

**Mc Inerney** 

Interim Report for the six months to 30 June 2008

Building quality homes

# Chairman's Statement

## Overview

McInerney Holdings plc ('the Group') has experienced unprecedented weakened conditions in its key markets of the UK and Ireland since earlier this year. This is due in the main to the reduced availability of mortgage funds in both markets, leading to further erosion in consumer confidence. In the second quarter, the Group initiated a significant cost saving and rationalisation programme to reposition the business to match our expectations for new housing output.

As a result of the difficult market conditions, the Group reports an operating loss before tax and exceptional items of €22.1m for the first six months of 2008, which compares to an operating profit before tax of €9.2m for the corresponding period in 2007. In addition, we have taken a one off exceptional charge of €4m in respect of the cost rationalisation programme and we have made a prudent exceptional write down of €27.6m against the carrying value of certain sites in the landbank. Overall, the landbank continues to have a surplus above written down book value, as some sites retain surplus value. The position regarding land value will be kept under review as conditions in the market develop.

The trading losses for the first six months are primarily attributable to lower housing volume outputs in both Ireland and the UK in addition to price incentivisation in both markets. Total unit completions were 423 in the first half compared to 703 in the first half of last year.

In response to the disruption in market conditions in the UK, Group management has implemented strong cost saving and strategic actions to deal with the current negative market circumstances. We are confident that the re-engineered UK platform can provide the Group with earnings growth potential when current market conditions normalise and mortgage finance becomes more readily available. Cost saving measures have also taken place in the Irish business. In total, we have instigated cost saving measures of over €47m per annum.

Due to current market conditions, no interim dividend is being proposed. The Group's dividend policy will be reviewed based on the outcome for the full year.

Current trading circumstances have put pressure on some of the Group's banking covenants. The Group has separate banking facilities for its Irish and UK businesses. The Group's banking covenants in Ireland have been adjusted in light of current trading circumstances and in consultation with our principal lenders. The new covenant structure is primarily based on cash collection and sales, rather than earnings. A similar covenant structure has been proposed for the UK banking facilities and is currently under negotiation. These negotiations have already been successfully concluded with one of the two banks in the UK syndicate.

The autumn selling season will be a key indicator of the market situation and will provide greater clarity on the full year outturn. Trading in the second half of the year is expected to significantly outperform the first half in line with the

Group's normal seasonality. In addition, the Group expects to be cash generative to year end and into 2009 due to its limited forward land purchase commitments and stock reduction.

### **Cost Savings and Structural Change**

Current negative sentiment is not expected to reverse swiftly, albeit the underlying fundamentals for housing in both markets remain positive. Accordingly, Group management has taken extensive actions to provide an annualised reduction to its cost base of €47m. This is somewhat greater than the cost savings announced at the AGM as further structural efficiencies were achieved. There is a one-off cost to this programme of €9m, of which €4m was incurred in the first six months. The full year impact of the savings will be seen in 2009.

In the UK, the operational structure has been reengineered, providing significant reductions in overheads. These cost saving actions involved staff reductions, merging seven regional offices into two overall regions and the centralisation of some regional functions. In Ireland, the measures involved staff reductions, the closure of some offices and the merger of six regions into three regions. In addition, all accounting and management information functions for the Group have been merged into one shared services function, resulting in further cost savings.

### **Housing UK**

The more challenging operating environment which emerged in the UK in late 2007 resulted from credit tightening and consumer confidence weakening.

Since March 2008, the situation has been exacerbated as the availability of mortgages became severely constrained with a corresponding downturn in housing demand. There remains a fundamental need for a significant increase in the supply of homes in the UK but there is restricted consumer access to the market, as mortgage supply is curtailed. Thus, in addition to the cost cutting programme previously outlined, management has taken other strategic measures to address this situation. We intend to continue to focus on our Partnership Homes Division where demand for social housing is strong and Government plans are aligned to increase output. The Group is reducing its emphasis on volume growth in private housing. The short-term emphasis will now centre on margin growth from cost efficiencies. We believe this is the appropriate step in the current operating environment. We will review the position when normal market circumstances re-emerge.

We continue to view the UK as providing a platform for resumed growth in the medium term. The new organisational structure in place will result in volume and/or earnings increases to impact immediately on gross profit.

We anticipate completing circa 825 units in the UK in 2008 of which approximately 196 will be social housing.

### **Housing Ireland**

Activity levels in the Irish housing market remained subdued. Our view is that there is a strong underlying demand for

housing, the difficulty for consumers is in securing mortgage finance. It is not possible to anticipate accurately when this situation will reverse. However, there is little doubt that there continues to be a demand for a significantly higher level of homes in Ireland than current production levels, particularly in our target market of first time buyers of houses as opposed to apartments.

In light of the continued stagnant market conditions, we are revising our estimates for housing completions and anticipate completing circa 350 units in Ireland in 2008.

### Other Businesses

The Commercial Division, which operates in Ireland and the UK, delivered 344 sq. metres of sales in the first half of 2008 versus 3,433 sq. metres in the first half of 2007. It is expected that the second half of the year will show a significant pickup.

The Group's Spanish Division anticipates circa 12 completions in 2008 from an existing stock of 20 units. The market in Spain is generally subdued and the Group has limited completed product to sell. Purchasing trends are altering, and securing sales off plan is now uncommon. Our current focus in Spain is to enhance our land value through the planning process.

### Outlook

The current business environment for both our main markets continues to be highly challenging. Whilst the key influences of credit restrictions and subdued consumer confidence prevail,

the Group's management is focusing on operating its business prudently and efficiently for cash.

Until mortgage availability in both UK and Ireland improves and stock supply issues are resolved in Ireland, the output of the industry will remain below the fundamental needs of the market place. The autumn selling season is a significant period and will provide greater clarity on anticipated performance for the year.

Our management team has streamlined the operational structure of the Group and reduced overheads substantially. It is sharply focused on effectively guiding the business through these challenging conditions. We believe that the medium term fundamentals of housing demand in both UK and Ireland remain strong. The Group is positioned to resume growth when current uncertainties are removed. Our new cost base has been tailored to allow the Group to generate cash and profit from operations in current market conditions and will ensure that market improvement, when it comes, will flow rapidly to earnings.



**Ned Sullivan**  
Chairman

### UK

We completed 281 housing units in the UK in the first half of 2008 versus 446 in the same period of 2007. Of these 52 were social homes (2007: 84). The UK recorded an operating loss of €7m versus an operating profit of €4.3m in 2007. This decline was caused by reduced volumes and discounting to clear built stock.

The Group's average plot cost in the UK is £41k. Our average price per housing unit in the period was £135k versus £141k for the first six months of 2007. We own or control 3,200 plots, 90% of which has planning. In addition, we control 450 plots for social housing. Land creditors total €11m. In addition, we have €14.8m of forward committed land purchases. Sales on hand are 605 units.

### Ireland

We completed 142 private housing units in Ireland in the first half of 2008 versus 257 in the first half of 2007. An operating profit of €578k was recorded versus an operating profit of €12.6m in 2007. This decline was caused by reduced volumes and discounting to clear built stock. The new scaled down operational structure is more appropriate to the current level of outputs.

Our average plot cost in Ireland is €50k. Our average sales price before VAT was €239k compared to €274k in the same period last year. We own or control 4,200 plots. Of these a total of 2,500 have planning permission. In addition we control roughly 1,200 strategic plots, mainly in joint venture. Land creditors total €1.5m. In addition, we have €1.6m of forward committed land purchases. Sales on hand are 312 units.

### Other Businesses

The Commercial Division which operates in Ireland and the UK, delivered 344 sq. metres of sales in the first half of 2008 versus 3,433 sq. metres in the first half of 2007. It recorded an operating loss of €684k, as opposed to an operating profit of €799k for the same period last year. The Group owns or controls 26,215 sq. metres of industrial land for future builds. The average land cost per sq. metre is €750. Forward land commitments total €4m. There are no land creditors.

Our current focus in Spain is to enhance our land value through the planning process. The Spanish Division recorded an operating loss of €1,395k versus an operating profit of €809k in 2007. Land creditors total €5.6m.

**Working Capital:** Cash consumed in operations was €60m compared to cash consumed of €73.1m in the first half of 2007. The inventory of built homes is higher than our expectations due to cancellation rates together with an increased interval between exchange of contract and actual completion. This is in part due to increased stress testing by mortgage providers and also due to consumer issues. Overall our land spend in the first half was minimal and we have limited forward land commitments.

Positive working capital movement is expected in the second half leading to a reduction in debt levels at year end to a level similar to the opening net debt level. This trend of debt reduction should continue through 2009 at current trading levels.

**Interest Charges:** The interest charge for the first half was slightly higher than for the first half of 2007. This is mainly due to the increased amount of sterling in our debt

mix and to increased inter bank rates, on which our borrowings are based. There was a modest off-setting from receipts under interest rate swaps.

**Taxation:** As a result of losses in the period the Group will be entitled to a part refund of taxes paid in respect of 2007. Management also expects to be able to use current period losses to offset expected future taxable profit. This gives rise to the deferred tax asset.

**Exchange Rate:** The Group is primarily exposed to sterling foreign exchange risk. The average sterling exchange rate used for translation of the profit and loss account was 0.77 in the first half of 2008 compared to 0.67 in the first half of 2007. The Balance Sheet exchange rate was 0.79 as compared to 0.73 at end 2007.

**Dividends:** The Directors do not propose to pay an interim dividend based on the fact that we incurred a loss in the first half of the year. The Group will review the dividend policy when the full year outturn is known, in light of the prevailing market conditions and the Group's steps to reduce costs and maximise cash.

**Debt:** Debt at the half year was net €267m. This compares to €220m net debt at 31 December 2007. The increase in debt relates primarily to a relatively higher level of inventory of built homes and homes under construction offset by a reduction in trade creditors. As noted above, a reduced investment in working capital is expected in the second half leading to a reduction in debt levels at year end to a level similar to the opening net debt level. This trend of debt reduction should continue through 2009 at current trading levels.

**Banking:** We recently revised our banking covenant arrangements to reflect the changed market circumstances and the operating environment in which we are trading. The proposed new covenant structure is primarily based on cash collection and sales rather than earnings, together with a relaxation in tangible net worth covenants. The new covenant structure has now been agreed for the Irish banking facilities with the three banks concerned. In relation to the UK facilities, the new covenant structure is currently under negotiation. Negotiations have been successfully concluded with one of the two banks concerned.

The maturity date on the Irish revolving credit facility is mid 2011. The maturity date on the UK revolving credit facility is mid 2009. We expect to renegotiate this maturity date in early 2009. The movement in repayment profile in debt on our Balance Sheet is primarily the result of reclassifying the UK revolving loan to short term liabilities pending this renegotiation.

**Principal Risks and Uncertainties:** The Board assesses the principal risks and uncertainties faced by the Group on an on-going basis and seeks to ensure that strategies to mitigate the effect of these risks are in place. As at the date of approval of the Interim Statement, key risks facing the business in the next six months, in the opinion of the Board, include a range of factors that are similar to other development companies and specific to the nature of the housing supply industry. These include volatility in relation to financial and economic markets, availability of consumer/mortgage finance, maintaining corporate funding facilities, housing market demand, asset value volatility, landbank supply and development and interest rates/foreign exchange rates.

**Related Party Transactions:** There were no related party transactions that would have materially affected the financial position or performance of the Group in the period.

In addition there were no changes in related party transactions from the last Annual Report that could have had a material effect on the financial position or performance of the Group in the first six months.

**Audited Review:** The half year financial report has not been audited or reviewed by the Auditors of the Group pursuant to the Auditing Practices Board guidance on review of interim financial information.


**Forward Looking Statements:** Certain comments made in these interim results are forward looking statements. Such statements are based on current expectations and are subject to a number of risks and uncertainties that could cause actual events or results to differ materially from the expected future events or results referred to in these forward looking statements.

### **Responsibility Statement**

The Directors are responsible for preparing the Interim Report in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007, the related Transparency Rules of the Irish Financial Services Regulatory Authority and with IAS 34, Interim Financial Reporting, as adopted by the European Union.

The Directors confirm that, to the best of their knowledge:

- a. the Group Condensed Financial Statements for the half year ended 30 June 2008 have been prepared in accordance with the international accounting standard applicable to interim financial reporting adopted pursuant to the procedure provided for under Article 6 of the Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
- b. the Interim Management Report includes a fair review of the important events that have occurred during the first six months of the financial year, and their impact on the Group Condensed Financial Statements for the half year ended 30th June 2008, and a description of the principal risks and uncertainties for the remaining six months;
- c. the Interim Management Report includes a fair review of related parties' transactions that have occurred during the first six months of the current financial year and that have materially affected the financial position or the performance of the Group during that period, and any changes in the related parties' transactions described in the last Annual Report that could have a material effect on the financial position or performance of the Group in the first six months of the current financial year.



Barry O'Connor  
Managing Director

On behalf of the Board  
28 August 2008

**Condensed Consolidated Income Statement (unaudited)**  
for the period ended 30 June 2008

	Note	June 2008 Pre Exceptional €'000	June 2008 Exceptional €'000	June 2008 Total €'000	June 2007 €'000
<b>Continuing operations</b>					
Revenue	3	142,198	–	142,198	238,223
Cost of sales		(131,989)	(27,572)	(159,561)	(195,677)
Gross profit/(loss)		10,209	(27,572)	(17,363)	42,546
Administrative expenses		(22,894)	(3,964)	(26,858)	(25,712)
Share of results from joint ventures		(849)	–	(849)	546
(Loss)/profit from operations	3	(13,534)	(31,536)	(45,070)	17,380
Investment income		500	–	500	516
Finance costs		(9,050)	–	(9,050)	(8,715)
(Loss)/profit before tax		(22,084)	(31,536)	(53,620)	9,181
Tax	7	5,524	1,699	7,223	(1,253)
(Loss)/profit attributable to Equity holders of the parent		(16,560)	(29,837)	(46,397)	7,928
<b>(Loss)/earnings per share</b>					
From continuing operations:					
Basic	9			(23.15)	4.11
Diluted	9			(23.15)	4.02

## Condensed Consolidated Statement of Recognised Income and Expense (unaudited)

for the period ended 30 June 2008

	Note	June 2008 €'000	June 2007 €'000
Actuarial gain on defined benefit pension scheme		791	986
Exchange difference on translation of foreign operations	12	(7,368)	303
Fair value movement on interest rate swaps	12	2,874	352
Tax on items taken directly to reserves		(99)	(123)
Net (expense)/income recognised directly in equity		(3,802)	1,518
Transfers to income on interest rate swaps	12	(89)	(6)
(Loss)/profit for the period		(46,397)	7,928
Total recognised income and expense for the period attributable to equity shareholders		(50,288)	9,440

## Condensed Consolidated Statement of Changes in Equity (unaudited)

for the period ended 30 June 2008

	Share Capital €'000	Capital Reserves €'000	Hedging & Translation Reserves €'000	Retained Earnings €'000	Total (Attributable to Equity Holders of Parent) €'000
Balance at 1 January 2007	4,173	19,874	2,504	174,931	201,482
Total recognised income and expense for the period	–	–	649	8,791	9,440
Recognition of share based payments	–	338	–	–	338
Dividends paid	–	–	–	(6,009)	(6,009)
New share issue	874	84,229	–	–	85,103
Total movement	874	84,567	649	2,782	88,872
Balance at 30 June 2007	5,047	104,441	3,153	177,713	290,354
Balance at 1 January 2008	5,036	100,221	(6,437)	211,506	310,326
Total recognised income and expense for the period	–	–	(4,583)	(45,705)	(50,288)
Recognition of share based payments	–	330	–	–	330
Transfer on exercise of share options	–	(52)	–	52	–
Dividends paid	–	–	–	(6,043)	(6,043)
New share issue	5	33	–	–	38
Total movement	5	311	(4,583)	(51,696)	(55,963)
Balance at 30 June 2008	5,041	100,532	(11,020)	159,810	254,363

# Condensed Consolidated Balance Sheet (unaudited)

as at 30 June 2008

	Note	June 2008 €'000	December 2007 €'000
<b>Non-Current Assets</b>			
Goodwill		47,750	51,811
Property, fixtures & equipment		10,956	12,584
Interests in joint ventures		6,053	7,015
Deferred tax assets		4,714	1,015
		69,473	72,425
<b>Current Assets</b>			
Inventories		505,474	520,320
Trade & other receivables		91,024	121,506
Cash & cash equivalents		18,468	80,459
Assets classified as held for sale		504	504
		615,470	722,789
<b>Total Assets</b>		684,943	795,214
<b>Current Liabilities</b>			
Trade & other payables		129,508	160,266
Retirement benefit obligation		435	420
Tax liabilities		3,023	9,646
Provisions		3,530	3,665
Obligations under finance leases		299	365
Bank loans & overdrafts	10	182,704	59,343
		319,499	233,705
<b>Net Current Assets</b>		295,971	489,084
<b>Non-Current Liabilities</b>			
Bank loans	10	102,805	241,266
Retirement benefit obligation		243	614
Deferred tax liabilities		4,348	4,685
Provisions		2,878	3,551
Other payables		386	460
Obligations under finance leases		421	607
		111,081	251,183
<b>Total Liabilities</b>		430,580	484,888
<b>Net Assets</b>		254,363	310,326
<b>EQUITY</b>			
Share capital	11	5,041	5,036
Capital conversion reserve fund		62	62
Share premium account	11	101,072	101,039
Other reserves		(602)	(880)
Hedging & translation reserves	12	(11,020)	(6,437)
Retained earnings	13	159,810	211,506
		254,363	310,326
<b>Total Equity and Liabilities</b>		684,943	795,214

## Condensed Consolidated Cash Flow Statement (unaudited)

for the period ended 30 June 2008

	Note	June 2008 €'000	June 2007 €'000
(Loss)/profit from operations	3	(45,070)	17,380
Adjustments for:			
Non cash exceptional items		25,952	–
Depreciation		1,149	1,271
Share of results from joint ventures		849	(546)
Provision for fair value of share based payments		330	338
Pension service costs		544	239
Change in provisions		(808)	(807)
Operating cash flows before movements in working capital		(17,054)	17,875
Increase in inventories		(30,493)	(78,790)
Decrease/(increase) in receivables		26,787	(6,735)
(Decrease)/increase in payables		(27,938)	4,774
Cash used in operations		(48,698)	(62,876)
Taxation paid		(1,981)	(1,452)
Interest paid		(9,363)	(8,742)
Net cash used in operating activities		(60,042)	(73,070)
<b>Investing activities</b>			
Interest received		500	423
Loans advanced to joint ventures		(28)	(3,287)
Loans repaid by joint ventures		4,794	–
Proceeds on disposal of property, fixtures & equipment		172	87
Purchases of property, fixtures & equipment		(274)	(5,785)
Employer contributions to pension scheme		(307)	(273)
Acquisition of subsidiary		(1,225)	(25,047)
Net cash from/(used in) investing activities		3,632	(33,882)
<b>Financing activities</b>			
Dividends paid		(6,043)	(6,009)
Share capital subscribed		36	85,103
Repayments of borrowings		(37,303)	(112,106)
Repayments of obligations under finance leases		(282)	(341)
New bank loans raised		38,788	122,440
Decrease in bank overdrafts		–	(2,125)
Net cash (used in)/from financing activities		(4,804)	86,962
Net decrease in cash & cash equivalents		(61,214)	(19,990)
Cash & cash equivalents at start of period		80,459	84,382
Effect of foreign exchange rate changes		(777)	315
Cash & cash equivalents at end of period		18,468	64,707

### 1. Basis of Preparation

The Interim Report has been prepared in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007, the Transparency Rules of the Irish Financial Services Regulatory Authority and IAS 34, Interim Financial Reporting, as adopted by the European Union.

The condensed financial statements are unaudited and do not constitute statutory accounts within the meaning of Section 19 of the Companies (Amendment) Act 1986. The condensed financial information included for the year ended 31 December 2007 represents extracts from the audited financial statements for the year ended 31 December 2007. Those financial statements contained an unqualified auditors' report and are being filed with the Registrar of Companies.

### 2. Significant Accounting Policies

The accounting policies and methods of computation adopted in the Interim Report are consistent with those used in the Annual Report for the year ended 31 December 2007 except as noted below in relation to exceptional items.

#### Accounting policy – exceptional items

Exceptional items comprise items of income and expense that are material in amount and unlikely to recur and which merit separate disclosure in order to provide an understanding of the Group's underlying financial performance. Examples of events giving rise to exceptional items include reorganisation of operations and economic events which necessitate a review of asset valuations.

### 3. Segment Information

The Group operates in Ireland, the UK and Spain. These divisions are the basis on which the Group reports its segmental information. The principal activities of the Group are Private Housing, Contracting, Commercial Development and Leisure. Land sales are also part of each business.

REVENUE	June 2008 €'000	June 2007 €'000
<b>Ireland:</b>		
Private housing	33,979	70,351
Developed sites & land	–	814
Construction contracts	51,757	44,719
Commercial	59	2,910
Commercial land	–	2,437
	<u>85,795</u>	<u>121,231</u>
<b>UK:</b>		
Private housing	49,026	88,247
Developed sites & land	542	9,001
Construction contracts	4,627	10,540
Commercial	903	4,381
	<u>55,098</u>	<u>112,169</u>

**Notes to the Interim Report (unaudited)**  
for the period ended 30 June 2008

REVENUE (continued)	June 2008 €'000	June 2007 €'000
<b>Spain:</b>		
Club management	1,188	1,209
Leisure freehold	1,716	10,011
	2,904	11,220
Group revenue (including joint ventures)	143,797	244,620
Eliminations	(1,599)	(6,397)
Group revenue (excluding joint ventures)	142,198	238,223
<b>SEGMENT RESULTS</b>		
	June 2008 €'000	June 2007 €'000
<b>Ireland:</b>		
Private housing	578	12,249
Developed sites & land	–	377
Construction contracts	(959)	889
Commercial	(538)	367
Commercial land	–	473
Exceptional costs	(9,956)	–
	(10,875)	14,355
<b>UK:</b>		
Private housing	(7,367)	3,579
Developed sites & land	319	677
Construction contracts	(536)	1,248
Commercial	(146)	432
Exceptional costs	(21,218)	–
	(28,948)	5,936
<b>Spain:</b>		
Club management	468	288
Leisure freehold	(1,863)	521
	(1,395)	809
Total segment results	(41,218)	21,100
Common costs	(3,490)	(3,720)
Exceptional costs	(362)	–
(Loss)/profit from operations	(45,070)	17,380

#### 4. Operations in Interim Period

Past experience shows that the majority of gross profit is earned in the second half of the year. In the 2007 financial year, 16% of profit before tax was earned in the first half period to 30 June 2007.

#### 5. Exceptional Items

	June 2008 €'000	June 2007 €'000
Land and inventory impairments		
UK	18,871	–
Ireland	8,201	–
Commercial Division	500	–
	27,572	–
Restructuring charge	3,964	–

Land and inventory impairments represent a write down in the value of the landbank controlled by the Group to reflect current market conditions.

The restructuring charge is made up of redundancy payments and office closure costs.

#### 6. Changes in Estimate

There were no significant changes in estimate during the period.

#### 7. Tax

	June 2008 €'000	June 2007 €'000
Current tax credit/(charge)		
Irish tax	645	(1,058)
Foreign tax	2,956	(477)
	3,601	(1,535)
Deferred tax		
Current year	3,622	282
	7,223	(1,253)

As a result of losses in the period the Group will be entitled to a part refund of taxes paid in respect of 2007. In addition, a deferred tax asset is recognised due to current period losses.

**Notes to the Interim Report (unaudited)**  
for the period ended 30 June 2008

**8. Dividends**

	June 2008 €'000	June 2007 €'000
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Amounts recognised as distributions to Equity Holders during the period		
<b>Charge to Income Statement</b>		
Final Dividend of 3c per share for the year ended 31 December 2007 (2006: 3.6c per share) paid in period	6,043	6,009
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<b>Proposed dividend</b>		
Proposed interim dividend for the year ended 31 December 2008 of nil per share (2007: 3c per share)	–	6,056
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**9. (Loss)/earnings Per Share**

**From continuing operations**

The calculation of basic and diluted earnings per share is based on the following data:

	June 2008 €'000	June 2007 €'000
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<b>(Loss)/earnings</b>		
(Loss)/earnings for the purposes of basic and diluted earnings per share being net profit attributable to equity holders of the parent	(46,397)	7,928
	<hr/>	
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purposes of basic earnings per share	200,381,146	192,769,649
Effect of dilutive potential ordinary shares:		
Share options	4,140,439	4,676,610
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Weighted average number of ordinary shares for the purposes of diluted earnings per share	204,521,585	197,446,259
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## 10. Bank Overdrafts and Loans

	June 2008 €'000	December 2007 €'000
<b>Analysis of movement on debt:</b>		
Balance at 1 January	300,609	280,336
Repayments of borrowings	(37,303)	(107,717)
New bank loans raised	38,788	139,113
Decrease in bank overdrafts	–	(2,125)
Foreign currency translation movements	(16,585)	(8,998)
Closing balance	<u>285,509</u>	<u>300,609</u>
<b>Analysis of closing debt:</b>		
Amounts falling due within one year		
Bank loans repayable otherwise than by instalments	176,072	47,967
Bank loans repayable by instalments	6,632	11,376
	<u>182,704</u>	<u>59,343</u>
Amounts falling due after more than one year		
Bank loans repayable otherwise than by instalments		
Within two to five years	24,040	213,551
Bank loans repayable by instalments		
Within two to five years	78,765	25,187
After more than five years	–	2,528
	<u>102,805</u>	<u>241,266</u>
	<u>285,509</u>	<u>300,609</u>

Certain of the Group's banking covenants were measured at 30th June 2008. Of these, some covenants were breached. To the extent any measured covenants were breached, the breaches were waived by the banks concerned. The Group is currently in the process of finalising a revised banking covenant structure to reflect changed market conditions.

## 11. Share Capital

	Share Capital €'000	Share Premium €'000	Total €'000
Balance as at 1 January 2008	5,036	101,039	106,075
Exercise of share options	5	33	38
Balance as at 30 June 2008	<u>5,041</u>	<u>101,072</u>	<u>106,113</u>

## 12. Hedging & Translation Reserves

	Hedging Reserve €'000	Translation Reserve €'000	Total €'000
At 1 January 2007	548	1,956	2,504
Exchange difference arising on translation of overseas operations	–	303	303
Movement in fair value of interest rate swaps	352	–	352
Transfer to income	(6)	–	(6)
At 30 June 2007	894	2,259	3,153
At 1 January 2008	(705)	(5,732)	(6,437)
Exchange difference arising on translation of overseas operations	–	(7,368)	(7,368)
Movement in fair value of interest rate swaps	2,874	–	2,874
Transfer to income	(89)	–	(89)
At 30 June 2008	2,080	(13,100)	(11,020)

The fair value of interest rate swaps is taken to the hedging reserve. There are no other amounts included in this balance. Foreign exchange differences on translation of the Group's net investment in its United Kingdom subsidiaries are taken to the translation reserve.

## 13. Retained Earnings

	€'000
At 1 January 2007	174,931
Actuarial gains on defined benefit pension scheme	986
Tax on items taken directly to equity	(123)
Profit for the period attributable to equity holders of the parent	7,928
Dividends paid	(6,009)
At 30 June 2007	177,713
At 1 January 2008	211,506
Actuarial gains on defined benefit pension scheme	791
Tax on items taken directly to equity	(99)
Transfer from equity reserve on exercise of options	52
Loss for the period attributable to equity holders of the parent	(46,397)
Dividends paid	(6,043)
At 30 June 2008	159,810

#### 14. Contingent Liabilities

In July 2005 a Spanish development company initiated proceedings against a Group subsidiary alleging that the Group subsidiary had infringed the boundary with an adjacent site owned by the Spanish development company. In May 2007 judgment was in part granted against the Group subsidiary in favour of the Spanish development company. The Court provisionally awarded damages and costs against the Group subsidiary totalling circa €1.6m plus consequential costs which have not been quantified. The Group's legal advice is that the judgment is not validly based and the Group has appealed the judgment. Based on its legal advice, the Group is confident the appeal will be successful and assess that it is not probable that final damages will amount to €1.6m. Accordingly, no provision has been made in the financial statements.

There are no other contingencies or arbitration proceedings (including any such proceedings which are pending or threatened and of which the Company is aware) against the Company or any of its subsidiaries which may have, or have had during the financial period, a significant effect on the financial position of the Group.

#### 15. Related Party Transactions

There are no related party transactions between the Company and its subsidiaries other than inter-company dividends received. Details of transactions between the Group and other related parties are disclosed below.

*Transactions between the Group and its joint ventures:*

	June 2008 €'000	December 2007 €'000
Amounts owed by joint ventures	14,195	20,537
Amounts owed to joint ventures	(6,115)	(6,136)

*Transactions with staff:*

During the period 1 residential unit was purchased by a member of staff at a gross consideration of €126,381. There was no outstanding balance in respect of this transaction at the period end.

*Other related party transactions:*

In 1999, a loan of €749,000 was advanced by the Group to Alanda Club, Marbella ('the Club'). This loan remains outstanding at the period end. The Group owns a stock of membership weeks at the Club and also manages the resort on behalf of the Club. In addition, the Group owns 100 redeemable preference shares in the Club.

In 2007, the Group advanced funds to McNerney Share Trust Company Limited ('the Trust Company') to enable the Trust Company to purchase shares in the Parent Company on behalf of employees. At the period end, there were amounts owed to the Group of €149,000 and to the Parent Company of €54,000.

## 16. Land Commitments

In addition to amounts included in trade payables, the Group is committed to the following land payments:

	June 2008 €'000	December 2007 €'000
Land contracted for – Group	16,427	50,277
Land contracted for – share of joint ventures	4,050	–
Licence commitments	68,669	78,747
	<u>89,146</u>	<u>129,024</u>

### Land contracted for

These commitments are in respect of land for which purchase contracts have been signed but not all contractual preconditions have been satisfied. Therefore, title has not yet passed and as a result there are payments outstanding to which the Group may be committed. The Directors expect all preconditions to be met in due course but there is no certainty as to timing.

### Licence agreements

The Group has entered into licence agreements with third parties in the normal course of business to build private housing developments. The Group has exclusive building licences on such sites. The estimated total amount payable over time under such agreements at the balance sheet date was €68.7m (December 2007: €78.7m). In certain circumstances the Group could be required to prepay these amounts. Currently, the Directors are satisfied that no such circumstances exist.

## 17. Events After the Balance Sheet Date

There have been no significant events since the balance sheet date.

# **Mc Inerney**

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