

Urban Splash Group Limited
and subsidiary undertakings

Annual report and financial statements
for the year ended 31 March 2006

Registered number: 03141013



Chairman's statement

For the year ended 31 March 2006

In my view this has been another very satisfying year for Urban Splash. We have seen pre-tax profit increase to £8.9 million (up 77%), turnover increase to £57.3 million (up 107%) and net assets increase by £12.3 million to £53.5 million (up 30%). I am proud of the way the group has grown from literally "2 men in a shed" to the 136 staff who have produced these results, but I am even more proud of the quality of the buildings we are producing.

We are committed to growing the group through regional offices and the expansion of Urban Splash Work Limited (our commercial property investment arm), together with Urban Splash Build Limited (our construction company). The future looks bright, as of June 2006, we have approximately 1.7 years of sales pre-sold, and we currently have 1,200 plots under construction and a further 1,700 with planning permission. When I am asked which is my favourite Urban Splash development I always answer "the next one" and I am greatly encouraged that the current work we are undertaking is more exciting in terms of its architecture and regeneration potential than anything we have done in the past. Finally my thanks go to all my colleagues, our suppliers and customers, without whom we would not have been able to deliver the projects completed by the group to-date.



Tom Bloxham MBE
Group Chairman

Directors' report

For the year ended 31 March 2006

The directors present their annual report on the affairs of the group, together with the financial statements and auditors' report, for the year ended 31 March 2006.

Principal activities and business review

Urban Splash is a regeneration company that delivers transformational physical, social and economic change in the built environment balanced by environment and corporate responsibility. It is a property company with a progressive agenda.

The principal activities of the group include property development and property investment.

The principal activities of Urban Splash Limited, Urban Splash (South West) Limited, Urban Splash Yorkshire Limited, Urban Splash West Midlands Limited and Urban Splash Homes Limited are the same as the group. Urban Splash Work Limited is a property investment company and Urban Splash Build Limited is the group's construction arm.

The subsidiary undertakings principally affecting the profits and net assets of the group in the year are listed in note 11 to the financial statements.

Enhanced business review

Urban Splash is the leader in its field, it has an established reputation as a pioneer, an advocate of modern design and a record of innovative and exciting development and regeneration. Working exclusively with brown-field sites in regeneration areas, the group is renowned for its ability to deliver, working with communities and building on the strengths that exist in areas, working 'with the grain' to come up with something extra special.

Urban Splash has successfully turned around many areas or markets which were deemed to have failed, often when the mainstream property market disregarded the opportunities as too risky or marginal. Urban Splash differs from a lot of other developers in this respect.

Our track record shows skill in our approach and ability to deliver pioneering and sustainable regeneration. All of our projects have been designed and built to the highest standards to create superb environments.

Our projects include a mix of affordable housing on a variety of tenures from shared equity to social rent in the drive to deliver truly sustainable communities.

We have an established track record for delivering environmentally responsible development and are one of the first private sector developers to have completed a 300 apartment scheme powered locally by a combined heat and power plant which will serve as a template for our schemes in the future in the drive to reduce waste and emissions.

The group works closely in partnerships with public sector partners in the delivery of regeneration projects including Local Authorities, Regional Development Agencies and English Partnerships, the Government's national regeneration agency.

Urban Splash is a rapidly growing group and is constantly looking at new markets, new attitudes and new technologies to facilitate innovative development. This approach is acknowledged by the many awards received by the group. As at 31 March 2006, it had amassed over 165 awards for the quality of its work and its contribution to urban regeneration, including an unprecedented 28 RIBA awards for buildings as well as Civic Trust, BURA and Civic

Society Awards.

The group's property and business skills have also been rewarded and it has firmly established itself in the Sunday Times 100 Best Companies to Work For list and in 2006.

Results for the 2006 financial year

The group has continued the trend of strong profit and net asset growth reflecting the underlying fundamentals of its business strategy – investing with our partners in regeneration projects across the UK to develop challenging buildings in which people want to live, work and play.

This year, the group reported its best-ever results with turnover up 107% to £57.3 million (2005 - £26.8 million), profit before tax up 77% to £8.9 million (2005 - £5.0 million) and net assets up 30% to £53.5 million (2005 - £41.2 million).

The audited financial statements for the year ended 31 March 2006 are set out on pages 12 to 36. The group profit for the year, after taxation, was £6,284,286 (2005 - £3,370,112).

Trading performance

Residential sales at £44.5 million are up 146% on the previous year representing a record 265 unit completions (2005 - 101) at an average price of £163,000 (2005 - £172,000). In a competitive market place, demand for the group's homes and interest in its exciting future projects remains strong. The sales strategy is focussed to sell most homes in the early stages of a development. In 2006, this was best seen at the Rotunda in Birmingham where all 246 units were sold before a start on site. Successes such as the Rotunda helped the group to achieve a record £81 million (2005 - £42.4 million) of forward exchanged sales at the year end with a further £24 million (2005 - £43 million) in reservation. These forward sales are expected to be realised over the period to March 2008.

The 2007 financial year sees the launch of over £120 million of exciting residential schemes. Chimney Pot Park – Salford and Mills Bakery - Plymouth have already been successfully launched in the first 3 months of the 2007 financial year together generating over £25 million of exchanged sales as at 31 July 2006. Other launches this year include Longlands Mill – Stalybridge, Velvet Mill – Bradford, Saxton - Leeds and Albert Mill – Manchester.

Commercial rental income at £4.8 million is up 29% on the previous year. During the year we established a residential lettings business which, with around 100 units currently under management and representing approximately 10% of total rental income, performed well making a profit in its first year of trading and generating a turnover of £0.4 million.

Demand remains high for commercial space. The portfolio of commercial property at 31 March 2006 comprised 762,000 sqft of space across 27 properties (2005 – 530,000 sqft across 22 properties) which were 97% let (2005 – 87% let). We continue to build our portfolio adding 5 new properties during the year. Of these properties, three were developed by the group and two purchased.

The 2007 financial year will see the completion of over 400,000 sqft of commercial space at Fort Dunlop in Birmingham and Matchworks II in Garston, Liverpool, with significant pre-lets already secured for space in both buildings.

Trading performance (continued)

The balance sheet continues to reflect the value generated by the group's properties and the approach to commercial property development and management. A net revaluation increase of £6 million in the value of the commercial property was recognised in the year which, together with new building additions, increased the value of the portfolio to £54.0 million (2005 - £45.8 million).

Development

The development activities of the group are now firmly structured on a regional basis with the key regions being Manchester, Liverpool, South West, Midlands and Yorkshire.

The development teams were active in securing over £250 million in new projects in 2006 with schemes won at East Wharf, Watchet in Somerset, Littlewoods Building, Liverpool, Canal Quarter, Runcorn and entering into a joint venture with AMEC Developments to develop a 60 acre site in Teeside.

During the year, planning permission was secured for over 1,000 homes and 80,000 sqft of commercial space. At the year end, the group has a land bank with planning permission for over 1,700 homes and 80,000 sqft of commercial space with planning applications expected to be submitted in 2007 for 4,200 homes and over 600,000 sqft of commercial space. All of the group's land holdings and developments are on brownfield sites.

Construction

During the year, we have continued to emphasise and promote the importance to the group's success of the construction arm. The group manages the construction of most of its schemes rather than sub-contracting to a main contractor which gives the group more flexibility in the build process and is the most effective means of managing construction risk. Re-branded as Urban Splash Build during the year, the construction arm is now separated into 2 regions, North and South, each headed up by a separate construction managing director.

In managing its own construction, the group is able to drive innovation in building techniques and retain firm control over quality and cost delivery. The flexibility that construction management provides enables the group to tackle a diversity of schemes in terms of both size and complexity, setting the group apart from the established volume house-builders. 59 people were employed in construction during the year (2005 - 45) and Urban Splash Build is continually seeking to develop the team to deliver the future growth of the group. Construction expenditure was £54.3 million in 2006 (2005 - £ 52.3 million) and is expected to grow significantly in future years with schemes with a combined construction cost of over £190 million, on site at the end of the year.

Financing

The group and its development activities are financed through a mix of commercial loans secured against its investment property assets (38% of bank debt at 31 March 2006) and scheme specific development loans (62% of bank debt at 31 March 2006). The group also receives gap-funding contributions via public sector grants. Over £100 million of new committed loan facilities were put in place in the year with in excess of £100 million currently in the pipeline to finance the future construction program.

Additional loans of £59.4 million were drawn in the year and £31.4 million of development loans were repaid with total borrowings of £109.7 million at the year end up 34% on last year. Interest costs increased by 59% to £5.9 million, reflecting higher borrowings (2005 - £3.7 million) however average debt service costs remained constant at 6.1%.

Risks and uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the group's long term performance.

Interest rates

The group is predominantly financed through debt carrying variable interest rates and we are consequently exposed to volatility in base rates and LIBOR. We aim to hedge 60% of our interest exposure through a mixture of financial instruments to mitigate much of this risk and currently approximately 55% of debt is hedged.

Interest rates also affect and influence the demand for new homes and the ability to service mortgages hence significant increases in interest rates will affect housing demand and potentially lead to reductions in house prices. Macro-economic indicators whilst suggesting some increases in interest rates in 2007 do not indicate significant hikes and consequently we do not envisage this as a short term risk.

Rental demand

The group continues to develop more commercial property and has a significant development program over the next few years. Much of this development is speculative and therefore the risk exist that if demand for commercial space falls, completed developments suffer low occupancy. Current occupancy levels are very high and reflect our customer focussed approach to commercial property management and that the group is meeting the requirements of its tenants.

Property developed by the group is designed so as to appeal to a wide range of potential tenants from business start-ups to blue-chip companies and government departments. In continuing to provide well designed, well managed, unique and affordable office space on flexible terms, the group is confident of maintaining the occupancy levels currently experienced. In addition, the group actively seeks to secure pre-lets throughout the development process thereby significantly mitigating the risk of unoccupied buildings

Housing demand

Much has been made of the housing market potentially over-heating and that city centres have become saturated with residential apartment developments. A saturated market place and over-supply of property could have a significant impact on the longer term growth of the group. The group has a broad geographic spread and is not over exposed to any particular region. In addition, demographic studies and reports in to UK housing demand such as the Barker Report indicate a lack of supply of 1 and 2 bedroom housing and an under supply of residential rental accommodation. Most of our homes are targeted at these markets and we are constantly seeking new opportunities to advance design and innovate further. In focusing developments that address the key requirements of the housing market, we believe our homes will always be in demand.

Planning process

The group's future growth in revenue is derived from sales of new apartments and rentals from new commercial buildings. If planning consents are delayed or rejected, the ability of the group to grow will be significantly constrained. We have never had a planning application for any scheme rejected. This is because we believe no two sites are the same and each scheme deserves a unique response. The skills of the group's development team, the quality and vision of the architects we use and our engagement with all parties throughout the process from local authorities to local residents ensures that planning decisions have been favourable.

Competition

Whilst the housing market is to a large extent fragmented, competition, particularly in the large city centres remains high and the ability of the group to differentiate its homes is important to sustain future growth. In continually challenging our designs, driving innovation and addressing the environmental and sustainability agendas on all our schemes, we believe we will always set ourselves apart from the competition. Independent research commissioned in the year by the group into historic Urban Splash price performance indicated that the capital growth of our residential properties has out performed our competition over the last 4 years reflecting what we believe to be a superior product and good long term investment.

People

We operate open and fair policies across all areas of people management, and remain transparent in all aspects of communication with our staff. We adopt a reasoned, consistent and inclusive approach to the management of staff and this is evident in the group's inclusion in the Sunday Times Best 100 Small Companies to Work for 2006 for the third consecutive year. In addition we were one of only 41 companies to receive the highest award of Three Stars in the inaugural Best Companies Accreditation Scheme, which recognizes achievements in the area of workplace engagement.

Environmental responsibility and sustainability

We believe homes and commercial spaces should be well built, easy to maintain, able to change and adapt to meet changing circumstances, minimise the impact on the environment and keep energy bills low at the same time. This belief is central to our development ethos and is reflected in all our schemes.

During the year, we completed the first phase of our Budenberg Haus Projekte in Altrincham, Cheshire, the first private sector development project to generate heat and power by CHP (combined heat and power) which is dramatically lower in carbon emissions than conventional means. CHP is being adopted in many of our future schemes, like New Islington where it will provide power to over 1,500 homes. We are also using a wide range of measures such as water borehole technology, bioremediation and innovative waste management and recycling techniques to lessen our impact on the environment. We also aim to achieve at least Ecohomes status 'very good' in all of our new residential schemes.

We have pioneered the UK's first example of modular constructed residential apartments establishing new standards in design, construction and energy efficiency. By adopting innovative off-site construction techniques we have minimised defects, reduced construction waste and delivered the project quicker than with conventional methods whilst providing the highest quality apartments.

We believe that we need to shoulder responsibility and play our part to reduce the impact of our actions for everyone's sake.

Outlook

We believe that the fundamentals of the housing and commercial property markets are robust and will provide a sound base for the continued growth of the group. The strength of our brand, forward sales, our increasingly national geographic spread combined with our urban regeneration partners, leaves us well placed for the years to come.

Directors' report (continued)

Post balance sheet events

The directors have not declared a dividend payment in the current year (2005 - £nil). Subsequent to the year end, an interim dividend of £750,000 (37.5p per share) was declared on 23 June 2006, which was paid to shareholders on 30 June 2006.

On 18 July 2006 a fire occurred at one of the group's residential developments causing damage which has resulted in the delayed completion of pre-sold apartments. The directors are currently assessing the impact of the fire and consequently no estimate has been made of the potential loss which is substantially covered by the group's insurance.

Directors and their interests

The directors who served the company during the year together with their beneficial interests in the company were as follows:

	Ordinary shares of £1 each	
	2006 £	2005 £
T.P.R. Bloxham M.B.E.	1,414,401	1,414,401
J.M. Falkingham	459,799	451,799
W. Martin	-	-
J.P. Curnuck	-	-
A. Waugh (appointed 22 August 2005)	-	-

The directors have no other interests requiring disclosure under Schedule 7 of the Companies Act 1985.

There have been no changes in directors or their interests in the company since the year end.

Donations

During the year the group did not make any charitable donations (2005 - £nil).

Directors' report (continued)

Auditors

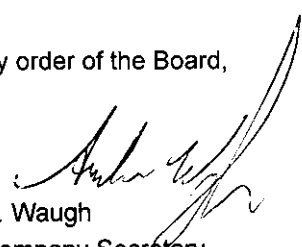
Each of the directors at the date of approval of this report confirms that:

1. so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
2. the director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

A resolution to re-appoint Deloitte & Touche LLP as auditors to the company will be proposed at the Annual General Meeting.

By order of the Board,



A. Waugh
Company Secretary

Timber Wharf
16 – 22 Worsley Street
Manchester
13th September 2006

Statement of Directors' responsibilities

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and group as at the end of the financial year and of the profit or loss of the group 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 estimates that are reasonable and prudent;
- state whether applicable 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 which 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 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.

Independent auditors' report

To the members of Urban Splash Group Limited:

We have audited the group and individual company financial statements (the "financial statements") of Urban Splash Group Limited for the year ended 31 March 2006 which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the consolidated note of historical cost profits and losses, the consolidated and individual company balance sheets, the consolidated cash flow statement, the statement of accounting policies and the related notes 1 to 29. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors' 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

The directors' responsibilities for preparing the Annual Report and 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 United Kingdom 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, in accordance with the relevant financial reporting framework, and are properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the directors' report is consistent with the 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 the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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 circumstances of the company and the group, 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.

Independent auditors' report (continued)

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 group's and the individual company's affairs as at 31 March 2006 and of the group's profit 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.

Deloitte & Touche LLP

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

Manchester

14 September 2006

Consolidated profit and loss account

For the year ended 31 March 2006

	Notes	2006 £	2005 £
Turnover: Group and share of joint ventures'		57,332,236	27,321,606
Less: share of joint ventures' turnover		<u>(80,904)</u>	<u>(533,154)</u>
Group turnover	1	57,251,332	26,788,452
Cost of sales		<u>(39,435,000)</u>	<u>(17,062,157)</u>
Gross profit		17,816,332	9,726,295
Other operating expenses (net)	2	<u>(7,173,914)</u>	<u>(5,267,382)</u>
Operating profit		10,642,418	4,458,913
Profit on sale of tangible fixed assets		1,207,370	1,163,944
Profit on sale of joint venture	11b)	-	490,541
Share of joint ventures' operating profit		24,150	443,329
Goodwill amortisation on joint ventures		<u>-</u>	<u>(13,790)</u>
Profit on ordinary activities before finance charges		11,873,938	6,542,937
Finance charges (net)			
Group	6	(2,932,082)	(1,475,718)
Joint ventures	6	<u>(81,359)</u>	<u>(56,226)</u>
		<u>(3,013,441)</u>	<u>(1,531,944)</u>
Profit on ordinary activities before taxation	3	8,860,497	5,010,993
Tax on profit on ordinary activities	7	<u>(2,576,211)</u>	<u>(1,640,881)</u>
Retained profit for the year		<u>6,284,286</u>	<u>3,370,112</u>

A movement in reserves is given in note 22 to the financial statements.

The accompanying notes are an integral part of this consolidated profit and loss account.

All activities arose from continuing operations.

Consolidated statement of total recognised gains and losses

For the year ended 31 March 2006

	2006 £	2005 £
Profit (loss) for the financial year		
- Group	6,341,495	3,098,882
- Joint ventures	(57,209)	271,230
	<u>6,284,286</u>	<u>3,370,112</u>
Unrealised surplus on revaluation of the group's investment properties		
- Group	6,029,180	7,378,749
	<u>12,313,466</u>	<u>10,748,861</u>

There is no difference between the historical depreciation charge and the actual depreciation charge as the revaluation surplus relates to the group's investment properties which are not depreciated.

The accompanying notes are an integral part of this consolidated statement of total recognised gains and losses.

Consolidated note of historical cost profits and losses

For the year ended 31 March 2006

	2006 £	2005 £
Reported profit on ordinary activities before taxation	8,860,497	5,010,993
Realisation of property revaluation gains of previous periods	359,036	306,635
	<u>9,219,533</u>	<u>5,317,628</u>
Historical cost profit on ordinary activities before taxation		
	<u>6,643,322</u>	<u>3,676,747</u>

Consolidated balance sheet

31 March 2006

	Notes	2006 £	2005 £
Fixed assets			
Intangible fixed assets – goodwill	9	-	-
Investments	11	-	151,916
Tangible assets	10	102,013,834	69,744,213
Investments in joint ventures:			
- share of gross assets	11b)	1,499,564	1,427,411
- share of gross liabilities	11b)	(1,583,123)	(1,453,760)
		<u>101,930,275</u>	<u>69,869,780</u>
Current assets			
Stock	12	73,403,546	62,893,878
Debtors			
- due within one year	13	18,945,934	11,229,132
- due after one year	13	866,090	784,285
Current asset investments	14	1,434,598	-
Cash at bank and in hand		5,396,195	556,655
		<u>100,046,363</u>	<u>75,463,950</u>
Creditors: Amounts falling due within one year	15	<u>(81,431,166)</u>	<u>(55,688,998)</u>
Net current assets		<u>18,615,197</u>	<u>19,774,952</u>
Total assets less current liabilities		<u>120,545,472</u>	<u>89,644,732</u>
Creditors: Amounts falling due after more than one year	16	(66,488,325)	(48,030,889)
Provisions for liabilities	17	<u>(547,562)</u>	<u>(417,724)</u>
Net assets		<u>53,509,585</u>	<u>41,196,119</u>
Capital and reserves			
Called-up equity share capital	21	2,000,000	2,000,000
Share premium account	22	4,609,464	4,609,464
Revaluation reserve	22	30,659,367	24,989,223
Other reserve	22	32,229	32,229
Profit and loss account	22	16,208,525	9,565,203
Equity shareholders' funds	23	<u>53,509,585</u>	<u>41,196,119</u>

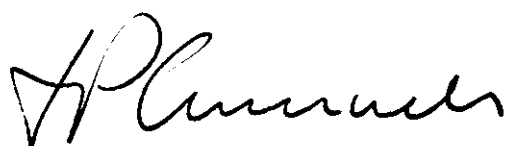
The accompanying notes are an integral part of this consolidated balance sheet.

Company balance sheet

31 March 2006

	Notes	2006 £	2005 £
Fixed assets			
Tangible assets	10	1,550,191	1,461,457
Investments	11	6,785,720	6,785,720
		<u>8,335,911</u>	<u>8,247,177</u>
Current assets			
Debtors	13	4,006,817	3,940,480
Cash at bank and in hand		700	700
		<u>4,007,517</u>	<u>3,941,180</u>
Creditors: Amounts falling due within one year	15	<u>(6,513,656)</u>	<u>(5,740,446)</u>
Net current liabilities		<u>(2,506,139)</u>	<u>(1,799,266)</u>
Total assets less current liabilities		5,829,772	6,447,911
Provisions for liabilities	17	<u>(74,860)</u>	<u>(69,907)</u>
Net assets		<u>5,754,912</u>	<u>6,378,004</u>
Capital and reserves			
Called-up equity share capital	21	2,000,000	2,000,000
Share premium account	22	4,609,464	4,609,464
Profit and loss account	22	<u>(854,552)</u>	<u>(231,460)</u>
Equity shareholders' funds		<u>5,754,912</u>	<u>6,378,004</u>

Signed on behalf of the Board



J.P. Curnuck
Director

13 September 2006

The accompanying notes are an integral part of this balance sheet.

Consolidated cash flow statement

For the year ended 31 March 2006

	Notes	2006 £	2005 £
Net cash inflow (outflow) from operating activities	24	20,516,670	(33,845,981)
Returns on investments and servicing of finance	25(a)	(5,648,633)	(1,531,944)
Taxation	25(b)	(3,979,842)	502,591
Capital expenditure and financial investment	25(c)	(33,400,776)	(4,991,642)
Acquisitions and disposals			
Purchase of subsidiary undertaking	11(b)	(371,440)	7,078
Sale of joint venture undertaking	11(b)	489,000	-
Equity dividends paid		(752,360)	(563,175)
Cash outflow before financing		(23,147,381)	(40,423,073)
Financing	25(d)	27,986,921	41,043,966
Increase in cash in the year	26	<u>4,839,540</u>	<u>620,893</u>

The accompanying notes are an integral part of this consolidated cash flow statement.

Statement of accounting policies

31 March 2006

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The principal accounting policies are summarised below. Compliance with SSAP 19 'Accounting for investment properties' requires departure from the requirements of the Companies Act 1985 relating to depreciation and an explanation of the departure is given in the investment property accounting policy below. The accounting policies have all been applied consistently throughout the year and the preceding year.

Basis of accounting

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of certain fixed assets and in accordance with applicable accounting standards.

True and fair override

In accordance with FRS 9, goodwill is calculated on investments in joint ventures by comparing the fair value of the joint ventures net assets at the date of acquisition compared to the consideration paid.

The Companies Act 1985 requires a one-stage method of calculating goodwill on a further purchase of shares that results in the joint venture becoming a subsidiary undertaking. The directors consider that this treatment will not give a true and fair view because profits already included in the group's consolidated profit and loss account form part of the fair value of the subsidiary's net assets acquired.

Therefore the directors have adopted the true and fair override in FRS 2 and calculated goodwill on a piecemeal basis. If this departure from the Act had not been made, negative goodwill of £562,392 would have been recorded and released back to the consolidated profit and loss account over the life of the assets it relates to.

Basis of consolidation

The group financial statements consolidate the financial statements of Urban Splash Group Limited and its subsidiary undertakings for the year ended 31 March 2006. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed. Acquisitions are accounted for under the acquisition method.

Turnover

Turnover represents amounts receivable for properties and services provided in the normal course of business, net of trade discounts, VAT and other sales related taxes.

Tangible fixed assets

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, other than investment properties and land options, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Loft shop property	3 years
Structural alterations	10 years
Fittings and equipment	5 years
Motor vehicles	3 years
Computer equipment	3 years

Assets under the course of construction are not depreciated.

Statement of accounting policies (continued)

Tangible fixed assets (continued)

Interest costs incurred in bringing assets to a state where they are ready to be used are capitalised as part of the cost of the asset.

Investment properties

Investment properties are revalued annually. Surpluses or deficits on individual properties are transferred to the revaluation reserve, except that a deficit which is expected to be permanent and which is in excess of any previously recognised surplus over cost relating to the same property, or the reversal of such a deficit, is charged (or credited) to the profit and loss account. Depreciation is not provided in respect of investment properties. The directors consider that this accounting policy, which represents a departure from the statutory accounting rules, is necessary to provide a true and fair view as required under SSAP 19. The financial effect of the departure from statutory accounting rules cannot reasonably be quantified because depreciation is only one of the factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

Investments

Fixed asset investments are shown at cost less provision for impairment.

Intangible assets - Goodwill

Goodwill arising on the acquisition of businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which is twenty years. Provision is made for any impairment.

Joint ventures

Joint ventures are included within the financial statements using the gross equity accounting method.

Work in progress

Work in progress is valued on the basis of total costs incurred, net of amounts transferred to the profit and loss account in respect of properties sold.

Interest costs incurred in bringing assets to a state where they are ready to be used are capitalised as part of the cost of the asset.

Leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Statement of accounting policies (continued)

Taxation (continued)

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Government grants

Government grants in respect of properties under development are credited to the profit and loss account in line with the costs incurred during development. Such grants are held within deferred income until taken to the profit and loss account. Where the terms of the grant include a possible repayment, provision for such repayment is made immediately.

Notes to the financial statements

1 Turnover

The turnover and profit before tax are attributable to the principal activity of the group and arise wholly within the United Kingdom.

Revenue is recognised when the group has obtained the right to receive consideration in exchange for its performance under contracts for sale. Revenue is recognised on sales of apartments and commercial units when the notice for legal completion is served on the purchaser at the point of the completion of the group's obligations to the purchaser under the contract for sale.

2 Other operating expenses (net)

	2006 £	2005 £
Administrative expenses	7,348,864	5,271,917
Other operating income	(174,950)	(4,535)
	<u>7,173,914</u>	<u>5,267,382</u>

3 Profit on ordinary activities before taxation

Profit is stated after charging (crediting)

	2006 £	2005 £
Depreciation on owned fixed assets	395,700	302,842
Amortisation of goodwill	-	13,790
Profit on disposal of fixed assets	(1,207,370)	(1,163,944)
Operating lease rentals		
- other	186,373	65,783
Government grants released	-	(308,941)
Auditors' remuneration for audit services	<u>60,000</u>	<u>44,000</u>

Amounts payable to Deloitte & Touche LLP and their associates by the company and its subsidiary undertakings in respect of non-audit services were £63,299 (2005 - £42,310).

4 Staff costs

The average monthly number of employees (including directors) was:

	2006 Number	2005 Number
Construction staff	59	45
Administrative staff	45	29
Development staff	17	14
Sales staff	15	15
	<u>136</u>	<u>103</u>

Notes to the financial statements (continued)

4 Staff costs (continued)

Their aggregate remuneration comprised:

	2006 £	2005 £
Wages and salaries	4,865,369	3,743,196
Social security costs	527,954	404,356
Less: amounts capitalised	(2,279,895)	(1,737,442)
	<u>3,113,428</u>	<u>2,410,110</u>

5 Directors' remuneration and transactions

The directors' aggregate emoluments in respect of qualifying services were:

	2006 £	2005 £
Emoluments	<u>554,093</u>	<u>393,921</u>

Highest paid director

The above amounts for remuneration include the following in respect of the highest paid director:

	2006 £	2005 £
Emoluments	<u>191,722</u>	<u>139,154</u>

Directors' transactions

The following transactions have taken place with directors, all of which have been on what directors consider to be an arm's length basis:

An amount of £nil (2005 - £14,520) is included within turnover in respect of goods and services supplied by a subsidiary undertaking to T.P.R. Bloxham M.B.E. The total arm's length value of this transaction was £nil (2005 - £14,520).

T.P.R. Bloxham M.B.E. was paid lease rentals by the company of £113,377 (2005 - £104,459), during the current year, in respect of office space which he owns.

The maximum amount of the overdrawn directors' current accounts outstanding during the year was the same as the amount outstanding at the year end.

Notes to the financial statements (continued)

6 Finance charges (net)

Group

	2006 £	2005 £
Bank loans and overdrafts	5,879,920	3,715,919
Less: amounts capitalised	(2,887,696)	(2,198,801)
	<u>2,992,224</u>	<u>1,517,118</u>
Interest receivable and similar income	(60,142)	(41,400)
	<u>2,932,082</u>	<u>1,475,718</u>

Joint ventures

	2006 £	2005 £
Bank loans and overdrafts	82,290	57,394
Interest receivable and similar income	(931)	(1,168)
	<u>81,359</u>	<u>56,226</u>

7 Tax on profit on ordinary activities

The tax charge comprises

	2006 £	2005 £
Current tax		
UK corporation tax	2,609,849	1,420,065
Adjustments in respect of prior period		
- UK corporation tax	(163,476)	103,820
Total current tax	<u>2,446,373</u>	<u>1,523,885</u>
Deferred tax		
Origination and reversal of timing differences	131,505	32,318
Adjustments in respect of prior period	(1,667)	(31,195)
Total deferred tax	<u>129,838</u>	<u>1,123</u>
Share of joint venture tax	<u>-</u>	<u>115,873</u>
Total tax on profit on ordinary activities	<u>2,576,211</u>	<u>1,640,881</u>

Notes to the financial statements (continued)

7 Tax on profit on ordinary activities (continued)

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2006 £	2005 £
Profit on ordinary activities before tax	8,860,497	5,010,993
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2005 – 30%)	2,658,149	1,503,298
Effects of:		
Expenses not deductible for tax purposes	79,578	49,116
Capital allowances in excess of depreciation	(131,455)	(89,372)
Income not taxable	(357,395)	-
Share of joint venture tax	17,163	(115,873)
Profit on disposal of investment properties	343,809	72,896
Adjustments to tax charge in respect of previous period	(163,476)	103,820
Current tax charge for the year	2,446,373	1,523,885

The company earns its profits in the UK, therefore the tax rate used for tax on profit on ordinary activities is the standard rate for UK corporation tax, currently 30%.

8 Result attributable to Urban Splash Group Limited

The loss after taxation for the year dealt with in the financial statements of the parent company, Urban Splash Group Limited, was £623,092 (2005 – loss of £495,648). As permitted by section 230 of the Companies Act 1985, no separate profit and loss account is presented in respect of the parent company.

9 Intangible fixed assets – goodwill

	2006 £	2005 £
Cost		
Beginning of year	-	275,795
Additions (see note 11b)	-	(281,592)
Creation of other reserve (see note 22)	-	5,797
End of year	-	-
Amortisation		
Beginning of year	-	(12,642)
Charge for year	-	(13,790)
Creation of other reserve (see note 22)	-	26,432
End of year	-	-
Net book value		
Beginning of year	-	263,153
End of year	-	-

The creation of the other reserve arose during the piecemeal acquisition of Urban Splash West Midlands Limited under the true and fair override in FRS 2 (see note 22).

Notes to the financial statements (continued)

10 Tangible fixed assets

Group	Investment properties £	Other property £	Structural alterations £	Assets under the course of construction £	Motor vehicles £	Fixtures, fittings and equipment £	Total £
Cost or valuation							
Beginning of year	45,765,774	1,507,947	1,743,004	21,151,650	22,619	647,193	70,838,187
Additions	1,966,464	-	180	31,273,230	8,936	425,509	33,674,319
Transfers	621,982	(52,544)	-	(575,413)	-	5,975	-
Transfers to stock	-	-	-	(5,340,921)	-	-	(5,340,921)
Disposals	(396,650)	-	-	(1,300,607)	-	-	(1,697,257)
Revaluations	6,029,180	-	-	-	-	-	6,029,180
End of year	<u>53,986,750</u>	<u>1,455,403</u>	<u>1,743,184</u>	<u>45,207,939</u>	<u>31,555</u>	<u>1,078,677</u>	<u>103,503,508</u>
Depreciation							
Beginning of year	-	226,404	481,665	-	16,614	369,291	1,093,974
Charge for the year	-	694	169,429	-	7,810	217,767	395,700
End of year	<u>-</u>	<u>227,098</u>	<u>651,094</u>	<u>-</u>	<u>24,424</u>	<u>587,058</u>	<u>1,489,674</u>
Net book value							
Beginning of year	<u>45,765,774</u>	<u>1,281,543</u>	<u>1,261,339</u>	<u>21,151,650</u>	<u>6,005</u>	<u>277,902</u>	<u>69,744,213</u>
End of year	<u>53,986,750</u>	<u>1,228,305</u>	<u>1,092,090</u>	<u>45,207,939</u>	<u>7,131</u>	<u>491,619</u>	<u>102,013,834</u>

Investment properties, which are all freehold, were valued on an open market existing use basis at 31 December 2005 by Knight Frank LLP, an external firm of property consultants. Investment properties are not depreciated.

If the investment properties had not been revalued, they would have been included at a historical cost of £23,327,383 (2005 - £20,776,551).

Included in assets under the course of construction is £409,063 of capitalised interest.

Notes to the financial statements (continued)

10 Tangible fixed assets (continued)

Company	Property £	Fixtures, fittings and equipment £	Total £
Cost			
Beginning of year	1,279,140	352,667	1,631,807
Additions	-	278,719	278,719
Transfer to group undertaking	(52,544)	-	(52,544)
End of year	<u>1,226,596</u>	<u>631,386</u>	<u>1,857,982</u>
Depreciation			
Beginning of year	-	170,350	170,350
Charge for the year	-	137,441	137,441
End of year	<u>-</u>	<u>307,791</u>	<u>307,791</u>
Net book value			
Beginning of year	<u>1,279,140</u>	<u>182,317</u>	<u>1,461,457</u>
End of year	<u>1,226,596</u>	<u>323,595</u>	<u>1,550,191</u>

11 Fixed asset investments

Investments comprise:

	Group		Company	
	2006 £	2005 £	2006 £	2005 £
Subsidiary undertakings (see note 11a)	-	-	6,785,720	6,785,720
Other investment (see note 11c)	-	151,916	-	-
	<u>-</u>	<u>151,916</u>	<u>6,785,720</u>	<u>6,785,720</u>

The company's principal investments are:

	Principal activities	Country of incorporation or principal business address	% Holding
Urban Splash Limited	Property development and sales	England	100
Urban Splash Build Limited	Property development	England	100
Urban Splash Work Limited	Property lettings	England	100
Urban Splash Yorkshire Limited	Property development	England	100
Urban Splash (South West) Limited	Property development	England	100
Urban Splash West Midlands Limited	Property development	England	100
Urban Splash Homes Limited	Property development	England	100*

*Indirect holding

Notes to the financial statements (continued)

11 Fixed asset investments (continued)

a) *Subsidiary undertakings*

	Investments in subsidiary undertakings £
Company cost and net book value	
At beginning and end of year	<u>6,785,720</u>

b) *Joint ventures*

Group	2006 £	2005 £
Share of gross assets	1,499,564	1,427,411
Share of gross liabilities	<u>(1,583,123)</u>	<u>(1,453,760)</u>
Share of net liabilities	<u>(83,559)</u>	<u>(26,349)</u>

i) *Woodfield House Limited*

The group has an investment held by Urban Splash Work Limited of 50% of the issued share capital of Woodfield House Limited, a property development company, which is registered in England and Wales. The accounting reference period for this company was 31 December. This was changed to 31 March during the year. The figures included in these financial statements are derived from the management accounts to 31 March 2006.

ii) *64a Jersey Street Limited*

During the prior year the group disposed of its 50% of the share capital of 64a Jersey Street Limited, a property development company, which is registered in England and Wales. Again this investment was held by Urban Splash Work Limited. This investment was disposed of for consideration of £489,000 by Urban Splash Work Limited. The consideration was unpaid and held within debtors at 31 March 2005.

	Book and fair value £
Disposal proceeds	489,000
Net liabilities at date of disposal	<u>1,541</u>
Group profit on disposal	<u>490,541</u>

Notes to the financial statements (continued)

11 Fixed asset investments (continued)

iii) Urban Splash West Midlands Limited

On 14 March 2005 the company acquired 50% of the issued share capital of Urban Splash West Midlands Limited for cash consideration of £371,440.

	Book and fair value £
Fixed assets	<u>5,840,960</u>
Current assets	
Debtors	394,777
Cash at bank and in hand	<u>7,078</u>
	401,855
Creditors: Amounts falling due within one year	<u>(4,936,750)</u>
Net assets	<u>1,306,065</u>
50% of net assets acquired	653,032
Goodwill – negative	<u>(281,592)</u>
	<u>371,440</u>
Satisfied by:	
Cash	<u>371,440</u>

The cash consideration was unpaid as at 31 March 2005.

c) Other investments

The other investment relates to the cost of an option to purchase the land, which was exercised during the year.

12 Stock

	Group		Company	
	2006 £	2005 £	2006 £	2005 £
Work in progress				
Finished apartments awaiting sale	18,476,737	11,505,814	-	-
Properties under redevelopment	51,816,134	49,550,611	-	-
Properties awaiting redevelopment	<u>3,110,675</u>	<u>1,837,453</u>	<u>-</u>	<u>-</u>
	<u>73,403,546</u>	<u>62,893,878</u>	<u>-</u>	<u>-</u>

Included within stock is £3,672,872 (2005 - £5,651,723) of capitalised interest.

Notes to the financial statements (continued)

13 Debtors

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Amounts falling due within one year:				
Trade debtors	1,374,406	2,339,396	3,252	171,327
Amounts owed by group undertakings	-	-	3,881,137	3,722,349
Amounts owed by related parties (note 20)	687,455	6,672	2,963	-
VAT recoverable	966,921	971,822	-	-
Other debtors	80,244	560,250	-	-
Directors' current accounts (note 5)	21,603	-	15,695	-
Prepayments and accrued income	15,815,305	7,350,992	103,770	46,804
	<u>18,945,934</u>	<u>11,229,132</u>	<u>4,006,817</u>	<u>3,940,480</u>
Amounts falling due after more than one year:				
Amounts owed by related parties (note 20)	<u>866,090</u>	<u>784,285</u>	<u>-</u>	<u>-</u>
	<u>19,812,024</u>	<u>12,013,417</u>	<u>4,006,817</u>	<u>3,940,480</u>

14 Current asset investments

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Restricted cash balances	<u>1,434,598</u>	<u>-</u>	<u>-</u>	<u>-</u>

Restricted cash balances relate to cash received in respect of exchanged deposits relating to one of the group's residential developments and are held within a bank account that has restricted access.

Notes to the financial statements (continued)

15 Creditors: Amounts falling due within one year

	Group		Company	
	2006 £	2005 £	2006 £	2005 £
Deposits held	6,012,088	5,454,466	-	-
Bank loans and overdrafts (note 16)	43,167,250	33,637,765	5,950,820	4,309,703
Trade creditors	10,284,117	5,826,791	136,639	196,448
Amounts owed to related parties (note 20)	251,975	80,570	4,293	-
Directors' loan accounts (note 5)	-	199,079	-	358,031
UK corporation tax	1,516,853	3,049,894	-	-
Other taxation and social security	194,730	134,275	25,334	27,182
VAT	-	-	181,922	-
Other creditors	216,366	87,100	-	-
Accruals	8,051,545	4,872,697	214,648	96,722
Deferred income	11,736,242	1,594,001	-	-
Proposed dividends - equity shareholders	-	752,360	-	752,360
	<u>81,431,166</u>	<u>55,688,998</u>	<u>6,513,656</u>	<u>5,740,446</u>

16 Creditors: Amounts falling due after more than one year

	Group		Company	
	2006 £	2005 £	2006 £	2005 £
Bank loans	<u>66,488,325</u>	<u>48,030,889</u>	<u>-</u>	<u>-</u>

Group borrowings are repayable as follows:

	2006 £	2005 £
Bank loans and overdrafts		
Between one and two years	10,928,516	23,580,889
Between two and five years	24,414,103	-
After five years	<u>31,145,706</u>	<u>24,450,000</u>
	66,488,325	48,030,889
On demand or within one year	<u>43,167,250</u>	<u>33,637,765</u>
	<u>109,655,575</u>	<u>81,668,654</u>

The bank loans are secured through a fixed charge on the freehold properties of certain group companies, together with a floating charge over the group's assets.

Notes to the financial statements (continued)

16 Creditors: Amounts falling due after more than one year (continued)

Development loans of £65,670,766 (2005 - £57,218,654) bear interest at 1.25% above base rate or LIBOR, of which £43,167,250 (2005 - £33,637,765), is repayable within one year £10,928,516 (2005 - £23,580,889) is repayable between one and two years and £11,575,000 (2005 - £nil) between two and five years.

Development loans of £2,339,103 (2005 - £nil) bear interest at 1.75% above base rate, and are repayable between two and five years.

Bank loans of £6,000,000 (2005 - £6,000,000) are wholly repayable within two to five years, and these bear interest at 7.5% per annum and are repayable in full in 2010.

Bank loans of £7,900,000 (2005 - £7,900,000) are wholly repayable after more than five years, and these bear interest at LIBOR plus 1.25% and are repayable in full in 2012.

Bank loans of £23,245,706 (2005 - £10,550,000) are wholly repayable after more than five years and these bear interest at LIBOR plus 1.15% and are repayable in full in 2013.

Bank loans of £4,500,000 (2005 - £nil) are wholly repayable within two to five years and these bear interest at LIBOR plus 1.15%.

Interest rate swaps

The group has taken out various financial instruments to manage its exposure to interest rate movements on its bank borrowings. These accrete in value up to 2012. Their aggregate nominal value at 31 March 2006 was £74.04m and the fixed interest rates attaching to these instruments vary between 4.77% and 6%.

The fair value of the financial instruments entered into at 31 March 2006 is estimated at £26,011.

17 Provisions for liabilities

	Deferred tax	
	Group £	Company £
Beginning of year	417,724	69,907
Charged to profit and loss account	129,838	4,953
End of year	547,562	74,860

Deferred tax

Deferred tax is provided as follows:

	Group		Company	
	2006 £	2005 £	2006 £	2005 £
Accelerated capital allowances	547,562	417,724	74,860	69,907

Notes to the financial statements (continued)

18 Financial commitments

Annual commitments under non-cancellable leases are as follows:

Group

	2006		2005	
	Land and buildings £	Other items £	Land and buildings £	Other items £
Expiry date				
- within one year	23,600	-	-	2,250
- within two to five years	-	20,931	-	2,763
- after five years	152,062	-	60,770	-
	<u>175,662</u>	<u>20,931</u>	<u>60,770</u>	<u>5,013</u>

Company

	2006		2005	
	Land and buildings £	Other items £	Land and buildings £	Other items £
Expiry date				
- within two to five years	-	4,434	-	2,763
	<u>-</u>	<u>4,434</u>	<u>-</u>	<u>2,763</u>

19 Contingencies

At the year end the company had contingent liabilities amounting to £109,655,575 (2005 - £81,668,654) relating to unlimited multilateral guarantees with the company's bank for subsidiary companies.

20 Related party transactions

The company was under the control of Mr. T.P.R. Bloxham M.B.E. throughout the current year and previous year. Mr. Bloxham is the chairman and majority shareholder.

The net amounts owed by (or owed to) related parties at the year end were as follows:

	2006 £	2005 £
Shed KM Limited	(130,814)	(105,080)
Shed Graphics Limited	-	(1,901)
Baa Bar Limited	11,758	10,115
TBI 2000 Limited	4,151	2,338
Dry Limited	7,737	7,737
Timber Wharf Management Limited	(2,646)	1,643
Smithfield Lofts Management Company Limited	130	130
Union North	(53,212)	(241)
Oak Farm Partners	2,728	287,757
Woodfield House Limited	866,090	784,285
64A Jersey Street Limited	-	(3,676)
Windmill Demolition (NW) Limited	(65,303)	-

Notes to the financial statements (continued)

20 Related party transactions (continued)

S.D. Gawthorpe	154,800	-
A. Waugh	85,000	-
Chymoor Properties Limited	132,250	-
Sandown Place Limited	285,900	-
	<hr/>	<hr/>

These amounts all relate to trading balances which have arisen in the normal course of business, and are conducted on an arm's length basis. During the year the group:

- incurred architect fees amounting to £1,005,224 (2005 - £709,317) from and paid £nil (2005 - £1,215) in fees to Shed KM Limited, a company in which J.M. Falkingham is materially interested as a director and shareholder;
- received rental and professional fee income amounting to £136,682 (2005 - £44) recharged costs amounting to £9,986 (2005 - £nil) and incurred costs amounting to £3,018 (2005 - £nil) from Baa Bar Limited. In addition the group paid catering expenses of £nil (2005 - £750). Baa Bar Limited is a company in which T.P.R. Bloxham M.B.E. and J.M. Falkingham are materially interested in as directors and shareholders;
- the group received reimbursement of employee expenses amounting to £1,554 (2005 - £3,424) from TBI 2000 Limited, a company in which T.P.R. Bloxham M.B.E. is materially interested as a director and shareholder;
- made sales of £31,839 (2005 - £nil) to Smithfield Lofts Management Company Limited, a company in which T.P.R. Bloxham M.B.E. and J.M. Falkingham are materially interested in as directors and shareholders;
- incurred £357,904 (2005 - £40,805) of costs from Union North, an architecture practice owned by a close family member of J.M. Falkingham;
- recharged costs amounting to £875 (2005 - £nil) and was refunded service charges amounting to £8,141 (2005 - £nil) from Timber Wharf Management Limited, a company in which T.P.R. Bloxham M.B.E. is materially interested as director;
- received construction income amounting to £nil (2005 - £613,752), recharged costs of £3,600 (2005 - £nil) and credited amounts receivable of £33,499 (2005 - £nil) from Oak Farm Partners, a partnership in which J.M. Falkingham is materially interested in as a partner;
- incurred fees of £1,032,698 (2005 - £667,014) from Windmill Demolition (NW) Limited, a company owned by a close family member of Fiona Woodward, who has an interest in the share capital of Urban Splash Group Limited; and
- received £nil (2005 - £2,576) from 64a Jersey Street Limited, a joint venture of Urban Splash Work Limited, which was disposed of in the prior year.

No transactions took place during the year but balances were due from Dry Limited, a company in which T. P. R. Bloxham M.B.E. is materially invested as director and shareholder, and payable to Shed Graphics Ltd, a company in which J. M. Falkingham is materially interested in as a director and shareholder, at 31 March 2006.

The following amounts all relate to directors' transactions during the current year which were for purchases of residential apartments, all of which took place on an arms length basis:

	£
T.P.R. Bloxham	100,000
L.W. Maynard*	105,600
D. Haydock*	130,000
S.D. Gawthorpe*	172,000
R. Riding*	101,600
A. Waugh	86,000
W. Martin	132,000

Notes to the financial statements (continued)

20 Related party transactions (continued)

F. Woodward*	236,500
Chymoor Properties Limited	586,950
Sandown Place Limited	288,400
Hopwood Enterprises Limited	<u>833,265</u>

* These directors are directors of subsidiary undertakings of Urban Splash Group Limited.

S.D. Gawthorpe, a director of Urban Splash Yorkshire Limited, a subsidiary of Urban Splash Group Limited, is materially interested in Chymoor Properties Limited. J.P. Curnuck, a director of Urban Splash Group Limited is materially interested in Sandown Place Limited. A. Waugh, a director of Urban Splash Group Limited is materially interested in Hopwood Enterprises Limited.

21 Called-up share capital

	2006 £	2005 £
<i>Authorised</i>		
20,000,000 ordinary shares of £1 each	<u>20,000,000</u>	<u>20,000,000</u>
<i>Allotted, called-up and fully-paid</i>		
2,000,000 ordinary shares of £1 each	<u>2,000,000</u>	<u>2,000,000</u>

22 Reserves

Group	Share premium account £	Revaluation reserve £	Other reserve £	Profit and loss account £	Total £
Beginning of year	4,609,464	24,989,223	32,229	9,565,203	39,196,119
Revaluation surplus					
- Group	-	6,029,180	-	-	6,029,180
- Disposal of investment property	-	(359,036)	-	359,036	-
Retained profit (loss) for the year					
- Group	-	-	-	6,341,495	6,341,495
- Joint ventures	-	-	-	(57,209)	(57,209)
End of year	<u>4,609,464</u>	<u>30,659,367</u>	<u>32,229</u>	<u>16,208,525</u>	<u>51,509,585</u>
Company					
Beginning of year	4,609,464	-	-	(231,460)	4,378,004
Retained loss for the year	-	-	-	(623,092)	(623,092)
End of year	<u>4,609,464</u>	<u>-</u>	<u>-</u>	<u>(854,552)</u>	<u>3,754,912</u>

The other reserve comprises an unrealised gain on the acquisition of 50% of Urban Splash West Midlands Limited during the prior year. This reserve arose when the entity became a subsidiary under the true and fair override in FRS 2.

Notes to the financial statements (continued)

23 Reconciliation of movement in group equity shareholders' funds

	2006 £	2005 £
Profit (loss) for the financial year		
- Group	6,341,495	3,098,882
- Joint ventures	(57,209)	271,230
Revaluation of investment properties		
- Group	6,029,180	7,378,749
Other reserve	-	32,229
	<u>12,313,466</u>	<u>10,781,090</u>
Opening equity shareholders' funds	41,196,119	30,415,029
Closing equity shareholders' funds	<u>53,509,585</u>	<u>41,196,119</u>

24 Reconciliation of operating profit to operating cash flows

	2006 £	2005 £
Operating profit	10,642,418	4,458,913
Depreciation charges	395,700	302,842
Increase in work in progress	(2,281,049)	(34,018,707)
Increase in debtors	(5,472,802)	(6,063,430)
Increase in current asset investments	(1,434,598)	-
Increase in creditors	18,667,001	1,474,401
Net cash inflow (outflow) from operating activities	<u>20,516,670</u>	<u>(33,845,981)</u>

25 Analysis of cash flows

a) Returns on investments and servicing of finance

	2006 £	2005 £
Interest received	29,268	41,400
Interest paid	(5,677,901)	(1,573,344)
Net cash outflow	<u>(5,648,633)</u>	<u>(1,531,944)</u>

Notes to the financial statements (continued)

b) Taxation

	2006 £	2005 £
UK corporation tax (paid) refunded	(3,979,842)	502,591
Net cash (outflow) inflow	(3,979,842)	502,591

c) Capital expenditure and financial investment

	2006 £	2005 £
Purchase of tangible fixed assets	(33,522,399)	(6,717,392)
Sale of tangible fixed assets	121,623	1,725,750
Net cash outflow	(33,400,776)	(4,991,642)

d) Financing

	2006 £	2005 £
New bank loans	59,399,299	42,273,662
Repayment of loans	(31,412,378)	(1,229,696)
Net cash inflow	27,986,921	41,043,966

26 Analysis and reconciliation of net debt

	Beginning of year £	Cash flows £	End of year £
Cash in hand and at bank	556,655	4,839,540	5,396,195
Debt due within one year	(33,637,765)	(9,529,485)	(43,167,250)
Debt due after more than one year	(48,030,889)	(18,457,436)	(66,488,325)
Total debt	(81,668,654)	(27,986,921)	(109,655,575)
Net debt	(81,111,999)	(23,147,381)	(104,259,380)

	2006 £	2005 £
Increase in cash in the year	4,839,540	620,893
Net cash inflow from bank loans	(27,986,921)	(41,043,855)
Change in net debt	(23,147,381)	(40,422,962)
Net debt at beginning of year	(81,111,999)	(40,689,037)
Net debt at end of year	(104,259,380)	(81,111,999)

Notes to the financial statements (continued)

27 Capital commitments

At the year end the group had no capital commitments (2005 - £600,000).

28 Ultimate controlling party

The directors regard T.P.R. Bloxham M.B.E. as the ultimate controlling party.

29 Subsequent events

Post year end, on 18 July 2006 a fire occurred in one of the group's residential developments under construction. The group is substantially insured but the impact of the fire has yet to be quantified.

Subsequent to the year end, an interim dividend of £750,000 (37.5p per share) was declared on 23 June 2006, which was paid on 30 June 2006.