REGISTERED NUMBER: SC226704 (Scotland)

REPORT OF THE DIRECTORS AND

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

FOR

Valad Properties (UK) Limited

CONTENTS OF THE FINANCIAL STATEMENTS
for the Year Ended 30 June 2012

Valad Properties (UK) Limited

COMPANY INFORMATION
for the Year Ended 30 June 2012

DIRECTORS:	C J A Bearman Valsec Director Limited
SECRETARY:	Valad Secretarial Services Limited
REGISTERED OFFICE:	1st Floor Exchange Place 3 3 Semple Street Edinburgh EH3 8BL
REGISTERED NUMBER:	SC226704 (Scotland)
AUDITORS:	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors Benson House 33 Wellington Street Leeds LS1 4JP
BANKERS:	Bank of Scotland 2nd Floor New Uberior House 11 Earl Grey Street Edinburgh EH3 9BN
SOLICITORS:	Shepherd and Wedderburn LLP Condor House 10 St Paul's Churchyard London EC4M 8AL

REPORT OF THE DIRECTORS
for the Year Ended 30 June 2012

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

PRINCIPAL ACTIVITY
The principal activity of the company in the year under review was that of a holding company engaged through its subsidiaries in property investment and letting of commercial properties.

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 that the current level of investment income will be sustained for the foreseeable future.

The company's profit for the year is £12,382,000 (2011: loss of £74,419,000) and is dealt with as shown on the income statement.

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

DIRECTORS
The directors shown below have held office during the whole of the period from 1 July 2011 to the date of this report.

C J A Bearman
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 17 to the financial statements.

Valad Properties (UK) Limited (Registered number: SC226704)

REPORT OF THE DIRECTORS
for the Year Ended 30 June 2012

STATEMENT OF DIRECTORS' RESPONSIBILITIES
The directors are responsible for preparing the Report of the Directors and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

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

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

ON BEHALF OF THE BOARD:

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

23 November 2012

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF VALAD PROPERTIES (UK) LIMITED

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

Respective responsibilities of directors and auditors

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

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

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

Emphasis of matter - going concern

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

Opinion on other matter prescribed by the Companies Act 2006

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

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF VALAD PROPERTIES (UK) LIMITED

Matters on which we are required to report by exception

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

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

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

23 November 2012

Valad Properties (UK) Limited (Registered number: SC226704)

INCOME STATEMENT
for the Year Ended 30 June 2012

	Notes	30.6.12 £'000	30.6.11 £'000
CONTINUING OPERATIONS			
Revenue		-	-
Income from non-current asset investments		1,420	2,528
Reversal of impairment/ (impairment) of receivables		20,966	(55,098)
Administrative income/ (expenses)		4,734	(7,968)
Impairment of investments		(1,619)	(11,001)
OPERATING PROFIT/(LOSS)		25,501	(71,539)
Finance costs	3	(14,250)	(4,030)
Finance income	3	1,131	1,165
PROFIT/(LOSS) BEFORE INCOME TAX	4	12,382	(74,404)
Income tax	5	-	(15)
PROFIT/(LOSS) FOR THE YEAR		12,382	(74,419)

The notes form part of these financial statements

Valad Properties (UK) Limited (Registered number: SC226704)

STATEMENT OF COMPREHENSIVE INCOME
for the Year Ended 30 June 2012

	30.6.12 £'000	30.6.11 £'000
PROFIT/(LOSS) FOR THE YEAR	12,382	(74,419)
OTHER COMPREHENSIVE INCOME	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	12,382	(74,419)

The notes form part of these financial statements

Valad Properties (UK) Limited (Registered number: SC226704)

STATEMENT OF FINANCIAL POSITION
30 June 2012

	Notes	30.6.12 £'000	30.6.11 £'000
ASSETS			
NON-CURRENT ASSETS			
Investments	6	11,839	13,458
CURRENT ASSETS			
Receivables	7	7,558	8,010
TOTAL ASSETS		19,397	21,468
EQUITY			
SHAREHOLDERS' EQUITY			
Called up share capital	8	151	151
Share premium	9	14,850	14,850
Accumulated losses	9	(238,777)	(251,159)
TOTAL EQUITY		(223,776)	(236,158)
LIABILITIES			
NON-CURRENT LIABILITIES			
Financial liabilities - borrowings			
Interest bearing loans and borrowings	11	234,889	257,256
Derivative financial instruments	13	8,045	-
		242,934	257,256
CURRENT LIABILITIES			
Payables	10	239	370
TOTAL LIABILITIES		243,173	257,626
TOTAL EQUITY AND LIABILITIES		19,397	21,468

The financial statements on pages 6 to 26 were approved by the Board of Directors on 23 November 2012 and were signed on its behalf by:

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

The notes form part of these financial statements

Valad Properties (UK) Limited (Registered number: SC226704)

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

	Called up share capital £'000	Accumulated losses £'000	Share premium £'000	Total equity £'000
Balance at 1 July 2010	151	(176,740)	14,850	(161,739)
Changes in equity				
Total comprehensive income	-	(74,419)	-	(74,419)
Balance at 30 June 2011	151	(251,159)	14,850	(236,158)
Changes in equity				
Total comprehensive income	-	12,382	-	12,382
Balance at 30 June 2012	151	(238,777)	14,850	(223,776)

The notes form part of these financial statements

Valad Properties (UK) Limited (Registered number: SC226704)

STATEMENT OF CASH FLOWS
for the Year Ended 30 June 2012

	Notes	30.6.12 £'000	30.6.11 £'000
Cash flows from operating activities			
Cash generated from operations	1	27,441	(757)
Interest paid		(6,205)	(4,030)
Net cash from operating activities		21,236	(4,787)
Cash flows from investing activities			
Interest received		1,131	1,165
Net cash from investing activities		1,131	1,165
Cash flows from financing activities			
(Repayment of)/proceeds from borrowings		(22,367)	3,622
Net cash from financing activities		(22,367)	3,622
Increase in cash and cash equivalents		-	-
Cash and cash equivalents at beginning of year		-	-
Cash and cash equivalents at end of year		-	-

The notes form part of these financial statements

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

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

	30.6.12	30.6.11
	£'000	£'000
Profit/(loss) before income tax	12,382	(74,404)
Impairment of investments	1,619	11,001
(Reversal)/Impairment of receivables	(20,966)	55,098
Finance costs	14,250	4,030
Finance income	(1,131)	(1,165)
	6,154	(5,440)
Decrease in trade and other receivables	21,418	4,586
(Decrease)/increase in trade and other payables	(131)	97
Cash generated from operations	27,441	(757)

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

1. ACCOUNTING POLICIES

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

These financial statements have been prepared in accordance with European Union ("EU") Endorsed International Financial Reporting Standards ("IFRSs"), IFRIC interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention, with the exception of financial instruments which require an alternative treatment under IFRS.

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.

The company is exempt under section 400 of the Companies Act 2006 from preparing consolidated financial statements on the grounds that the results of the company and its subsidiaries are incorporated in the consolidated financial statements of the ultimate parent company, D.U.K.E. Real Estate Limited.

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

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

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

- Amendment to IAS 32, 'Financial instruments: Presentation' is not applicable as the company has not made a rights issue during the year;

- Amendment to IFRS 7, 'Financial instruments: Disclosures' is not applicable as the company has not made any transfer of financial assets;

- Amendment to IFRIC 14, 'Prepayments of a minimum funding requirement' is not applicable as the company does not hold a defined benefit pension scheme; and

- IFRIC 19, 'Extinguishing financial liabilities with equity instruments' is not applicable as the company has not used equity to settle financial liabilities.

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

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

continued...

1. ACCOUNTING POLICIES - continued

- Amendment to IAS 32 'Financial instruments: Presentation' on financial instruments asset and liability offsetting - effective 1 July 2014
- Amendment to IFRS 1 'First time adoption' on government grants - effective 1 July 2013
- Amendment to IFRS 7 'Financial instruments: Disclosure' on financial instruments asset and liability offsetting -effective 1 July 2013
- IFRIC 20 'Stripping costs in the production phase of a surface mine' - effective 1 July 2013.

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

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.

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.

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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.

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.

Foreign currency translation

Functional and presentation currency

Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate ruling at the date of the transaction. The company's functional currency is British Pounds Sterling.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.
Translation differences on non-monetary financial assets such as equities classified as available for sale financial assets are included in equity.

Dividend distribution

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

Borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

continued...

1. **ACCOUNTING POLICIES - continued**

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

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

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

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

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

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

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

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

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

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

continued...

1. **ACCOUNTING POLICIES - continued**

Investments
Fixed asset investments are stated in the balance sheet at cost, less provision for any impairment.

Subsidiaries
Subsidiaries are all entities (including special purpose entities) over which the company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the company controls another entity.

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 classified as jointly controlled entities.

Profit or loss on disposal
Disposals are accounted for when legal completion of the sale has occurred or there has been an unconditional exchange of contracts. Profits or losses on disposal arise from deducting the asset's net carrying value from the net proceeds and is recognised in the income statement. Net carrying value includes valuation in the case of investment properties and historic cost or deemed cost less accumulated depreciation in the case of all other property, plant and equipment.

Accrued income
Accrued income is unit trust profit distribution not yet received.

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 balance sheet.

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

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.

continued...

3. NET FINANCE COSTS

	30.6.12	30.6.11
	£'000	£'000
Finance income:		
Bank interest	1	1
Interest receivable from group or subsidiary undertakings	410	335
Other interest receivable	-	119
Interest receivable from joint ventures	720	710
	1,131	1,165
Finance costs:		
Bank interest	6,205	4,030
Fair value of interest rate swaps	8,045	-
	14,250	4,030
Net finance costs	13,119	2,865

Other interest receivables in prior year relates to interest receivable for overpayment of tax in the prior years.

4. PROFIT/(LOSS) BEFORE INCOME TAX

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

	30.6.12	30.6.11
	£'000	£'000
Foreign exchange differences	(5,515)	5,334
Impairment of investments	1,619	11,001
(Reversal of impairment)/impairment of receivables	(20,966)	55,098

During the year, the company received distributions from its ownership in unit trusts totalling £1.4m (2011: £2.5m).

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.

continued...

5. INCOME TAX

Analysis of the tax charge/(credit)	30.6.12 £'000	30.6.11 £'000
Deferred tax		
Adjustments in respect of prior years	-	15
	-	15

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

	30.6.12 £'000	30.6.11 £'000
Profit/(loss) on ordinary activities before tax	12,382	(74,404)
Loss on ordinary activities multipied by the standard rate of corporation tax in the UK of 25.5% (2011 - 27.5%)	3,158	(20,461)
Effects of:		
Non-deductible impairment of non-current asset investments	413	3,025
Non-deductible impairment of receivables	(5,478)	13,716
Share of profit/(losses) of partnership	-	3
Capital allowances in excess of depreciation	(43)	(59)
Group relief surrendered for nil consideration	968	113
Tax losses carried forward for which no deferred tax recognised	982	3,663
Adjustments to deferred tax in respect of prior years	-	15
	-	15

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

continued...

6. INVESTMENTS

	Shares in group undertakings	Interest in unit trusts	Interest in joint ventures	Limited partnerships	Other investments	Totals
	£'000	£'000	£'000	£'000	£'000	£'000
Cost						
At 1 July 2011 and 30 June 2012	5,480	48,739	1,212	225	1,079	56,735
Provisions						
At 1 July 2011	5,024	36,431	1,180	-	642	43,277
Provision for year	15	1,520	-	-	84	1,619
As 30 June 2012	5,039	3,795	1,180	-	726	44,896
Net book value						
At 30 June 2012	441	1,079	32	225	353	11,839
At 30 June 2011	456	12,308	32	225	437	13,458

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.

The company holds more than 20% of the share capital of the following entities:

Companies	Country of incorporation	Principal activity	Class	%
Subsidiary undertakings				
Coleridge (No. 1) Limited	Scotland	Property investments	Ordinary shares	100
Coleridge (No. 3) Limited	Scotland	Property investments	Ordinary shares	100
Coleridge (No. 5) Limited	Scotland	Property investments	Ordinary shares	100
Coleridge (No. 6) Limited	Scotland	Property investments	Ordinary shares	100
Coleridge (No. 8) Limited	Scotland	Property investments	Ordinary shares	100
Coleridge (No. 9) Limited	Scotland	Property investments	Ordinary shares	100
Coleridge (No. 13) Limited	Scotland	Property investments	Ordinary shares	100
Coleridge (No. 14) Limited	Scotland	Property investments	Ordinary shares	100
Coleridge (No. 26) Limited	England and Wales	Property investments	Ordinary shares	100
Coleridge (No. 27) Limited	England and Wales	Property investments	Ordinary shares	100
Coleridge (No. 33) Limited	England and Wales	Property investments	Ordinary shares	100
Coleridge (No. 34) Limited	England and Wales	Property investments	Ordinary shares	100
Coleridge (No. 35) Limited	England and Wales	Property investments	Ordinary shares	100
Coleridge (No. 36) Limited	England and Wales	General partner to Limited Partnership	Ordinary shares	100
Coleridge (No. 39) Limited	England and Wales	Property investments	Ordinary shares	100
Coleridge (No. 41) Limited	England and Wales	Property investments	Ordinary shares	100
Coleridge (No. 43) Limited	England and Wales	Property investments	Ordinary shares	100
Melville Street Properties Ltd	Scotland	Property investments	Ordinary shares	100
Coleridge (Dormants) Ltd	England and Wales	Holding company	Ordinary shares	100
Coleridge (No. 45) Limited	England and Wales	Property investments	Ordinary shares	100
Coleridge (No. 47) Limited	Jersey	Property investments	Ordinary shares	100
Coleridge (No. 48) Limited	England and Wales	Property investments	Ordinary shares	100
Coleridge (Theobalds Road) Ltd	England and Wales	Property investments	Ordinary shares	100

continued...

Valad Bouquet Limited	Scotland	Non trading	Ordinary shares	100

continued...

Companies	Country of incorporation	Principal activity	Class	%
Subsidiary undertakings				
Valad Combined GP Limited	Scotland	General partner to Limited Partnerships	Ordinary shares	100
Valad Properties (Marsh Mills) Limited	England and Wales	Property investments	Ordinary shares	100
Valad Properties (Archway) Limited	Isle of Man	Property investments	Ordinary shares	100
Bondi Properties Limited	England and Wales	Holding company	'A' Ordinary shares	100
Joint Ventures				
Valad Ventures UK Limited	England and Wales	Holding company	Ordinary shares	49

The company has an interest in the following and each were held directly by the company except where indicated by*:

Other entities	Principal activity	Location	Ownership	%
Subsidiary undertakings				
Senate Unit Trust	Property investment	Jersey	Units	96
Prisma Unit Trust	Property investment	Jersey	Units	98
Summit House Unit Trust	Property investment	Jersey	Units	98
Norwich House Camberley Unit Trust	Property investment	Jersey	Units	97
Turnham Green Unit Trust	Property investment	Jersey	Units	98
Britannia Park Unit Trust*	Property investment	Jersey	Units	92
Watling Park Unit Trust*	Property investment	Jersey	Units	100
Joint ventures				
Valad Combined Limited Partnership	Property investment	Scotland	Partners' Capital	50

7. RECEIVABLES

	30.6.12 £'000	30.6.11 £'000
Current:		
Amounts owed by group undertakings	12	17
Amounts owed by joint ventures	4,322	4,808
Value added tax	114	60
Prepayments and accrued income	3,110	3,125
	7,558	8,010

continued...

7. RECEIVABLES - continued

All amounts owed by group or subsidiary undertakings are repayable on demand, carry no security and are interest free.

All amounts owed to joint ventures are repayable on demand and carry no security. The interest rate receivable on these balances ranges from 1.25% above the base rate to 6% fixed per annum.

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 12. The company does not hold any collateral as security.

The receivables contain impaired assets. During the year the company has made a reversal of provision of £21,482,000 (2011: provision of £49,875,000) against amounts owed by group and subsidiary undertakings and provided £516,000 (2011: £5,223,000) against amounts owed by joint ventures.

Movements on the company provision for impairment of receivables are as follows:

	30.6.12	30.6.11
	£'000	£'000
At 1 July	176,217	121,119
(Reversal of provision)/provision for receivables impairment	(20,966)	55,098
At 30 June	155,251	176,217

8. CALLED UP SHARE CAPITAL

	30.6.12	30.6.11
	£	£
Issued and fully paid:		
500 'A' ordinary shares of £1 each	500	500
500 'B' ordinary shares of £1 each	500	500
7,500,000 'C' ordinary shares of 1 pence each	75,000	75,000
7,500,000 'D' ordinary shares of 1 pence each	75,000	75,000
	151,000	151,000

9. RESERVES

	Accumulated losses	Share premium	Totals
	£'000	£'000	£'000
At 1 July 2011	(251,159)	14,850	(236,309)
Profit for the year	12,382		12,382
At 30 June 2012	(238,777)	14,850	(223,927)

continued...

10. PAYABLES

	30.6.12	30.6.11
	£'000	£'000
Current:		
Other payables	1	-
Accruals and deferred income	238	370
	239	370

11. FINANCIAL LIABILITIES - BORROWINGS

	30.6.12	30.6.11
	£'000	£'000
Non-current:		
Bank borrowings	234,889	257,256

Bank borrowings pay interest which comprises a margin above LIBOR. Margins on the facilities are 1%.

Bank borrowings are secured by way of fixed charges over the group's property assets and a floating charge over other assets of the group.

On 22 March 2012 the Group signed new banking facilities with Lloyds Banking Group which provide committed facilities through to 31 December 2016.

The exposure of the company's borrowings to interest rate changes and contractual re-pricing dates at the end of the financial year are as follows:

	30.6.12	30.6.11
	£'000	£'000
6 months or less	-	257,256
Between 2 - 5 years	234,889	-
	234,889	257,256

continued...

12. FINANCIAL INSTRUMENTS

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

Other financial assets and liabilities	30.6.12		30.6.11	
	Book value	**Fair value**	**Book value**	**Fair value**
	£'000	£'000	£'000	£'000
Assets				
Investments	11,839	11,839	13,458	13,458
Receivables	7,558	7,558	8,010	8,010
Liabilities				
Payables	(239)	(239)	(370)	(370)
Borrowings	(234,889)	(234,889)	(257,256)	(257,256)
Derivative financial instruments	(8,045)	(8,045)	-	-

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 2012 and 2011 year ends, the company did not have any 'held to maturity' or 'available for sale' financial assets or 'held for trading' financial assets and liabilities as defined by IAS 39.

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

13. DERIVATIVE FINANCIAL INSTRUMENTS

	30.6.12	30.6.11
	£'000	£'000
Interest rate swap	8,045	-
Analysed as follows:		
Non-current	8,045	-

The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and as a current asset or liability if the maturity of the hedged item is less than 12 months.

The new interest rate swap position is £116,025,116 initial notional amount reducing to £26,066,694 by 30 September 2014 at a fixed rate of 5.965%.

14. ULTIMATE PARENT COMPANY

The company's immediate parent undertaking is Valad 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 Capital Limited. At 30 June 2011 Valad Capital Limited's ultimate parent company was Valad Property Group, an Australian listed entity. Following the acquisition of Valad Property Group by Blackstone Real Estate Partners VI Limited Partnership on 26 August 2011, Valad Capital Limited's ultimate parent company is now Blackstone Real Estate Partners VI Limited Partnership.

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

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15. CONTINGENT LIABILITIES

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

16. RELATED PARTY DISCLOSURES

Amounts owed by parent 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 7 are owed by various subsidiary and group companies.

Transactions with subsidiary undertakings
The following transactions were carried out with subsidiary undertakings:

	30.6.12	30.6.11
	£'000	£'000
Interest receivable	410	335
Impairment of receivables	-	(157)
Income from non-current asset investments	1,420	2,528
	1,830	2,706

Transactions with group undertakings
The following transactions were carried out with group undertakings:

	30.6.12	30.6.11
	£'000	£'000
Reversal of impairment/(impairment) of receivables	21,482	(49,718)

Transactions with joint ventures
The following transactions were carried out with joint ventures:

	30.6.12	30.6.11
	£'000	£'000
Impairment of receivables	(516)	(5,223)
Interest receivable	720	710

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17. FINANCIAL RISK MANAGEMENT

The company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance. The company uses derivative financial instruments to hedge certain risk exposures.

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 operational managers. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments and investment of excess liquidity.

(a) Market risk
Foreign exchange risk
The group operates across Europe and is exposed to foreign exchange risk arising from various currency exposures with respect to the Euro and the UK pound. Foreign exchange risk arises on future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

Management has set up a policy to require group companies to manage their foreign exchange risk against their functional currency. Foreign exchange risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

Interest rate risk
The group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the group to cash flow interest rate risk. Borrowings issued at fixed rates expose the group to fair value interest rate risk. During 2012 and 2011, the group's borrowings were denominated predominantly in the Euro and Sterling.

The group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the group raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the group had borrowed at fixed rates directly. Under the interest rate swaps, the group agrees with other parties to exchange, at specified intervals, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts.

At 30 June 2012, the company had interest rate swaps representing 3.31% of total borrowings. The group therefore has exposure to interest rate fluctuations on the under-hedged portion of its interest rate swaps. The group has to pay the difference between the fixed rate of the swap and the floating rate it is hedging against. The average fixed rate at 30 June 2012 was 4.9% higher than the floating rate.

(b) Credit risk
Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks, as well as exposure to outstanding receivables. The group's policy is to manage credit exposure to trading counterparties within defined trading limits. All of the group's significant counterparties are assigned internal credit limits.

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

There are situations where the Group makes commercial loans to third parties. The group protects its position in these instances by taking preferred lending positions. The loans are individually monitored and assessed for recoverability.

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17. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) 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 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 group's main source of liquidity is its 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.

The table below analyses the company financial liabilities which will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the gross contractual undiscounted cash flows.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
	£'000	£'000	£'000
At 30 June 2012			
Payables	239	-	-
Borrowings	-	-	234,889
Derivative financial instruments	5,974	357	1,714
At 30 June 2011			
Payables	370	-	-
Borrowings	257,256	-	-

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.