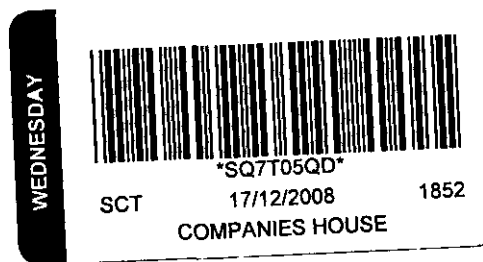


**Waterfront Edinburgh Limited**

**Directors' report and financial  
statements**

**Registered number SC200223**

**31 March 2008**



## Contents

Directors and advisors	1
Directors' report	2
Statement of directors' responsibilities in respect of the Directors' Report and the financial statements	4
Independent auditors' report to the members of Waterfront Edinburgh Limited	5
Profit and loss account	6
Statement of total recognised gains and losses	6
Balance sheet	7
Notes	8

## **Directors and advisors**

### **Directors**

S Cardownie Chair  
E Morris  
A Jackson  
S Gallagher  
J Fanning  
P Woodburn

### **Alternate directors**

D Leven  
H Dunn  
P Watton

### **Shareholders representatives**

L McPherson (Scottish Enterprise)  
H Dunn (City of Edinburgh Council)

### **Chief Executive**

Colin Hunter

### **Registered Office**

Madelvic House  
Granton Park Avenue  
Edinburgh  
EH5 1HS

### **Registered Auditors**

KPMG LLP  
Saltire Court  
20 Castle Terrace  
Edinburgh  
EH1 2EG

### **Solicitors**

Burness LLP  
50 Lothian Road  
Festival Square  
Edinburgh  
EH3 9WJ

### **Bankers**

Bank of Scotland  
The Mound  
7 9 North Bank Street  
Edinburgh  
EH1 1YZ

## Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 March 2008

### Principal activities

The principal activities of the company are to act as a catalyst in site assembly, decontamination and regeneration of Granton's Waterfront to achieve economic redevelopment and increased employment, not simply on the land owned by the company, but within the overall Granton Waterfront project including the existing community

### Review of the year

Residential development at Granton Waterfront is still a pioneering market. Despite that, an oversupply of expensive two bedroom apartments within the North Edinburgh housing market and latterly the credit crunch having a direct impact on mortgages and debt funding of developments, the company was successful in securing an important land sale to Emblem Homes, (a Places for People company), who intend to build a mix of affordable properties which will satisfy the needs of the market. It is vital in terms of making a sustainable community that the broadest choice of housing is available, whether for rent, on a shared equity basis or for sale and this deal represents just such a choice. The other major sale was to the Scottish Government.

One significant change during the past year is an increased willingness of the surrounding landowners to engage with the company to explore ways of achieving a more integrated approach which will benefit the community socially and culturally. This is a positive move and will yield benefits for all.

It is the intention of the Shareholders and the Board to ensure that the company is the catalyst to deliver the whole of the Granton redevelopment by encouraging economic development, job creation and creating a sense of place, whilst ensuring social inclusion with existing communities.

### Results and dividends

The trading results for the year and the company's financial position at the year end are shown in the attached financial statements. There has been a substantial loss in the year to 31st March 2008, mainly due to the write down in the valuation of work in progress at the end of the financial year. The decrease in the valuation results from the deterioration in the market place for developments in North Edinburgh.

A dividend will not be paid.

### Corporate Governance

The Directors seek to ensure that a transparent structure is in place and that best practice in corporate governance is adopted. The company has agreed to the guidelines set out by the City of Edinburgh Council's Code of Guidance for Corporate Governance for Council Companies, and appropriate Scottish Enterprise guidance.

The system of internal controls seeks to identify, assess, manage, and minimise risk.

In addition to identifying, evaluating and managing the risks faced by the company, which is covered by the risk register, closer attention has been paid to evaluating the implications of all contingent liabilities, such as land burdens and planning gain. This will assist the Board and the Chief Executive to manage the company's business, and to identify financial and non financial risks.

The company has identified its key business outputs and the risk associated with delivering them and these are embedded within the 3 year Business Plan. Quarterly updates of the business plan and risks are provided to the Board and the Audit Committee. The company's property assets are revalued on an annual basis by an independent valuer to RICS Red Book requirements.

The system of internal financial control is based on the provision of regular management information, adherence to financial regulations and administration procedures, management supervision, and a system of delegation and accountability. The system includes

- Comprehensive budgeting systems,
- Monthly management accounts at group profit and loss and balance sheet level showing anticipated final costs compared with budgets at project or for revenue expenditure, at a cost level,
- Clearly defined approval limits

The internal audit function is provided by our shareholders, who review annually certain financial processes

The Board meets monthly and has delegated responsibility to the Chief Executive for any capital expenditure commitments up to £75,000 and revenue up to £35,000, subject to the expenditure being within the approved business plan. The Chairperson and Chief Executive meet on a regular basis to discuss relevant issues

#### **Directors**

The directors who held office and details of the additional committees on which they served are as follows

S Cardownie	Remuneration Committee
J McFarlane (resigned 25 09 07)	Audit Committee
E Morris	
A Jackson	Audit Committee
S Gallagher	Remuneration Committee
J Fanning	Audit Committee
D Anderson (resigned 29 01 08)	
P Woodburn (appointed 1 04 08)	

#### **Alternate Directors**

H Dunn  
P Watton  
D Leven

No director who held office at the end of the year had any disclosable interest in the shares of the Company. Certain directors benefit from qualifying third party indemnity provisions in place during the year and at the date of this report

#### **Donations**

During the year the company made charitable contributions of nil (2007 £nil)

#### **Disclosure of information to auditors**

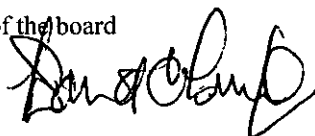
The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

#### **Auditors**

In accordance with section 384 of the Companies Act 1985, a resolution for the re appointment of KPMG LLP as auditors of the company will be proposed at the forthcoming Annual General Meeting

By order of the board

Secretary



27<sup>th</sup> May 2008

## **Statement of directors' responsibilities in respect of the Directors' Report and the financial statements**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The financial statements are required by law to 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 estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, 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 proper accounting records that 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 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



KPMG LLP

## **Independent auditors' report to the members of Waterfront Edinburgh Limited**

We have audited the financial statements of Waterfront Edinburgh Limited for the year ended 31 March 2008 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 4.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

### **Basis of audit opinion**

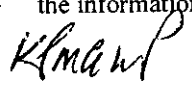
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2008 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

  
**KPMG LLP**  
Chartered Accountants  
Registered Auditor  
20 June 2008

Saltire Court  
20 Castle Terrace  
Edinburgh  
EH1 2EG

**Profit and loss account**  
*for the year ended 31 March 2008*

	<i>Note</i>	2008 £	2007 £
<b>Turnover</b>	2	2,907,430	1,466,829
Cost of sales    recurring		(1,565,949)	(2,216,735)
exceptional	3	(6,101,514)	(7,444,100)
<b>Gross loss</b>		(4,760,033)	(8,194,006)
Administrative expenses		(1,041,606)	(1,072,241)
Other operating income		1,617	5,437
<b>Operating loss</b>		(5,800,022)	(9,260,810)
Interest receivable and similar income	5	1,772	330
Interest payable	6	(805,373)	(726,840)
<b>Loss on ordinary activities before taxation</b>	3,4	(6,603,623)	(9,987,320)
Tax on loss on ordinary activities	7	179,984	
<b>Loss for the financial year</b>		(6,423,639)	(9,987,320)

The loss for the financial year has been derived from continuing activities

**Statement of total recognised gains and losses**  
*for the year ended 31 March 2008*


	2008 £	2007 £
Loss for the financial year attributable to shareholders	(6,423,639)	(9,987,320)
Diminution on revaluation of certain fixed assets	(1,178,500)	
<b>Total gains and losses relating to the financial year</b>	(7,602,139)	(9,987,320)



**Balance sheet**  
**at 31 March 2008**

	<i>Note</i>	2008 £	2007 £
<b>Fixed assets</b>			
Intangible assets	8	1	1
Tangible assets	9	5,903,832	5,294,044
Investments	10	1	1
		<hr/>	<hr/>
		5,903,834	5,294,046
<b>Current assets</b>			
Stocks	11	19,584,469	28,033,000
Debtors	12	3,041,362	4,679,169
Cash		43	
		<hr/>	<hr/>
		22,625,874	32,712,169
<b>Creditors amounts falling due within one year</b>	13	(6,903,683)	(8,674,915)
		<hr/>	<hr/>
<b>Net current assets</b>		15,722,191	24,037,254
		<hr/>	<hr/>
<b>Total assets less current liabilities</b>		21,626,025	29,331,300
<b>Creditors amounts falling due after more than one year</b>	14	(7,232,864)	(7,336,000)
		<hr/>	<hr/>
<b>Net assets</b>		14,393,161	21,995,300
		<hr/> <hr/>	<hr/> <hr/>
<b>Capital and reserves</b>			
Called up share capital	15	33,250,000	33,250,000
Revaluation reserve	16	1,194,607	2,373,107
Profit and loss account	16	(20,051,446)	(13,627,807)
		<hr/>	<hr/>
<b>Shareholders' funds</b>		14,393,161	21,995,300
		<hr/> <hr/>	<hr/> <hr/>

These financial statements were approved by the board of directors on <sup>27 May</sup> 2008 and were signed on its behalf by

  
S Cardownie  
Director

J Fanning  
Director



## Notes

*(forming part of the financial statements)*

### 1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements, except as noted below

#### ***Basis of preparation***

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules, modified to include the revaluation of certain assets

The Company is exempt by virtue of s248 of the Companies Act 1985 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

Under Financial Reporting Standard 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds of its size.

The accounting reference date for the company is 26 March. However under section 223 of the Companies Act 1985, the directors have determined that the company adopt an accounting reference period of 31 March.

#### ***Turnover***

Turnover represents the amounts derived from rental income and property sales. All turnover is stated net of value added tax and is generated from within the United Kingdom.

#### ***Intangible assets and amortisation***

Intangible fixed assets purchased separately from a business are capitalised at their cost. Intangible assets are amortised to nil by equal annual instalments over their useful economic lives, generally their respective unexpired periods.

#### ***Fixed assets and depreciation***

All fixed assets are initially recorded at cost. Depreciation is calculated so as to write off the cost, less the estimated residual value of tangible fixed assets by equal instalments over their useful economic lives as follows:

Heritable property	2% per annum
Fixtures and fittings and computer equipment	25% per annum
Motor vehicles	25% per annum

## Notes (continued)

### 1 Accounting policies (continued)

#### *Investment properties*

In accordance with Statement of Standard Accounting Practice No 19 investment properties are revalued annually and the aggregate surplus or deficit is transferred to the revaluation reserve. Permanent reductions in value to below initial cost are written off to profit and loss account. No depreciation or amortisation is provided in respect on investment properties, nor could it be reasonably quantified.

This treatment of properties is a departure from the requirements of the Companies Act concerning depreciation of fixed assets. However, because the properties are held for investment, the directors consider annual depreciation would be inappropriate and that the accounting policy adopted is therefore necessary for the financial statements to give a true and fair view.

#### *Investments*

Investments in subsidiary undertakings are stated at cost.

#### *Stocks*

Stocks and work in progress are stated at the lower of cost and net realisable value. Cost is computed as the total consideration paid less those costs transferred to the profit and loss account and after deducting foreseeable losses.

#### *Pension costs*

The company makes payments into personal pension schemes for all its employees. The pension cost charged to the profit and loss account represents amounts paid by the company.

#### *Taxation*

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset. A deferred tax asset is only recognised to the extent that it is regarded as recoverable.

### 2 Turnover

An analysis of turnover, which is wholly in the United Kingdom, is given below.

	2008 £	2007 £
Rental income	492,430	459,329
Development income	4,015,000	1,507,500
Adjustment in relation to prior year sales	(1,600,000)	(500,000)
	<hr/> 2,907,430 <hr/>	<hr/> 1,466,829 <hr/>

During the year part of a debtor in relation to a sale recognised in prior years has been written off as not recoverable. As this amount was previously recognised within sales it is considered appropriate that the write off is presented as a reduction to sales.

## Notes (continued)

### 3 Notes to the profit and loss account

Loss on ordinary activities before tax is stated after charging / (crediting)

	2008 £	2007 £
Depreciation	54,198	73,702
Exceptional write down of development land value (note 11)	6,965,656	7,444,100
Release of liability transferred to third party	(864,142)	
Write off of non recoverable accrued income (note 2)	1,600,000	500,000
<i>Auditor's remuneration</i>		
Audit of these financial statements	16,000	10,500
Amounts receivable by the auditors and their associates in respect of Other services relating to taxation	7,050	9,500

### 4 Staff numbers and costs

The average number of persons employed by the Company during the financial year analysed by category, was as follows

	2008 No	2007 No
Administrative	7	9
Security	6	6
	<u>13</u>	<u>15</u>

The aggregate payroll costs of these persons were as follows

	2008 £	2007 £
Wages and salaries	479,400	514,328
Social security costs	46,694	56,894
Other pension costs	33,703	28,909
	<u>559,797</u>	<u>600,131</u>

## Notes (continued)

### 5 Interest receivable and similar income

	2008 £	2007 £
Bank interest		330
Interest on late payment	1,772	
	<u>1,772</u>	<u>330</u>

### 6 Interest payable and similar charges

	2008 £	2007 £
On bank loans and overdrafts	805,373	726,840
	<u>805,373</u>	<u>726,840</u>

### 7 Taxation on ordinary activities

	2008 £	2007 £
UK Corporation tax		
Adjustment in respect of prior years	(179,984)	
	<u>(179,984)</u>	<u></u>

#### *Factors affecting the tax charge for the current period*

The current tax charge for the period is lower (2007 lower) than the standard rate of corporation tax in the UK of 30% (2007 – 30%)

	2008 £	2007 £
Loss on ordinary activities before taxation	(6,603,623)	(9,987,320)
	<u>(6,603,623)</u>	<u>(9,987,320)</u>
Current tax at 30% (2007 30%)	(1,981,087)	(2,996,196)
Expenses not deductible for tax purposes	10,000	10,000
Deferred tax not recognised	1,971,087	2,986,196
Adjustment in respect of prior years	(179,904)	
	<u>(179,904)</u>	<u></u>
Total current tax credit	<u>(179,904)</u>	<u></u>

#### *Factors that may affect future current and total tax charges.*

If the investment and heritable property was sold at valuation a taxable gain of approximately £100,000 would arise, which has not been provided in the financial statements

An unrecognised deferred tax asset of approximately £5,240,000 exists at 31 March 2008 (2007 £3,400,000) in respect of tax losses carried forward. Its recoverability is dependent upon future profits arising, the likelihood of which cannot be assessed at this stage with reasonable certainty

## Notes (continued)

### 8 Intangible fixed assets

	£
<b>Cost</b>	
As 1 April 2007 and 31 March 2008	142,857
<b>Amortisation</b>	
At 1 April 2007 and 31 March 2008	142,856
<b>Net book value</b>	
At 1 April 2007 and 31 March 2008	1

### 9 Tangible fixed assets

	Investment property	Heritable property	Fixtures, fittings & equipment	Motor vehicles	Total
	£	£	£	£	£
<b>Cost or valuation</b>					
At 1 April 2007	4,982,000	245,000	297,890	32,039	5,556,929
Additions	1,840,752		10,161		1,850,913
Disposals			(26,821)		(26,821)
Adjustment for valuation	(1,178,500)				(1,178,500)
<b>At 31 March 2008</b>	<b>5,644,252</b>	<b>245,000</b>	<b>281,230</b>	<b>32,039</b>	<b>6,202,521</b>
<b>Depreciation</b>					
At 1 April 2007		19,600	226,836	16,449	262,885
Charged for the year		4,900	41,288	8,010	54,198
Adjustment on disposal			(18,394)		(18,394)
<b>At 31 March 2008</b>		<b>24,500</b>	<b>249,730</b>	<b>24,459</b>	<b>298,689</b>
<b>Net book value</b>					
At 31 March 2008	5,644,252	220,500	31,500	7,580	5,903,832
At 31 March 2007	4,982,000	225,400	71,054	15,590	5,294,044

Investment property was valued at 31 March 2008 by Messrs Montagu Evans, Chartered Surveyors on the basis of open market value for existing use. The valuation was carried out in accordance with the Practice Statement in the RICS Appraisal and Valuation Manual.

## Notes (continued)

### 10 Investments

#### Shares in group undertakings

£

#### Cost and net book value

1

At 1 April 2007 and 31 March 2008

The investment is held in *Waterfront Edinburgh Properties Limited*, a property development company incorporated in the UK. *Waterfront Edinburgh Limited* holds 1 ordinary £1 share, representing 100% of the ordinary share capital.

### 11 Stocks

	2008 £	2007 £
Development properties	19,580,000	28,033,000
Sundry material stock	4,469	—
	<u>19,584,469</u>	<u>28,033,000</u>

Developmental properties were valued by Messrs Montagu Evans, Chartered Surveyors

The valuation of property assets was undertaken as at 31st March 2008 in accordance with the definition of market value and good practice guidelines as set out in the 6th Edition of the Royal Institution of Chartered Surveyors' valuation and appraisal manual.

The valuation has taken account of the extent of the Company's land title, the rights, wayleaves and leases over the land, future land acquisitions required to implement the overall project, planning permissions secured, the conditions and Section 75 obligations associated with the permissions, remediation of past industrial uses and all infrastructure aspects including roads, water supply and drainage.

### 12 Debtors

	2008 £	2007 £
Trade debtors	29,490	67,632
Other debtors	3,011,872	4,611,537
Prepayment and accrued income	<u>3,041,362</u>	<u>4,679,169</u>

## Notes (continued)

### 13 Creditors: amounts falling due within one year

	2008 £	2007 £
Overdrafts (secured)	3,398,557	3,959,372
Bank loans (secured)	477,000	477,000
Trade creditors	2,175,546	141,710
Taxation and social security	49,668	166,860
Other creditors	17,864	21,099
Accruals and deferred income	785,048	3,908,874
	<u>6,903,683</u>	<u>8,674,915</u>

### 14 Creditors amounts falling due after more than one year

	2008 £	2007 £
Bank loans (secured)	6,859,000	7,336,000
Accruals and deferred income	373,864	
	<u>7,232,864</u>	<u>7,336,000</u>

The bank loans bear interest at 1.00% over the base rate. At the year end the base rate was 5.25%

Loan number one: the first 50% of the amount drawn, plus interest must be repaid by monthly instalments over a period of 10 years. The balance of the loan will be repaid through disposal of appropriate properties or by refinancing. The number of repayments is set at 120, the amounts of which are fixed by the bank for 12 months at a time and may vary depending upon the interest rate at the close of calculation and the remaining term of the facility.

Loan number two: repayments are paid quarterly and the balance will be discharged upon sale of the site. The loans are secured over various properties held by the company.

### 15 Called up share capital

	2008 £	2007 £
<i>Authorised, allotted, called up and fully paid</i>		
100 'A' Ordinary shares of £1 each	100	100
100 'B' Ordinary shares of £1 each	100	100
33,249,800 'C' ordinary shares of £1 each	33,249,800	33,249,800
	<u>33,250,000</u>	<u>33,250,000</u>

The 'C' Ordinary shares rank pari passu with the 'A' and 'B' shares for the payment of dividends and the distribution of assets in the event of winding up. 'A' and 'B' shares carry equal voting rights.



## Notes (continued)

### 16 Reconciliation of shareholders' funds and movement on reserves

	Share capital	Revaluation reserve	Profit and loss account	Total shareholders' funds
	£	£	£	£
At beginning of year	33,250,000	2,373,107	(13,627,807)	21,995,300
Loss for the financial year		(1,178,500)	(6,423,639)	(7,602,139)
	<u>33,250,000</u>	<u>1,194,607</u>	<u>(20,051,446)</u>	<u>14,393,161</u>

### 17 Contingencies

The missives for the sale sites sold during in previous years contain conditions whereby the company may have to pay the purchasing companies an amount representing any shortfall in grant funding. No amount has been accrued in the financial statements for this potential cost as the directors consider that the liability is unlikely to arise. Conversely, there are similar conditions whereby the company may receive additional funds if the grant funding received by the purchasing companies exceeds specified amounts. No income has been recognised in this regard as the amounts involved are uncertain.

### 18 Pensions

The company makes payments into personal pension schemes for all its employees. A pension cost charge of £33,703 (2007 £28,909) has been included in the financial statements on the basis of contributions paid. At 31 March 2008 contributions amounting to £Nil (2007 £2,786) were payable and are included in creditors.