

**REGISTERED NUMBER: 06393885 (England and Wales)**

**REPORT OF THE DIRECTORS AND  
AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013  
FOR  
D.U.K.E. Capital Services Europe Limited**



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for the Year Ended 30 June 2013**

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**D.U.K.E. Capital Services Europe Limited**

**COMPANY INFORMATION**  
**for the Year Ended 30 June 2013**

<b>DIRECTORS:</b>	F J Kennedy M J McCarthy Valsec Director Limited
<b>SECRETARY:</b>	Valad Secretarial Services Limited
<b>REGISTERED OFFICE:</b>	1st Floor, Unit 16 Manor Court Busines Park Scarborough North Yorkshire YO11 3TU
<b>REGISTERED NUMBER:</b>	06393885 (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 Uberior 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

**REPORT OF THE DIRECTORS  
for the Year Ended 30 June 2013**

The directors present their annual report and the audited financial statements of the company for the year ended 30 June 2013.

**CHANGE OF NAME**

The company passed a special resolution on 1 February 2013 changing its name from Valad Capital Services Europe Limited to D.U.K.E. Capital Services Europe Limited.

**PRINCIPAL ACTIVITY**

The principal activity of the company in the year under review was that of provision of mezzanine finance to property investors and developers.

**REVIEW OF BUSINESS**

Both the level of activity for the year and the financial position at the end of the year were as anticipated. The directors have considered the values of the property assets underlying the mezzanine loans and have written down the loans to recoverable amounts based on the most recent assessment. The assets are being marketed for sale but it is uncertain when the loans will be repaid.

The company's loss for the year is £681,000 (2012: loss of £403,000) and is dealt with as shown on the income statement.

**DIVIDENDS**

The directors have not recommended a dividend (2012: £nil).

**DIRECTORS**

The directors shown below have held office during the whole of the period from 1 July 2012 to the date of this report.

F J Kennedy  
M J McCarthy  
Valsec Director Limited

**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.

**REPORT OF THE DIRECTORS**  
**for the Year Ended 30 June 2013**

**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:

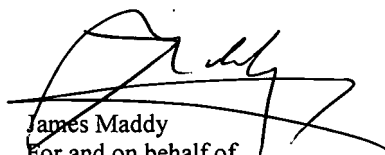
- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state that the financial statements comply with IFRS;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume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

26 June 2014

## **REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF D.U.K.E. CAPITAL SERVICES EUROPE LIMITED**

We have audited the financial statements of D.U.K.E. Capital Services Europe Limited (formerly known as Valad Capital Services Europe Limited) for the year ended 30 June 2013 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 2013 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.

### **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 made 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 and is therefore dependent on the ability of the Group to continue as a going concern. The Outline Terms of the facility with the Bank of Scotland plc are not yet approved by the credit committee and compliance with the repayment covenant depends on the ability of the Group to achieve sales in line with the business plan. Failure to comply with covenants would result in the need for the respective 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 Directors' Report 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  
D.U.K.E. CAPITAL SERVICES EUROPE 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

26 June 2014

**STATEMENT OF PROFIT OR LOSS  
for the Year Ended 30 June 2013**

	Notes	30.6.13 £'000	30.6.12 £'000
<b>CONTINUING OPERATIONS</b>			
Revenue		-	497
Impairment of loans		<u>(681)</u>	<u>(807)</u>
<b>OPERATING LOSS</b>		(681)	(310)
Finance costs	3	<u>-</u>	<u>(93)</u>
<b>LOSS BEFORE INCOME TAX</b>	4	(681)	(403)
Income tax	5	<u>-</u>	<u>-</u>
<b>LOSS FOR THE YEAR</b>		<u><u>(681)</u></u>	<u><u>(403)</u></u>

The notes form part of these financial statements



**D.U.K.E. Capital Services Europe Limited (Registered number: 06393885)**

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
for the Year Ended 30 June 2013**

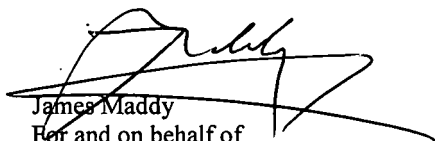
	30.6.13 £'000	30.6.12 £'000
<b>LOSS FOR THE YEAR</b>	<b>(681)</b>	<b>(403)</b>
<b>OTHER COMPREHENSIVE INCOME</b>	<b>—</b>	<b>—</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b><u>(681)</u></b>	<b><u>(403)</u></b>

The notes form part of these financial statements

**STATEMENT OF FINANCIAL POSITION**  
**30 June 2013**

	Notes	30.6.13 £'000	30.6.12 £'000
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Receivables	6	<u>100</u>	<u>775</u>
<b>TOTAL ASSETS</b>		<u>100</u>	<u>775</u>
<b>EQUITY</b>			
<b>SHAREHOLDERS' EQUITY</b>			
Called up share capital	7	-	-
Accumulated losses	8	<u>(12,351)</u>	<u>(11,670)</u>
<b>TOTAL EQUITY</b>		<u>(12,351)</u>	<u>(11,670)</u>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Payables	9	<u>12,451</u>	<u>12,445</u>
<b>TOTAL LIABILITIES</b>		<u>12,451</u>	<u>12,445</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>100</u>	<u>775</u>

The financial statements on pages 6 to 21 were approved by the Board of Directors on 26 June 2014 and were signed on its behalf by:

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

**STATEMENT OF CHANGES IN EQUITY  
for the Year Ended 30 June 2013**

	Accumulated losses £'000	Total equity £'000
<b>Balance at 1 July 2011</b>	(11,267)	(11,267)
<b>Changes in equity</b>		
Total comprehensive income	<u>(403)</u>	<u>(403)</u>
<b>Balance at 30 June 2012</b>	<u>(11,670)</u>	<u>(11,670)</u>
<b>Changes in equity</b>		
Total comprehensive income	<u>(681)</u>	<u>(681)</u>
<b>Balance at 30 June 2013</b>	<u><u>(12,351)</u></u>	<u><u>(12,351)</u></u>

**STATEMENT OF CASH FLOWS**  
**for the Year Ended 30 June 2013**

		30.6.13 £'000	30.6.12 £'000
<b>Cash flows from operating activities</b>			
Cash generated from operations	1	-	93
Interest paid		<u>-</u>	<u>(93)</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 2013**

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

	30.6.13	30.6.12
	£'000	£'000
Loss before income tax	(681)	(403)
Impairment of loans	675	807
Finance costs	<u>-</u>	<u>93</u>
	(6)	497
Increase/(decrease) in trade and other payables	<u>6</u>	<u>(404)</u>
<b>Cash generated from operations</b>	<u><u>-</u></u>	<u><u>93</u></u>

**NOTES TO THE FINANCIAL STATEMENTS  
for the Year Ended 30 June 2013**

**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 14.

**New and amended standards**

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 July 2012:

- IAS 1 'Presentation of financial statements' - Amendment regarding other comprehensive income.

New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 July 2012 but not currently relevant to the company (although they may affect the accounting for future transactions and events):

- Amendment to IAS 32, 'Financial instruments: Presentation' is not applicable to the company as no rights issues have been made during the period;

- Amendment to IFRS 7, 'Financial instruments: Disclosures' is not applicable as the company has not transferred the classification of any financial assets during the period; and

- Amendments to IAS 19 'Employee Benefits'.

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 July 2012, but not adopted early:

- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010 and replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. The company is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 July 2015, subject to endorsement by the EU;

- IFRS 10, 'Consolidated financial statements', builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The company is yet to assess IFRS 10's full impact and intends to adopt IFRS 10 for the accounting period beginning on 1 July 2014;

- IFRS 11, 'Joint arrangements', amends the definitions of joint arrangements and has reduced the 'types' of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated with equity accounting being mandatory for participants in joint ventures. Entities that participate in joint operations will follow accounting much like that for joint assets or joint operations today. The company is yet to assess IFRS 11's full impact and intends to adopt IFRS 11 for the accounting period beginning on 1 July 2014;

**NOTES TO THE FINANCIAL STATEMENTS - continued**  
**for the Year Ended 30 June 2013**

**1. ACCOUNTING POLICIES - continued**

- IFRS 12, 'Disclosures of interests in other entities', includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The company is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 for the accounting period beginning on 1 July 2014;

- IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where it is already required or permitted by other standards within IFRS or US GAAP. The company is yet to assess IFRS 13's full impact and intends to adopt IFRS 13 for the accounting period beginning 1 July 2013;

- Amendment to IAS 12, 'Income taxes', on deferred tax. IAS 12 currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether the recovery will be through use or through when the asset is measured using the fair value model in IAS 40, 'Investment property'. This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income taxes - recovery of revalued non-depreciable assets', will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn; and

- Amendment to IAS 36, 'Impairment of assets'. The amendments to IAS 36 address the disclosure information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. IASB has amended IAS 36 to remove the requirement to disclose the recoverable amount when a cash generating unit (CGU) contains goodwill or indefinite lived intangible assets but there has been no impairment. In addition, there is requirement to disclose the recoverable amount of an asset or CGU when an impairment loss has been recognised or reversed and detailed disclosures of how the fair value less costs of disposal has been measured when an impairment loss has been recognised or reversed.

There are changes to the following IFRSs and IFRIC interpretations that are not yet effective but are not expected to have a material impact on the company:

- IAS 27 (revised 2011) 'Separate financial statements' - effective 1 July 2013

- IAS 28 (revised 2011) 'Associates and joint ventures' - effective 1 July 2013

- 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

- Amendment to IAS 32 'Financial instruments: Presentation' 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: 1st Floor, Unit 16, Manor Court Business Park, Scarborough, North Yorkshire, YO11 3TU.

**Revenue**

Revenue comprises interest charged on the loans provided to third parties. Revenue is recognised to the extent it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. All such revenue is reported net of discounts and value added and other sales taxes.

**NOTES TO THE FINANCIAL STATEMENTS - continued  
for the Year Ended 30 June 2013**

**1. ACCOUNTING POLICIES - continued**

**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:

**Estimation of fair value of loans**

The fair value of loans is dependent on the value of real estate assets.



**NOTES TO THE FINANCIAL STATEMENTS - continued**  
**for the Year Ended 30 June 2013**

**1. ACCOUNTING POLICIES - continued**

**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 2013**

**1. ACCOUNTING POLICIES - continued**

**Going concern**

The financial statements have been prepared on the going concern basis which assumes that the company and 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 other subsidiaries in the Group and is therefore dependent on the ability of the Group to continue as a going concern.

On 22 March 2012 the Group signed a new banking facility with Bank of Scotland plc (a subsidiary of Lloyds Banking Group plc) which provided committed facilities through to 31 December 2016. The facility contained cross collateralisation and cross default provisions across the vast majority of the Group.

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

At 30 June 2013 the debt repayment and valuation covenant were failed. The cash flow cover covenant was and continues to remain compliant.

Outline Terms have now been agreed between the Group and the Bank which are subject to credit approval. The terms include a waiver of pre-existing covenant breaches, the adoption of a revised business plan and associated covenant tests, a sale by the Bank to the Group of a large proportion of the debt outstanding for £1 and agreement that any residual debt outstanding following the realisation of all assets will be written off or sold back to the Group for £1.

In forming their view of going concern, the Directors have therefore considered the Outline Terms which have been agreed with the Bank and the detailed financial models through to 31 December 2016. In particular the Directors have taken significant comfort from the Bank's willingness to release the Group of debt obligations following an orderly realisation of the Groups assets. The financial models forecast a programme of asset disposals which enable new debt repayment covenants to be met and are based upon a detailed strategy at both an asset and fund level which will be implemented 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 interest rates and the value and timing of asset disposals. Given the inherent uncertainty in the model there is a risk that the covenants are not met in the envisaged timescale.

Taking all the above into account, together with the close relationship the Group has with the Lloyds Banking Group plc 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 financial statements on the going concern basis.

In the event that the Outline Terms are not approved by the credit committee of Bank of Scotland plc or that business plan is not achieved leading to a failure to meet covenants 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 Group'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 2013**

**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).

**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.

**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.

**Loans in other receivables**

Loans in other receivables are recognised initially at fair value and are subsequently reduced by any provision for impairment. A provision for impairment of loans in other 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 'impairment of receivables'. When a loan in other receivables is uncollectible, it is written off against the allowance account.

Subsequent recoveries of amounts previously written off are credited against 'other operating income' 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 2013**

**3. NET FINANCE COSTS**

	30.6.13 £'000	30.6.12 £'000
Finance costs:		
Interest payable to group undertakings	-	93

The decrease in finance cost is due to the loan agreement which expired during the prior year. Since then the loans have been interest free.

**4. LOSS BEFORE INCOME TAX**

**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.

**5. INCOME TAX**

**Analysis of tax expense**

No liability to UK corporation tax arose on ordinary activities for the year ended 30 June 2013 nor for the year ended 30 June 2012.

**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:

	30.6.13 £'000	30.6.12 £'000
Loss on ordinary activities before income tax	<u>(681)</u>	<u>(403)</u>
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 23.750% (2012 - 25.500%)	(162)	(103)
Effects of: Group relief surrendered for nil consideration	<u>162</u>	<u>103</u>
Tax expense	<u>-</u>	<u>-</u>

The UK corporation tax rate reduced from 24% to 23% from 1 April 2013. Further reductions in the UK corporation tax rate to 21% from 1 April 2014 and 20% from 1 April 2015 were substantively enacted on 2 July 2013.

**6. RECEIVABLES**

	30.6.13 £'000	30.6.12 £'000
Current: Loans	<u>100</u>	<u>775</u>

**NOTES TO THE FINANCIAL STATEMENTS - continued**  
**for the Year Ended 30 June 2013**

**6. RECEIVABLES - continued**

The loans advanced by the company are secured by way of second charges over the assets of the borrowing entities which comprise four property developments. The interest loans agreement expired last year and since then the loan are interest free. The loans are available to the borrowers up to 15 months of practical completions of the development projects. As such the loans are repayable after more than one year.

The company has a commitment to lend £12,645,000 based on the facility agreement in place. As at 30 June 2013, the cumulative amount of loan capital already advanced by the company was £10,711,000 (2012: £10,711,000) meaning the company still has a commitment to lend £1,934,000 (2012: £1,934,000).

As at 30 June 2013, the cumulative total of interest accrued on the company's loan receivables was £5,458,000 (2012: £5,458,000), taking the total amount of capital plus interest outstanding to £16,167,000 (2012: £16,167,000).

During the year to 30 June 2013, the loans, including accrued interest, were impaired by a further £675,000 (2012: £807,000) taking the cumulative impairment total to £16,054,000 (2012: £15,379,000).

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.

**7. CALLED UP SHARE CAPITAL**

Allotted, issued and fully paid:

Number:	Class:	Nominal value:	30.6.13 £	30.6.12 £
100	Ordinary	£1	<u>100</u>	<u>100</u>

**8. RESERVES**

	Accumulated losses £'000
At 1 July 2012	(11,670)
Deficit for the year	<u>(681)</u>
At 30 June 2013	<u>(12,351)</u>

**9. PAYABLES**

	30.6.13 £'000	30.6.12 £'000
Current:		
Amounts owed to group undertakings	12,450	12,445
Accruals and deferred income	<u>1</u>	<u>-</u>
	<u>12,451</u>	<u>12,445</u>

All amounts owed to group undertakings are interest free, unsecured, have no fixed repayment date. The loan amount shown above includes interest accrued of £372,000 (2012: £372,000).

**NOTES TO THE FINANCIAL STATEMENTS - continued  
for the Year Ended 30 June 2013**

**10. FINANCIAL INSTRUMENTS**

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

	30.6.13		30.6.12	
	Book value	Fair value	Book value	Fair value
	£'000	£'000	£'000	£'000
<b>Assets</b>				
Loans	100	100	775	775
<b>Liabilities</b>				
Payables	(12,451)	(12,451)	(12,445)	(12,445)

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 2013 and 2012 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. Properties (UK) Limited (formerly known as Valad Properties (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 Capital Limited. Valad Capital Limited's ultimate parent entity is 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 Semple Street, Edinburgh, EH3 8BL.

**12. 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 2013 is £832,851,000 (2012: £918,229,000).

**13. 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 D.U.K.E. Capital Services Europe Limited (formerly known as Valad Capital Services Europe Limited) to D.U.K.E. Property Holdings (UK) Limited (formerly known as Valad Property Holdings (UK) Limited), itself a wholly owned subsidiary of D.U.K.E. Real Estate Limited.

**NOTES TO THE FINANCIAL STATEMENTS - continued  
for the Year Ended 30 June 2013**

**14. FINANCIAL RISK MANAGEMENT**

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

**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.