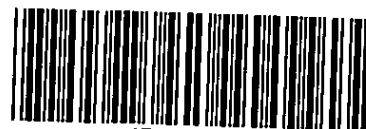


**REGISTERED NUMBER: 04148580 (England and Wales)**

**REPORT OF THE DIRECTORS AND  
AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012  
FOR  
Valad Properties (Marsh Mills) Limited**

WEDNESDAY



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for the Year Ended 30 June 2012**

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**Valad Properties (Marsh Mills) Limited**

**COMPANY INFORMATION**  
**for the Year Ended 30 June 2012**

<b>DIRECTORS.</b>	R P G Howe Valsec Director Limited
<b>SECRETARY.</b>	Valad Secretarial Services Limited
<b>REGISTERED OFFICE.</b>	Europa House 20 Esplanade Scarborough North Yorkshire YO11 2AQ
<b>REGISTERED NUMBER:</b>	04148580 (England and Wales)
<b>AUDITORS:</b>	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors Benson House 33 Wellington Street Leeds LS1 4JP
<b>BANKERS.</b>	Bank of Scotland 2nd Floor New Ubertior House 11 Earl Grey Street Edinburgh EH3 9BN
<b>SOLICITORS:</b>	Shepherd and Wedderburn LLP Condor House 10 St Paul's Churchyard London EC4M 8AL

**Valad Properties (Marsh Mills) Limited (Registered number: 04148580)**

**REPORT OF THE DIRECTORS  
for the Year Ended 30 June 2012**

The directors present their annual report and the audited financial statements of the company for the year ended 30 June 2012

**PRINCIPAL ACTIVITY**

The principal activity of the company in the year under review was that of property trading. However, the directors have a mutual agreement with the developer to put the development of the property on hold.

**REVIEW OF BUSINESS**

The Directors have a mutual agreement with the developer to put the development of the property on hold, and therefore both the level of activity for the year and the financial position at the end of the year were as anticipated.

The company's loss for the year is £440,788 (2011 profit of £3,084) and is dealt with as shown on the income statement.

**DIVIDENDS**

The directors have not recommended a dividend (2011 £nil).

**DIRECTORS**

Valsec Director Limited has held office during the whole of the period from 1 July 2011 to the date of this report.

Other changes in directors holding office are as follows:

R P G Howe - appointed 20 July 2011

A Slipper - resigned 20 July 2011

**GOING CONCERN**

Despite the current economic climate we have prepared the financial statements on a going concern basis. The justification for this is disclosed in the accounting policies note under going concern.

**PRINCIPAL RISKS AND UNCERTAINTIES**

The directors of D U K E Real Estate Limited manage the group's risks at a group level, rather than at an individual business unit level. For this reason, the company's directors believe that a discussion of the company's risks would not be appropriate for an understanding of the development, performance or position of the business of the company. The principal risks and uncertainties of D U K E Real Estate Limited, which include those of the company, are discussed in the group's annual report which does not form part of this report.

**KEY PERFORMANCE INDICATORS**

The directors of D U K E Real Estate Limited manage the group's operations on a divisional basis. For this reason, the company's directors believe that analysis using key performance indicators of the company is not necessary or appropriate for an understanding of the development, performance or position of the business of the company. The development, performance and position of D U K E Real Estate Limited, which includes the company, is discussed in the group's annual report, which does not form part of this report.

**FINANCIAL RISK MANAGEMENT**

The company's financial risk management is set out in detail in note 13 to the financial statements.

**REPORT OF THE DIRECTORS**  
**for the Year Ended 30 June 2012**

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The directors are responsible for preparing the Report of the Directors 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 International Financial Reporting Standards as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

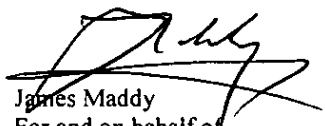
- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state that the financial statements comply with IFRS,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS**

So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

**ON BEHALF OF THE BOARD**

  
James Maddy  
For and on behalf of  
Valsec Director Limited - Director

23 November 2012

## **REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF VALAD PROPERTIES (MARSH MILLS) LIMITED**

We have audited the financial statements of Valad Properties (Marsh Mills) Limited for the year ended 30 June 2012 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

### **Respective responsibilities of directors and auditors**

As explained more fully in the Statement of Directors' Responsibilities set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report of the Directors to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 30 June 2012 and of its loss for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Emphasis of matter - going concern**

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure given in note 1 to the financial statements concerning the ability of the company to continue as a going concern. The company is a party to a cross guarantee on the Group's facilities and is therefore dependent on the ability of the Group to continue as a going concern. The uncertainties disclosed in note 1 are around the timing and value of the property sales needed to meet the repayment covenant on 30 June 2013 and also the current uncertainty in the property market which in turn creates an uncertainty over the Group's ability to meet the valuation covenant. Failure to comply with these covenants would result in the need for the facility to be renegotiated. These matters indicate the existence of material uncertainties which may cast significant doubt over the ability of the company to continue as a going concern. The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern.

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

In our opinion the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

**REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF  
VALAD PROPERTIES (MARSH MILLS) LIMITED**

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



Ian Marsden (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Leeds

23 November 2012

**Valad Properties (Marsh Mills) Limited (Registered number. 04148580)**

**INCOME STATEMENT  
for the Year Ended 30 June 2012**

	Notes	30 6 12 £'000	30 6 11 £'000
<b>CONTINUING OPERATIONS</b>			
Revenue		-	-
Impairment of inventories		(437)	27
Administrative expenses		<u>(4)</u>	<u>(24)</u>
<b>OPERATING (LOSS)/PROFIT</b>		<u>(441)</u>	<u>3</u>
<b>(LOSS)/PROFIT BEFORE INCOME TAX 3</b>		(441)	3
Income tax	4	<u>-</u>	<u>-</u>
<b>(LOSS)/PROFIT FOR THE YEAR</b>		<u><u>(441)</u></u>	<u><u>3</u></u>

The notes form part of these financial statements



**Valad Properties (Marsh Mills) Limited (Registered number: 04148580)**

**STATEMENT OF COMPREHENSIVE INCOME**  
**for the Year Ended 30 June 2012**

	30 6 12 £'000	30 6 11 £'000
<b>(LOSS)/PROFIT FOR THE YEAR</b>	(441)	3
<b>OTHER COMPREHENSIVE INCOME</b>	<u>-</u>	<u>-</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<u>(441)</u>	<u>3</u>

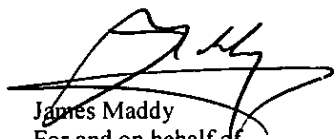
The notes form part of these financial statements

**Valad Properties (Marsh Mills) Limited (Registered number: 04148580)**

**STATEMENT OF FINANCIAL POSITION**  
**30 June 2012**

	Notes	30 6 12 £'000	30 6 11 £'000
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Inventories	5	<u>1,000</u>	<u>1,428</u>
<b>TOTAL ASSETS</b>		<u>1,000</u>	<u>1,428</u>
<b>EQUITY</b>			
<b>SHAREHOLDERS' EQUITY</b>			
Called up share capital	6	-	-
Accumulated losses	7	<u>(1,709)</u>	<u>(1,268)</u>
<b>TOTAL EQUITY</b>		<u>(1,709)</u>	<u>(1,268)</u>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Payables	8	<u>2,709</u>	<u>2,696</u>
<b>TOTAL LIABILITIES</b>		<u>2,709</u>	<u>2,696</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>1,000</u>	<u>1,428</u>

The financial statements on pages 6 to 19 were approved by the Board of Directors on 23 November 2012 and were signed on its behalf by

  
James Maddy  
For and on behalf of  
Valsec Director Limited - Director

The notes form part of these financial statements

**Valad Properties (Marsh Mills) Limited (Registered number: 04148580)**

**STATEMENT OF CHANGES IN EQUITY  
for the Year Ended 30 June 2012**

	<b>Accumulated losses £'000</b>	<b>Total equity £'000</b>
<b>Balance at 1 July 2010</b>	(1,271)	(1,271)
<b>Changes in equity</b>		
Total comprehensive income	<u>3</u>	<u>3</u>
<b>Balance at 30 June 2011</b>	<u>(1,268)</u>	<u>(1,268)</u>
<b>Changes in equity</b>		
Total comprehensive income	<u>(441)</u>	<u>(441)</u>
<b>Balance at 30 June 2012</b>	<u><u>(1,709)</u></u>	<u><u>(1,709)</u></u>

The notes form part of these financial statements

**Valad Properties (Marsh Mills) Limited (Registered number: 04148580)**

**STATEMENT OF CASH FLOWS  
for the Year Ended 30 June 2012**

		30 6 12 £'000	30 6 11 £'000
<b>Cash flows from operating activities</b>			
Cash generated from operations	1	<u>9</u>	<u>-</u>
Net cash from operating activities		<u>9</u>	<u>-</u>
 <b>Cash flows from investing activities</b>			
Purchase of inventories		<u>(9)</u>	<u>-</u>
Net cash from investing activities		<u>(9)</u>	<u>-</u>
		<u>-</u>	<u>-</u>
<b>Increase in cash and cash equivalents</b>		-	-
<b>Cash and cash equivalents at beginning of year</b>		<u>-</u>	<u>-</u>
<b>Cash and cash equivalents at end of year</b>		<u><u>-</u></u>	<u><u>-</u></u>

The notes form part of these financial statements

**NOTES TO THE STATEMENT OF CASH FLOWS**  
for the Year Ended 30 June 2012

**1 RECONCILIATION OF (LOSS)/PROFIT BEFORE INCOME TAX TO CASH GENERATED FROM OPERATIONS**

	30 6 12	30 6 11
	£'000	£'000
(Loss)/profit before income tax	(441)	3
Impairment of inventories	<u>437</u>	<u>(27)</u>
	(4)	(24)
Increase in inventories	-	(1)
Decrease in trade and other receivables	-	21
Increase in trade and other payables	<u>13</u>	<u>4</u>
<b>Cash generated from operations</b>	<u><u>9</u></u>	<u><u>-</u></u>

**NOTES TO THE FINANCIAL STATEMENTS  
for the Year Ended 30 June 2012**

**1 ACCOUNTING POLICIES**

**Basis of preparation**

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

These financial statements have been prepared in accordance with European Union ("EU") Endorsed International Financial Reporting Standards ("IFRSs"), IFRIC interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties in accordance with IAS 40 'Investment Property'.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed on page 13.

**New and amended standards adopted by the company**

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 July 2011:

- IAS 24, 'Related party disclosures' (revised 2009), and
- Annual improvements 2010

**New interpretations and amendments not currently relevant to the company**

The following new interpretations are mandatory for the first time for the financial year beginning 1 July 2011, but are not currently relevant to the company:

- Amendment to IAS 32, 'Financial instruments: Presentation' is not applicable as the company has not made a rights issue during the period,
- Amendment to IFRS 7, 'Financial instruments: Disclosures' is not applicable as the company has not made any transfer of financial assets,
- Amendment to IFRIC 14, 'Prepayments of a minimum funding requirement' is not applicable as the company does not hold a defined benefit pension scheme, and
- IFRIC 19, 'Extinguishing financial liabilities with equity instruments' is not applicable as the company has not used equity to settle financial liabilities.

**New and amended standards not effective for current financial year**

The following new standards and amendments have been issued but are not effective for the financial year beginning 1 July 2011 and have not been adopted early. They are not expected to have a material impact on the company:

- IAS 1 'Presentation of financial statements' - effective 1 July 2012
- IAS 19 (revised 2011) 'Employee Benefits' - effective 1 July 2013
- IAS 27 (revised 2011) 'Separate financial statements' - effective 1 July 2013
- IAS 28 (revised 2011) 'Associates and joint ventures' - effective 1 July 2013
- IFRS 9, 'Financial instruments' - effective 1 July 2015
- IFRS 10, 'Consolidated financial statements' - effective 1 July 2014
- IFRS 11, 'Joint arrangements' - effective 1 July 2014
- IFRS 12, 'Disclosures of interests in other entities' - effective 1 July 2014
- IFRS 13, 'Fair value measurement' - effective 1 July 2013
- Amendment to IAS 12, 'Income taxes' on deferred tax - effective 1 July 2012
- Amendment to IAS 32 'Financial instruments: Presentation' on financial instruments asset and liability offsetting - effective 1 July 2014

**NOTES TO THE FINANCIAL STATEMENTS - continued**  
**for the Year Ended 30 June 2012**

**1. ACCOUNTING POLICIES - continued**

- Amendment to IFRS 1 'First time adoption' on government grants - effective 1 July 2013
- Amendment to IFRS 7 'Financial instruments Disclosure' on financial instruments asset and liability offsetting - effective 1 July 2013
- IFRIC 20 'Stripping costs in the production phase of a surface mine' - effective 1 July 2013

**General information**

The company is a limited liability company incorporated and domiciled in England and Wales. The address of its registered office is Europa House, 20 Esplanade, Scarborough, North Yorkshire, YO11 2AQ.

**Financial instruments**

The company recognises financial instruments when it becomes party to the contractual provisions of the instrument. Financial assets are derecognised when the contractual right to receive the cash flows expires or it has transferred the financial asset and the economic benefit of the cash flows. Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

Financial instruments are used to support the company's operations. Interest is charged to the income statement as incurred or earned. Issue costs for instruments subsequently recorded at amortised cost are netted against the fair value of the related debt instruments on initial recognition and are charged to the income statement over the term of the relevant facility.

Financial instruments are recorded initially at fair value. Subsequent measurement depends on the designation of the instrument, as follows:

- a) Financial assets/liabilities held for short term gain, including derivatives other than hedging instruments, are measured at fair value and movements in fair value are credited/charged to the income statement in the year.
- b) Loans and receivables/payables and non-derivative financial assets/liabilities with fixed or determinable payments that are not quoted in an active market are measured at amortised cost. These are included in current assets/liabilities except for instruments that mature after more than 12 months which are included in non current assets/liabilities.

**Critical judgements in applying accounting policies and key sources of estimation uncertainty**

Many of the amounts included in the financial statements involve the use of judgement and/or estimation. These judgements and estimates are based on management's best knowledge of the relevant facts and circumstances, having regard to previous experience, but actual results may differ from the amounts included in the financial statements. Information about such judgements and estimation is contained in the accounting policies and/or the notes to the financial statements, and the key areas summarised below:

Areas of judgement and sources of estimation uncertainty that have the most significant effect on the amounts recognised in the financial statements are:

**Assessment of net realisable value of development property inventory**

Development appraisals have been undertaken to estimate the residual value of the landholding after due regard to the cost of and revenue from the development of the property.

**NOTES TO THE FINANCIAL STATEMENTS - continued**  
**for the Year Ended 30 June 2012**

**1 ACCOUNTING POLICIES - continued**

**Inventories**

Inventories are valued at the lower of cost and net realisable value. Cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent expenditure is included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Other repair and maintenance expenditures are charged to the Income Statement during the financial period in which they are incurred.

Interest incurred on development projects is only capitalised on all qualifying assets that are large new build developments and major refurbishments to the extent that they are capital in nature. A property ceases to be treated as being in the course of development when substantially all the activities that are necessary to prepare the property for use are complete.

Impairment on inventories is recorded in the income statement.

**Taxation**

**Current tax**

The expense or credit for current tax is based on the results for the year adjusted for items that are either not subject to taxation or for expenditure which cannot be deducted in computing the tax expense or credit. The tax expense or credit is calculated using taxation rates that have been enacted or substantively enacted at the balance sheet date.

**Deferred tax**

Deferred tax is recognised using the balance sheet liability method on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. Deferred tax is recognised in respect of all taxable temporary differences, with certain limited exceptions.

- deferred tax is not provided on the initial recognition of an asset or liability in a transaction that does not affect accounting profit or taxable profit and is not a business combination, and

- deferred tax assets are only recognised if it is probable that there will be sufficient profits from which the future reversal of the temporary differences can be deducted. In deciding whether future reversal is probable, the directors review the company's forecasts and make an estimate of the aggregate deferred tax asset that should be recognised. This aggregate deferred tax asset is then allocated into the different categories of deferred tax.

In relation to investment properties, a deferred tax liability is provided on the basis of normal revenue tax rules for the proportion of the property's carrying amount expected to be recovered through use and is provided using capital gains tax rules in respect of the remainder of the property's carrying amount (including all land) expected to be recovered through sale. Provision is made for gains on disposal of property, plant and equipment that have been rolled over into replacement assets only where, at the balance sheet date, there is a commitment to dispose of the replacement assets.

Deferred tax is calculated at the tax rates that are expected to apply in the periods in which temporary differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited to the income statement, except where it applies to items credited or charged to equity, in which case the deferred tax is also dealt with in equity.



**NOTES TO THE FINANCIAL STATEMENTS - continued**  
**for the Year Ended 30 June 2012**

**1 ACCOUNTING POLICIES - continued**

**Going Concern**

The financial statements have been prepared on the going concern basis which assumes that the Company and the group of the ultimate parent company D U K E Real Estate Limited ("Group") will be able to continue in operation for the foreseeable future

The Company is a party to a cross guarantee with all other subsidiaries in the Group and is therefore dependent on the ability of the Group to continue as a Going Concern

The Group incurred a loss for the year of £99.5m (2011: £121.5m) due to the write-downs of real estate assets as a result of challenging economic conditions

On 22 March 2012 the Group signed a new banking facility with Bank of Scotland plc (a subsidiary of Lloyds Banking Group plc) which provides committed facilities through to 31 December 2016. The facility contains cross collateralisation and cross default provisions across the vast majority of the Group. All fees associated with the facility are paid only at the earlier of full repayment or expiry, which management expect will be no earlier than 31 December 2016.

The facility includes debt repayment covenants, valuation test covenants and cash flow cover covenants. The first test date for the debt repayment and valuation covenants is 30 June 2013. The cash flow cover covenant comprises a rolling 12 month look forward which must demonstrate that the Group will remain cash positive and is tested quarterly from 31 March 2012.

In forming their view of going concern, the Directors have considered detailed financial models through to 31 December 2016. These models forecast a programme of asset disposals which enable the various covenants to be met and are based upon a detailed strategy at both an asset and fund level which the Directors have already begun to implement in conjunction with the Asset Manager, Valad Europe. The key assumptions inherent in these projections relate to property valuations, property sales values, timing of disposals, the income and cost profile of each property asset along with the borrowing costs of the Group. The Directors have carefully considered these assumptions and made an assessment of whether the assumptions are reasonable, paying particular attention to key sensitivities such as cash headroom, assumed swap rates and the value and timing of assets disposals. Given the inherent uncertainty in the timing and value of the property sales, there is a risk that the required sales needed to meet the repayment covenants are not made in the envisaged timescale.

The valuation covenant requires that the valuation of the properties by an independent valuer at 30 June 2013 will not fall below 85% of their value at 31 December 2010. The current uncertainty in the property markets in turn creates an uncertainty over the Group's ability to meet this covenant.

An inability of the Group to meet any of the covenants described above would result in a technical default in the facility. Any technical default would require the facility to be renegotiated with the bank. The directors of DUKE are confident that a successful renegotiation would be achieved.

Taking all the above into account, together with the close relationship the Group has with its lenders who are also 50% shareholders in DUKE, the Directors believe that the Group will be able to meet its liabilities as they fall due for the foreseeable future and that it is appropriate to prepare the Company financial statements on the going concern basis.

In the event that property sales are not made in line with the business plan and are not at the level to meet the repayment covenants or that property values fall below the level required to meet the valuation covenant, the facility would need to be renegotiated which the Directors are confident would be achieved. This however represents a material uncertainty which may cast significant doubt over the Company's ability to continue as a going concern. The financial statements do not include any adjustments that would result from them not being prepared on a going concern basis.

**NOTES TO THE FINANCIAL STATEMENTS - continued**  
**for the Year Ended 30 June 2012**

**1 ACCOUNTING POLICIES - continued**

**Cash and cash equivalents**

In the preparation of the company's statement of cash flows, cash and cash equivalents represent short term liquid investments which are readily realisable. Cash which is subject to restrictions, being held to match certain liabilities, is included in cash and cash equivalents in the balance sheet.

**Ordinary shares**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**Dividend distribution**

Dividend distribution to the company's shareholders is recognised in the financial statements in the year in which the dividends are paid.

**Impairment**

The carrying value of cash generating units (taking into account related liabilities and allocated central net assets) is tested for impairment by comparison with expected relevant future cash flows discounted at the pre-tax cost of capital taking into account appropriate risk; provision is made for any impairment identified.

When a review for impairment is conducted, the recoverable amount is assessed by reference to the higher of 'value in use' (being the present value of expected future cash flows of the relevant cash generating unit) or 'fair value less costs to sell'. Where there is no binding sale agreement or active market, fair value less costs to sell is based on the best information available to reflect the amount the company could receive for the cash generating unit in an arm's length transaction.

**Receivables**

Receivables are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest method less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the company will not be able to collect all amounts due. Indicators of impairment would include financial difficulties of the debtor, likelihood of the debtor's insolvency, default in payment or a significant deterioration in credit worthiness. Any impairment is recognised in the income statement within 'administrative expenses'. When a receivable is uncollectible, it is written off against the allowance account.

Subsequent recoveries of amounts previously written off are credited against 'other operating income and expenses' in the income statement.

**Payables**

Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

**2 EMPLOYEES AND DIRECTORS**

The company had no employees during the current or prior year.

**Directors' emoluments**

The directors are executives of the Valad (Europe) plc group. D U K E Real Estate Limited, the ultimate parent company, has a management agreement with Valad Management Services Limited, a subsidiary of Valad (Europe) plc. The management charge is invoiced to D U K E Real Estate Limited and a recharge is not made to subsidiary companies. The management charge includes various costs and the directors' remuneration cannot be separately identified.

**NOTES TO THE FINANCIAL STATEMENTS - continued**  
**for the Year Ended 30 June 2012**

**3 (LOSS)/PROFIT BEFORE INCOME TAX**

The loss before income tax (2011 - profit before income tax) is stated after charging/(crediting)

	30 6 12	30 6 11
	£'000	£'000
Reversal of impairment of inventories	<u>437</u>	<u>(27)</u>

**Auditors' remuneration**

The audit fee of the company for the current and prior year is borne by the ultimate parent company, D U K E Real Estate Limited

**4 INCOME TAX**

**Analysis of tax expense**

No liability to UK corporation tax arose on ordinary activities for the year ended 30 June 2012 nor for the year ended 30 June 2011

**Factors affecting the tax expense**

The tax assessed for the year is higher (2011 - lower) than the standard rate of corporation tax in the UK. The difference is explained below

	30 6 12	30 6 11
	£'000	£'000
(Loss)/profit on ordinary activities before income tax	<u>(441)</u>	<u>3</u>
(Loss)/profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 25.500% (2011 - 27.500%)	(112)	1
Effects of Group relief surrendered for nil consideration	<u>112</u>	<u>(1)</u>
Tax expense	<u>-</u>	<u>-</u>

The main rate of UK corporation tax was reduced from 26% to 24% with effect from 1 April 2012. The rate will be reduced to 23% with effect from 1 April 2013. Further reductions are proposed to reduce the main rate by 1% per annum to 22% by 1 April 2014.

**5 INVENTORIES**

	30 6 12	30 6 11
	£'000	£'000
At the end of the year	<u>1,000</u>	<u>1,428</u>

The amount shown above is stated after cumulative impairment provisions of £1,592,123 (2011: £1,154,627)

**6 CALLED UP SHARE CAPITAL**

Allotted, issued and fully paid			30 6 12	30 6 11
Number	Class	Nominal value	£	£
1	Ordinary	£1	<u>1</u>	<u>1</u>

**NOTES TO THE FINANCIAL STATEMENTS - continued**  
for the Year Ended 30 June 2012

**7 RESERVES**

	Accumulated losses £'000
At 1 July 2011	(1,268)
Deficit for the year	<u>(441)</u>
At 30 June 2012	<u>(1,709)</u>

**8 PAYABLES**

	30 6 12 £'000	30 6 11 £'000
Current		
Amounts owed to group undertakings	<u>2,709</u>	<u>2,696</u>

All amounts owed to group undertakings are repayable on demand, carry no security and are interest free

**9 FINANCIAL INSTRUMENTS**

The company's principal financial instruments include payables

Other financial assets and liabilities	30 6 12		30 6 11	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
<b>Liabilities</b>				
Payables	(2,709)	(2,709)	(2,696)	(2,696)

In accordance with IAS 39, the company classifies the assets and liabilities in the analysis above as 'other financial liabilities'. At the 2012 and 2011 year ends, the company did not have any 'held to maturity' or 'available for sale' financial assets or 'held for trading' financial assets and liabilities as defined by IAS 39

For other financial assets and liabilities, which are all short-term in nature, the carrying value approximates to fair value

**10 ULTIMATE PARENT COMPANY**

The company's immediate parent undertaking is Valad Properties (UK) Limited

The company's ultimate parent undertaking, D U K E Real Estate Limited, is jointly owned by Uterior Europe Limited (a subsidiary of Lloyds Banking Group plc - a UK entity) and Valad Capital Limited. At 30 June 2011 Valad Capital Limited's ultimate parent company was Valad Property Group, an Australian listed entity. Following the acquisition of Valad Property Group by Blackstone Real Estate Partners VI Limited Partnership on 26 August 2011, Valad Capital Limited's ultimate parent company is now Blackstone Real Estate Partners VI Limited Partnership.

D U K E Real Estate Limited is the parent company of the smallest and largest group for which consolidated financial statements are drawn up and of which the company is a member. Copies of the consolidated financial statements of D U K E Real Estate Limited can be obtained from Exchange Place 3, 3 Sempole Street, Edinburgh, EH3 8BL.

**NOTES TO THE FINANCIAL STATEMENTS - continued**  
**for the Year Ended 30 June 2012**

**11 CONTINGENT LIABILITIES**

Following the refinancing of the Group on 22 March 2012, the facilities contain cross collateralisation and cross default provisions. The total Group debt outstanding as at 30 June 2012 is £918,229,000 (2011: £549,029,000).

**12 RELATED PARTY DISCLOSURES**

**Amounts owed to group undertakings**

The funding of D U K E Real Estate Limited and its subsidiaries ('the group') is controlled centrally. Resources are allocated to different entities within the Group according to their needs, which constantly vary due to differing trading patterns, seasonality and other factors. The amounts owed at the year end disclosed in note 8 are all owed by Valad Properties (Marsh Mills) Limited to Valad Property Holdings (UK) Limited, itself a wholly owned subsidiary of D U K E Real Estate Limited.

**13 FINANCIAL RISK MANAGEMENT**

The company's activities expose it to a variety of financial risks: credit risk and liquidity risk. The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the company's financial performance.

Risk management is carried out by a central treasury function on a group-wide basis under policies approved by the board of directors. The central treasury function identifies, evaluates and hedges financial risks in close co-operation with the group's investment property businesses. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments and investment of excess liquidity.

**(a) Credit risk**

The company is subject to credit risk arising from outstanding receivables. The company's policy is to manage credit exposure to trading counterparties within defined trading limits. All of the company's significant counterparties are assigned internal credit limits.

If any of the company's customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, the company assesses the credit quality of the customer taking into account its financial position, past experience and other factors.

**(b) Liquidity risk**

The company is subject to the risk that it will not have sufficient borrowing facilities to fund its existing business and its future plan for growth. The company manages its liquidity requirements with the use of both short and long-term cash flow forecasts. These forecasts are supplemented by a financial headroom position which is used to demonstrate funding adequacy for at least a 12 month period.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the central treasury function aims to maintain flexibility in funding by keeping committed credit lines available.

**Capital risk management**

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to shareholders, return capital to its parent, issue new shares or sell assets to reduce debt.