

**REPORT OF THE DIRECTORS AND
AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015
FOR
D.U.K.E Residential (UK) Limited**

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for the Year Ended 30 June 2015**

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D.U.K.E Residential (UK) Limited

COMPANY INFORMATION
for the Year Ended 30 June 2015

DIRECTORS:	Valsec Director Limited C Treacy
SECRETARY:	Valad Secretarial Services Limited
REGISTERED OFFICE:	1st Floor Unit 16 Manor Court Scarborough North Yorkshire YO11 3TU
REGISTERED NUMBER:	04864724 (England and Wales)
AUDITORS:	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors Benson House 33 Wellington Street Leeds LS1 4JP
BANKERS:	Bank of Scotland 2nd Floor New Ueberior House 11 Earl Grey Street Edinburgh EH3 9BN
SOLICITORS:	Nabarro LLP Lacon House 84 Theobald's Road London WC1X 8RW

**REPORT OF THE DIRECTORS
for the Year Ended 30 June 2015**

The directors present their annual report and the audited financial statements of the company for the year ended 30 June 2015.

REVIEW OF BUSINESS

Both the level of activity for the year and the financial position at the end of the year were as anticipated and the directors expect the company to be non-trading in the foreseeable future.

The company's loss for the year is £247,953 (2014: loss of £35,175) and is dealt with as shown on the income statement.

DIRECTORS

Valsec Director Limited has held office during the whole of the period from 1 July 2014 to the date of this report.

Other changes in directors holding office are as follows:

C Treacy was appointed as a director after 30 June 2015 but prior to the date of this report.

F J Kennedy ceased to be a director after 30 June 2015 but prior to the date of this report.

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 14 to the financial statements.

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;
- 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.

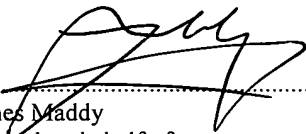
**REPORT OF THE DIRECTORS
for the Year Ended 30 June 2015**

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 she ought to have taken as a director in order to make herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This report has been prepared in accordance with the special provisions of Part 15 of the Companies Act 2006 relating to small companies.

ON BEHALF OF THE BOARD:


.....

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

Date: 31 March 2016

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF D.U.K.E RESIDENTIAL (UK) LIMITED

Report on the financial statements

Our opinion

In our opinion, D.U.K.E. Residential (UK) Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 30 June 2015 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("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 Bank of Scotland plc facility, which includes a number of covenants. Hence the company's ability to continue as a going concern is dependent upon the Group's compliance with those covenants, and the Group's ability to renegotiate the facility that is due to expire on 31 December 2016. 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.

What we have audited

The financial statements, included within the Report of the Directors and Financial Statements (the "Annual Report"), comprise:

- the Statement of Financial Position as at 30 June 2015;
- the Income Statement and Statement of Comprehensive Income for the year then ended;
- the Statement of Cash Flows for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

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.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF D.U.K.E RESIDENTIAL (UK) LIMITED

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 2, 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) ("ISAs (UK & 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.

What an audit of financial statements involves

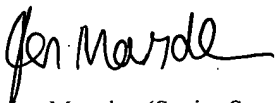
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



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

Date: 31 March 2016

D.U.K.E Residential (UK) Limited (Registered number: 04864724)

**INCOME STATEMENT
for the Year Ended 30 June 2015**

	Notes	30.6.15 £	30.6.14 £
CONTINUING OPERATIONS			
Revenue		-	-
Administrative expenses		<u>(247,953)</u>	<u>(35,175)</u>
OPERATING LOSS		<u>(247,953)</u>	<u>(35,175)</u>
LOSS BEFORE INCOME TAX	3	(247,953)	(35,175)
Income tax	4	<u>-</u>	<u>-</u>
LOSS FOR THE YEAR		<u>(247,953)</u>	<u>(35,175)</u>

The notes form part of these financial statements

D.U.K.E Residential (UK) Limited (Registered number: 04864724)

**STATEMENT OF COMPREHENSIVE INCOME
for the Year Ended 30 June 2015**

	30.6.15 £	30.6.14 £
LOSS FOR THE YEAR	(247,953)	(35,175)
OTHER COMPREHENSIVE INCOME	—	—
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>(247,953)</u>	<u>(35,175)</u>

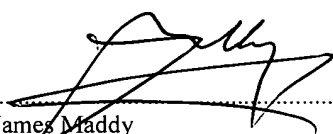
The notes form part of these financial statements

STATEMENT OF FINANCIAL POSITION
30 June 2015

	Notes	30.6.15 £	30.6.14 £
ASSETS			
NON-CURRENT ASSETS			
Investments	5	<u>50</u>	<u>50</u>
CURRENT ASSETS			
Receivables	6	<u>-</u>	<u>246,568</u>
TOTAL ASSETS		<u><u>50</u></u>	<u><u>246,618</u></u>
EQUITY			
SHAREHOLDERS' EQUITY			
Called up share capital	7	1	1
Retained earnings	8	<u>(11,140)</u>	<u>236,813</u>
TOTAL EQUITY		<u>(11,139)</u>	<u>236,814</u>
LIABILITIES			
CURRENT LIABILITIES			
Payables	9	<u>11,189</u>	<u>9,804</u>
TOTAL LIABILITIES		<u>11,189</u>	<u>9,804</u>
TOTAL EQUITY AND LIABILITIES		<u><u>50</u></u>	<u><u>246,618</u></u>

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

31 March 2016


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

**STATEMENT OF CHANGES IN EQUITY
for the Year Ended 30 June 2015**

	Called up share capital £	Retained earnings £	Total equity £
Balance at 1 July 2013	1	271,988	271,989
Changes in equity			
Total comprehensive income	<u>-</u>	<u>(35,175)</u>	<u>(35,175)</u>
Balance at 30 June 2014	<u>1</u>	<u>236,813</u>	<u>236,814</u>
Changes in equity			
Total comprehensive income	<u>-</u>	<u>(247,953)</u>	<u>(247,953)</u>
Balance at 30 June 2015	<u>1</u>	<u>(11,140)</u>	<u>(11,139)</u>

STATEMENT OF CASH FLOWS
for the Year Ended 30 June 2015

		30.6.15 £	30.6.14 £
Cash flows from operating activities			
Cash generated from operations	1	—	—
		—	—
		—	—
Increase in cash and cash equivalents		-	-
Cash and cash equivalents at beginning of year		-	-
		—	—
Cash and cash equivalents at end of year		—	—

NOTES TO THE STATEMENT OF CASH FLOWS
for the Year Ended 30 June 2015

1. RECONCILIATION OF LOSS BEFORE INCOME TAX TO CASH GENERATED FROM OPERATIONS

	30.6.15	30.6.14
	£	£
Loss before income tax	(247,953)	(35,175)
Impairment of receivables	<u>241,704</u>	<u>28,770</u>
	(6,249)	(6,405)
Decrease/(increase) in trade and other receivables	4,864	(2,166)
Increase in trade and other payables	<u>1,385</u>	<u>8,571</u>
Cash generated from operations	<u>-</u>	<u>-</u>

**NOTES TO THE FINANCIAL STATEMENTS
for the Year Ended 30 June 2015**

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.

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

The following new standards and amendments to standards are mandatory for the first time for the financial period beginning 1 July 2014:

- IFRS 10, 'Consolidated financial statements' (effective 1 January 2014)
- IFRS 11, 'Joint arrangements' (effective 1 January 2014)
- IFRS 12, 'Disclosure of interests in other entities' (effective 1 January 2014)
- Amendments to IFRS 10, 11 and 12 on transitional guidance (effective 1 January 2014)
- IAS 28 (revised 2011) 'Associates and joint ventures' (effective 1 January 2014)
- Annual improvements 2013 (effective 1 January 2015)

New and amended standards not currently relevant to the company

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial period beginning 1 July 2014, but are not currently relevant to the company:

- IAS 27 (revised 2011) 'Separate financial statements' (effective 1 January 2014)
- Amendments to IFRS 10, 12 and IAS 27 on consolidation for investment entities (effective 1 January 2014)
- Amendments to IAS 32 on Financial instruments asset and liability offsetting (effective 1 January 2014)
- Amendment to IAS 36 'Impairment of assets' on recoverable amount disclosures (effective 1 January 2014)
- Amendment to IAS 39 'Financial instruments: Recognition and measurement', on novation of derivatives and hedge accounting (effective 1 January 2014)
- IFRIC 21 'Levies' (effective 1 January 2014)

New and amended standards not effective for current financial period

The following new standards and amendments have been issued but are not effective for the financial period beginning 1 July 2014 and have not been adopted early:

- Annual improvements 2012 (effective 1 February 2015)
- Amendment to IAS 19 regarding defined benefit plans (effective 1 February 2015)

NOTES TO THE FINANCIAL STATEMENTS - continued

for the Year Ended 30 June 2015

ACCOUNTING POLICIES - continued

- Amendment to IFRS 11 'Joint arrangements' on acquisition of an interest in a joint operation (effective 1 January 2016)
- Amendment to IAS 16 'Property, plant and equipment' and IAS 38 'Intangible assets' on depreciation and amortisation (effective 1 January 2016)
- Amendments to IAS 16 'Property, plant and equipment' and IAS 41 'Agriculture' regarding bearer plants (effective 1 January 2016)
- IFRS 14 'Regulatory deferral accounts' (effective 1 January 2016)
- Amendments to IAS 27, 'Separate financial statements' on the equity method (effective 1 January 2016)
- Amendments to IFRS 10, 'Consolidated financial statements' and IAS 28 'Investment in associates and joint ventures' (effective 1 January 2016)
- Annual improvements 2014 (effective 1 January 2016)
- Amendment to IAS 1 'Presentation of financial statements' on the disclosure initiative (effective 1 January 2016)
- Amendment to IFRS 10 and IAS 28 on investment entities applying the consolidation exception (effective 1 January 2016)
- IFRS 15 'Revenue from contracts with customers' (effective 1 January 2017)
- IFRS 9 'Financial instruments' (effective 1 January 2018)

General information

The company is a limited liability company incorporated and domiciled in Scotland. The address of its registered office is: 1st Floor, Exchange Place 3, 3 Semple Street, Edinburgh, EH3 8BL.

NOTES TO THE FINANCIAL STATEMENTS - continued
for the Year Ended 30 June 2015

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 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.

There are not considered to be any significant areas of judgement and sources of estimation uncertainty affecting the amounts recognised in the company's financial statements.

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.

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 2015**

1. ACCOUNTING POLICIES - continued

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 party to a cross guarantee on the Group's Bank of Scotland plc facility and is therefore dependent on the ability of the Group to continue as a going concern.

On 19 December 2014 the Group signed a new banking facility with Bank of Scotland plc, a subsidiary of Lloyds Banking Group plc ("the Bank"), which provided committed facilities through to 31 December 2016. As part of the refinancing the Bank agreed to write-off debt due by the Group totalling approximately £330m. It also agreed to terminate an out of the money interest rate swap for nil consideration and to restructure a second interest rate swap.

The new facility includes debt repayment covenants, valuation test covenants and cash flow cover covenants. The debt repayment covenant was first tested on 30 June 2015 and was failed. All other covenants have however been passed and the company and Bank continue to pursue the agreed business plan on a consensual basis. In forming their view of going concern, the Directors have therefore considered the consensual relationship with the Bank who are also 50% shareholders in the company along with the detailed financial models through to 31 December 2017. In particular the Directors have taken significant comfort from the Bank's willingness to write-off £320m of the Group's debt obligations and its support of the company's strategy for an orderly realisation of the Group's assets which all parties have jointly been following since 2009.

Taking all the above into account, together with the close relationship the Group and its Asset Manager has with its lenders 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 financial statements on the going concern basis. In the event that the business plan is not achieved leading to a failure to meet covenants within the Bank of Scotland plc facilities, the Group would need to renegotiate terms 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 realise its assets and discharge its liabilities in the normal course of business and therefore 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.

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 statement of financial position.

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.

Joint ventures

Joint ventures are those entities over whose activities the company has joint control established by contractual agreement. Interests in joint ventures through which the company carries on its business are accounted for at historic cost less any accumulated impairment. Interest in joint ventures are reviewed for impairment if there is any indication that their carrying amount may not be recoverable.

**NOTES TO THE FINANCIAL STATEMENTS - continued
for the Year Ended 30 June 2015**

1. ACCOUNTING POLICIES - continued

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

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.

3. LOSS BEFORE INCOME TAX

The loss before income tax is stated after charging:

	30.6.15	30.6.14
	£	£
Impairment of receivables	<u>241,704</u>	<u>28,770</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 2015 nor for the year ended 30 June 2014.

Factors affecting the tax expense

The tax assessed for the year is higher than the standard rate of corporation tax in the UK. The difference is explained below:

	30.6.15	30.6.14
	£	£
Loss on ordinary activities before income tax	<u>(247,953)</u>	<u>(35,175)</u>
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 20.750% (2014 - 22.500%)	(51,450)	(7,914)
Effects of: Group relief surrendered for nil consideration	<u>51,450</u>	<u>7,914</u>
Tax expense	<u>-</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS - continued
for the Year Ended 30 June 2015

4. INCOME TAX - continued

A change to the UK corporation tax rate was announced in the Chancellor's Budget on 16 March 2016. The change announced is to reduce the main rate to 17% from 1 April 2020. Changes to reduce the UK corporation tax rate to 19% from 1 April 2017 and to 18% from 1 April 2020 had already been substantively enacted on 26 October 2015. As the change to 17% had not been substantively enacted at the balance sheet date its effects are not included in these financial statements.

5. INVESTMENTS

	Investments in joint venture £
COST	
At 1 July 2014 and 30 June 2015	<u>50</u>
NET BOOK VALUE	
At 30 June 2015	<u>50</u>
At 30 June 2014	<u>50</u>

The company's investments at the Statement of Financial Position date in the share capital of companies include the following:

Joint venture

SDG Tulloch Homes Limited

Country of incorporation: Scotland

Nature of business: Property Development

Class of shares:	%
Ordinary	holding 50.00

In the opinion of the directors, the aggregate value of the company's investments is not less than the amount at which they are stated in the financial statements.

6. RECEIVABLES

	30.6.15 £	30.6.14 £
Current:		
Amounts owed by joint venture	<u>-</u>	<u>246,568</u>

The carrying amount of 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.

7. CALLED UP SHARE CAPITAL

Allotted, issued and fully paid:

Number:	Class:	Nominal value:	30.6.15 £	30.6.14 £
1	Ordinary	£1	<u>1</u>	<u>1</u>

NOTES TO THE FINANCIAL STATEMENTS - continued
for the Year Ended 30 June 2015

8. RESERVES

	Retained earnings £
At 1 July 2014	236,813
Deficit for the year	<u>(247,953)</u>
At 30 June 2015	<u>(11,140)</u>

9. PAYABLES

	30.6.15 £	30.6.14 £
Current:		
Amounts owed to group undertakings	11,189	8,182
Accruals and deferred income	<u>-</u>	<u>1,622</u>
	<u>11,189</u>	<u>9,804</u>

10. FINANCIAL INSTRUMENTS

The company's principal financial instruments include receivables and payables.

	30.6.15		30.6.14	
Other financial assets and liabilities	Book value £	Fair value £	Book value £	Fair value £
Assets				
Receivables	-	-	246,568	246,568
Payables	(11,189)	(11,189)	(9,804)	(9,804)

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 2014 and 2013 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.

11. ULTIMATE PARENT COMPANY

The company's immediate parent undertaking is D.U.K.E. Property Holdings (UK) Limited.

The company's ultimate parent undertaking, D.U.K.E. Real Estate Limited, is jointly owned by Uberior Europe Limited (a subsidiary of Lloyds Banking Group plc - a UK entity) and Valad Holdings (UK) Limited. Valad Holdings (UK) Limited's ultimate parent entity is Cromwell Property Group.

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 Semple Street, Edinburgh, EH3 8BL.

**NOTES TO THE FINANCIAL STATEMENTS - continued
for the Year Ended 30 June 2015**

12. CONTINGENT LIABILITIES

Following the refinancing of the Group on 19 December 2014, the facilities contain cross collateralisation and cross default provisions. The total Group debt outstanding as at 30 June 2015 is £48,584,000 (2014: £396,234,000).

13. RELATED PARTY DISCLOSURES

Amounts owed by joint venture

The amounts owed by joint venture at the year end disclosed in note 6 are all owed by SDG Tulloch Homes Limited.

14. FINANCIAL RISK MANAGEMENT

The company's activities expose it to a variety of financial risks. 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.

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.