REPORT OF THE DIRECTORS AND

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

FOR

D.U.K.E. Development Group (UK) Limited

TUESDAY
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# CONTENTS OF THE FINANCIAL STATEMENTS
for the Year Ended 30 June 2014

D.U.K.E. Development Group (UK) Limited

**COMPANY INFORMATION**
**for the Year Ended 30 June 2014**

| | |
|---|---|
| **DIRECTORS:** | J E Maddy<br>M J McCarthy<br>A P Richardson<br>Valsec Director Limited |
| **SECRETARY:** | Valad Secretarial Services Limited |
| **REGISTERED OFFICE:** | Ist Floor<br>Unit 16<br>Manor Court Business Park<br>Scarborough<br>YO11 3TU |
| **REGISTERED NUMBER:** | 04045874 (England and Wales) |
| **INDEPENDENT AUDITORS:** | PricewaterhouseCoopers LLP<br>Chartered Accountants and Statutory Auditors<br>Benson House<br>33 Wellington Street<br>Leeds<br>LS1 4JP |
| **BANKERS:** | Bank of Scotland<br>2nd Floor<br>New Uberior House<br>11 Earl Grey Street<br>Edinburgh<br>EH3 9BN |
| **SOLICITORS:** | Shepherd and Wedderburn LLP<br>Condor House<br>10 St Paul's Churchyard<br>London<br>EC4M 8AL |

**D.U.K.E. Development Group (UK) Limited (Registered number: 04045874)**

**REPORT OF THE DIRECTORS**
**for the Year Ended 30 June 2014**

The directors present their annual report and the audited financial statements of the company for the year ended 30 June 2014.

**PRINCIPAL ACTIVITY**
The principal activity of the company in the year under review was that of a management and holding company.

**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 activity will be sustained for the foreseeable future.

The company's loss for the year is £2,674,000 (2013: profit of £7,718,000) and is dealt with as shown on the income statement.

**DIRECTORS**
The directors shown below have held office during the whole of the period from 1 July 2013 to the date of this report.

J E Maddy
M J McCarthy
A P Richardson
Valsec Director Limited

**GOING CONCERN**
We have prepared the financial statements on a going concern basis. The justifications for this are 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 the notes to the financial statements.

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

**D.U.K.E. Development Group (UK) Limited (Registered number: 04045874)**

**REPORT OF THE DIRECTORS**
**for the Year Ended 30 June 2014**

**STATEMENT OF DIRECTORS' RESPONSIBILITIES - continued**
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 prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- 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.
This report has been prepared in accordance with the special provisions of Part 15 of the Companies Act 2006 relating to small companies.

**ON BEHALF OF THE BOARD:**

J E Maddy
For and on behalf of
Valsec Director Limited - Director

25 June 2015

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

**Report on the financial statements**

**Our opinion**
In our opinion the financial statements, defined below:

- give a true and fair view of the state of the company's affairs as at 30 June 2014 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say in the remainder of the report.

**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. Compliance with the repayment covenant attached to the Bank of Scotland plc facility depends on the ability to achieve sales in line with the business plan. This indicates the existence of material uncertainty which may cast significant doubt over the ability of the company to continue as a going concern. The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern.

**What we have audited**
The financial statements (the "financial statements"), which are prepared by D.U.K.E. Development Group (UK) Limited, comprise:

- the Statement of Financial Position as at 30 June 2014;
- the Income Statement and the Statement of Comprehensive Income for the year then ended;
- the Statement of Cash Flows for the year then ended;
- the notes to the Statement of Cash Flows for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

**What an audit of financial statements involves**
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

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

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

**Opinion on other matter prescribed by the Companies Act 2006**
In our opinion the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Other matters on which we are required to report by exception**

**Adequacy of information and explanations received**
Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

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

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

**Responsibilities for the financial statements and the audit**

**Our responsibilities and those of the directors**
As explained more fully in the Statement of Directors' Responsibilities set out on page 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 ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Ian Marsden

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

25 June 2015

## INCOME STATEMENT
### for the Year Ended 30 June 2014

| | Notes | 30.6.14 £'000 | 30.6.13 £'000 |
|---|---|---|---|
| **CONTINUING OPERATIONS** | | | |
| Revenue | | 51 | 190 |
| Cost of sales | | - | 22 |
| **GROSS PROFIT** | | 51 | 212 |
| Administrative expenses | | (2,960) | 7,579 |
| **OPERATING (LOSS)/PROFIT** | | (2,909) | 7,791 |
| Finance costs | 3 | (120) | (409) |
| Finance income | 3 | 355 | 336 |
| **(LOSS)/PROFIT BEFORE INCOME TAX** | 4 | (2,674) | 7,718 |
| Income tax | 5 | - | - |
| **(LOSS)/PROFIT FOR THE YEAR** | | (2,674) | 7,718 |

The notes form part of these financial statements

## STATEMENT OF COMPREHENSIVE INCOME
**for the Year Ended 30 June 2014**

| | 30.6.14 £'000 | 30.6.13 £'000 |
|---|---|---|
| **(LOSS)/PROFIT FOR THE YEAR** | (2,674) | 7,718 |
| **OTHER COMPREHENSIVE INCOME** | - | - |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | (2,674) | 7,718 |

The notes form part of these financial statements

## STATEMENT OF FINANCIAL POSITION
30 June 2014

| | Notes | 30.6.14 £'000 | 30.6.13 £'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **NON-CURRENT ASSETS** | | | |
| Investments | 6 | 59 | 59 |
| **CURRENT ASSETS** | | | |
| Trade and other receivables | 7 | 2,735 | 5,207 |
| **TOTAL ASSETS** | | 2,794 | 5,266 |
| **EQUITY** | | | |
| **SHAREHOLDERS' EQUITY** | | | |
| Called up share capital | 8 | 50 | 50 |
| Accumulated losses | 9 | (10,569) | (7,895) |
| **TOTAL EQUITY** | | (10,519) | (7,845) |
| **LIABILITIES** | | | |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 10 | 11,614 | 171 |
| Financial liabilities - borrowings | | | |
| Interest bearing loans and borrowings | 11 | 1,699 | 12,940 |
| | | 13,313 | 13,111 |
| **TOTAL LIABILITIES** | | 13,313 | 13,111 |
| **TOTAL EQUITY AND LIABILITIES** | | 2,794 | 5,266 |

The financial statements on pages 6 to 23 were approved by the Board of Directors on 25 June 2015 and were signed on its behalf by:

J E Maddy
For and on behalf of
Valsec Director Limited - Director

## STATEMENT OF CHANGES IN EQUITY
**for the Year Ended 30 June 2014**

| | Called up share capital £'000 | Accumulated losses £'000 | Total equity £'000 |
|---|---|---|---|
| **Balance at 1 July 2012** | 50 | (15,613) | (15,563) |
| **Changes in equity** | | | |
| Total comprehensive income | - | 7,718 | 7,718 |
| **Balance at 30 June 2013** | 50 | (7,895) | (7,845) |
| **Changes in equity** | | | |
| Total comprehensive income | - | (2,674) | (2,674) |
| **Balance at 30 June 2014** | 50 | (10,569) | (10,519) |

The notes form part of these financial statements

D.U.K.E. Development Group (UK) Limited (Registered number: 04045874)

## STATEMENT OF CASH FLOWS
## for the Year Ended 30 June 2014

| | Notes | 30.6.14 £'000 | 30.6.13 £'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 1 | 11,006 | 13,013 |
| Interest paid | | (120) | (409) |
| Net cash from operating activities | | 10,886 | 12,604 |
| **Cash flows from investing activities** | | | |
| Interest received | | 355 | 336 |
| Net cash from investing activities | | 355 | 336 |
| **Cash flows from financing activities** | | | |
| Loan repayments in year | | (11,241) | (12,940) |
| Net cash from financing activities | | (11,241) | (12,940) |
| **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 2014**

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

| | 30.6.14 | 30.6.13 |
|---|---|---|
| | £'000 | £'000 |
| (Loss)/profit before income tax | (2,674) | 7,718 |
| Finance costs | 120 | 409 |
| Finance income | (355) | (336) |
| | (2,909) | 7,791 |
| Decrease in trade and other receivables | 2,472 | 5,301 |
| Increase/(decrease) in trade and other payables | 11,443 | (79) |
| **Cash generated from operations** | 11,006 | 13,013 |

**NOTES TO THE FINANCIAL STATEMENTS**
**for the Year Ended 30 June 2014**

## 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 within the accounting policies.

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 and amended standards not currently relevant to the company**
The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 July 2013:

- 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 FRS or US GAAP.

- IFRS 12 'Disclosure on Interests in other Entities' sets out additional disclosures on the nature, risks and financial effects of the company's interests in other entities'.

New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 July 2013 but not currently relevant to the Company (although they may affect the accounting for future transactions and events)

- Amendment to IAS 12 introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value; this is not relevant for the Company as deferred tax is not recognised on fair value losses.

- Amendment to IFRS 7 'Financial instruments: Disclosure' on financial instruments asset and liability offsetting. This is not applicable to the Company given the financial liabilities held.

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 July 2013, 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;


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## 1. ACCOUNTING POLICIES - continued

- 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;

- 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;

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

- Amendment to IAS 19 R 'employee service contributions' - effective 1 July 2014

- Amendment to IAS 39 'Financial instrument' Recognition and measurement: novation of derivatives and continuation of hedge accounting - effective 1 July 2014

- Amendment to IFRS 2 'share based payments' - effective 1 July 2014.

**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, YO11 3TU.



continued...

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**
Some of the amounts included in the financial statements involve the use of judgement and/or estimation. These judgements and estimates are based on management's best knowledge of the relevant facts and circumstances, having regard to previous experience, but actual results may differ from the amounts included in the financial statements.

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

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

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

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

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

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



continued...

1. **ACCOUNTING POLICIES - continued**

**Foreign currencies**
**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.

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

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

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

The new facility includes debt repayment covenants, valuation test covenants and cash flow cover covenants. The first test date for the debt repayment covenant is 30 June 2015. The covenants are based on a detailed business plan prepared by the Asset Manager, Valad Europe. The key assumptions inherent in these projections relate to property disposal values and their timing, projected cash realisations from co-investments in other real estate funds and joint ventures along with the borrowing and administration costs of the Group. In forming their view of going concern, the Directors have therefore considered the detailed financial models through to 31 December 2016. In particular the Directors have taken significant comfort from the Bank's willingness to write-off £330m of the Groups debt obligations and to continue the strategy of an orderly realisation of the Groups assets.

Taking all the above into account, together with the close relationship the Group and its Asset Manager has with its lenders the Directors believe that the Group will be able to meet its liabilities as they fall due for the foreseeable future and that it is appropriate to prepare the financial statements on the going concern basis.

In the event that business plan is not achieved leading to a failure to meet covenants within the Bank of Scotland plc facilities, the Group would need to renegotiate terms which the Directors are confident would be achieved. This however represents a material uncertainty which may cast significant doubt over the company's ability to 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.



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1. **ACCOUNTING POLICIES - continued**

**Revenue**
Revenue principally comprises management fees, which arose wholly within the United Kingdom from the continuing principal activity. 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.

**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.

**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 pre-tax costs of capital taking into account appropriate risk. Provision is made for any impairment identified.

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

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

Subsequently recoveries of amounts previously written off are credited against 'administrative expenses' in the income statement.

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

**Cash and cash equivalents**
In the preparation of the company's statements of cash flow, 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.



continued...

**NOTES TO THE FINANCIAL STATEMENTS - continued**
**for the Year Ended 30 June 2014**

1. **ACCOUNTING POLICIES - continued**

**Fair value estimation**
Fair value estimation under IFRS 13 requires the company to classify for disclosure purposes fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements on its financial assets and liabilities.The fair value hierarchy has the following levels:-

- Level (1) quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level (2) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
- Level (3) inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The fair value of assets held for sale, other financial assets and investment property are determined by using valuation techniques.

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) Limited 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) Limited. The management charge is invoiced to D.U.K.E. Real Estate Limited and a recharge is not made to subsidiary companies. The management charge includes various costs and the directors' remuneration cannot be separately identified.

3. **NET FINANCE INCOME**

| | 30.6.14 | 30.6.13 |
|---|---|---|
| | £'000 | £'000 |
| Finance income: | | |
| Other interest received | 355 | 336 |
| Finance costs: | | |
| Interest payable on bank loans and overdrafts | 120 | 407 |
| Other interest payable | - | 2 |
| | 120 | 409 |
| Net finance income | 235 | (73) |

4. **(LOSS)/PROFIT BEFORE INCOME TAX**

The loss before income tax (2013 - profit before income tax) is stated after charging:

| | 30.6.14 | 30.6.13 |
|---|---|---|
| | £'000 | £'000 |
| Impairment of joint venture loans | 2,502 | 2,401 |
| Impairment/(reversal of impairment) of group loans | 381 | (10,074) |

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



continued...

## 5. INCOME TAX

**Analysis of the tax (credit)/charge**
No liability to UK corporation tax arose on ordinary activities for the year ended 30 June 2014 nor for the year ended 30 June 2013.

**Factors affecting the tax charge**
The tax assessed for the year is higher (2013: lower) than the standard rate of corporation tax in the UK. The difference is explained below:

| | 30.06.14<br>£'000 | 30.06.13<br>£'000 |
|---|---|---|
| (Loss)/profit on ordinary activities before tax | (2,674) | 7,718 |
| (Loss)/profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 22.5% (2013 - 23.75%) | (602) | 1,833 |
| Effects of: | | |
| Non-deductible/(non-taxable) provision against loans | 86 | (2,393) |
| Group relief surrendered for nil consideration | 516 | 560 |
| Total income tax | - | - |

The UK corporation tax rate reduced from 23% to 21% from 1 April 2014.

## 6. INVESTMENTS

| | Shares in group and joint venture undertakings<br>£'000 |
|---|---|
| **COST** | |
| At 1 July 2013<br>and 30 June 2014 | 546 |
| **PROVISIONS** | |
| At 1 July 2013<br>and 30 June 2014 | 487 |
| **NET BOOK VALUE** | |
| At 30 June 2014 | 59 |
| At 30 June 2013 | 59 |



continued...

## 6. INVESTMENTS - continued

The value of the company's investments relate entirely to its investments in joint venture and subsidiary undertakings.

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 companies:

| Subsidiary undertakings | Country of incorporation | Principal activity | Class | % |
|---|---|---|---|---|
| D.U.K.E. Management (UK) Limited (in liquidation) | England & Wales | Dormant | Ordinary shares | 100 |
| D.U.K.E. (Enfield) Limited | England & Wales | Property development | Ordinary shares | 100 |
| D.U.K.E. (Cheetham Hill) | England & Wales | Property development | Ordinary shares | 100 |
| D.U.K.E. Luton Limited | England & Wales | Intermediate holding company | Ordinary shares | 100 |
| D.U.K.E. Woolwich Limited (in liquidation) | England & Wales | Non-trading | Ordinary shares | 100 |
| D.U.K.E. Oldham (Investor) Limited | England & Wales | Intermediate holding company | Ordinary shares | 100 |
| D.U.K.E. Sutton (Investor) Limited | England & Wales | Intermediate holding company | Ordinary shares | 100 |
| Fountains Walk Limited Partnership | England & Wales | Property development | Partnership interest | 100 |
| D.U.K.E. & Kent Estates Limited | England & Wales | Property development | Ordinary shares | 100 |
| D.U.K.E. (Pontypridd) Limited | England & Wales | Property development | Ordinary shares | 100 |

| Joint ventures | Country of incorporation | Principal activity | Class | % |
|---|---|---|---|---|
| Redhouse Projects Limited | England & Wales | Property development | Ordinary shares | 50 |
| Shepval Developments (Doncaster) Limited | England & Wales | Property development | Ordinary shares | 50 |
| Shepval Developments (Liverpool) Limited | England & Wales | Non-trading | Ordinary shares | 50 |
| Shepval Development Company Limited | England & Wales | Non-trading | Ordinary shares | 50 |
| VPC Developments Limited | England & Wales | Non-trading | Ordinary shares | 50 |
| Talbot Green Developments Limited | England & Wales | Property development | Ordinary shares | 50 |
| D.U.K.E. Shepherd (GP) Limited | England & Wales | Non-trading | Ordinary shares | 50 |
| D.U.K.E. (Wandsworth) Limited | England & Wales | Non-trading | Ordinary shares | 50 |
| Valad Wales Limited | England & Wales | Non-trading | Ordinary shares | 50 |
| Rokval (Exeter) Limited (in liquidation) | England & Wales | Non-trading | Ordinary shares | 50 |
| Rokval (Bournemouth) Limited | England & Wales | Property development | Ordinary shares | 50 |
| Stirling Development Agency Limited | Scotland | Property development | Ordinary shares | 50 |
| CSBP Clackmannanshire Developments Limited | Scotland | Property development | Ordinary shares | 50 |



continued...

## 7. TRADE AND OTHER RECEIVABLES

| | 30.6.14 £'000 | 30.6.13 £'000 |
|---|---|---|
| Current: | | |
| Amounts owed by group undertakings | 9 | 212 |
| Other receivables | - | 164 |
| Amounts owed by joint venture undertakings | 2,688 | 4,789 |
| Other taxation and social security | 25 | 29 |
| Prepayments and accrued income | 13 | 13 |
| | 2,735 | 5,207 |

All amounts owed by group undertakings are repayable on demand, carry no security and incur no interest. All amounts owed by joint venture undertakings are repayable on demand, carry no security and incur interest at 2% above the base rate of the Bank of England.

The carrying amount of trade and other receivables approximate to their fair value due to their short term nature. All of the company's receivables are denominated in sterling.

The maximum exposure to credit risk at the reporting date is the face value of each class of receivables as disclosed in the financial instruments note. The company does not hold any collateral as security.

## 8. CALLED UP SHARE CAPITAL

Allotted, issued and fully paid:

| Number: | Class: | Nominal value: | 30.6.14 £'000 | 30.6.13 £'000 |
|---|---|---|---|---|
| 50,000 | Ordinary | £1.00 | 50 | 50 |

## 9. RESERVES

| | Accumulated losses £'000 |
|---|---|
| At 1 July 2013 | (7,895) |
| Deficit for the year | (2,674) |
| At 30 June 2014 | (10,569) |

## 10. TRADE AND OTHER PAYABLES

| | 30.6.14 £'000 | 30.6.13 £'000 |
|---|---|---|
| Current: | | |
| Trade payables | 133 | 145 |
| Amounts owed to group undertakings | 11,455 | - |
| Other payables | 8 | 8 |
| Accruals and deferred income | 18 | 18 |
| | 11,614 | 171 |



continued...

10. **TRADE AND OTHER PAYABLES - continued**

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

11. **FINANCIAL LIABILITIES - BORROWINGS**

| | 30.6.14 | 30.6.13 |
|---|---|---|
| | £'000 | £'000 |
| Current | | |
| Bank loans | 1,699 | 12,940 |

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 19 December 2014 the Group signed new banking facilities with Lloyds Banking Group which provide committed facilities through to 31 December 2016.

The bank loans have moved to current due to breach in group's covenants at the year end.

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:

| | 30.6.14 | 30.6.13 |
|---|---|---|
| | £'000 | £'000 |
| Less than 1 year | 1,699 | 12,940 |
| | 1,699 | 12,940 |

12. **FINANCIAL INSTRUMENTS**

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

| Other financial assets and liabilities | 30.6.14 | | 30.6.13 | |
|---|---|---|---|---|
| | **Book value** | **Fair value** | **Book value** | **Fair value** |
| | £'000 | £'000 | £'000 | £'000 |
| **Assets** | | | | |
| Trade and other receivables | 3,035 | 3,035 | 5,207 | 5,207 |
| **Liabilities** | | | | |
| Borrowings | 1,699 | 1,699 | 12,940 | 12,940 |
| Trade and other payables | 11,614 | 11,614 | 171 | 171 |

In accordance with IAS 39, the company classifies the assets and liabilities in the analysis above as 'loans and receivables' and 'other financial liabilities' measured at amortised cost, respectively. At the current and prior 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.

The fair value hierarchy at the current and prior year end was level 3.



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## 13. ULTIMATE PARENT COMPANY

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

The company's ultimate parent undertaking, D.U.K.E. Real Estate Limited, is jointly owned by Uberior Europe Limited (a subsidiary of Lloyds Banking Group plc - a UK entity) and Valad Capital Limited. Valad Capital Limited's ultimate parent entity is Blackstone Real Estate Partners VI Limited Partnership.After the year end Valad Capital Limited transferred its shares in D.U.K.E. Real Estate Limited to Valad Holdings (UK) Limited whose ultimate parent entity is Cromwell Property Group.

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

## 14. CONTINGENT LIABILITIES

Following the refinancing of the Group on 22 March 2014, the facilities contain cross collateralisation and cross default provisions. The total Group debt outstanding as at 30 June 2014 is £396,234,000 (2013: £840,097,000).

## 15. RELATED PARTY DISCLOSURES

**Amounts owed by 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.



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## 16. FINANCIAL RISK MANAGEMENT

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

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

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

**Liquidity risk**
The 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 business, 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 optimum 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.