

Urban Splash Group Limited
and subsidiary undertakings

Annual report and financial statements
for the year ended 31 March 2008

Registered number: 03141013

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Chairman's report

For the year ended 31 March 2008

Urban Splash Year End Results

These results relate to year end March 2008 and looking through them a year later it is like looking into a past world. The results are now historic and since the end of the financial year Urban Splash along with other property companies have had to cope with the credit crunch, the ongoing bank crisis and lack of mortgage availability, a collapse in confidence in the housing market and the general economic recession. It's been a very 'interesting' time!

Nonetheless, I am extremely proud of the results. The current year's trading environment is even worse, but I hope the values and skills that allowed us to outperform the market last year will continue to allow us to perform in what are very difficult circumstances.

I'm very pleased to announce this set of record results with a total return of £22.3m (profit for the financial year plus commercial property revaluation). Our turnover was £74.5m (up 20% on the previous year), net assets increased to £92.7m (up 31%) and sales of completed apartments were £63.2m (up 29%).

Our core business is developing, selling and letting residential homes and developing and renting out commercial office, retail and work space. Unusually, we also do all the construction and marketing of our developments; this allows us to manage our risk and produce the quality for which we are renowned.

Residential Sales

Total sales of completed apartments were £63.2m (up 29% on the previous year). This amounts to 431 homes (up 40%) including:

- 189 apartments in Rotunda, Birmingham
- 125 upside down houses at Chimney Pot Park in Salford
- 37 apartments in Velvet Mill at Lister Mills in Bradford
- 36 apartments in Christabel, the second of the 3 Towers in Manchester
- 17 apartments in Mills Bakery in Royal William Yard, Plymouth

Property Investments

Our business is split between residential and commercial properties. Historically we have sold all our residential buildings and kept our commercial. This commercial portfolio has and continues to give us some stability against the ups and downs of development with a large secure rental income. At year end the total commercial rental income was £8.1m per annum with a gross value of £136.4m and we were 90% let across the portfolio. Our real success was Fort Dunlop which was built entirely speculatively, i.e. without any pre-lets, but we managed to get it 96% let within twelve months by offering great design and value for money rents.

We have also now decided to retain an ever increasing portfolio of residential properties, firstly to satisfy demand, and secondly to save selling apartments at market dictated discounts. In the year our residential portfolio increased to 129 apartments (up 29%). A friend once gave me some great advice which was simply "wherever possible keep hold of assets." I wish I had taken his advice a bit earlier and kept a few of our apartments in every building we've developed. We're now looking at ways of correcting my mistake and retaining a greater investment in our residential portfolio.

Chairman's report (continued)

For the year ended 31 March 2008

Construction

We, as a matter of choice, carry out all our own construction work. In the year we undertook £88m (up 21% on the previous year) of building work throughout the country, completing iconic buildings like Rotunda and Fort Dunlop in Birmingham, the Christabel tower block in Manchester, Matchworks and Matchbox in Liverpool. We started on-site at Lakeshore in Bristol, Park Hill in Sheffield, and Saxton in Leeds.

Not only have we increased our construction work in terms of quantity but we also build to great quality. Testament to this is the 24 awards our buildings won during the year including five projects shortlisted for RIBA Awards for Architecture, which I believe is an unprecedented number for any developer. A further 10 awards were received during the year for our commitment to quality design and development, taking our total to 235 by March 2008.

Regeneration

The financial figures speak for themselves, but at Urban Splash we're driven firstly by a desire to work with people to create great buildings, spaces and places, and only after that a solid bottom line. We believe that if we are faithful to this desire for great architecture we will be successful financially as well.

'Community' is in danger of becoming an over-used word, but for us, regeneration is all about building new communities and thinking about the long term.

We are particularly proud of the role we play in helping regenerate some of the country's most deprived areas: with the transformation of the Cardroom estate in Manchester to New Islington and the restoration of the Midland Hotel to help reinvent Morecambe as the Brighton of the North. The conversion of the Victorian terraces in Chimney Pot Park, literally turning the terraced house upside down, proved there is a massive demand for the terraced house when a little imagination is injected. We're also helping to save some neglected post war 20th Century heritage buildings like Park Hill in Sheffield, Lakeshore in Bristol and the Rotunda in Birmingham.

Brand

We believe that Urban Splash is one of the very few property companies which really is a brand.

Brands are becoming increasingly important (even if this hasn't been fully recognised by the property industry) and we were very pleased to win the North West Top Brand award for 2007, beating Manchester United and the Co-operative Group. We were also the only property company to be included in the Cool Brands Top 50 UK Brands 2008.

Outlook

The economic climate is as difficult as I've known it and like many of our competitors we are implementing cost savings. We are however determined to make the most of opportunities. Our values of mixed-use, great architecture, conservation and private public sector partnership have never been more to the fore. Sales are not easy but we believe we are already seeing "a flight to quality". We have long been frustrated that our apartments are not being recognised by valuers as any different in terms of architecture or sustainability from the most mediocre around the corner. But now we see a buyers' market where purchasers are being much more discerning, and despite some valuers' opinions that all apartments are worth the same, our experience is that people are choosing Urban Splash apartments and commercial space ahead of our competitors.

Current sales of apartments are difficult and cancellation rates are at increased levels from last year. Build costs have risen meaning it is increasingly hard to start new projects. However, our commercial and residential investments continue to perform well.

Chairman's report (continued)

For the year ended 31 March 2008

Outlook (continued)

The general poor economic climate and the credit crunch have led us to look closely at our business and our cost base. We have made significant cost reductions and overhead reductions. This has been one of the hardest decisions of my business life and we have lost colleagues and friends from the business. However, these painful steps have left the company in leaner and better shape. We are concentrating on our core business and have successfully leased off the Midland Hotel.

The banking crisis has doubly affected Urban Splash. Firstly our purchasers have had real difficulty obtaining mortgages for homes they wanted to buy. We the company have found it increasingly difficult to raise new funds for development projects. We're grateful to our bankers at HSBC, The RBS and The Co-operative Bank for their ongoing support. Our £125m club facility is due for renewal in 2013 and in July 2009 we also agreed a 3 year renewal of a £101m HSBC facility.

I believe one opportunity to come out of the economic downturn is the ability to help tackle the country's housing affordability issues. We believe Urban Splash is well positioned to provide new types of affordable housing. We have successfully pioneered English Partnerships' First Time Buyers' Initiative and we are working closely with the Government's new Homes and Communities Agency (HCA). We have successfully gained Housing Corporation accreditation and bid and won grants for Homebuy Direct and Rent to Homebuy.

These exciting schemes supported by the Government allow individuals, who otherwise might not be able to afford quality Urban Splash homes, to rent and buy at subsidised rates. Our early success in working with HCA is an illustration of our strength and experience with public private partnerships and our desire to be the public sector's regeneration partner of choice.

The competition wins, land acquisitions and successful planning applications strengthen our asset base, with a pipeline of over 300 acres of development sites which should produce over 8,000 new homes and two million sq ft of commercial space. This strong asset base, our experienced staff and long established relationships should leave us well placed to benefit from an upturn in the market. I believe this upturn will happen before Christmas, I'm just not sure which Christmas!

Urban Splash has made a real impact on towns and cities over the last 15 years and I'm absolutely determined to continue working to help regenerate our towns and cities despite the economic climate.

I'm incredibly proud of our achievements and my thanks go to all my colleagues, our suppliers and our partners, without whom none of this would have been achieved.

Please feel free to email me on tombloxham@urbansplash.co.uk if you have any specific ideas for us.



Tom Bloxham MBE

Directors' report

For the year ended 31 March 2008

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 2008.

The company has changed its accounting reference date to the 28 March, however the financial statements for both the current and prior year have been prepared up to the financial year ended 31 March.

The directors wish to draw attention to the statement of accounting policies regarding the basis of preparation of the accounts. The group and company are dependant upon the continued support of its bankers in providing adequate finance.

Principal activities and business review

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

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.

A comprehensive review of the business can be found in the Chairman's Statement on pages 1 to 3.

Results and dividends for the 2008 financial year

This year, the group reported record turnover up 20% to £74.5 million (2007 - £62.1 million), profit before tax up 10% to £3.2 million (2007 - £2.9 million) and net assets up 31% to £92.7 million (2007 - £70.7 million). The total return (retained profit for the financial year plus commercial property revaluation), the board's key group financial performance measure, was up 18% to a record £22.3 million (2007 - £18.8 million).

Further information regarding the trading performance of the group can be found in the Chairman's Statement on pages 1 to 3.

The audited financial statements for the year ended 31 March 2008 are set out on pages 11 to 37. The directors have not declared a dividend payment in the current year (2007 – 78.5536p per ordinary share).

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.

Liquidity

In addition to the items detailed in the Chairman's statement the group is exposed to the risk of limited or restricted liquidity due to the prevailing UK housing market and banking conditions. This has resulted in a lack of finance to both develop and build out schemes and also for potential home owners to secure mortgages to purchase homes. In addition, liquidity is further reduced due to significantly reduced levels of demand for home purchases and delays in the completion of exchanged sales due uncertainty over values and the general recessionary economic environment. The group is also reliant on the continual availability of short term bank facilities in order to meet the cash demands arising from the short fall or delay in income from sales.

Directors' report (continued)

For the year ended 31 March 2008

Risks and uncertainties (continued)

This risk is managed and monitored through detailed daily and monthly cash flow forecasts which are reviewed by the board on a regular basis together with tight controls over cash payments. The directors have taken measures to reduce overhead and site expenditure in order to reduce cash out flow and hence the reliance on bank facilities. In addition, the directors are in continual discussions with its banks to maintain sufficient bank facilities and have raised additional facilities since the year end. The group also has £10m of committed, un-drawn facilities

Interest rates

The group is exposed to volatility in base rates and LIBOR as it is predominantly debt-funded. We have aimed to hedge 60% of our interest exposure through a mixture of financial instruments to mitigate much of this risk and as at 31 March 2008 approximately 47% (2007 – 48%) of debt is hedged.

Availability of mortgage finance

Mortgage finance is essential for most of our residential purchasers to complete the purchase of our homes and the availability of such finance has significantly diminished in recent months.

The group closely monitors the status of all sales where mortgages are required and the status of mortgage applications with individuals. The group actively engages with both mortgage providers and valuers and provides them with full information in respect of the terms of each home purchase to enable them to conclude mortgage offers.

Rental demand

The group develops speculative commercial property and could be exposed to low occupancy if demand for commercial space falls.

The group continues to maintain occupancy at a high level (over 90%) which reflects its customer focussed approach to commercial property management and that it is meeting the requirements of its tenants.

Commercial property developed by the group is designed so as to appeal to a wide range of potential tenants. In continuing to provide well designed, well managed, unique and affordable office space on flexible terms, the group is maintaining the high occupancy levels currently experienced.

Housing demand

The current significant uncertainty over the housing market and house values both from investors and owner-occupiers is likely to remain for at least the next 12-18 months. This uncertainty over the property market and values could have a significant impact on the growth of the group.

The group has a broad geographic spread and is not over exposed to any particular region. The long-term demographic predictions indicate a lack of supply of 1 and 2 bedroom housing and an under supply of residential rental accommodation and we believe the long term prospects remain good. 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.

The group typically aims to spread the forward sales across a wide cross section of demand, offering priority to local purchasers and loyalty clients together with investors and owner-occupiers. This targeted sales range successfully meets demand as well as spreading the purchaser base on forward contracts.

Directors' report (continued)

For the year ended 31 March 2008

Risks and uncertainties (continued)

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 a strong track record of achieving successful planning applications. 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 has ensured 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, particularly in the current era of market uncertainty. 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.

Acquisition of the company's own shares

Further to the shareholders' resolutions of 10 April 2007, the company purchased 6,400 ordinary shares with a nominal value of £6,400, and representing 0.32% of the company's called-up ordinary share capital, for a consideration of £277,000. The reason for the purchase was to facilitate a shareholder to sell their shares in the company.

Post balance sheet events

On 7 July 2008, the Urban Splash Group Limited Employee Benefit Trust purchased 42,400 shares for a cash consideration of £1,655,808.

On 24 June 2008 the group completed the refinancing of £30,366,598 of development loans and £43,500,000 of bank loans in to a new 5 year, £125,000,000 committed loan facility of which £107,000,000 was drawn on completion. The loan facility is secured by debentures over certain subsidiaries and mortgages over certain of the group's commercial and residential property assets. Interest is payable at 1.35% above LIBOR and is 100% hedged through a series of interest rate swaps with an effective rate of 5.63%.

Details of other events occurring after the balance sheet date are given in the Statement of Accounting Policies and note 30.

Directors' report (continued)

For the year ended 31 March 2008

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	
		2008	2007
		£	£
T.P.R. Bloxham M.B.E.		1,414,401	1,414,401
J.M. Falkingham		451,799	451,799
W. Martin		-	-
J.P. Curnuck		-	-
N.E. Johnson		49,800	49,800
A. Waugh	(resigned 31 October 2007)	-	-
J. Whalley	(appointed 23 June 2008, resigned 19 June 2009)	-	-

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, other than that noted above.

On 31 October 2007, A. Waugh resigned as company secretary and was replaced by Urban Splash Director Limited. On 4 March 2008, Urban Splash Director Limited resigned as company secretary and was replaced by K.J. Essop.

Donations

During the year the group did not make any charitable donations (2007 - £nil). Post year-end the Urban Splash Charitable Trust was established, and 1% of the group's retained profit (£38,492) for the year-ended 31 March 2008 was paid into the trust.

Auditors

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

1. so far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware; and
2. the directors have taken all the steps that they ought to have taken as directors 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 LLP as auditors to the company will be proposed at the Annual General Meeting.

By order of the Board,



J.P. Curnuck
Director

Timber Wharf
16-22 Worsley Street
Manchester

22 July 2009

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group 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 estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records 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 2008 which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains 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 30. 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, and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given on the Directors' Report is consistent with the financial statements. In addition we 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 other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement, the Directors' Report and the Statement of Directors' Responsibilities. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

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 2008 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 LLP

Deloitte LLP

Chartered Accountants and Registered Auditors

Manchester

United Kingdom

22 July 2009

Consolidated profit and loss account

For the year ended 31 March 2008

	Note	2008 £	2007 £
Turnover: Group and share of joint ventures'		74,564,571	62,138,481
Less: share of joint ventures' turnover		(59,790)	(86,121)
Group turnover	1	74,504,781	62,052,360
Cost of sales		(51,242,637)	(44,039,431)
Gross profit		23,262,144	18,012,929
Other operating expenses (net)	2	(16,244,692)	(13,234,148)
Operating profit		7,017,452	4,778,781
Profit on sale of tangible fixed assets		390,986	1,576,511
Share of joint ventures' operating profit		60,245	38,920
Profit on ordinary activities before finance charges		7,468,683	6,394,212
Finance charges (net)			
Group	6	(4,179,302)	(3,426,822)
Joint ventures	6	(100,568)	(71,141)
		(4,279,870)	(3,497,963)
Profit on ordinary activities before taxation	3	3,188,813	2,896,249
Tax on profit on ordinary activities	7	660,404	(469,589)
Profit on ordinary activities after taxation		3,849,217	2,426,660
Dividends paid	9	-	(1,571,072)
Retained profit for the year		3,849,217	855,588

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 2008

	Note	2008 £	2007 £
Profit (loss) for the financial year			
- Group		3,889,540	2,458,881
- Joint ventures		(40,323)	(32,221)
		<u>3,849,217</u>	<u>2,426,660</u>
Unrealised surplus on revaluation of the group's investment properties	10	18,419,371	16,366,438
		<u>22,268,588</u>	<u>18,793,098</u>

There is no difference between the profit for the financial year as disclosed in the profit and loss account and the profit on an unmodified historical cost basis in either year.

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

Consolidated balance sheet

31 March 2008

	Note	2008 £	2007 £
Fixed assets			
Tangible assets	10	261,483,937	166,813,106
Investments in joint ventures:			
- share of gross assets	11b)	2,249,204	1,484,626
- share of gross liabilities	11b)	(2,404,805)	(1,600,404)
		<u>261,328,336</u>	<u>166,697,328</u>
Current assets			
Stock	12	44,112,885	70,534,919
Debtors			
- due within one year	13	51,410,973	17,644,257
- due after one year	13	1,585,312	899,145
Current asset investments	14	290,577	1,827,707
Cash at bank and in hand		111,396	6,645
		<u>97,511,143</u>	<u>90,912,673</u>
Creditors: Amounts falling due within one year	15	<u>(132,704,480)</u>	<u>(102,333,112)</u>
Net current liabilities		<u>(35,193,337)</u>	<u>(11,420,439)</u>
Total assets less current liabilities		226,134,999	155,276,889
Creditors: Amounts falling due after more than one year	16	<u>(132,757,379)</u>	<u>(84,038,475)</u>
Provisions for liabilities	17	<u>(654,421)</u>	<u>(506,803)</u>
Net assets		<u>92,723,199</u>	<u>70,731,611</u>
Capital and reserves			
Called-up equity share capital	21	1,993,600	2,000,000
Capital redemption reserve	22	6,400	-
Share premium account	22	4,609,464	4,609,464
Revaluation reserve	22	65,445,176	47,025,805
Other reserve	22	32,229	32,229
Profit and loss account	22	20,636,330	17,064,113
Equity shareholders' funds	23	<u>92,723,199</u>	<u>70,731,611</u>

Signed on behalf of the Board


J.P. Gurnuck
Director

22 July 2008

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

Company balance sheet

31 March 2008

	Note	2008 £	2007 £
Fixed assets			
Tangible assets	10	1,677,151	1,460,401
Investments	11	6,785,724	6,785,720
		<u>8,462,875</u>	<u>8,246,121</u>
Current assets			
Debtors	13	4,952,980	4,500,222
Cash at bank and in hand		700	700
		<u>4,953,680</u>	<u>4,500,922</u>
Creditors: Amounts falling due within one year	15	<u>(8,346,912)</u>	<u>(5,496,892)</u>
Net current liabilities		<u>(3,393,232)</u>	<u>(995,970)</u>
Total assets less current liabilities		5,069,643	7,250,151
Provisions for liabilities	17	<u>(52,000)</u>	<u>(63,617)</u>
Net assets		<u>5,017,643</u>	<u>7,186,534</u>
Capital and reserves			
Called-up equity share capital	21	1,993,600	2,000,000
Capital redemption reserve	22	6,400	-
Share premium account	22	4,609,464	4,609,464
Profit and loss account	22	<u>(1,591,821)</u>	<u>577,070</u>
Equity shareholders' funds		<u>5,017,643</u>	<u>7,186,534</u>

Signed on behalf of the Board



J.P. Curnuck
Director

22 July 2009

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

Consolidated cash flow statement

For the year ended 31 March 2008

	Note	2008 £	2007 £
Net cash inflow from operating activities	24	37,708,251	32,875,509
Returns on investments and servicing of finance	25(a)	(7,636,186)	(5,686,938)
Taxation paid	25(b)	(631,687)	(1,900,000)
Capital expenditure and financial investment	25(c)	(99,153,772)	(47,936,396)
Equity dividends paid		-	(1,571,072)
Cash outflow before financing		(69,713,394)	(24,218,897)
Financing	25(d)	62,791,877	16,876,277
Decrease in cash in the year	26	<u>(6,921,517)</u>	<u>(7,342,620)</u>

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

Statement of accounting policies

For the period ended 31 March 2008

The financial statements are prepared in accordance with applicable law and 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. In addition, as detailed below in the accounting policy on grants, the directors have adopted an accounting treatment which is a departure from Schedule 4 of the Companies Act 1985. 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 law and accounting standards.

The company has an accounting reference date of 28 March, however the financial statements for both the current and prior year have been prepared up to the financial year ended 31 March.

Going concern

The financial statements have been prepared on a going concern basis.

The Urban Splash Group, together with the housing industry in general is facing a very difficult trading environment which has worsened considerably since the balance sheet date. The continued severe lack of availability of residential mortgages together with low consumer confidence due to the onset of recession and worsening economic climate has served to deepen and prolong the sharp down turn in the housing market. As a consequence the sales of residential homes by the group in the current financial year are significantly below those levels contemplated which has adversely affected profits and liquidity in the current financial year. The directors have instituted measures to preserve cash, reduce costs and generate new income through renting-out completed homes that have not been sold.

The group retains strong relationships with its banks who have provided support to the group over a very difficult trading period and, based upon ongoing dialogue with the lenders, the directors are confident that suitable support will be provided in the future. That support has to date extended to the provision of increased banking facilities of £19m between October 2008 and July 2009 to fund on-going development activity and working capital.

The group is currently funded by a combination of on-demand and short term bank loans to fund its development activities and a committed £125m medium loan facility to provide general finance which was successfully completed in June 2008.

In July 2009 the directors agreed heads of terms on new facility arrangements with its principal lender, HSBC which have received credit committee approval. The facility arrangements, which cover a 3 – 5 year period, relate to both the group's short term bank loans and overdraft facility with HSBC. These loans and overdraft will remain on demand and are subject to an aggregate drawn limit of £101.2m and annual repayment commitments.

The group also has bank loans with RBS and Coop, a large proportion of which are payable on demand or due for renewal within 12 months. The directors believe that, based upon dialogue with these lenders, it is unlikely that the banks would demand facilities to be repaid in the next 12 months and that those due for renewal will be satisfactorily renegotiated.

The medium term committed £125m facility is repayable in full in June 2013 and currently, £10m of the facility is undrawn. The group currently complies with all covenants relating to this loan. The directors have identified that the group could in the future potentially breach its loan to value covenant and are currently in negotiation with the banks to determine how this could be remedied. Based on the status of these negotiations, the directors are confident that any potential future breach will be resolved satisfactorily. The group is forecast to continue to comply with all other covenants.

Statement of accounting policies

For the year ended 31 March 2008

Going concern (continued)

To support the request for new facilities from HSBC, the directors prepared financial forecasts for the three years to 31 March 2012 that demonstrate that the facilities that have been agreed will be sufficient to support the group for the foreseeable future. The principal assumptions of that forecast relate to residential sales completions, levels of debt repayment, rental income and assets sales which are uncertain given the current trading environment. Based on the current status of specific asset disposals and forecast residential sales, the directors remain confident of achieving the target cash flows which would enable the group to remain within the facilities agreed.

Whilst acknowledging the uncertainties in relation to future trading and the continued provision of facilities, the directors are satisfied that a sufficient level of funding will be made available throughout the next 12 months, enabling the company to continue as a going concern and therefore consider it appropriate to prepare the financial statements on a going concern basis.

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 2008. 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)

For the year ended 31 March 2008

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.

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 substantively 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)

For the year ended 31 March 2008

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 substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Government grants

Grants receivable in respect of properties under development are initially held on the balance sheet as deferred income. In the case of assets which are subsequently sold once development is complete, the grant is credited to the profit and loss account in line with the costs on the development. Where the terms of the grant include a possible repayment, provision for such a repayment is made immediately.

In the case of investment properties, the grants are deferred until the asset is transferred to fixed assets, at which point they are credited directly to the cost of the asset. This treatment is not in accordance with Schedule 4 to the Companies Act 1985 which requires fixed assets to be shown at cost and grants as deferred income. The treatment has been adopted in accordance with section 227(6) of the Companies Act 1985 in order to show a true and fair view as, in the opinion of the directors, it is not appropriate to treat grants on investment properties as deferred income. Investment properties are not depreciated and accordingly no basis exists on which to recognise the release of deferred income to the profit and loss account.

Notes to the financial statements

For the year ended 31 March 2008

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 or rental. 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 group's obligations to the purchaser under the contract for sale. Rents receivable are recognised in accordance with the terms of the contracts for rental.

2 Other operating expenses (net)

	2008 £	2007 £
Administrative expenses	16,244,692	13,237,589
Other operating income	-	(3,441)
	<u>16,244,692</u>	<u>13,234,148</u>

3 Profit on ordinary activities before taxation

Profit is stated after charging (crediting):

	2008 £	2007 £
Depreciation on owned fixed assets	550,356	459,550
Profit on disposal of fixed assets	(390,986)	(1,576,511)
Operating lease rentals		
- other	193,881	198,694
Government grants	(5,470,969)	(1,183,428)
Auditors' remuneration for audit services	<u>81,000</u>	<u>65,000</u>

Amounts payable to Deloitte LLP and their associates by the company and its subsidiary undertakings in respect of non-audit services were £74,730 (2007 - £226,245), which comprised £67,230 (2007 - £86,220) for corporation tax compliance and advice, £4,000 (2007 - £4,480) for other assurance services and £3,500 (2007 - £135,545) for VAT advice.

Fees payable to Deloitte LLP and its associates for non-audit services to the company itself are not disclosed in the individual accounts of Urban Splash Group Limited because the company's consolidated accounts are required to disclose such fees on a consolidated basis.

Audit fees for the company would have been £2,500 (2007 - £2,000) if charged on an entity by entity basis.

Notes to the financial statements (continued)

For the year ended 31 March 2008

4 Staff costs

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

	Group		Company	
	2008 Number	2007 Number	2008 Number	2007 Number
Construction staff	117	76	-	-
Administrative staff	91	69	44	24
Development staff	25	22	-	-
Sales staff	13	15	3	-
	<u>246</u>	<u>182</u>	<u>47</u>	<u>24</u>

Their aggregate remuneration comprised:

	Group		Company	
	2008 £	2007 £	2008 £	2007 £
Wages and salaries	9,202,535	6,934,795	2,317,339	1,010,545
Social security costs	997,230	761,541	265,519	114,194
Pension costs	225,000	215,000	225,000	215,000
Less: amounts capitalised	(5,034,358)	(3,262,333)	-	-
	<u>5,390,407</u>	<u>4,649,003</u>	<u>2,807,858</u>	<u>1,339,739</u>

5 Directors' remuneration and transactions

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

	2008 £	2007 £
Emoluments	<u>1,158,332</u>	<u>918,607</u>

Highest paid director

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

	2008 £	2007 £
Emoluments	492,950	215,880
Pension costs	225,000	215,000
	<u>717,950</u>	<u>430,880</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:

T.P.R. Bloxham M.B.E. was paid lease rentals by the company of £113,377 (2007 - £113,377), 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 (note 13).

Notes to the financial statements (continued)

For the year ended 31 March 2008

6 Finance charges (net)

Group

	2008 £	2007 £
Bank loans and overdrafts	10,090,828	6,900,269
Less: amounts capitalised	(5,739,788)	(3,398,459)
	<u>4,351,040</u>	<u>3,501,810</u>
Interest receivable and similar income	(171,738)	(74,988)
	<u>4,179,302</u>	<u>3,426,822</u>

Joint ventures

	2008 £	2007 £
Bank loans and overdrafts	102,553	71,646
Interest receivable and similar income	(1,985)	(505)
	<u>100,568</u>	<u>71,141</u>

7 Tax on profit on ordinary activities

The tax (credit) charge comprises:

	2008 £	2007 £
Current tax		
UK corporation tax	-	680,822
Adjustments in respect of prior period		
- UK corporation tax	(808,022)	(170,474)
Total current tax	<u>(808,022)</u>	<u>510,348</u>
Deferred tax		
Origination and reversal of timing differences	181,384	95,942
Adjustments in respect of prior period	(33,766)	(136,701)
Total deferred tax	<u>147,618</u>	<u>(40,759)</u>
Total tax (credit) charge on profit on ordinary activities	<u>(660,404)</u>	<u>469,589</u>

Notes to the financial statements (continued)

For the year ended 31 March 2008

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:

	2008 £	2007 £
Profit on ordinary activities before tax	3,188,813	2,896,249
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2007 – 30%)	956,644	868,875
Effects of:		
Expenses not deductible for tax purposes	115,291	151,393
Capital allowances in excess of depreciation	(1,121,416)	(118,773)
Movement in short term timing differences	39,600	-
Income not taxable – profit on sale of fixed assets	(100,050)	(472,953)
Income not taxable – land remediation	-	(218,712)
Chargeable gain	97,834	470,992
Utilisation of tax losses	12,097	-
Adjustments to tax charge in respect of previous period	(808,022)	(170,474)
Current tax (credit) charge for the year	(808,022)	510,348

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%.

The deferred tax asset has increased to £618,184 (2007 - £254,786) during the year, as a result of the tax written down value of certain assets of the group exceeding the qualifying net book value. The asset has not been recognised, as the subsidiary to which the asset relates is loss making.

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 £1,891,891 (2007 - loss of £1,997,306). 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 Dividends

	2008 £	2007 £
Interim paid of nil p (2007 - 37.5p) per ordinary share	-	750,000
Final paid of nil p (2007 - 41.0536p) per ordinary share	-	821,072
	-	1,571,072

Notes to the financial statements (continued)

For the year ended 31 March 2008

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	73,529,749	1,387,950	1,743,184	90,604,483	31,555	1,465,409	168,762,330
Additions	679,217	121,167	-	99,672,515	6,688	599,184	101,078,771
Category transfers	53,999,058	10,280	-	(54,009,338)	-	-	-
Transfers to stock	-	-	-	(13,918,881)	-	-	(13,918,881)
Transfers from deferred income	(10,200,251)	-	-	-	-	-	(10,200,251)
Disposals	-	-	(80,878)	(157,823)	(6,500)	-	(245,201)
Revaluations	18,419,371	-	-	-	-	-	18,419,371
End of year	<u>136,427,144</u>	<u>1,519,397</u>	<u>1,662,306</u>	<u>122,190,956</u>	<u>31,743</u>	<u>2,064,593</u>	<u>263,896,139</u>
Depreciation							
Beginning of year	-	227,916	820,538	-	27,936	872,834	1,949,224
Charge for the year	-	758	164,176	-	3,728	381,694	550,356
Disposals	-	-	(80,878)	-	(6,500)	-	(87,378)
End of year	<u>-</u>	<u>228,674</u>	<u>903,836</u>	<u>-</u>	<u>25,164</u>	<u>1,254,528</u>	<u>2,412,202</u>
Net book value							
Beginning of year	73,529,749	1,160,034	922,646	90,604,483	3,619	592,575	166,813,106
End of year	<u>136,427,144</u>	<u>1,290,723</u>	<u>758,470</u>	<u>122,190,956</u>	<u>6,579</u>	<u>810,065</u>	<u>261,483,937</u>

Investment properties, which are all freehold, were valued on an open market existing use basis at 1 December 2007 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 £70,981,968 (2007 - £26,503,944).

Included in assets under the course of construction is £4,059,986 (2007 - £1,282,808) of capitalised interest.

Notes to the financial statements (continued)

For the year ended 31 March 2008

10 Tangible fixed assets (continued)

Company	Other property £	Fixtures, fittings and equipment £	Total £
Cost			
Beginning of year	1,159,143	803,023	1,962,166
Additions	121,166	305,636	426,802
Transfer from group undertaking	10,280	-	10,280
End of year	<u>1,290,589</u>	<u>1,108,659</u>	<u>2,399,248</u>
Depreciation			
Beginning of year	-	501,765	501,765
Charge for the year	-	220,332	220,332
End of year	-	<u>722,097</u>	<u>722,097</u>
Net book value			
Beginning of year	1,159,143	301,258	1,460,401
End of year	<u>1,290,589</u>	<u>386,562</u>	<u>1,677,151</u>

11 Fixed asset investments

Investments comprise:

	Group		Company	
	2008	2007	2008	2007
	£	£	£	£
Subsidiary undertakings (see note 11a)	-	-	6,785,724	6,785,720

The company's principal investments are:

	Principal activities	Country of incorporation or principal business address	% Holding
Urban Splash Limited	Property development	England	100
Urban Splash Build Limited	Property construction	England	100
Urban Splash Work Limited	Property investment and lettings	England	100
Urban Splash Yorkshire Limited	Property development	England	100
Urban Splash (South West) Limited	Property development	England	100
Urban Splash Fort Dunlop Limited	Property development	England	100
Urban Splash Hotels Limited (formerly Urban Splash Homes Limited)	Property development	England	100*
Urban Splash (South West) Birnbeck Limited	Property development	England	100*
Urban Splash South West (Bridewell) Limited	Property development	England	100*
Urban Splash Walsall Limited	Property development	England	100*

Notes to the financial statements (continued)

For the year ended 31 March 2008

11 Fixed asset investments (continued)

	<u>Principal activities</u>	<u>Country of incorporation or principal business address</u>	<u>% Holding</u>
Urban Splash Lakes Limited (formerly Urban Splash Ten Limited)	Property development	England	100
Urban Splash Director Limited	Holding company	England	100
Urban Splash Midlands Limited	Property development	England	100
New Islington Utilities Company Limited (formerly Urban Splash One Limited)	Construction of assets in connection with the provision of utilities	England	100

*Indirect holding

a) *Subsidiary undertakings*

Investments
in subsidiary
undertakings
£

Company cost and net book value

At beginning of year	6,785,720
Additions	4
At end of year	<u>6,785,724</u>

Additions represent Urban Splash Lakes Limited (formerly Urban Splash Ten Limited), Urban Splash Director Limited, Urban Splash Midlands Limited and New Islington Utilities Company Limited (formerly Urban Splash One Limited) all of which commenced trade during the year.

b) *Joint ventures*

Group	2008 £	2007 £
Share of gross assets	2,249,204	1,484,626
Share of gross liabilities	<u>(2,404,805)</u>	<u>(1,600,404)</u>
Share of net liabilities	<u>(155,601)</u>	<u>(115,778)</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 is 30 June. The figures included in these financial statements are derived from the management accounts for the 12 month period to 31 March 2008.

ii) *North Shore Development Partnership Limited*

The group has an investment held by Urban Splash Yorkshire Limited of 50% of the issued share capital of North Shore Development Partnership Limited, a property development company, which is registered in England and Wales. The accounting reference period for this company is 30 November. The figures included in these financial statements are derived from the management accounts for the 12 month period to 31 March 2008.

Notes to the financial statements (continued)

For the year ended 31 March 2008

12 Stock

	Group		Company	
	2008	2007	2008	2007
	£	£	£	£
Finished apartments	26,877,070	15,819,410	-	-
Properties under redevelopment	16,798,698	54,232,465	-	-
Properties awaiting redevelopment	437,117	483,044	-	-
	<u>44,112,885</u>	<u>70,534,919</u>	<u>-</u>	<u>-</u>

Included within stock is £2,510,005 (2007 - £3,405,160) of capitalised interest. During the year £13,918,881 was transferred from fixed assets to stock.

13 Debtors

	Group		Company	
	2008	2007	2008	2007
	£	£	£	£
Amounts falling due within one year:				
Trade debtors	1,841,245	3,809,775	-	-
Amounts owed by group undertakings	-	-	3,754,840	4,010,484
Amounts owed by related parties (note 20)	160,810	1,012,346	-	1,740
VAT recoverable	2,157,561	453,378	-	-
UK Corporation tax recoverable	1,313,357	-	930,362	219,178
Other debtors	198,682	506,726	42,523	29,550
Directors' current accounts (note 5)	19,643	28,587	7,451	18,741
Prepayments and accrued income	45,719,675	11,833,445	217,804	220,529
	<u>51,410,973</u>	<u>17,644,257</u>	<u>4,952,980</u>	<u>4,500,222</u>
Amounts falling due after more than one year:				
Amounts owed by related parties (note 20)	1,585,312	899,145	-	-
	<u>52,996,285</u>	<u>18,543,402</u>	<u>4,952,980</u>	<u>4,500,222</u>

14 Current asset investments

	Group		Company	
	2008	2007	2008	2007
	£	£	£	£
Restricted cash balances	<u>290,577</u>	<u>1,827,707</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)

For the year ended 31 March 2008

15 Creditors: Amounts falling due within one year

	Group		Company	
	2008 £	2007 £	2008 £	2007 £
Deposits held	17,709,966	13,407,736	-	-
Bank loans and overdrafts (note 16)	68,947,353	45,402,291	6,768,255	4,675,734
Trade creditors	19,503,207	12,978,158	544,613	260,784
Amounts owed to group undertakings	-	-	70,219	-
Amounts owed to related parties (note 20)	400,774	307,161	-	14,524
UK Corporation tax	-	116,774	-	-
Other taxation and social security	398,533	300,426	59,894	31,444
VAT	-	-	803,706	223,254
Other creditors	740,026	304,611	-	-
Accruals	12,361,859	11,124,614	100,225	291,152
Deferred income	12,642,762	18,391,341	-	-
	<u>132,704,480</u>	<u>102,333,112</u>	<u>8,346,912</u>	<u>5,496,892</u>

16 Creditors: Amounts falling due after more than one year

	Group		Company	
	2008 £	2007 £	2008 £	2007 £
Bank loans	<u>132,757,379</u>	<u>84,038,475</u>	<u>-</u>	<u>-</u>

Group borrowings are repayable as follows:

	2008 £	2007 £
Bank loans and overdrafts		
Between one and two years	30,314,386	16,570,924
Between two and five years	45,842,993	21,000,000
After five years	<u>56,600,000</u>	<u>46,467,551</u>
	<u>132,757,379</u>	<u>84,038,475</u>
On demand or within one year:		
Bank loans	59,968,015	43,449,221
Overdrafts	<u>8,979,338</u>	<u>1,953,070</u>
	<u>68,947,353</u>	<u>45,402,291</u>
	<u>201,704,732</u>	<u>129,440,766</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)

For the year ended 31 March 2008

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

Development loans of £133,725,394 (2007 - £72,770,144) bear interest at 1.25% above base rate, of which £59,968,015 (2007 - £43,449,221) is repayable within one year, £27,814,386 (2007 - £16,570,923) is repayable between one and two years, £25,942,993 (2007 - £9,000,000) between two and five years and £20,000,000 (2007 - £3,750,000) is repayable in more than five years.

Development loans of £15,000,000 (2007 - £11,217,551) bear interest at 1.75% above base rate, and are repayable in more than five years.

Development loans of £500,000 (2007 - £nil) bear interest at 1.15% above base, and are repayable between one and two years.

Bank loans of £6,000,000 (2007 - £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 (2007 - £7,900,000) are wholly repayable within two to five years, and these bear interest at LIBOR plus 1.25% and are repayable in full in 2012.

Bank loans of £29,600,000 (2007 - £29,600,000) bear interest at LIBOR plus 1.15% of which £2,000,000 (2007 - £nil) is repayable between one and two years, £6,000,000 (2007 - £6,000,000) is repayable between two and five years and £21,600,000 (2007 - £23,600,000) is repayable after more than five years, in full in 2013.

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 2008 was £73m (2007 - £87m) 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 2008 is estimated at £379,736 (2007 - £1,573,785).

Subsequent to the year-end the group re-financed its loans and financial instruments (see note 30).

17 Provisions for liabilities

	Deferred tax	
	Group £	Company £
Beginning of year	506,803	63,617
Charged (credited) to profit and loss account	147,618	(11,617)
End of year	<u>654,421</u>	<u>52,000</u>

Deferred tax

Deferred tax is provided as follows:

	Group		Company	
	2008 £	2007 £	2008 £	2007 £
Accelerated capital allowances	682,421	506,803	52,000	63,617
Short term timing differences	(28,000)	-	-	-
	<u>654,421</u>	<u>506,803</u>	<u>52,000</u>	<u>63,617</u>

Notes to the financial statements (continued)

For the year ended 31 March 2008

18 Financial commitments

Annual commitments under non-cancellable leases are as follows:

Group

	2008		2007	
	Land and buildings £	Other items £	Land and buildings £	Other items £
Expiry date				
- within one year	-	18,602	23,600	-
- within two to five years	-	25,484	-	31,672
- after five years	154,565	-	152,062	-
	<u>154,565</u>	<u>44,086</u>	<u>175,662</u>	<u>31,672</u>

Company

	2008		2007	
	Land and buildings £	Other items £	Land and buildings £	Other items £
Expiry date				
- within one year	-	5,508	-	-
- within two to five years	-	6,267	-	9,096
	<u>-</u>	<u>11,775</u>	<u>-</u>	<u>9,096</u>

19 Contingencies

At the year end the company had contingent liabilities amounting to £201,704,732 (2007 - £129,440,766) relating to unlimited multilateral guarantees with the company's bank for subsidiary companies.

Notes to the financial statements (continued)

For the year ended 31 March 2008

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 related parties at the year end were as follows:

	2008 £	2007 £
Amounts falling due within one year:		
TBI 2000 Limited	7,753	6,374
Smithfield Lofts Management Limited	16,726	13,517
J.M.Falkingham	-	503,500
Chymoor Properties Limited	588	588
Hopwood Enterprises Limited	-	105,113
N.Cornish	-	188,694
S.D.Gawthorpe	-	85,120
A.Waugh	-	109,440
L.W. Maynard	122,529	-
Woodfield House Limited	13,214	-
	<u>160,810</u>	<u>1,012,346</u>
Amounts falling due after more than one year:		
Woodfield House Limited	981,556	899,145
North Shore Development Partnership Limited	603,756	-
	<u>1,585,312</u>	<u>899,145</u>
	<u>1,746,122</u>	<u>1,911,491</u>

The net amount owed to related parties at the year end were as follows:

	2008 £	2007 £
Union North	26,605	70,322
Baa Bar Limited	569	15,093
Shed KM Limited	306,446	113,749
Woodfield House Limited	5,348	7,301
Windmill Demolition (NW) Limited	-	95,464
Timber Wharf Management Limited	13,711	86
Box Works Management Limited	315	5,146
S.D. Gawthorpe	6,520	-
J.P. Curnuck	6,000	-
N. Cornish	7,050	-
N.E. Johnson	1,250	-
L.W. Maynard	13,380	-
R.E. Oakes	1,000	-
G. Jackson	6,250	-
T.P.R. Bloxham M.B.E.	5,280	-
J. Collard	1,050	-
	<u>400,774</u>	<u>307,161</u>

Notes to the financial statements (continued)

For the year ended 31 March 2008

20 Related party transactions (continued)

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 £1,413,025 (2007 - £1,299,387) and credited amounts receivable of £nil (2007 - £675) from 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 £143,996 (2007 - £147,287), credited amounts receivable of £254 (2007 - £10,244) and incurred costs amounting to £nil (2007 - £12,615) from Baa Bar Limited. Baa Bar Limited is a company in which T.P.R. Bloxham M.B.E. and J.M. Falkingham are materially interested as directors and shareholders;
- made sales of £26,697 (2007 - £37,117) to Smithfield Lofts Management Limited, a company in which T.P.R. Bloxham M.B.E. and J.M. Falkingham are materially interested in as shareholders;
- incurred £489,498 (2007 - £775,170) of costs from Union North, an architecture practice owned by a close family member of J.M. Falkingham;
- recharged costs amounting to £11,918 (2007 - £18,964) and incurred service charges amounting to £98,708 (2007 - £nil) from Timber Wharf Management Limited, a company in which T.P.R. Bloxham M.B.E. is materially interested as a shareholder;
- recharged costs amounting to £1,980 (2007 - £nil) and incurred service charges amounting to £9,359 (2007 - £nil) from Box Works Management Limited, a company in which T.P.R. Bloxham M.B.E. is materially interested as a shareholder;
- credited amounts receivable of £nil (2007 - £2,705) from Oak Farm Partners, a partnership in which J.M. Falkingham is materially interested in as a partner;
- credited amounts receivable of £nil (2007 - £6,597) from Dry Limited, a company in which T.P.R. Bloxham M.B.E. is materially interested as director and shareholder; and
- incurred £2,310 (2007 - £6,124) of rental costs and recharged £10,302 (2007 - £nil) to Woodfield House Limited, a joint venture of Urban Splash Work Limited.

Notes to the financial statements (continued)

For the year ended 31 March 2008

20 Related party transactions (continued)

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

	2008 £	2007 £
T.P.R. Bloxham M.B.E.	289,600	233,000
L.W. Maynard*	129,000	136,000
S.D. Gawthorpe*	-	89,000
R. Riding*	89,600	8,000
A. Waugh	-	115,200
J. Collard*	89,657	124,000
N. Cornish*	-	203,300
J.P. Curnuck	102,400	96,000
J.M. Falkingham	-	530,000
R.E. Oakes*	88,049	-
G. Jackson*	115,249	-
Hopwood Enterprises Limited	-	219,000

* 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. A. Waugh, who was a director of Urban Splash Group Limited during the year, is materially interested in Hopwood Enterprises Limited.

21 Called-up share capital

	2008 £	2007 £
<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>		
1,993,600 (2007 – 2,000,000) ordinary shares of £1 each	<u>1,993,600</u>	<u>2,000,000</u>

Notes to the financial statements (continued)

For the year ended 31 March 2008

22 Reserves

Group	Share premium account £	Revaluation reserve £	Other reserve £	Capital Redemption Reserve £	Profit and loss account £	Total £
Beginning of year	4,609,464	47,025,805	32,229	-	17,064,113	68,731,611
Revaluation surplus						
- Group	-	18,419,371	-	-	-	18,419,371
Profit (loss) for the year after taxation						
- Group	-	-	-	-	3,889,540	3,889,540
- Joint ventures	-	-	-	-	(40,323)	(40,323)
Purchase of own shares	-	-	-	6,400	(277,000)	(270,600)
End of year	<u>4,609,464</u>	<u>65,445,176</u>	<u>32,229</u>	<u>6,400</u>	<u>20,636,330</u>	<u>90,729,599</u>
Company						
Beginning of year	4,609,464	-	-	-	577,070	5,186,534
Purchase of own shares	-	-	-	6,400	(277,000)	(270,600)
Loss for the year after taxation	-	-	-	-	(1,891,891)	(1,891,891)
End of year	<u>4,609,464</u>	<u>-</u>	<u>-</u>	<u>6,400</u>	<u>(1,591,821)</u>	<u>3,024,043</u>

The other reserve comprises an unrealised gain on the acquisition of 50% of Urban Splash West Midlands Limited during the year ended 31 March 2005. This reserve arose when the entity became a subsidiary under the true and fair override in FRS 2.

23 Reconciliation of movement in group equity shareholders' funds

	2008 £	2007 £
Profit (loss) for the financial year after taxation:		
- Group	3,889,540	2,458,881
- Joint ventures	(40,323)	(32,221)
Dividends paid	-	(1,571,072)
Revaluation of investment properties		
- Group	18,419,371	16,366,438
- Purchase of own shares	(277,000)	-
	<u>21,991,588</u>	<u>17,222,026</u>
Opening equity shareholders' funds	70,731,611	53,509,585
Closing equity shareholders' funds	<u>92,723,199</u>	<u>70,731,611</u>

Notes to the financial statements (continued)

For the year ended 31 March 2008

24 Reconciliation of operating profit to operating cash flows

	2008 £	2007 £
Operating profit	7,017,452	4,778,781
Depreciation charges	550,356	459,550
Decrease in work in progress	45,907,295	6,213,253
(Increase) decrease in debtors	(35,849,718)	252,173
Decrease (increase) in current asset investments	1,537,130	(393,109)
Increase in creditors	18,545,736	21,564,861
Net cash inflow from operating activities	37,708,251	32,875,509

25 Analysis of cash flows

a) Returns on investments and servicing of finance

	2008 £	2007 £
Interest received	141,312	71,439
Interest paid	(7,777,498)	(5,758,377)
Net cash outflow	(7,636,186)	(5,686,938)

b) Taxation

	2008 £	2007 £
UK corporation tax paid	(631,687)	(1,900,000)
Net cash outflow	(631,687)	(1,900,000)

c) Capital expenditure and financial investment

	2008 £	2007 £
Purchase of tangible fixed assets	(101,078,772)	(51,571,935)
Sale of tangible fixed assets	1,925,000	3,635,539
Net cash outflow	(99,153,772)	(47,936,396)

d) Financing

	2008 £	2007 £
New bank loans	85,401,023	56,761,615
Repayment of loans	(22,332,146)	(39,885,338)
Purchase of own shares	(277,000)	-
Net cash inflow	62,791,877	16,876,277

Notes to the financial statements (continued)

For the year ended 31 March 2008

26 Analysis and reconciliation of net debt

	Beginning of year £	Cash flows £	Other non-cash changes £	End of year £
Cash in hand and at bank	6,645	104,751	-	111,396
Overdrafts	(1,953,070)	(7,026,268)	-	(8,979,338)
	(1,946,425)	(6,921,517)	-	(8,867,942)
Debt due within one year	(43,449,221)	(15,266,383)	(1,252,411)	(59,968,015)
Debt due after more than one year	(84,038,475)	(47,802,494)	(916,410)	(132,757,379)
Total debt	(127,487,696)	(63,068,877)	(2,168,821)	(192,725,394)
Net debt	(129,434,121)	(69,990,394)	(2,168,821)	(201,593,336)

	2008 £	2007 £
Increase (decrease) in cash in the year	104,751	(5,389,550)
Increase in overdrafts	(7,026,268)	(1,953,070)
	(6,921,517)	(7,342,620)
Net cash inflow from bank loans	(63,068,877)	(16,876,277)
Non-cash movement in bank loans (note 27)	(2,168,821)	(955,844)
Change in net debt	(72,159,215)	(25,174,741)
Net debt at beginning of year	(129,434,121)	(104,259,380)
Net debt at end of year	(201,593,336)	(129,434,121)

27 Major non-cash transactions

During the year, the group incurred interest charges of £2,168,821 (2007 - £955,844) in relation to certain bank loans, which were rolled up in to the outstanding loan balance and not paid as at 31 March 2008.

28 Capital commitments

At the year end the group had capital commitments of £465,000 (31 March 2007 - £nil).

29 Ultimate controlling party

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

30 Subsequent events

On 7 July 2008, the Urban Splash Group Limited Employee Benefit Trust purchased 42,400 shares for a cash consideration of £1,655,808.

On 24 June 2008 the group completed the refinancing of £30,366,598 of development loans and £43,500,000 of bank loans in to a new 5 year, £125,000,000 committed loan facility of which £107,000,000 was drawn on completion. The loan facility is secured by debentures over certain subsidiaries and mortgages over certain of the group's commercial and residential property assets. Interest is payable at 1.35% above LIBOR and is 100% hedged through a series of interest rate swaps with an effective rate of 5.63%.

Notes to the financial statements (continued)

For the year ended 31 March 2008

30 Subsequent events (continued)

Given the deteriorating economic and market conditions since the balance sheet date, it is possible that there may be an impairment in the value of amounts held in respect of development projects and commercial property in the second half of the financial year ended 31 March 2009. The directors are in the process of evaluating the carrying value of development projects and commercial property and will provide an update in the financial statements for the year ended 31 March 2009.