,296	399,061,541
Current liabilities			
Creditors: amounts falling due within one year	9	(103,617,234)	(93,311,181)
		<hr/>	<hr/>
Net current assets		307,202,062	305,750,360
Non-current liabilities			
Creditors: amounts falling due after more than one year	9	(173,842,005)	(173,767,251)
		<hr/>	<hr/>
Net assets		1,259,279,586	984,261,502
		<hr/>	<hr/>
Capital and reserves			
Called up share capital	10	82,562,722	82,562,722
Share premium account		22,200,069	22,200,069
Revaluation reserve		1,065,063,280	791,422,144
Other reserves		10,892,043	10,892,043
Retained earnings		78,561,472	77,184,524
		<hr/>	<hr/>
Total equity		1,259,279,586	984,261,502
		<hr/>	<hr/>

The financial statements on pages 5 to 13 were approved by the Board of Directors on 28 June 2016 and signed on its behalf by

N Q George



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



# London Merchant Securities Limited

## Statement of changes in equity for the year ended 31 December

	Called up Share capital £	Share premium £	Revaluation reserve £	Other reserves £	Retained earnings £	Total equity £
At 1 January 2015	82,562,722	22,200,069	791,422,144	10,892,043	77,184,524	984,261,502
Profit for the financial year	-	-	-	-	1,376,948	1,376,948
Total comprehensive income for the financial year	-	-	273,641,136	-	-	273,641,136
<b>At 31 December 2015</b>	<b>82,562,722</b>	<b>22,200,069</b>	<b>1,065,063,280</b>	<b>10,892,043</b>	<b>78,561,472</b>	<b>1,259,279,586</b>
At 1 January 2014	82,562,722	22,200,069	527,660,680	10,892,043	74,221,883	717,537,397
Profit for the financial year	-	-	-	-	2,962,641	2,962,641
Total comprehensive income for the financial year	-	-	263,761,464	-	-	263,761,464
<b>At 31 December 2014</b>	<b>82,562,722</b>	<b>22,200,069</b>	<b>791,422,144</b>	<b>10,892,043</b>	<b>77,184,524</b>	<b>984,261,502</b>

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

# London Merchant Securities Limited

## Notes to the financial statements

### 1. Basis of preparation

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

The financial statements of London Merchant Securities Limited have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006 as applicable to companies using FRS 101.

The Company is a qualifying entity for the purpose of FRS 101. Note 12 gives details of the Company's ultimate parent company and from where its consolidated financial statements prepared in accordance with IFRS may be obtained.

FRS 101 sets out amendments to EU-adopted IFRS that are necessary to achieve compliance with the Act and related Regulations. The disclosure exemptions adopted by the Company in accordance with FRS 101 are as follows:

- the requirements of paragraphs 91 to 99 of IFRS 13 Fair Value Measurement;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of IAS 7 Statement of Cash Flows; and
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group.

### Going concern

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing its financial statements.

### Changes in accounting policies

#### New standards adopted during the year

The following standards, amendments and interpretations endorsed by the EU were effective for the first time for the Company's 31 December 2015 year end and had no material impact on the financial statements.

Annual Improvements to IFRSs (2011 - 2013 Cycle)

#### Standards and interpretations in issue but not yet effective

The following standards, amendments and interpretations were in issue at the date of approval of these financial statements but were not yet effective for the current accounting year and have not been adopted early. Based on the Company's current circumstances the Directors do not anticipate that their adoption in future periods will have a material impact on the financial statements of the Company.

IFRS 9 Financial Instruments;  
IFRS 10 (amended) - Consolidated Financial Statements;  
IFRS 11 (amended) - Joint Arrangements;  
IFRS 14 Regulatory Deferral Accounts;  
IFRS 16 Leases;  
IAS 1 (amended) - Presentation of Financial Statements;  
IAS 16 (amended) - Property Plant and Equipment;  
IAS 19 (amended) - Employee Benefits;  
IAS 27 (amended) - Separate Financial Statements;  
IAS 28 (amended) - Investments in Associates and Joint Ventures;  
IAS 38 (amended) - Intangible Assets;  
IAS 41 (amended) - Agriculture;  
Annual Improvements to IFRSs (2010-2012 Cycle); and  
Annual Improvements to IFRSs (2014);  
IFRS 15 Revenue from Contracts with Customers

# London Merchant Securities Limited

## Notes to the financial statements - continued

### 1. Basis of preparation - continued

#### Significant judgements, key assumptions and estimates

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The Company's significant accounting policies are stated in note 2. Not all of these accounting policies require management to make difficult, subjective or complex judgements or estimates. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates.

#### Financial risks

The Company faces financial risks, in particular, that it becomes unable to meet its financial obligations or finance the business appropriately. The Company has identified increasing interest rates as its key financial risk.

The Company controls and mitigates this risk by regularly monitoring the impact of interest rate changes on performance as part of its quarterly management accounting process.

### 2. Accounting policies

#### 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 2015 which will include the professional valuation of properties. Surpluses or deficits resulting from changes in the directors' valuation are reported in the statement of comprehensive income in the year in which they arise.

#### Financial assets

- (i) Cash and cash equivalents – Cash comprises cash in hand and on-demand deposits less overdrafts. Cash equivalents comprise short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
- (ii) Trade receivables – Trade receivables are recognised and carried at the original transaction value. A provision for impairment is established where there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables concerned.

#### Financial liabilities

- (i) Non-convertible bonds – These are included as a financial liability on the balance sheet net of the unamortised discount and costs on issue. The difference between this carrying value and the redemption value is recognised in the Group income statement over the life of the bond on an effective interest basis. Interest payable to bond holders is expensed in the year to which it relates.
- (ii) Trade payables – Trade payables are recognised and carried at the original transaction value.

#### 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 taxation is not discounted.

#### Dividends

Dividends payable on the ordinary share capital are recognised in the year in which they are declared.

# London Merchant Securities Limited

## Notes to the financial statements - continued

### 3. Operating result/(loss)

Audit fees of £2,500 (2014: £2,500) have been incurred by Derwent London plc on behalf of the Company.

The Company does not have any employees (2014: nil) and there were no directors' emoluments (2014: £nil).

### 4. Interest receivable and similar income

	2015 £	2014 £
Intercompany interest	18,141,248	18,458,735

### 5. Interest payable and similar charges

	2015 £	2014 £
Amortisation of loan arrangement costs	74,754	70,788
Interest on bond	11,375,000	11,375,000
Intercompany interest	4,260,108	4,034,034
Other	5,323	5,323
	15,715,185	15,485,145

### 6. Tax on profit on ordinary activities

There is no current tax charge for the year (2014: £nil) and no deferred taxation charge for the year (2014: £nil).

#### Factors affecting the tax for the year

The effective rate of tax for the year is lower (2014: lower) than the standard rate of corporation tax in the UK. The differences are explained below.

	2015 £	2014 £
Profit on ordinary activities before taxation	2,426,063	2,962,641
Current tax at 20.25% (2014: 21.5%)	491,278	636,968
Effects of:		
Group relief claimed not paid	-	(1,047,302)
Difference in interest rate on intercompany loans for tax purposes	557,837	410,334
Tax charge for the year	1,049,115	-

The Finance Act 2015 set the main rate of UK corporation tax at 20% with effect from 1 April 2015. Finance (No.2) Act 2015 has introduced further reductions in the main corporation tax rate from 20% to 19% with effect from 1 April 2017 and from 19% to 18% with effect from 1 April 2020.

# London Merchant Securities Limited

## Notes to the financial statements - continued

### 7. Investment in subsidiary undertakings

	2015 £	2014 £
At 1 January	852,278,393	588,516,929
Revaluation of investment in subsidiary undertakings	273,641,136	263,761,464
	<hr/>	<hr/>
At 31 December	1,125,919,529	852,278,393
	<hr/>	<hr/>
Historical cost of revalued shares	60,856,249	60,856,249
	<hr/>	<hr/>

Name	Percentage holding	Country of registration	Activity
Asta Commercial Limited	100	England and Wales	Property investment
Caledonian Properties Limited	100	England and Wales	Property investment
Caledonian Property Estates Limited	100	England and Wales	Property investment
Caledonian Property Investments Limited	100	England and Wales	Property investment
Carlton Construction & Development Company Ltd	100	England and Wales	Dormant
Central London Commercial Estates Limited	100	England and Wales	Property investment
Charlotte Apartments Limited	100	England and Wales	Property investment
Corinium Estates Ltd	100	England and Wales	Property trading
Derwent London Asta Limited	100	England and Wales	Property trading
Derwent Valley City Limited	100	England and Wales	Property investment
Derwent Valley Finance Limited	100	England and Wales	Finance company
Derwent Valley Limited	100	England and Wales	Holding company
Derwent Valley Properties Limited	100	England and Wales	Property investment
Kensington Commercial Property Investments Limited	100	England and Wales	Property investment
LMS (City Road) Limited	100	England and Wales	Property investment
LMS (Goodge Street) Limited	100	England and Wales	Property investment
LMS Offices Limited	100	England and Wales	Property investment
LMS Residential Limited	100	England and Wales	Property trading
LMS Shops Limited	100	England and Wales	Property investment
Palaville Limited	100	England and Wales	Property investment
Portman Investments (Baker Street) Limited	55	England and Wales	Property investment
Rainram Investments Limited	100	England and Wales	Property investment
Shaftesbury Square Properties Limited	100	England and Wales	Property investment
The New River Company Limited	100	England and Wales	Property investment
West London & Suburban Property Investments Limited	100	England and Wales	Property investment
LMS Outlets Limited	100	England and Wales	Property investment
LMS Properties Limited	100	England and Wales	Property investment
LMS Services Limited	100	England and Wales	Management services
Merchant Nominees Limited	100	England and Wales	Dormant
LMS Leisure Investments Limited	100	England and Wales	Property investment
LMS Finance Limited	100	England and Wales	Investment Holding
Merchant Overseas Holdings Limited	100	England and Wales	Dormant

# London Merchant Securities Limited

## Notes to the financial statements - continued

### 7. Investment in subsidiary undertakings – continued

Urbanfirst Limited	100	England and Wales	Investment Holding
LMS Industrial Finance Limited	100	England and Wales	Finance company
City Shops Ltd	100	England and Wales	Property trading
Bargate Quarter Limited	65	England and Wales	Investment Company
<b>Joint ventures</b>			
Prescot Street GP Limited	50	England and Wales	Management Company
Prescot Street Leaseco Limited	50	England and Wales	Property investment
Prescot Street Limited Partnership	50	England and Wales	Property investment
Prescot Street Nominees Limited	50	England and Wales	Dormant

The company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements 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.

### 8. Debtors

	2015 £	2014 £
Falling due within one year:		
Amounts due from group undertakings	410,808,957	399,051,202
Other debtors	154	154
Taxation and social security	10,185	10,185
	<hr/>	<hr/>
	410,819,296	399,061,541
	<hr/>	<hr/>

Amounts owed by group undertakings are unsecured, have no fixed date of repayment and are repayable on demand. Interest is charged at the Group's average weighted cost of borrowings.

### 9. Creditors

	2015 £	2014 £
Falling due within one year:		
Amounts owed to group undertakings	100,339,583	90,033,529
Trade creditors	391	391
Accruals and deferred income	3,277,260	3,277,261
	<hr/>	<hr/>
	103,617,234	93,311,181
	<hr/>	<hr/>

Amounts owed to group undertakings are unsecured, have no fixed date of repayment and are repayable on demand. Interest is charged at the Group's average weighted cost of borrowings.

# London Merchant Securities Limited

## Notes to the financial statements - continued

### 9. Creditors – continued

	2015 £	2014 £
Falling due after more than one year:		
6.5% Secured Bond 2026	175,000,000	175,000,000
Unamortised issue costs	(1,157,995)	(1,232,749)
	<u>173,842,005</u>	<u>173,767,251</u>

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

The fair value of the secured bond at 31 December 2015 was £217.2 million (2014: £227.4million) which was determined by the ask price of £124.10 per £100 (2014: £129.94 per £100). It is secured on all the assets of the Company. The maturity profile of the Company's borrowing is shown below:

	2015 £	2014 £
<b>Borrowings:</b>		
Repayable after more than five years	<u>173,767,251</u>	<u>173,696,463</u>

### 10. Called up share capital

	2015 £	2014 £
<b>Allotted, called up and fully paid</b>		
330,250,888 ordinary shares of £0.25 each	<u>82,562,722</u>	<u>82,562,722</u>

### 11. Other reserves

Other reserves consists of premium on the issue of shares as equity consideration for the acquisition of London Merchant Securities plc (LMS).

### 12. Parent company

The Company's immediate and 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 financial statements can be obtained from this address.

### 13. Post balance sheet event

On 23 June 2016, the UK electorate voted to leave the European Union. This decision commences a process that is likely to take a minimum of two years to complete, and during this time the UK remains a member of the European Union. There will be a resulting period of uncertainty for the UK economy and real estate markets, with increased volatility expected in financial markets. This does not impact the fair value of assets and liabilities, including investment property, reported at the balance sheet date of 31 December 2015.