

Registered No. 90776

# M&G Securities Limited

## 2012 Annual Report

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Incorporated and registered in England and Wales Registered no 90776  
Registered office Laurence Pountney Hill, London EC4R 0HH

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## Directors' report

W J Nott (Chairman)  
G N Cotton  
C I Jackson  
M Lewis  
G W MacDowall  
L J Mumford  
J R Talbot

### Principal activity, business review and results

The principal activity of the Company is as Manager of M&G Unit Trusts and Authorised Corporate Director of M&G Open Ended Investment Companies. The Company is regulated by the Financial Services Authority.

Revenues rose in the year mainly due to strong net sales and market performance resulting in higher funds under management. The operating profit for the Company for the year was £154.5m (2011: £121.7m). The Company retained a profit of £17.1m (2011: £4.9m). Details of the results for the year are set out in the profit and loss account on page 5.

The risks and uncertainties faced by the Company are those inherent within the investment management industry, primarily:

- Operational risk – exposure to losses resulting from inadequate or failed internal and external processes, systems and human error or from external events. The Board recognises that operational risk management is a vital element of its business. Clients entrust us with the stewardship of substantial funds, perhaps someone's lifetime savings or the entire assets of a pension scheme. Profitability for our shareholders is significantly affected by errors since we deal in complex, fast moving markets in sums that are very large compared to our fees. We operate appropriate systems and controls together with operational risk oversight procedures that comply with standards approved from time to time by the Board.
- Market risk – exposure to fluctuations in revenue resulting from the impact of volatile equity, bond, property prices and investment performance. The Board seeks to mitigate this risk by strict control of fixed overheads, diversification of assets under management and breadth of distribution.

These are outlined further, along with the other risks and uncertainties faced by the Prudential Group, in the directors' report prepared by Prudential plc, the Company's ultimate parent company. Consolidated financial statements can be obtained from the address on page 11.

The Company's net assets as at 31 December 2012 were £57.3m (2011: £40.2m).

### Dividends

Interim dividends totalling £100.0m (2011: £85.0m) were paid during the year. The directors do not recommend the payment of a further dividend.

### Directors

Mr L J Scrine resigned as Director of the Company on the 30 April 2012. The other Directors listed above were all in office throughout the year.

## Directors' report (continued)

### Qualifying third party indemnities

Prudential plc has arranged appropriate insurance cover in respect of legal action against directors and senior managers of companies within the Prudential Group. In addition, the Articles of Association of the Company provide for the directors, officers and employees of the Company to be indemnified in respect of liabilities incurred as a result of their office.

### Employment policies

All staff were employed during the year by M&G Limited, the immediate parent company. Employment policies are described in the annual report and financial statements of that 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).

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 judgments 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 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 its 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.

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 auditor are unaware, and each director has taken all the steps that he/ she ought to have taken as a director to make himself/ herself aware of any relevant audit information and to establish that the Company's auditor are aware of that information.

### Auditor

Pursuant to a shareholders' resolution, the Company is not obliged to reappoint its auditor annually and KPMG Audit Plc will therefore continue in office.

Approved by the Board



J R Talbot  
Company Secretary  
Laurence Pountney Hill  
London EC4R 0HH  
19 April 2013

## Independent auditor's report to the members of M&G Securities Limited

We have audited the financial statements of M&G Securities Limited for the year ended 31 December 2012 which comprise the profit and loss account, the balance sheet, the reconciliation of movements in shareholders' funds and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the UK Accounting Standards (UK 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 auditor

As explained more fully in the directors' responsibilities statement set out on page 3, 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). 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

A description of the scope of an audit of the financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm)

### 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 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been properly prepared in accordance with the requirements of the Companies Act 2006

### Opinion on other matters prescribed by the Companies Act 2006

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.

### 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



Neil Palmer (Senior Statutory Auditor)  
for and on behalf of KPMG Audit Plc, Statutory Auditor  
Chartered Accountants  
15 Canada Square  
London E14 5GL

19 April 2013

**Profit and loss account for the year**

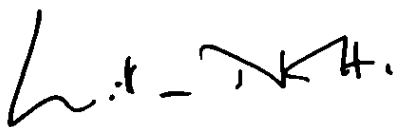
	note	2012 £'000	2011 £'000
Revenue	2	696,297	582,608
Operating expenses	3	<u>(541,824)</u>	<u>(460,866)</u>
<b>Operating profit from continuing operations</b>	4	<b>154,473</b>	121,742
Interest receivable and similar income	6	<u>612</u>	<u>609</u>
<b>Profit on ordinary activities before tax</b>		<b>155,085</b>	122,351
Tax on profit on ordinary activities	7	<u>(37,994)</u>	<u>(32,423)</u>
<b>Profit on ordinary activities after tax</b>		<b><u>117,091</u></b>	<b><u>89,928</u></b>

The Company had no recognised gains or losses other than the profit for the year as disclosed above, all of which is derived from continuing activities

**Balance sheet**

	note	2012 £'000	2011 £'000
<b>Current assets</b>			
Stock		21,342	27,831
Debtors	9	311,760	317,676
Cash at bank	10	63,035	50,832
<b>Total current assets</b>		<u>396,137</u>	<u>396,339</u>
<b>Creditors – amounts falling due within one year</b>	11	(338,860)	(356,152)
<b>Net assets</b>		<u>57,277</u>	<u>40,187</u>
<b>Capital and reserves</b>			
Called up share capital	12	100	100
Profit and loss account		57,177	40,087
<b>Total equity shareholders' funds</b>		<u>57,277</u>	<u>40,187</u>

The financial statements on pages 5 to 12 have been approved by the Board of directors and signed on its behalf by -



W J Nott  
Director



G W MacDowall  
Director

19 April 2013

**Reconciliation of movements in shareholders' funds**

	note	2012 £'000	2011 £'000
Profit after tax attributable to shareholders		117,090	89,928
Dividends	8	(100,000)	(85,000)
Net increase in equity shareholders' funds		<u>17,090</u>	<u>4,928</u>
Opening equity shareholders' funds		40,187	35,259
<b>Closing equity shareholders' funds</b>		<u><b>57,277</b></u>	<u><b>40,187</b></u>



## Notes to the financial statements

### 1 Accounting policies

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards

The Company has relied on the exemption given in FRS 1 (revised 1996) not to disclose a cash flow statement as the consolidated financial statements of its ultimate parent are publicly available

The principal accounting policies that the directors have adopted are set out below

#### a) Revenue recognition

Revenue from the purchase and sale of units/shares is accounted for as it is earned. Management fees represent charges made to the trustees/depositaries of the funds/OEICs and are accounted for on an accruals basis

All other revenue is included in the profit and loss account on an accruals basis

#### b) Expense recognition

Operating expenses include a recharge from the immediate parent company of costs borne on behalf of the Company as well as rebates of management fees and commissions earned

Operating expenses also include fees payable to M&G Investment Management Limited for the management of the unit trusts/OEICs

All expenses are included in the profit and loss account on an accruals basis

#### c) Stock

Stocks of units/shares are valued at the lower of cost and net realisable value

#### d) Interest receivable and similar income

Distributions on unit trusts/OEICs are included on a receipts basis

Bank interest and interest receivable from group undertakings are included in the profit and loss account on an accruals basis

#### e) Foreign currency transactions

Foreign currency transactions are translated at rates of exchange ruling at the date of the respective transactions. Foreign currency assets and liabilities are translated at rates of exchange ruling at the balance sheet date. Exchange differences are taken to the profit and loss account

## Notes to the financial statements (continued)

## 2 Revenue

	2012 £'000	2011 £'000
Gross sales of units/shares	21,447,653	19,582,721
Less cost of sales of units/shares	<u>(21,443,167)</u>	<u>(19,580,422)</u>
Revenue from the purchase and sale of units/shares	4,486	2,299
Management fees	689,798	578,278
Other revenue	<u>2,013</u>	<u>2,031</u>
	<u>696,297</u>	<u>582,608</u>

## 3 Operating expenses

Included in operating expenses are rebates of £241,067,137 (2011 £210,773,141) of management fees and initial charges to other Prudential Group companies in respect of investments in M&G unit trusts/OEICs. These companies bear the expenses relating to such investments.

## 4 Operating profit

Amounts receivable by the Company's auditor in respect of the audit of the Company's financial statements are £48,592 (2011 £48,111) and are payable by M&G Limited, the immediate parent company. Amounts receivable by the Company's auditor in respect of services to the Company and its associates, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements of the Company's ultimate parent, Prudential plc.

All staff were employed during the year by M&G Limited, the immediate parent company. Analyses of staff costs, pension commitments and share-based payments are shown in the annual report and financial statements of that company.

## 5 Directors' emoluments

Total directors' emoluments for the year are as follows	2012 £'000	2011 £'000
Directors' emoluments	1,167	1,500
Amounts receivable under long term incentive schemes	<u>720</u>	<u>708</u>
	<u>1,887</u>	<u>2,208</u>

The directors' emoluments are based upon the apportionment of their time to the Company.

For the highest paid director the aggregate of emoluments was £747,573 (2011 £1,014,345) and amounts receivable under long term incentive schemes was £531,849 (2011 £441,360). He is a member of a defined benefit scheme, under which his accrued pension which would be available from normal retirement date assuming retirement at the year end was £114,826 (2011 £110,223). He did not exercise any Prudential plc share options during the year, but received awards under the long term incentive scheme.

## Notes to the financial statements (continued)

Two Directors (2011 two) who were also directors of M&G Limited, the immediate parent company, received no emoluments in connection with the management of the affairs of the Company. Their remuneration, as directors of the Group, is disclosed in the financial statements of M&G Limited.

		2012	2011
	The number of directors with retirement benefits accruing under the defined benefit schemes	<u>6</u>	<u>7</u>
	The number of directors who exercised Prudential plc share options	<u>2</u>	<u>3</u>
	The number of directors in respect of whose services awards were received or receivable under long term schemes	<u>6</u>	<u>7</u>
<b>6</b>	<b>Interest receivable and similar income</b>		
		2012 £'000	2011 £'000
	Bank interest receivable	236	262
	Interest receivable from group undertakings	235	222
	Unlisted investments	<u>140</u>	<u>125</u>
		<u>611</u>	<u>609</u>
<b>7</b>	<b>Tax</b>		
	<b>a) Analysis of charge in the period</b>		
	<b>Current tax</b>		
	UK corporation tax on profits for the period	37,994	32,423
	Total current tax	<u>37,994</u>	<u>32,423</u>
	<b>b) Factors affecting tax charge for the period</b>		
	The tax assessed in the period is lower than the standard rate of taxation in the UK and the differences are explained below. The standard rate of tax has been determined by using the UK rate of corporation tax enacted for the period for which the profits of the Company will be taxed.		
	Profit on ordinary activities before tax	155,085	122,351
	Profit on ordinary activities at standard rate of corporation tax in the UK of 24.5% (2011 26.5%)	37,996	32,423
	Effects of -		
	Difference between realised gains in accounts and non-taxable gains	(2)	-
	Current tax charge for the period	<u>37,994</u>	<u>32,423</u>

## Notes to the financial statements (continued)

<b>8</b>	<b>Dividends</b>	<b>2012</b>	<b>2011</b>
		<b>£'000</b>	<b>£'000</b>
	On 100,000 £1 ordinary shares		
	Interim dividends, net	<u>100,000</u>	<u>85,000</u>
<b>9</b>	<b>Debtors</b>		
	Debtors for unit/share sales	215,372	199,982
	Amounts owed by trustees/depositaries for cancellations	39,700	56,613
	Amounts owed by group undertakings	12,712	26,708
	Amounts owed by trustees/depositaries for management fees	42,529	31,915
	Other debtors	1,447	2,458
		<u>311,760</u>	<u>317,676</u>
<b>10</b>	<b>Cash at bank</b>		
	Under the terms of the Company's arrangements with the Prudential Group's main UK banker, the bank has a right of set-off between credit balances at the bank and all overdrawn balances of those group undertakings with similar arrangements. At the 31 December 2012, total cash at bank included an amount of £2,363,498 (2011 £3,379,579) which was held with the Prudential Group's main UK banker.		
<b>11</b>	<b>Creditors - amounts falling due within one year</b>		
	Creditors for unit/share redemptions	102,697	124,789
	Amounts owed to trustees/depositaries for creations	144,937	145,735
	Amounts owed to group undertakings	44,269	39,997
	Corporation tax	21,220	19,758
	Other tax	31	-
	Other creditors	1,646	1,078
	Accruals and deferred income	24,060	24,795
		<u>338,860</u>	<u>356,152</u>
<b>12</b>	<b>Called up share capital</b>		
	<b>Authorised, allotted, issued and fully paid</b>		
	100,000 ordinary shares of £1 each	<u>100</u>	<u>100</u>
<b>13</b>	<b>Immediate and ultimate parent company</b>		
	The Company's immediate parent company is M&G Limited		
	The Company's ultimate parent company is Prudential plc, a company registered in England and Wales. Consolidated financial statements are prepared by Prudential plc and copies of these are available from the Registered Office at Laurence Pountney Hill, London EC4R 0HH.		

**Notes to the financial statements (continued)****14 Related party transactions**

In accordance with FRS 8 the Company is required to disclose details of its related party transactions with the unit trusts/OEICs that it manages. The Company earned £690m (2011 £578m) during the year from the management of unit trusts/OEICs. An amount of £14.2m (2011 £4.8m) has been accrued as due to the Company as at 31 December 2012.

In relation to Prudential Portfolio Managers (South Africa) Pty Limited, the Company paid annual management charge (AMC) rebates of £3,481,229 (2011 £1,885,265). At the balance sheet date the amount of £240,015 (2011 £268,581) was due to Prudential Portfolio Managers (South Africa) Pty Limited with regard to AMC Rebates.

The Company has taken advantage of the exemption under FRS 8 from disclosing transactions with other subsidiary undertakings of the Prudential Group. There are no other related party transactions.