

Valad Properties (Marsh Mills) Limited
Annual report and financial statements
for year ended 30 June 2009



Company Registration Number 4148580

Valad Properties (Marsh Mills) Limited

Company Registration Number 4148580

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

For the year ended 30 June 2009

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Valad Properties (Marsh Mills) Limited

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DIRECTORS AND ADVISORS

For the year ended 30 June 2009

COMPANY REGISTRATION NUMBER

4148580

THE BOARD OF DIRECTORS

Valsec Director Limited

A Slipper

COMPANY SECRETARY

Valad Secretarial Services Limited

REGISTERED OFFICE

Europa House
20 Esplanade
Scarborough
North Yorkshire
YO11 2AQ

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Benson House
33 Wellington Street
Leeds
LS1 4JP

SOLICITORS

Shepherd & Wedderburn LLP
Condor House
10 St Paul's Churchyard
London
EC4M 8AL

BANKERS

Bank of Scotland
2nd floor
21-23 Hill Street
Mayfair
London
W1J 5JW

Valad Properties (Marsh Mills) Limited

Company Registration Number 4148580

DIRECTORS' REPORT

For the year ended 30 June 2009

The directors present their annual report and the audited financial statements of the Company for the year ended 30 June 2009

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The principal activity of the company is the investment in and letting of commercial property. Both the level of activity for the period and the financial position at the end of the year were as anticipated and the directors have a mutual agreement with the developer to put the development of the property on hold.

RESULTS AND DIVIDENDS

The Company's loss for the financial year is £1,238,202 (2008 Profit of £206,886) and is dealt with as shown on the income statement.

The directors have not recommended a dividend (2008 £Nil).

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 statement of accounting policies under the basis of preparation note.

POST BALANCE SHEET EVENT

On 1 July 2009, the Valad (Hurst) Limited group, of which the company is a subsidiary, entered into a new umbrella banking facility, with Lloyds Banking Group, the details of which are as follows:

- the rollover of existing facilities (frozen at 30 June 2009 actual borrowing levels) in the group amounting in total to £507m
- existing borrowings remain on their old terms but with financial covenants, including loan to value covenants, removed
- a new facility of £30m to fund the termination of various interest rate hedging arrangements
- a new facility of £36m to be used to enhance the capital value of the group's properties
- a new financial covenant based on historic and future interest cover only

The new umbrella facility is repayable on 30 June 2011, with the group having the option to extend for a further twelve months period on payment of a fee of £7.5m or in return for an increase in the blended margin across all facilities of 0.75%. The facilities are all inter-linked via an inter-creditor agreement, which includes cross guarantee and cross default provisions.

A £3m arrangement fee has been paid upon signing of the new umbrella facility. A £25m exit fee is payable as a bullet payment when the facilities are repaid.

In July 2009, seven interest rate hedge instruments, which the group held at 30 June 2009, were terminated at a cost of approximately £26m. The decision was taken to terminate those hedging instruments because they had the effect of fixing the interest rate paid on the group's borrowing at an uneconomically high level.

A new interest rate swap contract with a principal amount of £155m, rising to £215m by 2011, with a fixed interest rate of 2.35%, rising to 3.15% by 2011, was entered into by the group in July 2009.

In addition, one of the groups existing interest rate swaps, with a principal amount of €285m at 30 June 2009, was restructured. The expiry date of the swap was extended and the principal amount was reduced to €240m and will fall further to €200m by 2011. The fixed interest rate applicable to the swap is 3.69%. The re-structure of the interest rate swap was done at no cost to the group.

The company is party to a cross guarantee in relation to the group's bank borrowings.

Valad Properties (Marsh Mills) Limited

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DIRECTORS' REPORT

For the year ended 30 June 2009

DIRECTORS

The directors who served the Company during the year and up to the date of this report were as follows

Valsec Director Limited	(appointed on 1 September 2009)
A Slipper	(appointed on 31 December 2009)
M O Shepherd	(resigned on 24 December 2008)
Europa Director Limited	(resigned on 1 September 2009)
D Tandy	(appointed on 24 December 2008, resigned on 31 December 2009)

DONATIONS

The company has made no political or charitable donations during the year (2008 £Nil)

PRINCIPAL RISKS AND UNCERTAINTIES

The directors of Valad (Hurst) 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 Group'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 Valad (Hurst) 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 Valad (Hurst) 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 Valad (Hurst) 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 11 to the financial statements.

Valad Properties (Marsh Mills) Limited

Company Registration Number 4148580

DIRECTORS' REPORT (CONTINUED)

For the year ended 30 June 2009

ETHICAL POLICY

The Company is committed to working with our employees, customers, suppliers and contractors to promote responsible working and trading practices

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) 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,

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

PROVISION OF INFORMATION TO AUDITORS

So far as each director is aware, there is no relevant audit information of which the Company's auditors, PricewaterhouseCoopers LLP 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

INDEPENDENT AUDITORS

A resolution to re-appoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the annual general meeting

On behalf of the Board



Valsec Director Limited
Director

23/3/2010

INDEPENDENT AUDITORS' REPORT 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 2009 which comprise the Income Statement, the Statement of Changes in Equity, the Balance Sheet, the Cash Flow Statement 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 Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit 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 Sections 495 and 496 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.

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 2009 and of its loss and cash flows 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.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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



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

23 March 2010

Valad Properties (Marsh Mills) Limited

Company Registration Number 4148580

Income Statement

For the year ended 30 June 2009

	Note	Year ended 30 June 2009 £	Period ended 30 June 2008 £
INCOME		-	-
Cost of sales		-	-
GROSS PROFIT		-	-
Impairment of inventories		(1,181,300)	-
Other operating income and expenses		102,575	214,145
OPERATING (LOSS)/PROFIT	2	(1,078,725)	214,145
Finance costs	5	(159,477)	(7,259)
(LOSS)/PROFIT BEFORE TAXATION		(1,238,202)	206,886
Income tax expense	6	-	-
(LOSS)/PROFIT FOR THE YEAR/PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		(1,238,202)	206,886

All activities are derived from continuing operations

There have been no recognised gains or losses other than the results above

Valad Properties (Marsh Mills) Limited

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Statement of Changes in Equity

For the year ended 30 June 2009

	Share capital	Retained earnings	Total equity
	£	£	£
Balance at December 2007	1	(177,000)	(176,999)
Profit for the financial period	-	206,886	206,886
Balance at June 2008	1	29,886	29,887
Loss for the financial year	-	(1,238,202)	(1,238,202)
Balance at June 2009	1	(1,208,316)	(1,208,315)

Valad Properties (Marsh Mills) Limited

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Balance Sheet

As at 30 June 2009

	Note	2009 £	2008 £
CURRENT ASSETS			
Inventories	7	1,400,000	2,581,300
Other receivables	8	102,575	1,312
		<u>102,575</u>	<u>2,582,612</u>
CURRENT LIABILITIES			
Trade and other payables	9	<u>(2,710,890)</u>	<u>(2,552,725)</u>
NET CURRENT (LIABILITIES)/ASSETS		<u>(1,208,315)</u>	<u>29,887</u>
NET (LIABILITIES)/ASSETS		<u>(1,208,315)</u>	<u>29,887</u>
EQUITY			
Called up share capital	12	1	1
Retained earnings		(1,208,316)	29,886
TOTAL EQUITY		<u>(1,208,315)</u>	<u>29,887</u>

The financial statements on pages 6 to 19 were approved by the Board of directors on 23 March 2010 and were signed on its behalf by



Valsec Director Limited
Director

Valad Properties (Marsh Mills) Limited

Company Registration Number 4148580

CASHFLOW STATEMENT

For the year ended 30 June 2009

	2009 £	2008 £
Cash flows from operating activities		
(Loss)/profit for the financial year/period	(1,238,202)	206,886
Impairment of inventories	1,181,300	-
Net finance costs	159,477	7,259
Operating cash flow before movements in working capital	102,575	214,145
(Increase)/decrease in receivables	(101,263)	24,688
Increase in inventories	-	(196,300)
Increase/(decrease) in payables	158,165	(35,274)
Cash generated from operations	159,477	7,259
Finance costs	(159,477)	(7,259)
Cash generated from operating activities	-	-
Increase in cash	-	-
Cash and cash equivalents at start of year/period	-	-
Cash and cash equivalents at end of year/period	-	-

Valad Properties (Marsh Mills) Limited

Company Registration Number 4148580

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2009

1. ACCOUNTING POLICIES

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.

Basis of preparation

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. IFRSs require an alternative treatment to the historic cost convention in certain circumstances (principally in the areas of retirement benefit obligations, share based payments and financial instruments). These financial statements are covered by IFRS 1, First-time adoption of International Financial Reporting Standards, as they are the Company's first IFRS financial statements.

The Company has adopted the amendment to IAS 39 'Financial instruments: recognition and measurement' and IFRS 7 'Financial instruments: disclosures' in 2008 with no material impact on either the current or prior periods.

In preparing the financial statements, the following pronouncements which are not yet effective have not been adopted early by the Company:

IAS 1 (revised), 'Presentation of Financial Statements' The most significant change within IAS 1 (revised) is the requirement to produce a statement of comprehensive income setting out all items of income and expense relating to non-owner changes in equity. There is a choice between presenting comprehensive income in one statement or in two statements comprising an income statement and a separate statement of comprehensive income. The company will apply IAS 1 (revised) from 1 July 2009. The expected impact is still being assessed in detail by management.

IFRS 8 'Operating segments' The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Company will apply IFRS 8 from 1 July 2009. The effect on the 2010 accounts would not be material.

IAS 23 (revised), 'Borrowing Costs' IAS 23 (revised) requires the capitalization of borrowing costs which are directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready to use). The Company will apply IAS 23 (revised) from 1 July 2009. The effect on the 2010 accounts would not be material.

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 July 2008, but are not currently relevant to the Company:

- IFRIC 13 'Customer Loyalty Programmes',
- IFRIC 15, 'Agreements for the Construction of Real Estate', and
- IFRIC 16, 'Hedges of a Net Investment in a Foreign Operation'

Valad Properties (Marsh Mills) Limited

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2009

1. ACCOUNTING POLICIES (CONTINUED)

Basis of preparation (continued)

The following new standards, amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 July 2008 and have not been adopted early

IFRS 3 (revised), 'Business Combinations' and consequential amendments to IAS 27, 'Consolidated and Separate Financial Statements', IAS 28, 'Investments in Associates' and IAS 31, 'Interests in Joint Ventures', effective prospectively to business combinations for which the acquisition date is on or after the first annual reporting period beginning on or after 1 July 2009. The Company will apply IFRS 3 (revised) to all business combinations from 1 July 2009, subject to endorsement by the EU.

IFRIC 17, 'Distributions of Non-Cash Assets to Owners', effective for annual periods beginning on or after 1 July 2009. This is not currently applicable to the Company, as it has not made any non-cash distributions, and

IFRIC 18, 'Transfers of Assets From Customers', effective for transfers of assets received on or after 1 July 2009. This is not relevant to the Company as it has not received any assets from customers.

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.

Going concern

The financial statements have been prepared on the going concern basis which assumes that the company will be able to continue in operation for the foreseeable future.

The company is a subsidiary of the Valad (Hurst) Limited group and the directors have taken into account its reliance on financial support provided by group companies. The company is also party to a cross guarantee in relation to the group's bank borrowings and consequently the going concern status of the wider Group has to be taken into account when considering the going concern position of the company.

The group incurred losses of £148m, before tax during the year and had a net deficit on the balance sheet as at 30 June 2009, largely reflecting losses arising on the write-down of real estate assets because of unprecedented prevailing economic conditions. On 30 June 2009, the group completed a major re-organisation and re-structuring. On 30 June 2009, Uberior Europe Limited, a subsidiary of Lloyds Banking Group, took a 50% shareholding in the parent company of the group, Valad (Hurst) Limited, in return for contributing to the group their equity interests in various joint ventures.

Immediately following the year end, the parent company agreed new banking facilities with Lloyds Banking Group. A new umbrella facility introduces a single covenant, based on interest cover, which replaces covenants that were in place on existing group borrowings. The group's existing borrowings remain on their old terms and the level of borrowing has been frozen as at 30 June 2009.

The new facilities are repayable on 30 June 2011, with the group having the option to extend for a further twelve month period on payment of a fee of £7.5m or in return for an increase in the blended margin across all facilities of 0.75%. The facilities are all inter-linked via an inter-creditor agreement, which includes cross guarantee and cross default provisions.

Valad Properties (Marsh Mills) Limited

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2009

1. ACCOUNTING POLICIES (CONTINUED)

Going concern (continued)

In forming their view as to going concern, the directors have prepared working capital projections for the group for the period to 30 June 2012 based on its trading forecasts and taking into account the medium term nature of the facilities described above

The key assumptions inherent in these projections are

- no significant growth in property values
- no rental growth
- no significant tenant defaults
- no significant reduction in level of current voids
- overheads largely fixed in line with medium term service agreements

The directors have also considered alternative scenarios based on key sensitivities, the principal one being a reduction in rental income due to both tenant default and/or reduction in rental levels. The projections indicate, taking into account the relatively predictable nature of the group costs, that the group will be able to operate within its agreed banking facilities and existing cash resources. The headroom available on the facilities, cash and related covenants are also adequate taking into account the key sensitivities.

The group management accounts for the first quarter of the current financial year show profit and cash flow ahead of projected levels and headroom of some 30% on the principal interest cover covenant.

While it does not have an impact on cash headroom or financial covenants, the directors have also considered the outlook for property valuations. Based on their own knowledge of the markets in which the group operates, and external market data, they believe that the prospects of a recovery in the medium term are very good, although given the fragility of European economies there is a reasonable degree of uncertainty. The directors note that an increase in value in the group's investment portfolio as a whole of approximately 10% would eliminate the deficit on the group balance sheet as at 30 June 2009.

Taking all the above into account and notwithstanding that the group balance sheet is in a deficit position as at 30 June 2009, the directors believe that the group will be able to meet its liabilities as they fall due for the foreseeable future. The parent company has also agreed not to seek repayment of inter-company loans from the Company for a period of at least 12 months from the date of signing these accounts and in any event not until the Company is in a position to do so.

On the basis of the above analysis the directors believe that the company will be able to meet its liabilities as they fall due for the foreseeable future and that it is appropriate to prepare the company's financial statements on the going concern basis.

Valad Properties (Marsh Mills) Limited

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2009

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.

Once an inventory becomes income generating it is transferred, at fair value, to investment properties.

Impairment on inventories are recorded in the income statement.

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.

Trade receivables

Trade receivables are recognised initially at fair value and are subsequently reduced by any provision for impairment. A provision for impairment of trade 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 'other operating income and expenses'. When a trade 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.

Trade payables

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

Valad Properties (Marsh Mills) Limited

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2009

1. ACCOUNTING POLICIES (CONTINUED)

Financial instruments and derivatives

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 expire 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 period.
- 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.

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:

Estimation of fair value of Investment Property

The fair value of Investment Property reflects, amongst other things, rental income from our current leases, assumptions about rental income from future leases and the possible outcome of planning applications, in the light of current market conditions. The valuation has been arrived at primarily after consideration of market evidence for similar property, although in the case of those properties where it is considered market value will be informed by their ultimate redevelopment potential, 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.

In such instances, on account of the sensitivity of the market value to the detail of any future planning consent, and the potential for material variance in the actuality of development costs, as compared with our own estimates, together with the subjective nature of hope value, the values reported are subject to material uncertainty, and a change in fair values could have a material impact on the Company's results. Investment properties are disclosed in note 7.

Valad Properties (Marsh Mills) Limited

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2009

1. ACCOUNTING POLICIES (CONTINUED)

Taxation

Current Tax

The charge 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 charge or credit. The tax charge 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 timing 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 underlying timing 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 income 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 timing 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.

Share capital

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 (in the case of interim dividends) or approved by the Company's shareholders (in the case of final dividends).

Cash and cash equivalents

In the preparation of the Company's cash flow statements, 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.

Valad Properties (Marsh Mills) Limited

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2009

2. OPERATING (LOSS)/PROFIT

Operating loss is stated after charging

	Year ended 30 June 2009	Period ended 30 June 2008
	£	£
Impairment of inventories	<u>(1,181,300)</u>	<u>-</u>

The audit fee of the company for the current year is borne by the immediate parent company

3. EMPLOYEE EXPENSES

The company had no employees during the current or prior year

4. DIRECTORS' EMOLUMENTS

No emoluments were paid to the directors during the year (2008 £Nil)

Europa Director Limited resigned as a director on 5 January 2009 and M O Shepherd resigned as a director on 24 December 2008. No compensation was made for loss of office.

5. FINANCE COSTS

	Year ended 30 June 2009	Period ended 30 June 2008
	£	£
Intercompany interest payable	<u>(159,477)</u>	<u>(7,259)</u>

6. INCOME TAX EXPENSE

Components of income tax charge

	Year Ended 30 June 2009	Period Ended 30 June 2008
	£	£
Current tax		
Current tax - UK corporation tax	-	-
Prior period adjustment	-	-
Total income tax expense	<u>-</u>	<u>-</u>

Valad Properties (Marsh Mills) Limited

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2009

6. INCOME TAX EXPENSE (CONTINUED)

The tax assessed for the year is higher (2008 lower) than the standard rate of corporation tax in the UK of 28% (2008 29.625%)

Reconciliation of income tax charge to accounting profit

	Year Ended 30 June 2009	Period Ended 30 June 2008
	£	£
(Loss)/profit before taxation	<u>(1,238,202)</u>	<u>206,886</u>
Tax on (loss)/profit at standard UK corporation tax rate of 28% (2008 29.625%)	(346,700)	61,290
Effects of		
Impairment of inventories not deferred tax effected	330,764	-
Group relief surrendered for nil consideration	15,936	-
Expenses not deductible for tax purposes	-	2,150
Non taxable income	-	(63,440)
Income tax expense for the year	<u>-</u>	<u>-</u>

There is no deferred tax recognised during the current year or prior period

7. INVENTORIES

	2009	2008
	£	£
At the end of the year/period	<u>1,400,000</u>	<u>2,581,300</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2009

8. OTHER RECEIVABLES

	2009 £	2008 £
Other debtor	<u>102,575</u>	<u>1,312</u>

The carrying amount of other receivables approximate to their fair value. All of the Company's receivables are denominated in sterling.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables as disclosed in note 10. The Company does not hold any collateral as security.

The trade and other receivables do not contain impaired assets.

9. TRADE AND OTHER PAYABLES

	2009 £	2008 £
Amounts owed to group undertakings	2,551,413	2,472,496
Accruals and deferred income	<u>159,477</u>	<u>80,229</u>
	<u>2,710,890</u>	<u>2,552,725</u>

All amounts owed to group undertakings are repayable on demand, carry no security and interest is charged at 6% per annum.

10. FINANCIAL INSTRUMENTS AND DERIVATIVES

The Company's principal financial instruments include trade receivables and trade and other payables.

Other financial assets and liabilities

	June 2009		June 2008	
	Book value £	Fair value £	Book value £	Fair value £
Assets				
Trade receivables	102,575	102,575	1,312	1,312
Liabilities				
Trade and other payables	(2,710,890)	(2,710,890)	(2,552,725)	(2,552,725)

In accordance with IAS 39, the Company classifies the assets and liabilities in the analysis above as 'loans and receivables' and 'other financial liabilities', respectively. At the 2009 and 2008 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.

Valad Properties (Marsh Mills) Limited

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2009

11. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks credit risk and liquidity risk which are managed at a Group basis. The Group'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.

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.

Liquidity risk

The Group and Company are subject to the risk that it will not have sufficient borrowing facilities to fund its existing business and its future plan for growth. The Group 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.

The Company's main source of liquidity is its investment property business. Cash generation by this business is dependent upon the reliability of rental income.

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 is subject to the risk that its capital structure will not be sufficient to support the growth of the business.

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.

12. CALLED UP SHARE CAPITAL

	2009 £	2008 £
Authorised 1,000 Ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>
Allotted and fully paid 1 Ordinary shares of £1 each	<u>1</u>	<u>1</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2009

13. RELATED PARTY TRANSACTIONS

Amounts owed by parent undertakings

The funding of Valad (Hurst) 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 9 are all owed by Valad Properties (Marsh Mills) Limited to Valad Properties (UK) Limited, itself a wholly owned subsidiary of Valad (Hurst) Limited.

Transactions with Valad Properties (UK) Limited

The following transactions were carried out with Valad Properties (UK) Limited

	2009 £	2008 £
Interest payable	<u>(159,477)</u>	<u>-</u>

14. ULTIMATE PARENT UNDERTAKING

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

The company's ultimate parent undertaking, Valad (Hurst) Limited, is jointly owned by Valad Property Group (50%) and Uberior Europe Limited (50%) and therefore there is no overall controlling party.

Valad (Hurst) Limited, which is the parent company of the smallest and largest group for which group accounts are drawn up and of which the company is a member. Copies of the accounts of Valad (Hurst) Limited can be obtained from 4A Melville Street, Edinburgh, EH3 7NS.

15. RECONCILIATION OF NET ASSETS AND LOSS UNDER UK GAAP TO IFRS

The Company reported under UK GAAP in its previous financial statements for the period ended 30 June 2008. IFRS 1, *First-time adoption of IFRS* requires reconciliation of equity and profit as reported under UK GAAP as at 30 June 2008 to the revised equity and profit under IFRS and a reconciliation of equity under UK GAAP to IFRS as at the transition date of 1 March 2007. As there has been no impact to the profit or net assets upon adopting IFRS in the period ended 30 June 2009, no reconciliation is disclosed.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2009

16. POST BALANCE SHEET EVENT

On 1 July 2009, the Valad (Hurst) Limited group, of which the company is a subsidiary, entered into a new umbrella banking facility, with Lloyds Banking Group, the details of which are as follows

- the rollover of existing facilities (frozen at 30 June 2009 actual borrowing levels) in the group amounting in total to £507m
- existing borrowings remain on their old terms but with financial covenants, including loan to value covenants, removed
- a new facility of £30m to fund the termination of various interest rate hedging arrangements
- a new facility of £36m to be used to enhance the capital value of the group's properties
- a new financial covenant based on historic and future interest cover only

The new umbrella facility is repayable on 30 June 2011, with the group having the option to extend for a further twelve months period on payment of a fee of £7.5m or in return for an increase in the blended margin across all facilities of 0.75%. The facilities are all inter-linked via an inter-creditor agreement, which includes cross guarantee and cross default provisions

A £3m arrangement fee has been paid upon signing of the new umbrella facility. A £25m exit fee is payable as a bullet payment when the facilities are repaid.

In July 2009, seven interest rate hedge instruments, which the group held at 30 June 2009, were terminated at a cost of approximately £26m. The decision was taken to terminate those hedging instruments because they had the effect of fixing the interest rate paid on the group's borrowing at an uneconomically high level.

A new interest rate swap contract with a principal amount of £155m, rising to £215m by 2011, with a fixed interest rate of 2.35%, rising to 3.15% by 2011, was entered into by the group in July 2009.

In addition, one of the group's existing interest rate swaps, with a principal amount of €285m at 30 June 2009, was restructured. The expiry date of the swap was extended and the principal amount was reduced to €240m and will fall further to €200m by 2011. The fixed interest rate applicable to the swap is 3.69%. The re-structure of the interest rate swap was done at no cost to the group.

The company is party to a cross guarantee in relation to the group's bank borrowings.