

# CORPORATE GOVERNANCE

## THE COMBINED CODE

Grosvenor's business approach is based on openness and high levels of accountability, elements which are essential not only for the conduct of our own business but particularly for the operation of our third party arrangements, whether in fund management, joint ventures or other partnerships. As a consequence, Grosvenor's approach to corporate governance follows best practice recommended by the Financial Reporting Council under the heading of the "Combined Code", even though that code applies only to publicly quoted companies. After consultation with the Group's auditors, the Board has reviewed all the provisions of the Combined Code issued by the UK Financial Reporting Council in July 2003 and has determined which of those provisions are appropriate in the context of Grosvenor's ownership structure.

## BOARD OF DIRECTORS

The Board comprises six full time Executive Directors and seven Non-Executive Directors, amongst whom four are also Trustees of the Grosvenor Trusts (see page 62). The composition of the Board is designed to ensure effective management and control of the Group, provide complete and timely information to the shareholders as well as proper representation of the shareholders' interests.

The Board is responsible for setting and monitoring Group strategy, reviewing performance, ensuring adequate funding, formulating policy on key issues and reporting to shareholders.

The roles of Chairman and Chief Executive are clearly defined. The Chairman is primarily responsible for overseeing the working of the Board. The Chief Executive is responsible for the implementation of the strategy and policies set by the Board and the day-to-day management of the business.

The Board and its committees held ten meetings during the year, with majority attendance at all meetings. The Group's Operating Companies have their own boards, each with Non-Executive Directors who are independent from the management team; each Operating Company is required to hold at least four board meetings each year.

The biographies of the members of the Board on pages 16 and 17 demonstrate a range of experience and professional background to bring independent judgement on issues of strategy, performance, resources (including key appointments) and standards of conduct. A Statement of the Directors' Responsibilities in respect of the accounts is set out on page 64.

To enable the Board to discharge its duties, all Directors receive appropriate and timely information, including briefing papers distributed in advance of board meetings. The Directors have access to the Company Secretary and may, at the Company's expense, take independent professional advice and receive additional training as they see fit. All new Directors receive an induction training programme.

The Board undertakes a regular evaluation of its own performance.

The Board encourages the appointment of Executive Directors to appropriate external posts as this increases the breadth of knowledge and experience of Directors. Earnings from all such appointments are returned to the Group. Trustees of the Grosvenor Trusts receive no fees from the Company.

## AUDIT COMMITTEE

The Board has a well established Audit Committee, which provides independent scrutiny of the Group's affairs. The Audit Committee is chaired by Lord George and includes two other Non-Executive Directors. The members bring both a wide range of relevant international experience and an appreciation of the long term interests of the shareholders.

The Audit Committee meets at least twice a year with the auditors and is attended by invitation by the Group Chief Executive, Group Finance Director and other senior personnel as appropriate. It is responsible for reviewing a wide range of financial matters including the annual financial statements and accompanying reports, Group audit arrangements, accounting policies, internal control and the actions and procedures involved in the management of risk throughout the Group.

The Audit Committee reviews annually the independence of the auditors. Auditor objectivity is ensured through a variety of procedures including rotation of audit partners. Any non-audit fees received by the auditors in excess of fifty per cent of the audit fee are pre-approved by the Audit Committee.

The regional Operating Companies each have their own audit committees which also meet at least twice a year; the decisions of these audit committees are reported to the Group Audit Committee.

## NOMINATIONS COMMITTEE

The Nominations Committee comprises all of the Non-Executive Directors. The Committee meets at least once a year and is attended, by invitation, by the Group Chief Executive and other senior personnel as appropriate. It is responsible for reviewing the structure of the Board, giving consideration to succession planning and for making recommendations to the Board with regard to any changes. It is also responsible for identifying and nominating, for the approval of the Board, candidates to fill Board vacancies as and when they arise.

## RELATIONS WITH SHAREHOLDERS AND LENDERS

Given the private ownership of the Group, the requirements of the Combined Code to communicate with institutional shareholders are not relevant. All the principal shareholders are represented on the Board and all shareholders receive a monthly report. The Annual Report and Accounts is widely distributed and the Group's policy is to maintain close contact during each financial year with bondholders and other lenders at Group and Operating Company levels.

# CORPORATE GOVERNANCE

## INTERNAL CONTROL

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. This is designed to manage rather than eliminate the risk of not achieving business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Board considers that there is a continuous process for identifying, evaluating and managing significant risks faced by the Group in the course of its business, which has been in place throughout the year and up to the date of approval of the Annual Report and Accounts. This process is regularly reviewed by the Audit Committee and the Board and is consistent with the internal control guidance for Directors in the Combined Code.

A key part of the system of internal control is the delegation of management responsibility for all the Group's property investment, development and fund management activities together with supporting financial functions to regional management teams. The Britain & Ireland, Americas and Continental Europe regions have local boards, with Non-Executive Chairmen and at least two other Non-Executive Directors, which oversee the regions' operations. These boards form an integral part of the overall internal control process. Local boards for the Australia Asia Pacific region and Grosvenor Fund Management work closely with the Holding Company team to ensure appropriate internal controls are maintained. The relationship between regional boards and the Group Board is clearly defined and is set out in formally approved financial delegation procedures.

In addition to local boards, each region and Grosvenor Fund Management, together with the Holding Company, is represented on the Group Finance Board, which meets at least two times each year and provides a forum for debating issues of a financial nature which are relevant to the Group as a whole, including the setting of Group policy, development of systems and risk management.

In view of the relatively small number of staff and the interaction of local boards, including the Group Finance Board, the Grosvenor Group Board has been satisfied that an internal audit function has not been required. The need for this additional control is reviewed by the Board on a regular basis and a framework for internal audit, risk management and better practice reviews has been adopted by the audit committee.

The Board carried out its annual assessment of internal control for the year 2006 at its meeting in March 2007 by considering reports from management and the Audit Committee and taking account of events since 31 December 2006.

Risk management is a regular agenda item for all parts of the business with the emphasis on continuous improvement. Specific financial and other controls can be summarised under the following headings:

## OPERATING AND HOLDING COMPANY CONTROLS

Key controls over major business risks include reviews against performance indicators and exception reporting. Each team makes regular assessments of its exposure to major financial, operational and strategy risks and the extent to which these are controlled.

## FINANCIAL INFORMATION

The Group and each Operating Company have comprehensive systems for reporting financial results. Financial results are reviewed on a quarterly basis (consistent with the pattern of income receipts in the majority of the Group's operations) with comparisons against budget and prior periods together with a forecast for the full financial year and the potential variances to that forecast. Each year a detailed operational budget and a five year financial plan is prepared. Treasury reporting is reviewed on a monthly basis, with further reporting each quarter.

## TREASURY POLICIES

Treasury policies, approved by the Board, are:

- except for Holding Company operations, to raise all debt at Operating Company level and operate a decentralised treasury management structure. In November 2006 the Board approved a co-ordinated Group approach to treasury;
- to ensure sufficient committed loan facilities to support anticipated business requirements as they arise;
- to ensure that the Group's debt can be supported from maintainable cashflow through clear internal guidelines;
- to manage interest rate exposure with a combination of fixed rate debt and interest rate swaps so that a minimum of 60% of borrowings are at fixed interest rates for the next three years;
- not to hedge long term net asset positions held in foreign currencies; and
- to invest short term cash with approved institutions within limits agreed by the Board.

Transactions in financial instruments are either governed by specific delegations to Operating Company boards or have prior Board approval. The Group does not enter into any treasury positions for purely speculative purposes.

## FINANCIAL SERVICES AUTHORITY (FSA)

Grosvenor Investment Management Limited, a wholly owned subsidiary, is authorised and regulated by the FSA for the purposes of undertaking regulated property advisory investment activities. All transactions with managed funds are separately accounted for under a full client accounting regime.

Grosvenor Australia Nominees Pty Limited, a wholly owned subsidiary, provides financial services and products to wholesale clients as authorised under its Australian Financial Services Licence No. 302153 issued by the Australian Securities and Investments Commission.

Grosvenor Investment Management US Inc, a wholly owned subsidiary, is a registered investment adviser pursuant to the Investment Advisers Act of 1940, for the purposes of providing real estate related investment advice.

# REMUNERATION REPORT

## REPORT ON EMPLOYMENT AND REMUNERATION MATTERS SPECIFICALLY RELATING TO EXECUTIVE DIRECTORS AND SENIOR STAFF

Consistent with the delegation of management responsibility to regional management teams, each Operating Company has its own remuneration committee with appropriate responsibility for remuneration matters within its Operating Company.

**THE GROUP'S EMPLOYMENT POLICIES** recognise the value of staff to its long term success. The promotion of loyalty is important for Grosvenor and good relationships between employer and employee are nurtured. Grosvenor is an equal opportunities employer and staff are kept informed on matters affecting them and on the financial and economic factors affecting the Group's performance. We are committed to improving performance through regular review and continuous learning. Programmes are in place to train and develop suitable individuals for future senior or Directors' roles.

**THE REMUNERATION COMMITTEE** comprises three Non-Executive Directors. It meets at least twice a year. The Group Chief Executive and Group Human Resources Director are in attendance unless their own remuneration is being discussed. The committee is responsible for overseeing remuneration and employment policies across the whole Group and also for administering directly the remuneration and contracts of Directors and staff in the Holding Company, Australia Asia Pacific and Grosvenor Fund Management. They consult with independent professional advisers as necessary.

**THE GROUP'S REMUNERATION POLICIES** recognise the importance of attracting, retaining and motivating executives of the appropriate calibre and experience to enhance the performance and reputation of the Group. The size, complexity and international perspective, as well as the long term nature of the business, are all important factors. The policy is to provide competitive potential levels of compensation, benefits and incentive opportunities within appropriate local markets. Compensation includes variable elements to reward superior Company, team and individual performance, in line with market practice.

**THE REMUNERATION** of Executive Directors and senior staff includes a blend of short and long term rewards and has been designed to address the interests of both employees and shareholders. The elements are:

- **BASIC SALARY AND BENEFITS** are competitive within the property industry in the locations in which the Group operates. Salaries are reviewed annually, or on promotion. Taxable benefits are provided at levels similar to those for comparable positions and include, as appropriate, health insurance and car allowance.
- **BONUS AND INCENTIVE SCHEMES** operate for Executive Directors and senior staff and are designed to link rewards to both individual and Company performance. Awards relating to Company performance are determined by the achievement of total return compared with the relevant weighted average cost of capital and, in the case of Grosvenor Fund Management, performance against other business improvement targets. The incentive arrangements are designed to reward outstanding performance and are linked to the achievement of performance targets at both team and individual levels. A proportion of incentive awards each year are long term and vest over periods of up to five years. The Remuneration Committee has discretion to award individual bonuses in recognition of special performance.
- **PENSIONS AND LIFE ASSURANCE** for Executive Directors and senior staff in the UK are provided through membership of the Grosvenor Pension Plan (GPP) and, if applicable, supplementary pension arrangements. GPP is non-contributory and provides, for those who were members before 2004, a maximum pension of up to two-thirds of pensionable salary on retirement. The cost of the Group's contribution to GPP in respect of each Director is based on the senior executive member current average contribution rate of 29.1% of pensionable salary per year. The GPP also provides for dependants' pensions of two-thirds of the member's pension and an insured lump sum payment of four times basic salary in the event of death in service. For all staff who joined the Group after 1 January 2004 GPP provides a defined benefit pension up to an upper earnings limit, and above this limit the Group will contribute between 25% and 30% of salary into employees' accounts with the Grosvenor Estate Money Purchase Scheme.

Outside the UK pensions are provided from a number of schemes, including separate defined benefit schemes in Australia, Canada and the USA. Further details of the Group's pension schemes are given in note 10 of the Accounts.

# REMUNERATION REPORT

**A SCHEDULE OF DIRECTORS' REMUNERATION**, including all amounts required to be disclosed by the Directors' Remuneration Report Regulations 2002, is approved by the shareholders and details of Directors' remuneration in accordance with the Companies Act 1985 are set out in note 11 to the financial statements.

**THE NOTICE PERIOD** for the termination of the employment of an Executive Director is six months.

**NON-EXECUTIVE DIRECTORS** representing the shareholders receive no fee from the Company. The fees for other Non-Executive Directors are reviewed every two years by the Chairman. Non-Executive Directors do not have service contracts and do not participate in bonus arrangements.

**TRANSACTIONS BETWEEN THE GROUP AND GROSVENOR TRUSTS** are disclosed in note 40 to the financial statements. Certain Company Directors are Trustees of Grosvenor Trusts and are also Directors of other companies with which the Group may from time to time enter into transactions on normal commercial terms. In the opinion of the Board, none of these relationships are such as to impair the independence of the Non-Executive Directors.

## **Robin Broadhurst**

Chairman of the Remuneration Committee

15 March 2007

# DIRECTORS' REPORT

The Directors present their annual report and the Group's audited consolidated financial statements for the year ended 31 December 2006.

## PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Group's principal activities are property investment, development and fund management in Britain & Ireland, North America, Continental Europe and Australia Asia Pacific.

The review of the business in accordance with the requirements of Section 234ZZB of the Companies Act 1985 (the "Business Review") can be found in the review section on pages 1 to 53, which is incorporated into this report by reference.

The other information that fulfils the requirements of the Business Review is set out below.

## RISKS AND UNCERTAINTIES

We aim to generate returns over the long term (5-10+ years) at or above our cost of capital. Each Operating Company endeavours to maximise its returns in accordance with an agreed stance on risk. We seek to ensure that the risks encountered by the business are identified, quantified, understood and managed in an appropriate way.

The Group's operations are managed under a devolved structure. However, since the activities of property investment, development and fund management are common to each region, the nature of business risks encountered in each region is broadly similar. Set out below is a summary of the principal risks faced by the business, followed by an explanation of each of those risks.

### Market risk

Property markets are cyclical, so our businesses will always be subject to variations in the value of our portfolio. Taking a long term view, our focus is less on short term fluctuations and more on the underlying revenue generating potential of the Group.

Our exposure to market risk is mitigated through a balanced allocation of capital to different geographic markets and property sectors, which is explained in more detail under asset allocation below.

Short term market risk is more relevant in our development activity, where market conditions may affect leasing terms. We commit to development projects only after taking careful account of the outlook for our markets. Development exposures are frequently reduced by working in joint ventures. If a trading project completes at a relatively low point in the market cycle, we might retain the asset until the market recovers.

In the future we expect to be able to make use of property derivatives as a further mechanism for managing our exposure to market risk.

### Asset allocation

The Group's primary financial objective is to maximise returns at acceptable levels of risk. Fundamental to this is the optimal allocation of equity between each of the Operating Companies and the devolution of property decision-making authority to local boards.

The allocation of equity to regional Operating Companies is a continuous process on an annual cycle. The process includes detailed research of long term (5+ years) macro-economic projections, a review of regional economic and Operating Company historic and projected performance, consideration of wider issues such as climate change, and the use of portfolio theory simulations. From this, the Holding Company determines a range of the desired relative weighting of capital to each region over the long term. Medium term (2-5 year) target weightings are set by reference to long term ranges, adjusted for medium term factors. Actual annual allocations are made consistent with medium term targets and long term ranges, but in response to short term (0-2 year), tactical and opportunistic considerations. The Group retains the financial capacity for unplanned opportunities that may arise.

Long term ranges agreed in January 2007, and actual equity allocations at 31 December 2006, were as follows:

Region	Percentage of Group Equity	
	Long term range %	At 31 December 2006 %
Britain & Ireland	45.0 – 65.0	60.7
Americas	12.5 – 27.5	14.7
Continental Europe	10.0 – 22.5	16.0
Australia Asia Pacific	5.0 – 20.0	7.5
Fund Management	0 – 10.0	1.1

At the Operating Company level, each board reviews the strategy within its region annually. This review takes account of the geographic allocation in the region as well as the allocation between sectors and the split between investment and development.

The current distribution of the Group's portfolio by sector and region is shown in the portfolio summary on pages 112 and 113, and the distribution of total assets under management is shown on pages 4 and 5.

# DIRECTORS' REPORT

## Property risks

### Investment properties

The principal risk in property investment is the loss of income. We ensure that properties are properly maintained and managed, occupancy is maximised and our exposure to individual tenants is managed. Asset management is undertaken by teams with overall responsibility for the properties within their portfolios. Day to day property management is either outsourced to professional property managers or managed in house.

Leasing risk is managed by dedicated in house leasing teams and the use of professional leasing agents. Exposure to individual tenants or sector groups is reduced by maintaining a diversified tenant base and by reviewing the credit worthiness of new tenants.

### Developments

In property development the main risks arise in managing the development cycle, including obtaining appropriate planning consents and controlling the construction process. We have dedicated teams involved in site assembly and planning and we limit committed expenditure prior to planning consent being obtained. Construction risk is managed by in house project management teams using external contractors. In many cases construction risk is shared with partners.

## Capital raising

We have no plans to seek further equity capital through the issue of new shares. Capital for investment is available from retained earnings. Our preference for working with partners and fund management investors provides access to capital, beyond our own resources, for investment and development opportunities. Recognising the importance of this source of capital we established Grosvenor Fund Management two years ago. Working with like minded investors in property is now a core part of our business.

## Acquisitions and sales

When acquiring or selling property the principal risk is in underwriting the future income flows in order to determine an appropriate price. Timing of property transactions is managed as part of the annual asset allocation review within each Operating Company. Estimated price levels are supported by detailed financial appraisals – which are conducted for all property transactions. Where deals occur within joint ventures or funds, they require the approval of an investment committee which is independent from the asset management team. Every property transaction is subject to a due diligence review, including corporate due diligence where properties are acquired within corporate vehicles.

## Health and safety

Grosvenor operates in four regions of the world and across a range of sectors including offices, residential, retail, business parks and light industrial. The Group is committed to achieving high standards of health and safety throughout the business and adhering to best practice.

Overall responsibility for health and safety is taken by the Group Finance Director. Each Operating Company board is responsible for health and safety in its business with the support of the internal Health and Safety Director and external consultants with local expertise to help them achieve compliance.

The Group's objective is to ensure that employees throughout the Group are well informed and consulted on matters regarding health and safety which is treated as a key part of the wider risk management process.

Each Operating Company formally reports its compliance each year and progress is monitored on a regular basis.

The Group continues to review its reporting of performance information and has implemented a health and safety IT management system to assist the business. All accidents and cases of ill health are treated seriously. In 2006 each business had a health and safety action plan and made good progress in completing these plans.

In 2006, there were 170 (2005 – 29) incidents relating to premises and projects that Grosvenor controls that were reportable to statutory authorities. The increase arises from an expansion in our development activities and relates to injuries to third parties.

Grosvenor did not receive any enforcement action from statutory Health and Safety authorities in 2006.

Health and safety targets have been developed by the Group and each Operating Company. These include achieving a full understanding of the risk burden that each business needs to manage and receiving assurances that we have management systems in place to cope with workplace and other risks.

## Environment

The Group takes a long term view of its activities and responsibilities. Environmental considerations are therefore an important factor throughout the management of all Group companies. Two main principles are observed:

- Grosvenor seeks to identify and minimise its environmental impact, wherever it occurs, aiming for continuous improvement in performance; and
- Grosvenor seeks to make a positive contribution to sustainable development, giving consideration to environmental, economic and social sustainability in all its operations.

These principles are applied through specific objectives, policies, targets and benchmarks which are managed at Operating Company level. The Director responsible for environmental policy is the Group Chief Executive.

# DIRECTORS' REPORT

## Reputation and brand

We are aware that the professional reputation of the individuals and businesses within the Group is an important intangible asset, as is the Grosvenor brand. We seek to manage those assets by investing appropriately in them, and by identifying potential reputational or brand risks and acting swiftly to mitigate them whether they be real or perceived. In 2006 we enhanced the expertise available to us by increasing our in house and consultancy resource in reputation management; for 2007 we have initiated a Group-wide project to continue the development of our brand.

## Financial risks

### Liquidity/cashflow

Grosvenor obtains financing from a number of sources, including secured lending at project level together with secured and unsecured borrowing at the corporate level. To ensure we have sufficient available cash to meet our operating plans, cash flow projections are maintained at Operating Company level. Committed borrowing facilities are maintained as deemed appropriate. At 31 December 2006 the Group had undrawn working capital facilities of £429.1m.

We set limits at each Operating Company to ensure that the interest cost of all projected debt can be met from "sustainable" cash flows, excluding those that are dependent on property sales.

### Credit

Surplus cash is deposited with major financial institutions with credit ratings at or above a specified level. We set limits to restrict the total amount of funds that can be deposited with any single counterparty.

### Interest rate

Exposure to interest rate movements is controlled through the use of a mixture of floating and fixed rate debt and interest rate derivatives, to achieve the required interest rate profile.

### Foreign currency

Our investments outside Britain & Ireland are held for the long term, so it is the Group's policy not to hedge the net investment in these regions. Within each region there is a certain amount of natural currency hedging as debt is drawn in local currency to finance local operations. Short term cash flows between currencies are hedged by the use of foreign exchange derivatives.

### Tax

Exposure to tax risk arises as a result of the Group operating across a large number of tax jurisdictions. In addition to different tax filing requirements in each territory, there is also exposure to the impact of future changes in tax legislation. These risks are managed by an in-house team who work alongside a team of external tax advisers.

## People

We take considerable care in recruiting, retaining and growing Grosvenor people. We have graduate qualifying programmes and a range of development opportunities exist. Succession planning is overseen by Remuneration Committees. Our compensation is regularly benchmarked against the market and we reward loyalty, excellence and effort.

## Information technology

The Group's operations are highly dependent on the effectiveness of IT systems, including communications systems, property databases and financial systems. We have control procedures to protect the integrity and security of our data. These procedures are supported by detailed disaster recovery plans, tested on a regular basis. In 2006 we established the Business Process Group to ensure that the Group achieves business improvement through the efficient delivery of Group-wide process and system changes.

## KEY PERFORMANCE INDICATORS AND MEASURES OF RETURN

At Grosvenor we take a long term view so we are less interested in year on year comparisons and more concerned with the overall trend in our performance.

We monitor total return on property assets and growth in revenue profit. We calculate total return on a proportional basis, including our share of joint ventures and associates. We define it as profit before tax and interest payable, plus revaluations and after exchange movements, as a percentage of average property assets (before current year revaluations) including cash. Revenue profit is shown in note 4.

Our achievement against these indicators is set out in the Finance Director's report on pages 12 to 15. We currently employ numerous key performance indicators throughout the Group to help achieve ambitious goals and our philosophy of continuous improvement.

# DIRECTORS' REPORT

## RESULTS AND DIVIDENDS

The results for the year are set out in the consolidated income statement on page 66. Profit for the year was £364.2m (2005 – £265.1m). Dividends paid during the year amounted to £9.4m (2005 – £8.5m). Subsequent to the year end a dividend of £6.7m (2005 – £6.1m) was proposed, but in accordance with IFRS has not been provided in these financial statements.

On 14 March 2007 the Company purchased the following shares from shareholders representing 6.56% of its called up share capital:

Ordinary shares	Nominal value £1	399,047
Non-voting ordinary shares	Nominal value £1	3,192,376
12% Non-cumulative irredeemable preference shares	Nominal value £1	399,047

The total consideration for the purchase of the above shares was £40.3m, funded from available cash. The reason for the purchase of the shares is to better align the shareholders' interests with the Group's activities.

## DIRECTORS

Details of the Directors of the Company and their biographies are given on pages 16 and 17. All Directors served throughout the year with the exception of those set out below.

Jonathan O Hagger (resigned 31 May 2006)  
 Nicholas R Scarles (appointed 1 June 2006)  
 Mark R Preston (appointed 15 June 2006)  
 Stephen H R Musgrave (resigned 30 June 2006)

## DIRECTORS' INTERESTS IN SECURITIES

The interests of the Directors who served during the year in the share and loan capital of Grosvenor Group Limited are shown below.

	Ordinary shares		Non-voting ordinary shares		12% Non-cumulative irredeemable preference shares	
	At 1 January 2006	At 31 December 2006	At 1 January 2006	At 31 December 2006	At 1 January 2006	At 31 December 2006
<b>Beneficial</b>						
The Duke of Westminster	6,083,924	6,083,924	48,671,392	48,671,392	6,083,924	6,083,924
<b>Non-beneficial</b>						
The Earl of Home	1,515,529	1,515,529	12,124,233	12,124,233	1,515,529	1,515,529
Jeremy H M Newsum	4,290,433	4,290,433	34,323,463	34,323,463	4,290,433	4,290,433
Robin S Broadhurst	4,052,363	4,052,363	32,418,904	32,418,904	4,052,363	4,052,363

The non-beneficial interests above represent the shares owned by the respective Directors in their capacity as Trustees of the Grosvenor Trusts. There have been no changes in beneficial or non-beneficial interests since 31 December 2006 other than the beneficial interests of the Duke of Westminster, which have reduced as a result of the purchase of shares noted above.

Where a Director has a joint interest in securities, the above disclosures include for each Director the number of securities that are jointly held.

5,438 ordinary shares of Grosvenor Continental Europe Holdings S.A., representing 0.2% of its share capital, have been awarded but not yet issued to Neil Jones in connection with a long term incentive scheme.

Except as disclosed above, none of the Directors of the Company who served during the year had any interests in the securities of the Company or any of its subsidiary undertakings.

# DIRECTORS' REPORT

## **CHARITABLE AND POLITICAL CONTRIBUTIONS**

Charitable contributions during the year amounted to £1.5m (2005 – £1.3m). £1.2m was donated to the Westminster Foundation (2005 – £1.0m) which supports a wide range of charitable causes. No political contributions were made during the year (2005 – £nil).

## **POLICY ON PAYMENT OF SUPPLIERS**

Payment terms are agreed with suppliers on an individual basis. It is the policy of both the Company and the Group to abide by the agreed terms, provided that the suppliers also comply with all relevant terms and conditions. In respect of the Group's activities in the UK, trade creditors at 31 December 2006 represented 8 days' purchases (2005 – 8 days). The Company has no trade creditors.

## **EMPLOYEES**

The Group gives full and fair consideration to applications by disabled persons for employment. Disabled employees and those who become disabled are afforded the same training, career development and promotion opportunities as other staff. The Directors recognise the importance of good communications and relations with the Group's employees. Each part of the Group maintains employee relationships appropriate to its own particular needs and environment.

## **AUDITORS**

The Company has elected to dispense with the obligation to appoint auditors annually and, accordingly, Deloitte & Touche LLP shall be deemed to be re-appointed as auditors for a further term under the provisions of section 386(2) of the Companies Act 1985.

In so far as the Directors are aware:

- a) there is no relevant audit information of which the auditors are unaware; and
- b) the Directors have taken all reasonable steps that they ought to have taken to make themselves aware of any relevant information and to establish that the Company's auditors are aware of that information.

This information is given in accordance with s.234ZA of the Companies Act 1985.

**Judith Ball**  
Company Secretary  
15 March 2007

UK Company registration number 3219943  
Registered Office  
70 Grosvenor Street  
London W1K 3JP

# STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual 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 the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements are also required by law to be properly prepared in accordance with the Companies Act 1985.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

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 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## CORPORATE ADVISERS AND BANKERS

<b>AUDITORS:</b>	Deloitte & Touche LLP
<b>TAX ADVISERS:</b>	KPMG LLP
<b>PRINCIPAL VALUERS:</b>	CB Richard Ellis, Cushman & Wakefield, DTZ Debenham Tie Leung
<b>SOLICITORS:</b>	Boodle Hatfield, Slaughter and May
<b>LEAD BANKERS:</b>	The Royal Bank of Scotland Group plc
<b>ACTUARIES:</b>	Lane Clark & Peacock LLP

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GROSVENOR GROUP LIMITED

We have audited the Group and parent Company financial statements (the "financial statements") of Grosvenor Group Limited for the year ended 31 December 2006 which comprise the consolidated income statement, the consolidated and parent Company balance sheets, the consolidated statement of recognised income and expense, the consolidated statement of cash flows, and the related notes 1 to 40. 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 auditors' 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 Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom 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 other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

## **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 circumstances of the Company and the Group, 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 IFRSs as adopted by the European Union, of the state of the Group's and the Parent Company's affairs as at 31 December 2006, and of the Group's profit 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.

## **Deloitte & Touche LLP**

Chartered Accountants and Registered Auditors

London

15 March 2007

Neither an audit nor a review provides assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular whether any changes may have occurred to the financial information since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area.

Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

# CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2006

	Note	2006 £m	2005 £m
Total revenue	3	352.8	391.2
Gross rental income	5	106.8	96.8
Property outgoings	6	(41.6)	(45.9)
<b>Net rental income</b>		<b>65.2</b>	50.9
Other income	7	52.9	29.9
Administrative expenses	8	(75.8)	(53.3)
Loss on trading and development properties	12	(176.6)	(7.3)
Gains on other investments	13	0.3	–
Net gains on revaluation and sale of investment property	14	518.7	246.8
Impairment of goodwill	25	(0.2)	(3.3)
Share of profit from joint ventures	22	149.6	121.6
Share of loss from associates	23	(4.6)	–
<b>Profit from operations including share of joint ventures and associates</b>		<b>529.5</b>	385.3
Dividend income	15	1.1	0.3
Financial income	15	19.3	21.4
Financial expenses	15	(41.2)	(38.9)
<b>Net financing costs</b>	15	<b>(20.8)</b>	(17.2)
<b>Profit before tax</b>		<b>508.7</b>	368.1
Current tax	16	(20.1)	(8.5)
Deferred tax	16	(124.4)	(94.5)
<b>Profit for the year</b>	38	<b>364.2</b>	265.1
<b>Attributable to:</b>			
Equity holders of the parent	38	347.1	251.5
Minority interests	38	17.1	13.6
<b>Profit for the year</b>	38	<b>364.2</b>	265.1

All activities derive from continuing operations.

# BALANCE SHEETS

as at 31 December 2006

	Note	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
<b>ASSETS</b>					
<b>Non-current assets</b>					
Investment property	18	2,264.4	1,936.0	-	-
Investment property under development	19	85.6	71.4	-	-
Other property, plant and equipment	20	43.1	33.8	-	-
Investments in subsidiaries	21	-	-	1,358.4	1,363.9
Investments in joint ventures	22	988.3	790.0	-	-
Investment in associates	23	61.8	29.4	-	-
Other financial assets	24	50.0	71.0	-	-
Intangible assets	25	4.9	3.9	-	-
Deferred tax assets	26	65.8	95.0	-	-
<b>Total non-current assets</b>		<b>3,563.9</b>	3,030.5	<b>1,358.4</b>	1,363.9
<b>Current assets</b>					
Trading properties	27	48.7	34.5	-	-
Trade and other receivables	28	133.1	75.5	110.5	15.0
Other financial assets	24	9.4	-	-	-
Income tax receivable		30.7	12.7	-	-
Cash and cash equivalents	29	455.4	385.5	-	-
<b>Total current assets</b>		<b>677.3</b>	508.2	<b>110.5</b>	15.0
<b>TOTAL ASSETS</b>		<b>4,241.2</b>	3,538.7	<b>1,468.9</b>	1,378.9
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Interest-bearing loans and borrowings	30	(565.6)	(555.1)	-	-
Trade and other payables	32	(154.6)	(176.0)	-	-
Employee benefits	10	(15.8)	(27.8)	-	-
Deferred tax liabilities	26	(555.2)	(450.6)	-	-
<b>Total non-current liabilities</b>		<b>(1,291.2)</b>	(1,209.5)	-	-
<b>Current liabilities</b>					
Overdrafts	29	(4.6)	(1.2)	-	-
Interest-bearing loans and borrowings	30	(89.3)	(19.1)	-	-
Trade and other payables	32	(106.9)	(94.7)	-	-
Income tax payable		(23.6)	(17.7)	-	-
Provisions	33	(158.8)	(10.0)	-	-
<b>Total current liabilities</b>		<b>(383.2)</b>	(142.7)	-	-
<b>TOTAL LIABILITIES</b>		<b>(1,674.4)</b>	(1,352.2)	-	-
<b>NET ASSETS</b>		<b>2,566.8</b>	2,186.5	<b>1,468.9</b>	1,378.9
<b>Equity</b>					
Share capital	37	60.8	60.8	60.8	60.8
Share premium	38	173.1	173.1	28.3	28.3
Reserves	38	210.2	240.2	1,268.7	1,268.7
Retained earnings	38	1,973.8	1,617.5	111.1	21.1
<b>Shareholders' funds</b>	38	<b>2,417.9</b>	2,091.6	<b>1,468.9</b>	1,378.9
Minority interests	38	148.9	94.9	-	-
<b>TOTAL EQUITY</b>	38	<b>2,566.8</b>	2,186.5	<b>1,468.9</b>	1,378.9

Approved by the Board on 15 March 2007 and signed on behalf of the Board

**The Duke of Westminster KG OBE TD DL** (Chairman)

**Nicholas Scarles FCA CPA ATTORNEY AT LAW** (Group Finance Director)

# CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

for the year ended 31 December 2006

	2006 £m	2005 £m
Foreign exchange translation differences	(77.5)	55.6
Revaluation of investment property under development – Group	19.0	11.4
– joint ventures	22.0	0.1
– associates	29.9	–
Revaluation of other property, plant and equipment	8.7	5.8
Change in fair value of equity shares available for sale	(0.1)	(7.8)
Fair value adjustments on swaps	2.9	0.2
Fair value adjustments transferred to income statement	–	5.7
Deferred tax on gains recognised in reserves	(25.0)	0.8
Actuarial gains and losses on defined benefit pension schemes	10.6	(11.3)
<b>Net (loss)/gain recognised directly in equity</b>	<b>(9.5)</b>	60.5
<b>Profit for the year</b>	<b>364.2</b>	265.1
<b>Total recognised income and expense for the year</b>	<b>354.7</b>	325.6
<b>Attributable to:</b>		
Equity holders of the parent	335.7	311.9
Minority interest	19.0	13.7
	<b>354.7</b>	325.6

A consolidated statement of changes in equity is given in the reconciliation of share capital and reserves on page 104. The Company's equity increased during the year as a result of the retained profit for the year of £99.4m (2005 – £8.5m) and reduced as a result of dividends paid to shareholders of £9.4m (2005 – £8.5m).

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2006

	2006 £m	2005 £m
<i>Note</i>		
<b>Operating activities</b>		
Operating profit before changes in working capital and provisions	39(A) <b>38.1</b>	22.0
(Increase)/decrease in trade and other receivables	<b>(24.4)</b>	55.7
(Increase)/decrease in trading and development properties	<b>(17.4)</b>	16.3
Increase in trade and other payables	<b>8.3</b>	20.8
Decrease in employee benefits	<b>(4.9)</b>	(1.6)
<b>Cash generated from operations</b>	<b>(0.3)</b>	113.2
Interest paid	<b>(47.2)</b>	(44.5)
Income taxes paid	<b>(30.5)</b>	(8.1)
Interest received	<b>22.4</b>	16.4
<b>Net cash flows from operating activities</b>	<b>(55.6)</b>	77.0
<b>Investing activities</b>		
Proceeds from sale of investment property	<b>371.9</b>	261.2
Acquisition of investment property	<b>(192.7)</b>	(73.1)
Development of investment property	<b>(20.3)</b>	(31.0)
Acquisition of other property, plant and equipment	<b>(2.6)</b>	(0.7)
Acquisition of other financial assets	<b>(14.5)</b>	(13.5)
Proceeds from sales of other financial assets	<b>24.9</b>	5.7
Net cash flow from joint ventures and associates	<b>15.9</b>	(14.7)
Acquisition of Group undertakings	39(C) <b>(161.9)</b>	–
Dividends received	<b>1.1</b>	0.3
<b>Net cash flows from investing activities</b>	<b>21.8</b>	134.2
<b>Financing activities</b>		
Proceeds from additional borrowings	<b>108.0</b>	26.3
Repayment of borrowings	<b>(19.9)</b>	(79.1)
Capital reduction in a subsidiary undertaking	<b>–</b>	(30.1)
Minority shares issued by subsidiaries	<b>35.5</b>	–
Dividends paid	<b>(9.9)</b>	(10.7)
<b>Net cash flows from financing activities</b>	<b>113.7</b>	(93.6)
<b>Net increase in cash and cash equivalents</b>	<b>79.9</b>	117.6
Cash and cash equivalents at 1 January	<b>384.3</b>	264.2
Effect of exchange rate fluctuation on cash held	<b>(13.4)</b>	2.5
<b>Cash and cash equivalents at 31 December</b>	29 <b>450.8</b>	384.3

The Company had no cash or cash equivalents during the current and prior year and accordingly no cash flow is presented.

# NOTES TO THE FINANCIAL STATEMENTS

## I. ACCOUNTING POLICIES

### (A) BASIS OF PREPARATION

These financial statements have been prepared in accordance with 'International Financial Reporting Standards' as adopted by the European Union. These are those International Accounting Standards, International Financial Reporting Standards and related Interpretations (SIC-IFRIC interpretations), subsequent amendments to those standards and related interpretations, future standards and related interpretations issued or adopted by the International Accounting Standards Board (IASB) that have been adopted by the European Union.

The financial statements are prepared on the historical cost basis, except for the revaluation of investment and development properties, certain financial assets and derivatives and deferred tax thereon. The principal accounting policies adopted are set out below.

Certain minor changes have been made to the comparative figures in order to assist with comparability. The Company has elected under section 230 of the Companies Act 1985 not to include its own income statement in these financial statements.

### (B) BASIS OF CONSOLIDATION

The consolidated financial statements of the Group incorporate the financial statements of the Company and entities controlled wholly or jointly by the Company up to 31 December 2006.

Subsidiaries are those entities, including special purpose entities, controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. Associates are those entities over whose activities the Group has significant influence established by contractual agreement. Interests in joint ventures and associates are accounted for under the equity method whereby the consolidated balance sheet incorporates the Group's share of the net assets of its joint ventures and associates and the consolidated income statement includes the Group's share of the joint ventures' and associates' profit or loss after tax for the period, in both cases presented separately. The consolidated financial statements include the Group's share of the total recognised gains and losses of joint ventures and associates on an equity accounted basis.

Jointly controlled assets are those where the Group has joint ownership of a direct interest in an asset. The Group accounts for jointly controlled assets by including its share of the individual items of assets, liabilities, income and expenses.

Business combinations are accounted for under the acquisition method. Any discount between the cost of the acquisition and the fair value of the Group's share of the net assets of the acquired subsidiary, joint venture or associate at the effective date of acquisition is credited to the income statement in the period of acquisition while any excess is recognised as goodwill. Goodwill is reported in the balance sheet as an intangible asset or included within associates and joint ventures, as appropriate. Goodwill is subject to annual impairment reviews and is stated at cost less any impairment.

The gain or loss on disposal of subsidiaries, joint ventures and associates is calculated by reference to the Group's share of the net assets at the date of disposal including the attributable amount of goodwill which has not been impaired.

### (C) FOREIGN CURRENCY TRANSLATION

At entity level, transactions denominated in foreign currencies are translated into sterling at the exchange rate ruling on the date the transaction is recorded. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate ruling at the balance sheet date or, if hedged, at the exchange rate under the related hedging transaction and the resultant exchange differences are dealt with in the income statement. On consolidation, the results of overseas companies are translated into Sterling at the average exchange rate for the period and their assets and liabilities are translated into sterling at the exchange rate ruling at the balance sheet date.

In the cash flow statement, cash flows denominated in foreign currencies are translated into Sterling at the average exchange rate for the period.

Exchange differences arising from the translation of foreign operations, and of related hedges, are taken to the translation reserve. They are released into the income statement upon disposal.

### (D) INVESTMENT PROPERTY

Investment properties, including freehold and long leasehold properties and those in joint ventures, are those which are held either to earn rental income or for capital appreciation or for both. Investment properties are initially measured at cost, including transaction costs. After initial recognition investment properties are carried at their fair values, based on annual market valuations as determined by independent valuers.

Any surplus or deficit on revaluation is recognised in the income statement as a valuation gain or loss.

When the Group begins to redevelop an existing investment property for continued future use as investment property, the property continues to be classified as an investment property, and is measured based on the fair value model with valuation gains and losses being recorded in the income statement.

When the Group begins to redevelop an existing investment property with a view to sale, the property is transferred to trading properties and held as a current asset. The property is re-measured to fair value at the date of transfer and any gain or loss is recognised in the income statement. The re-measured amount becomes the deemed cost at which the property is then carried in trading properties.

# NOTES TO THE FINANCIAL STATEMENTS

## I. ACCOUNTING POLICIES (CONTINUED)

Property that is being constructed or developed for future use as investment property but which has not been previously classified as such is classified as investment property under development. Investment properties under development are initially measured at cost, including transaction costs. After initial recognition the properties are carried at their fair values, with any surplus or deficit recognised in the revaluation reserve, unless a deficit reduces the carrying value of a property to below its historic cost in which case it is recognised in the income statement. On practical completion development properties are transferred to investment property.

### (E) LEASES

Leases to tenants where substantially all the risks and rewards of ownership are retained by the Group as lessor, are classified as operating leases. Payments made under operating leases, including prepayments, and net of any incentives provided by the Group, are charged to the income statement on a straight line basis over the period of the lease.

Where a long leasehold property is held as an investment property, it is initially recognised at an amount equal to the sum of the premium paid on acquisition and the present value of minimum ground rent payments. The corresponding rent liability to the freeholder is included in the balance sheet as a finance lease obligation.

### (F) OTHER PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Land and buildings are stated at fair value, with valuation gains and losses recognised in equity.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property, plant and equipment, and major components that are accounted for separately, at rates varying between 10% and 33.3% per annum, except for freehold property occupied by the Group which is depreciated where material over its expected useful life.

### (G) OTHER FINANCIAL ASSETS

Financial assets available for sale are stated at fair value which is determined by reference to an active market and any resultant gain or loss is recognised in the fair value reserve. Where the Group has the positive intent and ability to hold a financial asset to maturity, it is stated at amortised cost less impairment losses. Loans and receivables are included at amortised cost.

### (H) TRADING PROPERTIES

Trading properties are held as current assets and are shown at the lower of cost and net realisable value. Net realisable value is the estimated selling price at completion less the estimated costs of completion including the estimated costs necessary to make the sale.

### (I) TRADE AND OTHER RECEIVABLES

Trade and other receivables are stated at cost less any provision for impairment.

### (J) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash balances and call deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

### (K) FINANCIAL INSTRUMENTS

Derivative instruments utilised by the Group are interest rate swaps and caps and forward exchange contracts against known transactions. The Group does not enter into speculative derivative contracts. Any instruments used are for hedging purposes to alter the risk profile of an existing underlying exposure of the Group in line with its risk management policies. Amounts payable or receivable in respect of interest rate swaps are recognised as adjustments to interest expense over the period of the contracts.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the income statement. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

# NOTES TO THE FINANCIAL STATEMENTS

## I. ACCOUNTING POLICIES (CONTINUED)

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value, with gains or losses reported in the income statement.

### (L) TRADE AND OTHER PAYABLES

Trade and other payables are stated at cost.

### (M) BORROWINGS

Borrowings are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

### (N) EMPLOYEE BENEFITS

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value.

The calculation is performed by a qualified actuary using the projected unit credit method. The future benefit liability is offset by the fair value of the pension plan assets at the balance sheet date.

The expected annual charge for the defined benefit pension costs as estimated by the actuary is included in the income statement and comprises the current service cost, the interest cost on the future benefit liability and the expected return on plan assets.

Adjustments between expectation and actual, together with all actuarial adjustments, are recognised in full in the year in which they arise and are credited or debited directly to reserves.

### (O) REVENUE

The Group's revenue comprises rental income, service charges and other recoverables from tenants, income from provision of services including property management fees, development fees and fund management fees, proceeds of sales of its trading properties and development income.

Revenue from development is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. Revenue is not recognised if there are significant uncertainties regarding recovery of the consideration due. Provision is made for anticipated development losses.

Rental income from investment property leased out under an operating lease is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income over the life of the lease.

Revenue from the sale of trading properties is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer; which is usually at completion.

Performance fees receivable from funds are recognised in income when it is considered probable that a performance fee will be received and that fee can be reliably estimated. The amount of the performance fee recognised is the lower of the fee that has accrued at the balance sheet date and a prudent estimate of the fee that will be receivable at the end of the life of the fund. Where material, performance fees are discounted with any unwinding of the discount being recognised in interest income.

### (P) EXPENSES

Rental payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense on a straight-line basis over the life of the lease.

Minimum lease payments on finance leases are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

# NOTES TO THE FINANCIAL STATEMENTS

## I. ACCOUNTING POLICIES (CONTINUED)

### (Q) BORROWING COSTS

Borrowing costs relating to the financing of development properties and major improvements to investment properties are capitalised. Borrowing costs are calculated by reference to the actual rate payable on borrowings specific to a project or, where a project is financed out of general funds, to the average rate for all borrowings. Borrowing costs are capitalised from the commencement of the project, until the date of practical completion of the project.

All other borrowing costs are recognised in the Group income statement in the period in which they are incurred.

### (R) INCOME TAX

Income tax on the profit and loss for the year comprises current and deferred tax including tax on capital gains. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets and liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date. The Group provides deferred tax on investment properties by reference to the tax that would be due on the ultimate sale of the properties. Recognition on this basis means that, where applicable, indexation allowance is taken into account in the tax base cost.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### (S) GOVERNMENT GRANTS

An unconditional government grant is recognised in the income statement as revenue when the grant becomes receivable. Any other government grant is recognised in the balance sheet initially as deferred income when there is reasonable assurance that it will be received and that the Group will comply with the conditions attaching to it. Grants that compensate the Group for expenses incurred are recognised as revenue in the income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset.

### (T) ADOPTION OF STANDARDS

The following standards and interpretations have been issued but are not yet effective:

- IFRS 7 Financial instruments: disclosures
- IFRS 8 Operating segments
- IFRIC 7 Applying the restatement approach under IAS 29
- IFRIC 8 Scope of IFRS 2
- IFRIC 9 Reassessment of embedded derivatives
- IFRIC 10 Interim financial reporting and impairment
- IFRIC 11 IFRS 2: Group and treasury share transactions
- IFRIC 12 Service concession arrangements

The Directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Group except for additional disclosures on capital and financial instruments when the relevant standards come into effect for periods commencing on or after 1 January 2007.

# NOTES TO THE FINANCIAL STATEMENTS

## I. ACCOUNTING POLICIES (CONTINUED)

### (U) SIGNIFICANT JUDGEMENTS AND KEY ESTIMATES

#### i) Investment property valuation

Investment properties and investment properties under development are carried at open market value in accordance with valuations carried out by independent valuers. Valuations are based on a number of key assumptions including an estimate of future rental income and the appropriate discount rate. For investment properties under development, key judgements also include estimates of future development costs.

#### ii) Development provisions

The provision for losses on the Liverpool One project is based on a detailed review of progress and an estimate of the remaining costs to complete the project.

#### iii) Deferred lease premiums

Where operating lease premiums are received in exchange for the grant of a long leasehold interest, the related profit is recognised over the term of the lease. Many of the transactions giving rise to deferred lease premiums took place a number of years ago before the requirement to spread profit recognition; the Group has had to apply its judgement to estimate certain of the lease premium deferrals and associated deferred tax assets.

#### iv) Defined benefit pension schemes

The net balance sheet obligation and the expected annual charge in respect of defined benefit pension plans is determined according to estimates carried out by actuaries on the basis of assumptions agreed by the Board. The key assumptions underlying these calculations are set out in note 10.

## 2. FOREIGN CURRENCY

The principal exchange rates used to translate the results, assets, liabilities and cashflows of overseas companies were as follows:

	Average rate		Year end rate	
	2006 £1	2005 £1	2006 £1	2005 £1
Euro	1.47	1.46	1.48	1.46
US Dollar	1.85	1.82	1.96	1.72
Canadian Dollar	2.09	2.20	2.28	2.01
Australian Dollar	2.44	2.39	2.48	2.34
Hong Kong Dollar	14.35	14.17	15.22	13.31
Singapore Dollar	2.93	3.03	3.00	2.85
Japanese Yen	214.53	200.36	233.20	202.63

# NOTES TO THE FINANCIAL STATEMENTS

## 3. SEGMENTAL ANALYSIS

2006

	Britain & Ireland €m	Americas €m	Continental Europe €m	Australia Asia Pacific €m	Fund Management €m	Consolidated €m
<b>GEOGRAPHICAL SEGMENTS*</b>						
<b>Income statement</b>						
Income from external customers						
Rental income	69.1	22.0	2.4	13.3	–	<b>106.8</b>
Income from trading and development properties	164.2	9.4	–	11.6	–	<b>185.2</b>
Service charge income	7.6	–	0.3	–	–	<b>7.9</b>
Other income	12.3	11.4	1.5	1.1	26.6	<b>52.9</b>
Total revenue	253.2	42.8	4.2	26.0	26.6	<b>352.8</b>
Net rental and other income less administrative expenses	18.2	11.0	(1.2)	5.3	9.0	<b>42.3</b>
(Losses)/gains from trading and development properties	(180.7)	2.9	–	1.2	–	<b>(176.6)</b>
Gains on other investments	0.1	–	–	0.2	–	<b>0.3</b>
Net gains/(losses) on revaluation and sale of investment property	440.8	51.3	(0.2)	26.8	–	<b>518.7</b>
Impairment of goodwill	–	–	(0.2)	–	–	<b>(0.2)</b>
Share of profit from joint ventures	67.1	20.5	58.3	3.4	0.3	<b>149.6</b>
Share of losses from associates	(4.6)	–	–	–	–	<b>(4.6)</b>
Net financing costs	(20.7)	1.6	(1.6)	(0.7)	0.6	<b>(20.8)</b>
Profit before tax	320.2	87.3	55.1	36.2	9.9	<b>508.7</b>
Current tax	(5.8)	(7.4)	(0.6)	(2.1)	(4.2)	<b>(20.1)</b>
Deferred tax	(98.2)	(20.8)	0.5	(6.6)	0.7	<b>(124.4)</b>
Profit for the year	216.2	59.1	55.0	27.5	6.4	<b>364.2</b>
<b>Balance sheet</b>						
Segment assets – Investments in joint ventures and associates	417.1	142.9	454.8	33.6	1.7	<b>1,050.1</b>
– Other	2,131.1	462.8	178.1	276.6	46.0	<b>3,094.6</b>
Segment liabilities	2,548.2	605.7	632.9	310.2	47.7	<b>4,144.7</b>
Segment net tax liabilities	(782.4)	(155.4)	(65.0)	(82.5)	(10.3)	<b>(1,095.6)</b>
	(371.3)	(83.0)	(9.7)	(14.8)	(3.5)	<b>(482.3)</b>
Net assets	1,394.5	367.3	558.2	212.9	33.9	<b>2,566.8</b>
Capital expenditure	103.0	139.4	–	14.8	–	<b>257.2</b>
Depreciation and amortisation of segment assets	2.0	0.1	–	0.1	0.7	<b>2.9</b>

\*The business is organised across five Operating Companies, four of which are geographical regions. Grosvenor Fund Management operates across all regions and is therefore presented separately.

# NOTES TO THE FINANCIAL STATEMENTS

## 3. SEGMENTAL ANALYSIS (CONTINUED)

### BUSINESS SEGMENTS

	Property Investment £m	Property Development £m	Fund and Joint Venture Management £m	Unallocated £m	Consolidated £m
Income from external customers	117.9	208.3	26.6	–	352.8
Profit/(loss) for the period	551.6	(115.4)	9.9	(81.9)	364.2
Segment assets	3,292.5	397.4	68.9	385.9	4,144.7
Capital expenditure	215.1	42.1	–	–	257.2

### 2005

### GEOGRAPHICAL SEGMENTS

#### Income statement

	Britain & Ireland £m	Americas £m	Continental Europe £m	Australia Asia Pacific £m	Fund Management £m	Consolidated £m
Income from external customers						
Rental income	66.0	16.7	–	14.1	–	96.8
Income from trading and development properties	245.6	13.9	–	–	–	259.5
Service charge income	5.0	–	–	–	–	5.0
Other income	10.7	9.7	1.0	0.9	7.6	29.9
Total revenue	327.3	40.3	1.0	15.0	7.6	391.2
Net rental and other income less administrative expenses	16.3	8.2	(1.3)	7.1	(2.8)	27.5
(Losses)/gains from trading and development properties	(10.4)	3.9	–	(0.8)	–	(7.3)
Net gains on revaluation and sale of investment property	208.4	23.7	–	14.7	–	246.8
Impairment of goodwill	–	–	(3.3)	–	–	(3.3)
Share of profit from joint ventures	44.1	32.4	41.0	3.9	0.2	121.6
Net financing costs	(18.8)	0.5	2.8	(1.9)	0.2	(17.2)
Profit/(loss) before tax	239.6	68.7	39.2	23.0	(2.4)	368.1
Current tax	0.9	(4.5)	(0.4)	(4.5)	–	(8.5)
Deferred tax	(78.0)	(15.1)	(0.5)	(0.7)	(0.2)	(94.5)
Profit/(loss) for the year	162.5	49.1	38.3	17.8	(2.6)	265.1
<b>Balance sheet</b>						
Segment assets – Investments in joint ventures	327.7	197.6	270.0	22.7	1.4	819.4
– Other	1,844.7	352.5	133.8	260.0	20.6	2,611.6
Segment liabilities	2,172.4	550.1	403.8	282.7	22.0	3,431.0
Segment net tax liabilities	(649.5)	(115.4)	(38.5)	(61.5)	(19.0)	(883.9)
Segment net tax liabilities	(270.3)	(68.4)	(10.3)	(11.3)	(0.3)	(360.6)
Net assets	1,252.6	366.3	355.0	209.9	2.7	2,186.5
Capital expenditure	30.3	54.0	32.1	12.4	–	128.8
Depreciation and amortisation of segment assets	1.4	0.1	0.1	0.1	–	1.7

# NOTES TO THE FINANCIAL STATEMENTS

## 3. SEGMENTAL ANALYSIS (CONTINUED)

2005

### BUSINESS SEGMENTS

	Property Investment £m	Property Development £m	Fund and Joint Venture Management £m	Unallocated £m	Consolidated £m
Income from external customers	106.6	271.8	12.8	–	391.2
Profit/(loss) for the period	373.6	25.9	0.2	(134.6)	265.1
Segment assets	2,834.8	260.3	34.6	301.3	3,431.0
Capital expenditure	98.0	30.8	–	–	128.8

## 4. REVENUE (LOSS)/PROFIT

	Group £m	2006 Share of joint ventures and associates £m	Total £m	Group £m	2005 Share of joint ventures and associates £m	Total £m
Gross rental income	106.8	113.5	220.3	96.8	93.0	189.8
Property outgoings (excluding major refurbishments)	(35.5)	(29.8)	(65.3)	(38.9)	(23.0)	(61.9)
Net rental income (before major refurbishments)	71.3	83.7	155.0	57.9	70.0	127.9
Fees and other income	52.9	17.7	70.6	29.9	11.4	41.3
(Loss)/profit on trading and development properties	(176.6)	(4.0)	(180.6)	(7.3)	7.1	(0.2)
Administrative expenses	(75.8)	(28.3)	(104.1)	(53.3)	(23.9)	(77.2)
Net financing costs (excluding fair value adjustments)	(21.8)	(27.0)	(48.8)	(20.1)	(25.1)	(45.2)
Revenue (loss)/profit	(150.0)	42.1	(107.9)	7.1	39.5	46.6
Development loss provision	169.9	–	169.9	10.0	–	10.0
Revenue profit excluding development loss provision	19.9	42.1	62.0	17.1	39.5	56.6

## 5. GROSS RENTAL INCOME

	2006 £m	2005 £m
Gross lease payments collected/accrued	104.1	92.1
Amortisation of capitalised lease incentives	0.8	3.0
Amortisation of deferred lease premiums	1.9	1.7
	106.8	96.8

Investment properties are leased out under operating leases. The majority of operating lease terms fall in the range between 6 months and 20 years. Certain investment properties on the London Estate are leased out on longer term ground rent based leases for periods of up to 947 years. Total contingent rents included in gross rental income amounted to £0.2m (2005 – £0.1m).

# NOTES TO THE FINANCIAL STATEMENTS

## 6. PROPERTY OUTGOINGS

	<b>2006</b> £m	2005 £m
Service charge income	<b>7.9</b>	5.0
Service charge expenses	<b>(8.5)</b>	(5.0)
Net service charge income	<b>(0.6)</b>	–
Other property operating expenses	<b>(41.0)</b>	(45.9)
Total net property outgoings	<b>(41.6)</b>	(45.9)

Included within property operating expenses are major refurbishment costs of £6.1m (2005 – £7.0m).

## 7. OTHER INCOME

	<b>2006</b> £m	2005 £m
Fund management and asset management fees	<b>32.8</b>	12.8
Project management fees	<b>11.3</b>	10.2
Other income	<b>8.8</b>	6.9
	<b>52.9</b>	29.9

## 8. ADMINISTRATIVE EXPENSES

	<b>2006</b> £m	2005 £m
Staff costs	<b>51.1</b>	35.6
Office costs	<b>10.9</b>	9.5
Auditors remuneration – audit services	<b>0.8</b>	0.7
– other services	<b>0.1</b>	0.2
Other professional fees	<b>8.1</b>	4.6
Other administrative expenses	<b>4.8</b>	2.7
	<b>75.8</b>	53.3

All of the Group's Operating Companies were audited by Deloitte. £0.5m of the total audit fee is estimated to relate to the audit of the Group and £0.3m to the audit of the Group's subsidiaries. The Company's audit fees were borne by another Group Company. Amounts paid to other accountancy firms in 2006 totalled £1.1m (2005 – £1.3m).

# NOTES TO THE FINANCIAL STATEMENTS

## 9. EMPLOYEE INFORMATION

### Staff costs

Wages and salaries  
Social security contributions  
Other staff costs

### Pension costs

Contributions to defined contribution plans  
Net cost of defined benefit plans

Included in:

Administrative expenses  
Property operating expenses  
Development costs

	2006 £m	2005 £m
	<b>46.7</b>	36.5
	<b>4.0</b>	3.4
	<b>9.0</b>	3.6
	<b>1.1</b>	0.4
	<b>6.1</b>	5.2
	<b>66.9</b>	49.1
	<b>51.1</b>	35.6
	<b>6.7</b>	5.5
	<b>9.1</b>	8.0
	<b>66.9</b>	49.1

### Average number of employees by business

Property investment  
Property development  
Fund management  
Management and administration  
Shopping centre and property management

	2006	2005
	<b>142</b>	137
	<b>98</b>	79
	<b>83</b>	31
	<b>149</b>	145
	<b>29</b>	32
	<b>501</b>	424

### Average number of employees by geographic region

Britain & Ireland  
Continental Europe  
North America  
Australia Asia Pacific

	2006	2005
	<b>325</b>	301
	<b>28</b>	22
	<b>97</b>	64
	<b>51</b>	37
	<b>501</b>	424

The Group carries out its own property management for the majority of the portfolio in Britain & Ireland. The Company employs no staff (2005 – nil).

## 10. RETIREMENT BENEFIT SCHEMES

### DEFINED BENEFIT SCHEMES

The Group operates defined benefit pension schemes in Britain & Ireland, Australia, Canada and the USA. The schemes provide retirement benefits based upon pensionable salary and length of service. The Britain & Ireland scheme, which is open to all staff, provides a defined benefit pension up to an upper earnings limit; above this limit the Group contributes between 25% and 30% of that tranche of salary into a defined contribution scheme. Some members of the Britain & Ireland scheme accrue benefits on historical scales which pension full salary (subject to the earnings cap).

The defined benefit schemes are funded and are administered by independent trustees. Independent qualified actuaries complete valuations of the schemes at least every three years and in accordance with their recommendations annual contributions are paid to the schemes so as to secure the benefits set out in the rules.

# NOTES TO THE FINANCIAL STATEMENTS

## 10. RETIREMENT BENEFIT SCHEMES (CONTINUED)

The Britain & Ireland scheme is a multi-employer scheme because it provides pensions for both the Group and employees of other entities owned by the shareholders. The Group accounts for its proportionate share of the defined benefit obligation, plan assets and cost of this scheme.

Actuarial valuations were last carried out at the following dates:

Britain & Ireland	31 December 2002
Australia	31 December 2006
Canada	31 December 2006
USA	1 January 2006

All the valuations have been updated to 31 December 2006 where appropriate. The results of these valuations together with the key assumptions used are set out below. The actuarial valuation of the Britain & Ireland scheme as at 31 December 2005 has been completed but is awaiting final sign off at the date of approving these accounts.

In addition to the defined benefit schemes set out above, the Group operates unfunded defined benefit schemes in Britain & Ireland and the USA to satisfy pension commitments not catered for by the funded schemes.

### DEFINED CONTRIBUTION SCHEMES

The Group operates a number of defined contribution retirement benefit schemes. The Group contributes a percentage of salary into defined contribution schemes to fund the benefits. The assets of the schemes are held separately from those of the Group in funds under the control of independent pension providers. The only obligation of the Group with respect to the defined contribution schemes is to make the specified contributions.

The total cost of defined contribution pension schemes charged to the income statement was £1.1m (2005 – £0.4m).

### ANALYSIS OF DEFINED BENEFIT SCHEMES

The key assumptions used in each scheme were:

	2006	2005
<b>Discount rate</b>		
Britain & Ireland	5.1%	4.7%
Canada	5.2%	5.0%
USA	5.7%	5.5%
Australia	5.0%	4.9%
<b>Expected return on scheme assets</b>		
Britain & Ireland	7.2%	7.0%
Canada	5.0%	5.2%
USA	8.3%	8.5%
Australia	6.5%	6.5%
<b>Expected rate of salary increases</b>		
Britain & Ireland	6.3%	6.3%
Canada	4.5%	4.5%
USA	5.0%	5.0%
Australia	4.5%	4.5%
<b>Expected rate of future pension increases</b>		
Britain & Ireland	2.9%	2.9%
Canada	3.0%	2.5%
USA	3.0%	3.0%
Australia	1.9%	3.0%
<b>Inflation</b>		
Britain & Ireland	2.9%	2.9%
Canada	3.0%	3.0%
USA	3.0%	3.0%
Australia	2.5%	3.0%

# NOTES TO THE FINANCIAL STATEMENTS

## 10. RETIREMENT BENEFIT SCHEMES (CONTINUED)

The amounts recognised in income in respect of defined benefit schemes were:

	2006 £m	2005 £m
Current service cost	6.2	5.4
Past service cost	0.3	–
Interest cost	5.9	5.2
Expected return on scheme assets	(6.3)	(5.4)
	<b>6.1</b>	5.2

The amount included in the balance sheet arising from the Group's obligations in respect of defined benefit schemes is as follows:

	2006 £m	2005 £m
Present value of unfunded obligations	9.7	10.5
Present value of funded obligations	101.4	113.6
Present value of total defined benefit obligations	111.1	124.1
Fair value of scheme assets	(95.3)	(96.3)
Defined benefit pension deficit	<b>15.8</b>	27.8

The deficit arises in the following regions:

	2006 £m	2005 £m
Britain & Ireland	5.9	17.8
Canada	1.6	1.6
USA	7.3	7.1
Australia	1.0	1.3
	<b>15.8</b>	27.8

This amount is included in the balance sheet under non-current liabilities.

### MOVEMENTS IN THE PRESENT VALUE OF DEFINED BENEFIT OBLIGATIONS WERE:

	2006 £m	2005 £m
At 1 January	124.1	93.6
Current service cost	6.2	5.4
Past service cost	0.3	–
Interest cost	5.9	5.2
Actuarial (gains)/losses	(5.5)	19.3
Adjustment to the Group's share of multi employer schemes	(10.3)	–
Benefits paid	(4.3)	(3.3)
Curtailment	(0.6)	–
Settlement	(0.7)	–
Exchange movements	(4.0)	3.9
At 31 December	<b>111.1</b>	124.1

# NOTES TO THE FINANCIAL STATEMENTS

## 10. RETIREMENT BENEFIT SCHEMES (CONTINUED)

### MOVEMENTS IN FAIR VALUE OF SCHEME ASSETS WERE:

	<b>2006</b> £m	2005 £m
At 1 January	<b>96.3</b>	76.5
Expected return on plan assets	<b>6.3</b>	5.4
Actuarial gains	<b>4.9</b>	8.0
Adjustment to the Group's share of multi employer schemes	<b>(10.1)</b>	–
Contributions by the employer	<b>5.3</b>	6.8
Benefits paid	<b>(4.3)</b>	(3.3)
Exchange movements	<b>(3.1)</b>	2.9
At 31 December	<b>95.3</b>	96.3

Analysis of the scheme assets and the expected rates of return:

### 2006

	Equities		Bonds		Other		Total £m
	%	£m	%	£m	%	£m	
Britain & Ireland	7.5	63.5	4.5	6.8	4.5	0.9	<b>71.2</b>
Canada	8.2	7.7	4.5	4.0	3.3	3.7	<b>15.4</b>
USA	9.7	4.8	6.0	2.0	4.2	0.3	<b>7.1</b>
Australia	10.7	0.9	6.2	0.4	5.6	0.3	<b>1.6</b>
		<u>76.9</u>		<u>13.2</u>		<u>5.2</u>	<b>95.3</b>

### 2005

	Equities		Bonds		Other		Total £m
	%	£m	%	£m	%	£m	
Britain & Ireland	7.3	63.1	4.0	6.9	4.0	1.0	71.0
Canada	8.1	8.0	4.8	4.5	0.3	4.3	16.8
USA	10.5	4.5	5.3	2.1	4.0	0.5	7.1
Australia	8.0	0.7	5.0	0.3	5.2	0.4	1.4
		<u>76.3</u>		<u>13.8</u>		<u>6.2</u>	<u>96.3</u>

The history of experience gains and losses is as follows:

	<b>2006</b> £m	2005 £m	2004 £m	2003 £m	2002 £m
Present value of defined benefit obligation	<b>111.1</b>	124.1	93.6	77.0	66.6
Fair value of scheme assets	<b>(95.3)</b>	(96.3)	(76.5)	(66.5)	(51.9)
Deficit in the scheme	<b>15.8</b>	27.8	17.1	10.5	14.7
Experience adjustments on plan assets:					
Amount of gain/(loss)	<b>4.9</b>	8.0	3.3	5.6	(14.4)
Percentage of plan assets	<b>5.1%</b>	8.3%	4.3%	8.5%	(27.7)%
Experience adjustments on plan liabilities:					
Amount of (gain)/loss	<b>(5.5)</b>	19.3	6.8	–	0.4
Percentage of the present value of scheme liabilities	<b>5.0%</b>	15.6%	7.3%	–	0.6%

# NOTES TO THE FINANCIAL STATEMENTS

## 11. DIRECTORS' REMUNERATION DETAILS

### Aggregate remuneration:

Emoluments  
Performance-related bonus  
Long term incentive scheme  
Compensation to Director for loss of office

	2006 £000	2005 £000
	<b>2,285</b>	2,120
	<b>929</b>	860
	<b>1,145</b>	197
	<b>1,339</b>	–
	<b>5,698</b>	3,177

The total amounts payable under long term incentive schemes comprise all amounts to which Directors became unconditionally entitled during the year. In previous years the Company has disclosed the amounts accrued in the year, including amounts not vested. The Directors believe that the new presentation more fairly meets the requirements of the Companies Act 1985. The comparative amounts have been amended accordingly.

The amounts above include for the highest paid Director emoluments of £505,000 (2005 – £455,000), performance related bonus of £199,000 (2005 – £193,000) and long term incentive plans of £262,000 (2005 – £nil).

Retirement benefits are accruing to six Directors under defined benefit schemes sponsored by Group companies, one of whom is a member of a scheme which combines defined benefit and money purchase benefits. The total annual accrued pension under the defined benefit pension schemes was £472,000 (2005 – £630,000) and for the highest paid Director was £201,000 (2005 – £186,000). Total contributions in respect of money purchase pension benefits were £35,000 (2005 – £nil) and for the highest paid Director were £nil (2005 – £nil).

## 12. LOSS ON TRADING AND DEVELOPMENT PROPERTIES

Development income  
Development costs  
Proceeds from sale of trading properties  
Carrying value of trading properties sold  
Provision for impairment of trading properties

	2006 £m	2005 £m
	<b>160.3</b>	229.7
	<b>(342.5)</b>	(239.7)
	<b>24.8</b>	29.8
	<b>(17.8)</b>	(26.3)
	<b>(1.4)</b>	(0.8)
	<b>(176.6)</b>	(7.3)

The carrying value of trading properties sold includes £0.6m of capitalised interest (2005 – £0.4m).

## 13. GAINS ON OTHER INVESTMENTS

Profit on disposal of trade investments  
Amounts written off investment properties held for development

	2006 £m	2005 £m
	<b>0.3</b>	0.1
	<b>–</b>	(0.1)
	<b>0.3</b>	–

# NOTES TO THE FINANCIAL STATEMENTS

## 14. NET GAINS ON REVALUATION AND SALE OF INVESTMENT PROPERTY

	2006 £m	2005 £m
Valuation gains on investment property	407.1	233.1
Valuation losses on investment property	(4.7)	(1.7)
Valuation gains on redevelopment properties	7.1	–
Net valuation gains on investment property	409.5	231.4
Profit on disposal of investment property	109.2	15.4
	<b>518.7</b>	246.8

## 15. NET FINANCING COSTS

	2006 £m	2005 £m
Dividend income	1.1	0.3
Interest income	12.7	14.9
Other financial income	5.6	3.6
Fair value adjustments of interest rate swaps	1.0	2.9
Financial income	19.3	21.4
Gross interest expense	(43.2)	(42.2)
Interest capitalised	2.6	3.7
Commitment and other financing costs	(0.6)	(0.4)
Financial expenses	(41.2)	(38.9)
Net financing costs	(20.8)	(17.2)

The average rate of interest capitalised in the year was 6.3% (2005 – 6.3%).

## 16. INCOME TAX EXPENSE

### RECOGNISED IN THE INCOME STATEMENT

#### Current tax expense

UK corporation tax at 30% (2005 – 30%)  
Overseas tax  
Adjustment for prior years

#### Deferred tax expense

Origination and reversal of temporary differences  
Reduction in tax rate  
Benefit of tax losses recognised

Total income tax expense

	2006 £m	2005 £m
Current tax expense		
UK corporation tax at 30% (2005 – 30%)	2.0	24.9
Overseas tax	10.7	9.3
Adjustment for prior years	7.4	(25.7)
	20.1	8.5
Deferred tax expense		
Origination and reversal of temporary differences	125.3	94.7
Reduction in tax rate	(0.2)	(0.2)
Benefit of tax losses recognised	(0.7)	–
	124.4	94.5
Total income tax expense	144.5	103.0

# NOTES TO THE FINANCIAL STATEMENTS

## 16. INCOME TAX EXPENSE (CONTINUED)

### DEFERRED TAX RECOGNISED DIRECTLY IN EQUITY

Recognised in equity – Group  
Recognised in equity – joint ventures

Total recognised in equity

### Reconciliation of effective tax rate

Profit on ordinary activities before taxation  
Less: share of profit of joint ventures and associates  
Add: profit of joint ventures where the tax charge is directly attributable to the Group

### Adjusted group profit on ordinary activities before taxation

Tax on adjusted group profit at standard UK corporation tax rate of 30% (2005 – 30%)  
Higher tax rates on overseas earnings  
Expenses not deductible for tax purposes  
Other items attracting no tax relief or liability  
Other timing differences  
Adjustments in respect of prior years

### Total income tax expense

Effective tax rate based on adjusted Group profit

Note	2006 £m	2005 £m
26	20.2	(0.8)
	4.8	–
	25.0	(0.8)
	508.7	368.1
	(145.0)	(121.6)
	59.5	75.1
	423.2	321.6
	127.0	96.5
	6.0	4.7
	7.4	1.7
	(23.0)	(2.3)
	(0.2)	(0.2)
	27.3	2.6
	144.5	103.0
	34.1%	32.0%

## 17. PROPERTY ASSETS

Investment property – Group  
– Share of joint ventures

Investment property under development – Group  
– Share of joint ventures  
– Share of associates

Other financial assets – Group

Trading properties – Group  
– Share of joint ventures

### Total property assets

Note	2006 £m	2005 £m
18	2,264.4	1,936.0
22	1,658.3	1,390.8
19	85.6	71.4
22	242.9	107.3
23	115.4	51.5
24	56.5	68.0
27	48.7	34.5
22	120.6	68.2
	4,592.4	3,727.7

# NOTES TO THE FINANCIAL STATEMENTS

## 18. INVESTMENT PROPERTY

	Completed property			Redevelopment projects			Total £m
	Freehold £m	Leasehold £m	Total £m	Freehold £m	Leasehold £m	Total £m	
<b>At 1 January 2005</b>	1,352.3	389.9	1,742.2	14.1	–	14.1	<b>1,756.3</b>
Acquisitions	67.4	2.4	69.8	–	–	–	<b>69.8</b>
Costs capitalised	2.8	2.1	4.9	6.8	0.1	6.9	<b>11.8</b>
Disposals	(174.4)	(20.8)	(195.2)	–	–	–	<b>(195.2)</b>
Revaluation gains	183.9	47.5	231.4	–	–	–	<b>231.4</b>
Release of deferred costs	–	0.1	0.1	–	–	–	<b>0.1</b>
Transfer to/(from) redevelopment projects	20.9	(6.8)	14.1	(20.9)	6.8	(14.1)	<b>–</b>
Transfer from investment properties under development	19.3	2.2	21.5	–	–	–	<b>21.5</b>
Transfer from trading properties	3.1	–	3.1	–	–	–	<b>3.1</b>
Exchange movements	36.3	0.9	37.2	–	–	–	<b>37.2</b>
<b>At 31 December 2005</b>	1,511.6	417.5	1,929.1	–	6.9	6.9	<b>1,936.0</b>
Acquisitions	97.4	90.1	187.5	–	–	–	<b>187.5</b>
Costs capitalised	0.8	4.1	4.9	1.1	–	1.1	<b>6.0</b>
Disposals	(80.5)	(228.9)	(309.4)	–	–	–	<b>(309.4)</b>
Sale of freeholds	(955.2)	950.2	(5.0)	–	–	–	<b>(5.0)</b>
Revaluation gains/(losses)	91.8	310.6	402.4	(1.0)	8.1	7.1	<b>409.5</b>
Release of deferred costs	(0.6)	3.7	3.1	–	–	–	<b>3.1</b>
Depreciation of short leasehold properties	–	(0.2)	(0.2)	–	–	–	<b>(0.2)</b>
Transfer (from)/to redevelopment projects	(11.8)	15.0	3.2	11.8	(15.0)	(3.2)	<b>–</b>
Transfer from investment properties under development	4.9	17.0	21.9	–	–	–	<b>21.9</b>
Transfer to trading properties	(3.2)	–	(3.2)	–	–	–	<b>(3.2)</b>
Transfer from joint ventures	65.5	–	65.5	–	–	–	<b>65.5</b>
Exchange movements	(45.7)	(0.7)	(46.4)	(0.9)	–	(0.9)	<b>(47.3)</b>
<b>At 31 December 2006</b>	675.0	1,578.4	2,253.4	11.0	–	11.0	<b>2,264.4</b>

Investment properties were valued at 31 December 2006 by external valuers on the basis of open market value in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors. Valuations were performed as follows:

			£m
Britain & Ireland	Freehold	CB Richard Ellis, Chartered Surveyors	<b>141.1</b>
	Long Leasehold	CB Richard Ellis, Chartered Surveyors	<b>1,578.3</b>
Americas	Freehold	Cushman & Wakefield Le Page, Chartered Surveyors	<b>323.2</b>
	Freehold	Cushman & Wakefield, Chartered Surveyors	<b>31.2</b>
Continental Europe	Freehold	DTZ Australia, Chartered Surveyors	<b>99.9</b>
Australia Asia Pacific	Freehold	CB Richard Ellis, Chartered Surveyors	<b>76.4</b>
	Freehold	LandMark White, Chartered Surveyors	<b>2.8</b>
	Freehold	Tanizawa SOGO Appraisal Co Ltd	<b>11.5</b>
			<b>2,264.4</b>

The historical cost of the Group's investment properties was £946.5m (2005 – £1,008.8m).

At 31 December 2006, investment properties with a carrying amount of £1,038.0m were pledged as security for bank loans (2005 – £882.5m).

# NOTES TO THE FINANCIAL STATEMENTS

## 19. INVESTMENT PROPERTY UNDER DEVELOPMENT

	Freehold £m	Leasehold £m	Total £m
<b>At 1 January 2005</b>	49.8	3.0	<b>52.8</b>
Acquisitions	20.0	4.8	<b>24.8</b>
Costs capitalised	4.5	–	<b>4.5</b>
Disposals	(0.4)	–	<b>(0.4)</b>
Revaluation gains	10.2	1.2	<b>11.4</b>
Transfer to investment properties	(19.3)	(2.2)	<b>(21.5)</b>
Transfer to trading properties	(3.3)	–	<b>(3.3)</b>
Exchange movements	3.1	–	<b>3.1</b>
<b>At 31 December 2005</b>	64.6	6.8	<b>71.4</b>
Acquisitions	12.4	1.6	<b>14.0</b>
Costs capitalised	1.4	7.1	<b>8.5</b>
Revaluation gains	6.5	12.5	<b>19.0</b>
Transfer to investment properties	(4.9)	(17.0)	<b>(21.9)</b>
Exchange movements	(5.4)	–	<b>(5.4)</b>
<b>At 31 December 2006</b>	<b>74.6</b>	<b>11.0</b>	<b>85.6</b>

Investment properties under development were valued at 31 December 2006 by external valuers on the basis of open market value in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors. Valuations were performed as follows:

			£m
Britain & Ireland	Freehold	CB Richard Ellis, Chartered Surveyors	<b>28.3</b>
	Long Leasehold	CB Richard Ellis, Chartered Surveyors	<b>20.7</b>
Americas	Freehold	Cushman & Wakefield Le Page, Chartered Surveyors	<b>36.6</b>
			<b>85.6</b>

The historical cost of the Group's investment property under development was £59.2m (2005 – £64.1m).

At 31 December 2006, investment property under development with a carrying amount of £25.5m was pledged as security for bank loans (2005 – £nil).

The carrying value of investment property under development includes capitalised interest of £1.5m (2005 – £0.5m).

# NOTES TO THE FINANCIAL STATEMENTS

## 20. OTHER PROPERTY, PLANT AND EQUIPMENT

### 2006

	Land and buildings £m	Leasehold improvements £m	Computer and IT equipment £m	Fixtures, fittings and motor vehicles £m	Total £m
<b>Cost</b>					
At 1 January 2006	29.1	5.1	4.1	3.9	<b>42.2</b>
Additions	0.1	0.6	1.0	0.9	<b>2.6</b>
Disposals	–	(0.1)	(0.1)	(0.2)	<b>(0.4)</b>
Revaluation gains	8.7	–	–	–	<b>8.7</b>
Exchange movements	–	–	–	(0.1)	<b>(0.1)</b>
At 31 December 2006	37.9	5.6	5.0	4.5	<b>53.0</b>
<b>Depreciation</b>					
At 1 January 2006	(0.1)	(3.7)	(2.3)	(2.3)	<b>(8.4)</b>
Depreciation charge for the year	–	(0.7)	(0.9)	(0.5)	<b>(2.1)</b>
Disposals	–	0.1	–	0.3	<b>0.4</b>
Exchange movements	–	0.1	–	0.1	<b>0.2</b>
At 31 December 2006	(0.1)	(4.2)	(3.2)	(2.4)	<b>(9.9)</b>
<b>Carrying amount</b>					
At 1 January 2006	29.0	1.4	1.8	1.6	<b>33.8</b>
At 31 December 2006	37.8	1.4	1.8	2.1	<b>43.1</b>

### 2005

	Land and buildings £m	Leasehold improvements £m	Computer and IT equipment £m	Fixtures, fittings and motor vehicles £m	Total £m
<b>Cost</b>					
At 1 January 2005	23.4	5.0	3.4	3.7	35.5
Additions	–	–	0.7	0.2	0.9
Disposals	(0.1)	–	–	(0.1)	(0.2)
Revaluation gains	5.8	–	–	–	5.8
Exchange movements	–	0.1	–	0.1	0.2
At 31 December 2005	29.1	5.1	4.1	3.9	42.2
<b>Depreciation</b>					
At 1 January 2005	(0.2)	(3.0)	(1.7)	(1.8)	(6.7)
Depreciation charge for the year	–	(0.7)	(0.6)	(0.4)	(1.7)
Disposals	0.1	–	–	–	0.1
Exchange movements	–	–	–	(0.1)	(0.1)
At 31 December 2005	(0.1)	(3.7)	(2.3)	(2.3)	(8.4)
<b>Carrying amount</b>					
At 1 January 2005	23.2	2.0	1.7	1.9	28.8
At 31 December 2005	29.0	1.4	1.8	1.6	33.8

Land and buildings are freehold and were valued at 31 December 2006 by CB Richard Ellis, Chartered Surveyors, on the basis of open market value for existing use in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors.

The historical cost of the Group's revalued land and buildings above at 31 December 2006 was £14.4m (2005 – £14.4m).

The carrying value of freehold land and buildings above includes capitalised interest of £0.1m (2005 – £0.1m).

At 31 December 2006, land and buildings with a carrying value of £37.1m were pledged as security for bank loans (2005 – £28.6m).

# NOTES TO THE FINANCIAL STATEMENTS

## 21. INVESTMENTS IN SUBSIDIARIES

### Company

At 1 January 2006

Disposals

At 31 December 2006

Shares at cost £m
1,363.9
(5.5)
1,358.4

**AT 31 DECEMBER 2006, THE GROUP HAD THE FOLLOWING PRINCIPAL INVESTMENTS IN SUBSIDIARIES:**

### INTERMEDIATE HOLDING COMPANIES

Grosvenor Estate Holdings\*+

Grosvenor Limited (Great Britain)

Grosvenor Americas Limited (Canada)

Grosvenor Americas USA Inc. (USA)

Grosvenor International SA (Luxembourg)π

Grosvenor Continental Europe Holdings SA (Luxembourg)

Grosvenor First European Property Investments SA (Luxembourg) †

Grosvenor Australia Properties Pty Limited (Australia)

Grosvenor Australia Investments Pty Limited (Australia)

Grosvenor Asset Management Limited (Hong Kong)

Grosvenor Fund Management Limited (Great Britain)

### PROPERTY INVESTMENT

Grosvenor West End Properties\*

Eaton Square Properties Limited +

Grosvenor (Basingstoke) Limited

Grosvenor Commercial Properties\*

Grosvenor Properties\*

Old Broad Street Properties Limited

Grosvenor Realty Investments Limited

Cambridge Retail Investments Limited

Liverpool Property Investments Limited

### PROPERTY DEVELOPMENT

Grosvenor Developments Limited

Liverpool PSDA Limited

### FUND MANAGEMENT

Grosvenor Investment Management Limited (Great Britain)

Grosvenor Investment Management US Inc. (USA)

### FINANCING

Grosvenor UK Finance Plc

\* Unlimited company

π Ordinary and non-voting preference shares are wholly owned. All of the floating rate guaranteed voting preferred redeemable shares, which carry approximately 36% of the total voting rights, are publicly held.

+ 100% of preference shares also owned

† 67.5% owned

All the above companies except Grosvenor Estate Holdings are indirectly owned. All companies are wholly owned and incorporated in Great Britain except where indicated. Except as disclosed above, all interests are in the form of ordinary shares.

The above represents the Group's material subsidiary undertakings. A full list of all subsidiary undertakings is available on request.

# NOTES TO THE FINANCIAL STATEMENTS

## 22. INVESTMENTS IN JOINT VENTURES

2006

	Britain & Ireland £m	Americas £m	Continental Europe £m	Australia Asia Pacific £m	Total £m
<b>Share of profit from joint ventures:</b>					
Gross rental income	23.0	12.6	74.9	3.0	<b>113.5</b>
Net rental and other income less administrative expenses	17.9	9.8	59.0	2.1	<b>88.8</b>
Income from trading and development properties	2.8	(0.1)	(6.7)	–	<b>(4.0)</b>
Net gains on revaluation and sale of investment property	56.9	14.2	93.2	2.5	<b>166.8</b>
Net financing costs	(5.1)	(3.4)	(19.2)	(0.6)	<b>(28.3)</b>
Profit before tax	72.5	20.5	126.3	4.0	<b>223.3</b>
Current tax	(5.1)	–	(6.6)	0.2	<b>(11.5)</b>
Deferred tax	–	–	(24.1)	(0.8)	<b>(24.9)</b>
Minority interest	–	–	(37.3)	–	<b>(37.3)</b>
	67.4	20.5	58.3	3.4	<b>149.6</b>
<b>Share of assets and liabilities:</b>					
Non-current assets					
– Investment properties	425.5	186.6	1,001.5	44.7	<b>1,658.3</b>
– Investment properties under development	29.5	11.2	202.2	–	<b>242.9</b>
– Other	–	–	69.0	0.2	<b>69.2</b>
Current assets					
– Trading properties	75.7	0.3	2.8	41.8	<b>120.6</b>
– Other	33.6	4.5	178.4	7.0	<b>223.5</b>
Non-current liabilities	(142.8)	(55.9)	(848.6)	(44.5)	<b>(1,091.8)</b>
Current liabilities	(64.2)	(3.8)	(182.2)	(15.6)	<b>(265.8)</b>
Net assets	357.3	142.9	423.1	33.6	<b>956.9</b>
Goodwill	–	–	31.4	–	<b>31.4</b>
	357.3	142.9	454.5	33.6	<b>988.3</b>
Borrowings included in liabilities (non-recourse to the Group)	(142.8)	(55.9)	(538.0)	(41.2)	<b>(777.9)</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 22. INVESTMENTS IN JOINT VENTURES (CONTINUED)

2005

	Britain & Ireland £m	Americas £m	Continental Europe £m	Australia Asia Pacific £m	Total £m
<b>Share of profit from joint ventures:</b>					
Gross rental income	22.0	18.9	49.5	2.6	93.0
Net rental and other income less administrative expenses	16.4	14.8	25.2	1.1	57.5
Income from trading and development properties	4.6	0.4	2.1	–	7.1
Net gains on revaluation and sale of investment property	32.9	22.0	61.6	4.1	120.6
Net financing costs	(7.5)	(4.7)	(12.2)	(0.7)	(25.1)
Profit before tax	46.4	32.5	76.7	4.5	160.1
Current tax	(1.6)	(0.1)	(4.0)	(0.2)	(5.9)
Deferred tax	(0.5)	–	(15.6)	(0.4)	(16.5)
Minority interest	–	–	(16.1)	–	(16.1)
	44.3	32.4	41.0	3.9	121.6
<b>Share of assets and liabilities:</b>					
Non-current assets					
– Investment properties	410.1	279.8	650.2	50.7	1,390.8
– Investment properties under development	–	8.6	98.7	–	107.3
– Other	–	0.1	32.6	0.2	32.9
Current assets					
– Trading properties	56.1	–	–	12.1	68.2
– Other	36.1	3.5	128.6	9.6	177.8
Non-current liabilities	(157.4)	(89.5)	(532.1)	(32.2)	(811.2)
Current liabilities	(45.2)	(4.9)	(108.0)	(17.7)	(175.8)
Net assets	299.7	197.6	270.0	22.7	790.0
Borrowings included in liabilities (non-recourse to the Group)	(157.4)	(89.5)	(362.0)	(29.0)	(637.9)

# NOTES TO THE FINANCIAL STATEMENTS

## 22. INVESTMENTS IN JOINT VENTURES (CONTINUED)

At 31 December 2006, the Group had the following principal interests in joint ventures which are accounted for on the basis explained in note 1:

	Principal activities	Country of incorporation/registration	Effective interest	Group share of net assets £m
<b>Britain &amp; Ireland</b>				
Grosvenor Shopping Centre Fund	Property investment	England and Wales	23.4%	103.9
Grosvenor London Office Fund	Property investment	England and Wales	26.7%	89.3
Grosvenor Festival Place Fund	Property investment	England and Wales	24.5%	67.2
Talbot Residential Fund	Property investment	England and Wales	50.0%	9.4
Grosvenor Street Limited Partnership	Property investment	England and Wales	50.0%	46.6
Barkhill Limited	Property development	Republic of Ireland	50.0%	18.0
<b>Americas</b>				
Joint ventures with BBCAF Inc	Property investment	United States of America	50.0%/25.0%	118.8
Joint ventures with the Getty Family Trust	Property investment	United States of America	50.0%	6.7
GEMOA Inc	Property investment	United States of America	20.0%	11.0
Art Hill Management	Property investment	United States of America	48.9%	6.4
<b>Continental Europe*</b>				
Sonae Sierra SGPS SA	Property investment and development	Portugal	50.0%	431.4
Joint ventures with Grupo Lar	Property investment and development	The Netherlands	50.0%	18.4
<b>Australia Asia Pacific</b>				
YK Japan Residential Fund	Property investment	Japan	33.7%/ 18.8%	8.6
TTRES Joint Venture	Property investment	Japan	50%	1.5
Grosvenor Park Partners Limited	Property development	Japan	25%	4.1
Fieldglen II	Property investment	Australia	50.0%	8.8

\* The investments in joint ventures in Continental Europe are held by Grosvenor First European Property Investments SA (GFPEI), which is 67.5% owned by the Group. The effective interest above is stated before taking account of the minority investors in GFPEI.

The financial statements include, on an equity accounted basis, the results and financial position of the Group's interests in the UK limited partnerships shown above. Accordingly advantage has been taken of the exemptions provided by Regulation 7 of the Partnerships and Unlimited Companies (Accounts) Regulations 1992 as amended by SI 2005 No. 1987 The Partnerships and Unlimited Companies (Accounts) (Amendment) Regulations 2005, which dispenses with the requirement for those partnerships to file accounts with Companies House.

# NOTES TO THE FINANCIAL STATEMENTS

## 23. ASSOCIATES

### Share of profit from associates:

Profit before tax  
Deferred tax

Loss after tax

### Share of assets and liabilities:

Investment properties under development

Other assets

Liabilities

Net assets

Borrowings included in liabilities (non-recourse to the Group)

2006 £m	2005 £m
1.3	–
(5.9)	–
(4.6)	–
115.4	51.5
1.3	1.1
(54.9)	(23.2)
61.8	29.4
(48.7)	(22.8)

The investment in associates comprises the Group's 19.6% interest in the Grosvenor Liverpool Fund, which is involved in property development and is incorporated in England and Wales.

## 24. OTHER FINANCIAL ASSETS

### Non-current assets

Available for sale – equity shares  
– other

Held to maturity – fixed rate bond

Loans and receivables – mezzanine loans

### Current assets

Loans and receivables – mezzanine loans

2006 £m	2005 £m
41.9	34.1
2.9	3.0
–	21.1
5.2	12.8
50.0	71.0
9.4	–

Included in the above are property related financial assets of £56.5m (2005 – £68.0m).

Principal other financial assets at 31 December 2006:

### EQUITY SHARES

Asia Standard International Group Limited  
(listed on the Hong Kong Stock Exchange)  
Hermill Investments Pte Limited

Principal activities	Country of incorporation	Effective interest
Property Investment and development	Hong Kong	15%
Property Investment	Singapore	17.4%

### MEZZANINE LOANS

Mezzanine loans are loans provided to residential developers in the USA and Canada. A return is earned comprising fixed rate interest and a share of the profits on completion of the development.

# NOTES TO THE FINANCIAL STATEMENTS

## 25. INTANGIBLE ASSETS

	Goodwill £m	Other intangible assets £m	Total £m
<b>2006</b>			
<b>Cost</b>			
At 1 January 2006	7.2	–	<b>7.2</b>
Acquisitions	0.1	2.3	<b>2.4</b>
Disposals	–	(0.4)	<b>(0.4)</b>
Exchange	–	(0.2)	<b>(0.2)</b>
At 31 December 2006	7.3	1.7	<b>9.0</b>
<b>Amortisation/impairment</b>			
At 1 January 2006	(3.3)	–	<b>(3.3)</b>
Provision for impairment	(0.2)	–	<b>(0.2)</b>
Amortisation	–	(0.6)	<b>(0.6)</b>
At 31 December 2006	(3.5)	(0.6)	<b>(4.1)</b>
<b>Carrying amount</b>			
At 1 January 2006	3.9	–	<b>3.9</b>
At 31 December 2006	3.8	1.1	<b>4.9</b>

	Goodwill £m	Other intangible assets £m	Total £m
<b>2005</b>			
<b>Cost</b>			
At 1 January 2005	–	–	–
Acquisitions	7.2	–	7.2
At 31 December 2005	7.2	–	7.2
<b>Amortisation/impairment</b>			
At 1 January 2005	–	–	–
Provision for impairment	(3.3)	–	(3.3)
At 31 December 2005	(3.3)	–	(3.3)
<b>Carrying amount</b>			
At 1 January 2005	–	–	–
At 31 December 2005	3.9	–	3.9

# NOTES TO THE FINANCIAL STATEMENTS

## 26. DEFERRED TAX ASSETS AND LIABILITIES

### RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following items:

	<b>Assets 2006 £m</b>	<b>Liabilities 2006 £m</b>	<b>Net 2006 £m</b>	Assets 2005 £m	Liabilities 2005 £m	Net 2005 £m
Investment property – contingent gains	2.4	(521.2)	(518.8)	2.3	(414.7)	(412.4)
Investment property – deferred gains	46.6	–	46.6	75.7	–	75.7
Other property, plant and equipment	–	(7.5)	(7.5)	–	(17.2)	(17.2)
Other financial assets	1.0	(0.4)	0.6	0.5	(0.9)	(0.4)
Interest-bearing loans and borrowings	–	(0.5)	(0.5)	0.1	(0.4)	(0.3)
Employee benefits	10.9	(1.7)	9.2	11.0	(0.1)	10.9
Provisions	0.4	(18.3)	(17.9)	3.2	(16.8)	(13.6)
Other items	2.2	(5.6)	(3.4)	1.1	(0.5)	0.6
Tax value and loss carry-forwards recognised	2.3	–	2.3	1.1	–	1.1
<b>Tax assets/(liabilities)</b>	<b>65.8</b>	<b>(555.2)</b>	<b>(489.4)</b>	95.0	(450.6)	(355.6)

At 31 December 2006, no deferred tax was provided in respect of investments in subsidiaries because the Group is able to control the timing of the reversal of temporary differences and is satisfied that it is probable they will not reverse in the foreseeable future.

### UNRECOGNISED DEFERRED TAX ASSETS

	<b>2006 £m</b>	2005 £m
Tax losses	0.7	0.2

### Movement in temporary differences during the year

	Balance at 1 Jan 2006 £m	Recognised in Income £m	Recognised in Equity £m	Exchange movement £m	<b>Balance at 31 Dec 2006 £m</b>
Investment property – contingent gains	(412.4)	(100.5)	(17.1)	11.2	<b>(518.8)</b>
Investment property – deferred gains	75.7	(29.1)	–	–	<b>46.6</b>
Other property, plant and equipment	(17.2)	9.7	–	–	<b>(7.5)</b>
Other financial assets	(0.4)	1.0	–	–	<b>0.6</b>
Interest-bearing loans and borrowings	(0.3)	(0.1)	(0.2)	0.1	<b>(0.5)</b>
Employee benefits	10.9	2.1	(2.9)	(0.9)	<b>9.2</b>
Provisions	(13.6)	(6.0)	–	1.7	<b>(17.9)</b>
Other items	0.6	(2.6)	–	(1.4)	<b>(3.4)</b>
Tax value and loss carry-forwards recognised	1.1	1.1	–	0.1	<b>2.3</b>
	(355.6)	(124.4)	(20.2)	10.8	<b>(489.4)</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 27. TRADING PROPERTIES

	<b>2006 £m</b>	2005 £m
At 1 January	<b>34.5</b>	44.1
Additions	<b>39.3</b>	13.9
Disposals	<b>(17.5)</b>	(24.8)
Provision for impairment	<b>(1.4)</b>	(0.8)
Transfer from/(to) investment properties	<b>3.2</b>	(3.1)
Transfer from investment property under development	<b>–</b>	3.3
Transfer to joint venture	<b>(6.0)</b>	–
Exchange movements	<b>(3.4)</b>	1.9
At 31 December	<b>48.7</b>	34.5

At 31 December 2006, trading properties with a carrying amount of £11.8m were pledged as security for bank loans (2005 – £7.0m).

## 28. TRADE AND OTHER RECEIVABLES

	<b>Group</b>		<b>Company</b>	
	<b>2006 £m</b>	2005 £m	<b>2006 £m</b>	2005 £m
Trade receivables	<b>11.7</b>	12.3	–	–
Receivables due from subsidiaries	<b>–</b>	–	<b>110.5</b>	15.0
Receivables due from joint ventures	<b>58.9</b>	30.6	–	–
Other receivables	<b>46.4</b>	16.6	–	–
Prepayments	<b>16.1</b>	16.0	–	–
	<b>133.1</b>	75.5	<b>110.5</b>	15.0

Included in the above are receivables due after more than one year totalling £47.4m (2005 – £14.5m).

## 29. CASH AND CASH EQUIVALENTS

	<b>2006 £m</b>	2005 £m
Bank balances	<b>113.1</b>	70.4
Cash deposits	<b>342.3</b>	315.1
Cash and cash equivalents	<b>455.4</b>	385.5
Bank overdrafts	<b>(4.6)</b>	(1.2)
Cash and cash equivalents in the statement of cash flows	<b>450.8</b>	384.3

The amount of cash and cash equivalents not available for use by the Group totals £125.2m (2005 – £3.3m).

# NOTES TO THE FINANCIAL STATEMENTS

## 30. INTEREST-BEARING LOANS AND BORROWINGS

### Non-current liabilities

Secured bank loans  
Unsecured bank loans  
Secured bond issues  
Unsecured bond issues  
Finance lease liabilities

	2006 £m	2005 £m
	<b>238.5</b>	210.2
	<b>70.0</b>	70.1
	<b>202.6</b>	202.6
	<b>53.1</b>	65.9
	<b>1.4</b>	6.3
	<b>565.6</b>	555.1
	<b>26.6</b>	3.6
	<b>-</b>	0.7
	<b>13.3</b>	-
	<b>49.4</b>	14.8
	<b>89.3</b>	19.1

### Current liabilities

Current portion of secured bank loans  
Current portion of unsecured bank loans  
Current portion on unsecured bond issues  
Current portion of loan from joint ventures

The bank loans and secured bonds are secured over investment properties and investment properties under development with a carrying value of £1,063.5m (2005 – £882.5m), land and buildings with a carrying value of £37.1m (2005 – £28.6m) and trading properties with a carrying value of £11.8m (2005 – £7.0m).

### MATURITY PROFILE OF INTEREST-BEARING LOANS AND BORROWINGS

From 1 to 2 years  
From 2 to 5 years  
After 5 years  
  
Due after more than one year  
Due within one year

	2006 £m	2005 £m
	<b>61.3</b>	90.6
	<b>146.8</b>	127.3
	<b>357.5</b>	337.2
	<b>565.6</b>	555.1
	<b>89.3</b>	19.1
	<b>654.9</b>	574.2

### BORROWING FACILITIES

Undrawn committed borrowing facilities available to the Group at 31 December 2006 were as follows:

Expiring less than 1 year  
Expiring from 1 to 2 years  
Expiring from 2 to 5 years

Total

	2006 £m	2005 £m
	<b>99.7</b>	145.5
	<b>26.0</b>	77.5
	<b>303.4</b>	242.9
	<b>429.1</b>	465.9

### FINANCE LEASE LIABILITIES

Finance lease liabilities are payable as follows:

Less than one year  
Between one and five years  
More than five years

	2006			2005		
	Minimum lease payments £m	Interest £m	Principal £m	Minimum lease payments £m	Interest £m	Principal £m
	<b>0.3</b>	<b>0.3</b>	-	0.7	0.7	-
	<b>1.2</b>	<b>1.2</b>	-	2.7	2.7	-
	<b>74.8</b>	<b>73.4</b>	<b>1.4</b>	98.3	92.0	6.3
	<b>76.3</b>	<b>74.9</b>	<b>1.4</b>	101.7	95.4	6.3

# NOTES TO THE FINANCIAL STATEMENTS

## 31. FINANCIAL INSTRUMENTS

### EFFECTIVE INTEREST RATE AND REPRICING ANALYSIS

2006

	Effective interest rate %	Floating interest rate £m	Fixed interest rate			Non-interest bearing £m	Total £m
			< 1 year £m	1 – 5 years £m	> 5 years £m		
<b>Financial assets</b>							
Other financial assets						44.8	<b>44.8</b>
– available for sale	–	–	–	–	–	–	<b>14.6</b>
– loans and receivables	10.0	–	6.5	8.1	–	–	<b>133.1</b>
Trade and other receivables	–	–	–	–	–	133.1	<b>455.4</b>
Cash and cash equivalents	4.4	455.4	–	–	–	–	
Total financial assets		455.4	6.5	8.1	–	177.9	<b>647.9</b>
<b>Financial liabilities</b>							
Bank overdrafts	6.0	(4.6)	–	–	–	–	<b>(4.6)</b>
Fixed rate loans							
Sterling secured mortgage 2034	10.4	–	–	–	(50.0)	–	<b>(50.0)</b>
Sterling secured bond 2026	6.4	–	–	–	(202.5)	–	<b>(202.5)</b>
Sterling unsecured bond 2019	8.4	–	–	–	(52.5)	–	<b>(52.5)</b>
Other Sterling loans	11.0	–	–	(15.0)	–	–	<b>(15.0)</b>
Euro	4.3	–	–	–	(17.4)	–	<b>(17.4)</b>
US Dollar	6.0	–	–	(61.5)	(22.2)	–	<b>(83.7)</b>
Canadian Dollar	5.9	–	(13.9)	(11.7)	(12.2)	–	<b>(37.8)</b>
Australian Dollar	6.8	–	–	(36.8)	–	–	<b>(36.8)</b>
Japanese Yen	2.9	–	–	(8.0)	–	–	<b>(8.0)</b>
Total fixed rate loans		–	(13.9)	(133.0)	(356.8)	–	<b>(503.7)</b>
Floating rate loans							
Sterling	5.5	(55.0)	–	–	–	–	<b>(55.0)</b>
Euro	4.3	(13.3)	–	–	–	–	<b>(13.3)</b>
Canadian Dollar	6.3	(10.4)	–	–	–	–	<b>(10.4)</b>
Australian Dollar	7.2	(21.7)	–	–	–	–	<b>(21.7)</b>
Total floating rate loans		(100.4)	–	–	–	–	<b>(100.4)</b>
Loan from joint ventures	3.8	(41.1)	–	–	–	(8.3)	<b>(49.4)</b>
Trade and other payables	–	–	–	–	–	(107.6)	<b>(107.6)</b>
Finance lease liabilities	11.0	–	–	–	(1.4)	–	<b>(1.4)</b>
Total financial liabilities		(146.1)	(13.9)	(133.0)	(358.2)	(115.9)	<b>(767.1)</b>

In the table above borrowings of £108.6m included in fixed rate loans take account of the effect of interest rate swap agreements at 31 December 2006.

# NOTES TO THE FINANCIAL STATEMENTS

## 31. FINANCIAL INSTRUMENTS (CONTINUED)

2005

	Effective interest rate %	Floating interest rate £m	Fixed interest rate			Non-interest bearing £m	Total £m
			< 1 year £m	1 – 5 years £m	> 5 years £m		
<b>Financial assets</b>							
Other financial assets							
– available for sale	7.5	–	0.1	–	–	37.0	37.1
– held to maturity	10.0	–	–	21.1	–	–	21.1
– loans and receivables	9.5	–	–	12.8	–	–	12.8
Trade and other receivables	–	–	–	–	–	75.5	75.5
Cash and cash equivalents	4.1	385.5	–	–	–	–	385.5
Total financial assets		385.5	0.1	33.9	–	112.5	532.0
<b>Financial liabilities</b>							
Bank overdrafts	5.5	(1.2)	–	–	–	–	(1.2)
Fixed rate loans							
Sterling secured mortgage 2034	10.4	–	–	–	(50.0)	–	(50.0)
Sterling secured bond 2026	6.4	–	–	–	(202.6)	–	(202.6)
Sterling unsecured bond 2019	8.4	–	–	–	(52.5)	–	(52.5)
Other Sterling loans	11.0	–	–	(15.0)	(0.1)	–	(15.1)
US Dollar	6.3	–	–	(45.9)	–	–	(45.9)
Canadian Dollar	6.8	–	–	(27.1)	(4.5)	–	(31.6)
Australian Dollar	6.8	–	–	(40.1)	–	–	(40.1)
Total fixed rate loans		–	–	(128.1)	(309.7)	–	(437.8)
Floating rate loans							
Sterling	5.1	(55.0)	–	–	–	–	(55.0)
Euro	3.5	(31.2)	–	–	–	–	(31.2)
US Dollar	6.1	(19.2)	–	–	–	–	(19.2)
Canadian Dollar	5.5	(2.0)	–	–	–	–	(2.0)
Australian Dollar	6.5	(7.9)	–	–	–	–	(7.9)
Total floating rate loans		(115.3)	–	–	–	–	(115.3)
Loan from joint ventures	2.6	(14.8)	–	–	–	–	(14.8)
Trade and other payables	–	–	–	–	–	(104.6)	(104.6)
Finance lease liabilities	8.2	–	–	–	(6.3)	–	(6.3)
Total financial liabilities		(131.3)	–	(128.1)	(316.0)	(104.6)	(680.0)

# NOTES TO THE FINANCIAL STATEMENTS

## 31. FINANCIAL INSTRUMENTS (CONTINUED)

In the table below the underlying debt is recorded ignoring the effect of interest swap agreements, which are shown separately.

### FAIR VALUES

	2006		2005	
	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
<b>Financial assets</b>				
Other financial assets				
– available for sale	44.8	44.8	37.1	37.1
– held to maturity	–	–	21.1	21.5
– loans and receivables	14.6	14.6	12.8	12.8
Trade and other receivables	133.1	133.1	75.5	75.5
Cash and cash equivalents	455.4	455.4	385.5	385.5
Total financial assets	647.9	647.9	532.0	532.4
<b>Financial liabilities</b>				
Bank overdrafts	(4.6)	(4.6)	(1.2)	(1.2)
Fixed rate loans				
– Sterling secured mortgage 2034	(50.0)	(86.6)	(50.0)	(89.2)
– Sterling secured bond 2026	(202.5)	(231.5)	(202.6)	(237.1)
– Sterling unsecured bond 2019	(52.5)	(65.3)	(52.5)	(68.9)
– Other sterling loans	(15.0)	(16.5)	(15.1)	(17.6)
– US Dollar	(40.8)	(41.0)	(2.4)	(2.5)
– Canadian Dollar	(26.8)	(27.5)	(18.4)	(19.1)
– Japanese Yen	(8.0)	(8.0)		
Total fixed rate loans	(395.6)	(476.4)	(341.0)	(434.4)
Interest rate swaps				
– US Dollar	0.1	0.1	(0.1)	(0.1)
– Canadian Dollar	–	–	(0.7)	(0.7)
– Australian Dollar	0.4	0.4	(0.4)	(0.4)
Total interest rate swaps	0.5	0.5	(1.2)	(1.2)
Floating rate loans				
– Sterling	(55.0)	(55.0)	(55.0)	(55.0)
– Euro	(30.7)	(30.7)	(31.2)	(31.2)
– US Dollar	(42.9)	(42.9)	(62.7)	(62.7)
– Canadian Dollar	(21.4)	(21.4)	(14.4)	(14.4)
– Australian Dollar	(59.0)	(59.0)	(47.6)	(47.6)
Total floating rate loans	(209.0)	(209.0)	(210.9)	(210.9)
Loan from joint ventures	(49.4)	(49.4)	(14.8)	(14.8)
Trade and other payables	(107.6)	(107.5)	(104.6)	(104.6)
Finance lease liabilities	(1.4)	(2.9)	(6.3)	(9.1)
Total financial liabilities	(767.1)	(849.3)	(680.0)	(776.2)

# NOTES TO THE FINANCIAL STATEMENTS

## 32. TRADE AND OTHER PAYABLES

### Current liabilities

Trade payables  
 Payables due to subsidiaries  
 Payables due to joint ventures  
 Other payables  
 Accrued expenses  
 Deferred income

### Non-current liabilities

Deferred income  
 Other payables

<b>2006</b>	2005
<b>£m</b>	£m
<b>15.5</b>	12.1
<b>–</b>	–
<b>0.6</b>	6.6
<b>24.4</b>	11.4
<b>64.7</b>	62.9
<b>1.7</b>	1.7
<b>106.9</b>	94.7
<b>152.2</b>	164.4
<b>2.4</b>	11.6
<b>154.6</b>	176.0

Deferred income includes £153.7m in respect of deferred lease premium profits (2005 – £165.9m).

## 33. PROVISIONS

### Development loss provision

At 1 January  
 Recognised in the year

At 31 December

<b>2006</b>	2005
<b>£m</b>	£m
<b>10.0</b>	–
<b>148.8</b>	10.0
<b>158.8</b>	10.0

The development loss provision is in respect of the forecast loss on the Liverpool One project. It is not considered practicable to split this amount between current and non-current liabilities. The liabilities are expected to crystallise in the period 2007 to 2008.

# NOTES TO THE FINANCIAL STATEMENTS

## 34. OPERATING LEASE COMMITMENTS

### LEASES AS LESSEE

The amount of lease rentals charged to the income statement during the year comprised:

	<b>2006</b> £m	2005 £m
Land and buildings	<b>4.4</b>	4.3
	<b>4.4</b>	4.3

Non-cancellable operating lease rentals are payable as follows:

	<b>2006</b> £m	2005 £m
Less than one year	<b>4.6</b>	3.7
Between one and five years	<b>17.6</b>	13.9
More than five years	<b>10.2</b>	12.3
	<b>32.4</b>	29.9

### LEASES AS LESSOR

Future minimum lease payments under non-cancellable leases are as follows:

	<b>2006</b> £m	2005 £m
Less than one year	<b>91.2</b>	73.1
Between one and five years	<b>277.3</b>	212.6
More than five years	<b>1,416.1</b>	1,712.5
	<b>1,784.6</b>	1,998.2

## 35. CAPITAL COMMITMENTS

Investment properties contracted but not provided  
Development properties contracted but not provided

	<b>2006</b> £m	2005 £m
Investment properties contracted but not provided	<b>91.0</b>	31.6
Development properties contracted but not provided	<b>80.8</b>	152.1
	<b>171.8</b>	183.7

# NOTES TO THE FINANCIAL STATEMENTS

## 36. CONTINGENT LIABILITIES

In connection with the demerger of Deva Group Limited (non-core activities) in 1999 the Company has provided guarantees up to a maximum of £22m (2005 – £22m).

Certain Group companies have given performance undertakings to third parties in respect of various contractual obligations entered into in the ordinary course of business.

## 37. SHARE CAPITAL

	2006		2005	
	Number of shares	£m	Number of shares	£m
Authorised				
Ordinary shares of £1	8,000,000	8.0	8,000,000	8.0
Non-voting ordinary shares of £1	64,000,000	64.0	64,000,000	64.0
12% Non-cumulative irredeemable preference shares of £1	8,000,000	8.0	8,000,000	8.0
	<b>80,000,000</b>	<b>80.0</b>	80,000,000	80.0

	2006		2005	
	Number of shares	£m	Number of shares	£m
Allocated, called up and fully paid				
Ordinary shares of £1	6,083,924	6.1	6,083,924	6.1
Non-voting ordinary shares of £1	48,671,392	48.6	48,671,392	48.6
12% Non-cumulative irredeemable preference shares of £1	6,083,924	6.1	6,083,924	6.1
	<b>60,839,240</b>	<b>60.8</b>	60,839,240	60.8

### RIGHTS OF CLASSES OF SHARES

Profits determined by the Directors as available for distribution are to be applied first in paying a fixed non-cumulative dividend of 12% per annum on the amounts paid up on the 12% non-cumulative irredeemable preference shares. The balance of profits available for distribution is payable to the holders of the ordinary shares and non-voting ordinary shares in proportion to the amounts paid up on their shares.

On a return of the Company's assets to shareholders the assets are to be applied first in repaying to the holders of the 12% non-cumulative irredeemable preference shares the amounts paid up on their shares. The balance of the assets is payable to the holders of the ordinary shares and non-voting ordinary shares in proportion to the amounts paid up on their shares.

Holders of the 12% non-cumulative irredeemable preference shares and non-voting ordinary shares are not entitled to vote at general meetings of the members of the Company except on resolutions varying or abrogating any of the special rights or privileges attaching to their shares.

On 14 March 2007 the Company purchased the following shares from shareholders representing 6.56% of its called up share capital:

Ordinary shares	Nominal value £1	399,047
Non-voting ordinary shares	Nominal value £1	3,192,376
12% Non-cumulative irredeemable preference shares	Nominal value £1	399,047

The total consideration for the purchase of the above shares was £40.3m.

# NOTES TO THE FINANCIAL STATEMENTS

## 38. RECONCILIATION OF SHARE CAPITAL AND RESERVES

### (A) GROUP

	Share capital £m	Share Premium £m	Trans- lation reserve £m	Other reserve £m	Fair value reserve £m	Revalu- ation reserve £m	Retained Earnings £m	Total £m	Minority Interest £m	Total equity £m
<b>At 1 January 2005</b>	60.8	173.1	(14.5)	102.2	12.0	72.0	1,383.0	<b>1,788.6</b>	113.3	<b>1,901.9</b>
Profit for the year	–	–	–	–	–	–	251.5	<b>251.5</b>	13.6	<b>265.1</b>
Revaluation movement	–	–	–	–	–	17.0	–	<b>17.0</b>	0.3	<b>17.3</b>
Fair value adjustments	–	–	–	0.2	(7.8)	–	–	<b>(7.6)</b>	–	<b>(7.6)</b>
Recycled to income statement	–	–	–	5.7	–	–	–	<b>5.7</b>	–	<b>5.7</b>
Deferred tax	–	–	–	–	–	(2.5)	3.3	<b>0.8</b>	–	<b>0.8</b>
Pension actuarial losses	–	–	–	–	–	–	(11.3)	<b>(11.3)</b>	–	<b>(11.3)</b>
Dividends to shareholders	–	–	–	–	–	–	(8.5)	<b>(8.5)</b>	(2.2)	<b>(10.7)</b>
Other	–	–	–	0.1	–	–	(0.5)	<b>(0.4)</b>	(29.9)	<b>(30.3)</b>
Exchange	–	–	55.8	–	–	–	–	<b>55.8</b>	(0.2)	<b>55.6</b>
<b>At 31 December 2005</b>	60.8	173.1	41.3	108.2	4.2	86.5	1,617.5	<b>2,091.6</b>	94.9	<b>2,186.5</b>
Profit for the year	–	–	–	–	–	–	347.1	<b>347.1</b>	17.1	<b>364.2</b>
Revaluation movement	–	–	–	–	–	75.9	–	<b>75.9</b>	3.7	<b>79.6</b>
Fair value adjustments	–	–	–	2.9	(0.1)	–	–	<b>2.8</b>	–	<b>2.8</b>
Deferred tax	–	–	–	–	–	(22.1)	(2.9)	<b>(25.0)</b>	–	<b>(25.0)</b>
Pension actuarial gains	–	–	–	–	–	–	10.6	<b>10.6</b>	–	<b>10.6</b>
Dividends to shareholders	–	–	–	–	–	–	(9.4)	<b>(9.4)</b>	(0.5)	<b>(9.9)</b>
Transfer between reserves	–	–	–	–	–	(10.9)	10.9	<b>–</b>	–	<b>–</b>
Minority shares issued by subsidiaries	–	–	–	–	–	–	–	<b>–</b>	35.5	<b>35.5</b>
Exchange	–	–	(75.7)	–	–	–	–	<b>(75.7)</b>	(1.8)	<b>(77.5)</b>
<b>At 31 December 2006</b>	60.8	173.1	(34.4)	111.1	4.1	129.4	1,973.8	<b>2,417.9</b>	148.9	<b>2,566.8</b>

Other reserves primarily comprise exchange gains and losses recognised by the Group prior to the adoption of IFRS accounting standards.

### (B) COMPANY

	Share capital £m	Share Premium £m	Merger Capital reserve £m	Profit and loss account £m	Total equity £m
<b>At 1 January 2005</b>	60.8	28.3	1,268.7	21.1	<b>1,378.9</b>
Retained profit for the year	–	–	–	8.5	<b>8.5</b>
Dividends to shareholders	–	–	–	(8.5)	<b>(8.5)</b>
<b>At 31 December 2005</b>	60.8	28.3	1,268.7	21.1	<b>1,378.9</b>
Retained profit for the year	–	–	–	99.4	<b>99.4</b>
Dividends to shareholders	–	–	–	(9.4)	<b>(9.4)</b>
<b>At 31 December 2006</b>	60.8	28.3	1,268.7	111.1	<b>1,468.9</b>

### DIVIDENDS

After the balance sheet date, the following dividends were proposed:

	£m
Dividends on ordinary shares	6.0
Dividends on preference shares	0.7
	6.7

The dividends have not been provided for and there are no income tax consequences for the Group.

# NOTES TO THE FINANCIAL STATEMENTS

## 39. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### (A) RECONCILIATION OF PROFIT FROM OPERATIONS INCLUDING SHARE OF JOINT VENTURES TO OPERATING PROFIT BEFORE CHANGES IN WORKING CAPITAL AND PROVISIONS

	2006 £m	2005 £m
<b>Operating activities</b>		
Profit from operations including share of joint ventures	<b>529.5</b>	385.3
Adjustments for		
Depreciation	<b>2.3</b>	1.7
Foreign exchange losses	<b>0.3</b>	0.8
Amortisation of capitalised lease incentives	<b>(0.8)</b>	(2.1)
Amortisation of deferred lease premiums	<b>(1.9)</b>	(1.7)
Recognition of income from operating lease incentives	<b>(3.7)</b>	(2.0)
Gain on sale on other investments	<b>(0.3)</b>	(0.1)
Hedging gains	<b>(1.0)</b>	(2.1)
Net gains on revaluation and sale of investment property	<b>(518.7)</b>	(246.8)
Share of profit of joint ventures	<b>(149.6)</b>	(121.6)
Share of loss of associates	<b>4.6</b>	–
Impairment of goodwill	<b>0.2</b>	3.3
Amortisation of other intangible assets	<b>0.6</b>	–
Loss on trading and development properties	<b>176.6</b>	7.3
<b>Operating profit before changes in working capital and provisions</b>	<b>38.1</b>	22.0

### (B) ANALYSIS OF NET DEBT

	1 January 2006 £m	Cash flow £m	Other non-cash movements £m	Exchange movements £m	31 December 2006 £m
Cash at bank and in hand	70.4	45.4	–	(2.7)	<b>113.1</b>
Short term deposits and short term liquid investments	315.1	38.3	–	(11.1)	<b>342.3</b>
Bank overdraft	(1.2)	(3.8)	–	0.4	<b>(4.6)</b>
Cash and cash equivalents	384.3	79.9	–	(13.4)	<b>450.8</b>
Borrowings due within one year	(19.1)	(73.3)	–	3.1	<b>(89.3)</b>
Borrowings due after more than 1 year	(555.1)	(14.8)	(12.8)	17.1	<b>(565.6)</b>
Total borrowings	(574.2)	(88.1)	(12.8)	20.2	<b>(654.9)</b>
Net borrowings	(189.9)	(8.2)	(12.8)	6.8	<b>(204.1)</b>

Other non-cash movements relate to a £17.7m transfer of debt from joint ventures and a £4.9m reduction of finance lease liabilities arising on property sales.

# NOTES TO THE FINANCIAL STATEMENTS

## 39. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

### (C) ACQUISITION OF GROUP UNDERTAKINGS

Additional investment in Sonae Sierra SGPS  
Acquisition of Legg Mason Real Estate Services Inc.

2006 £m
157.3
4.6
161.9

On 21 February 2006 the Group acquired 17.1% of Sonae Sierra SGPS, increasing the previous investment of 32.9% to 50%. On 31 March 2006 the Group acquired 100% of Legg Mason Real Estate Services Inc. (now Grosvenor Investment Management Inc.).

#### Sonae Sierra SGPS

	Book value at acquisition £m	Fair value adjustments £m	Fair value acquired £m
<b>Fair value of assets acquired</b>			
Intangible assets	6.3	7.4	13.7
Tangible assets	325.5	–	325.5
Debtors	19.6	–	19.6
Cash and cash equivalents	20.2	–	20.2
Current liabilities	(23.8)	–	(23.8)
Non-current liabilities	(230.0)	–	(230.0)
Net assets acquired	117.8	7.4	125.2
Goodwill			32.1
Total			157.3
<b>Fair value of consideration</b>			
Cash			156.0
Costs			1.3
Total			157.3

#### Legg Mason Real Estate Services Inc.

	Book value at acquisition £m	Fair value adjustments £m	Fair value acquired £m
<b>Fair value of assets acquired</b>			
Intangible assets	0.3	2.0	2.3
Tangible assets	0.6	–	0.6
Debtors	–	1.7	1.7
Net assets acquired	0.9	3.7	4.6
<b>Fair value of consideration</b>			
Cash			3.8
Costs			0.8
Total			4.6

# NOTES TO THE FINANCIAL STATEMENTS

## 40. RELATED PARTY TRANSACTIONS

Grosvenor Group Limited is wholly owned by Trusts and members of the Grosvenor Family headed by the 6th Duke of Westminster. Group companies paid £1.0m (2005 – £1.0m) in arms length rentals to Grosvenor Trusts and received £1.0m (2005 – £0.3m) in arms length rentals and service charges from certain Directors, members of the Grosvenor Family and Grosvenor Trusts.

In the ordinary course of its business the Group provides services to Grosvenor Trusts and some members of the Grosvenor Family. Income from these services totalled £6.0m (2005 – £4.7m). At the year end the balance due to certain members of the Grosvenor Family and Grosvenor Trusts was £0.2m (2005 – £0.2m due from) in relation to these services. These services mainly relate to the Group's management of the Belgravia Estate.

In 2006, the Group arranged insurance cover on normal commercial terms through a related company. Aggregate premiums paid in the year were £6.3m (2005 – £5.9m).

In 2006, the Group purchased development properties of £nil (2005 – £19.9m) in arms length agreements from Grosvenor Trusts. At the year end £nil (2005 – £nil) was due from Grosvenor Trusts.

In 2006, the Group received development management income of £0.9m (2005 – £3.6m) in arms length arrangements from Grosvenor Trusts, and £5.2m (2005 – £6.0m) from associates. At year end £nil (2005 – £nil) was due from Grosvenor Trusts and £nil (2005 – £0.5m) was accrued in relation to income owed from associates.

At 31 December 2006, the Group owed £41.1m (2005 – £14.8m) to Sonae Sierra SGPS SA and £8.3m to Barkhill Ltd (2005 – £nil), both joint ventures.

On 28 February 2006 the Group sold two subsidiaries, Grosvenor (Mayfair) Estate and Grosvenor (Belgravia) Estate to one of the Trusts for a total consideration of £5.4m. The sale was at book value before the adjustments to defer lease premium profits; the release of these deferrals resulted in a profit in the year of £41.1m.

As explained in note 36 the Company has provided guarantees up to a maximum of £22m (2005 – £22m) to the Deva Group Limited, which is owned by the Grosvenor Trusts.

# CONSOLIDATED INCOME STATEMENT PRESENTED IN US DOLLARS

for the year ended 31 December 2006

	2006 US\$m	2005 US\$m
<b>Total revenue</b>	<b>651.9</b>	712.8
Gross rental income	<b>197.3</b>	176.3
Property outgoings	<b>(76.9)</b>	(83.6)
<b>Net rental income</b>	<b>120.4</b>	92.7
Net other income	<b>97.8</b>	54.5
Administrative expenses	<b>(140.1)</b>	(97.2)
Loss on trading and development properties	<b>(326.3)</b>	(13.3)
Gains on other investments	<b>0.6</b>	–
Gains on revaluation and sale of investment property	<b>958.5</b>	449.7
Impairment of goodwill	<b>(0.4)</b>	(6.0)
Share of profit of joint ventures	<b>276.4</b>	221.6
Share of loss of associates	<b>(8.5)</b>	–
<b>Profit from operations including share of joint ventures and associates</b>	<b>978.4</b>	702.0
Dividend income	<b>2.0</b>	0.5
Financial income	<b>35.7</b>	39.1
Financial expenses	<b>(76.1)</b>	(71.0)
<b>Net financing costs</b>	<b>(38.4)</b>	(31.4)
<b>Profit before tax</b>	<b>940.0</b>	670.6
Current tax	<b>(37.1)</b>	(15.4)
Deferred tax	<b>(229.9)</b>	(172.2)
<b>Profit for the year</b>	<b>673.0</b>	483.0
<b>Attributable to:</b>		
Equity holders of the parent	<b>641.4</b>	458.1
Minority interest	<b>31.6</b>	24.9
<b>Profit for the year</b>	<b>673.0</b>	483.0

The above statement, prepared under IFRS accounting standards, is translated at the average exchange rate for the relevant year.

# CONSOLIDATED BALANCE SHEET PRESENTED IN US DOLLARS

as at 31 December 2006

	<b>Group 2006 US\$m</b>	Group 2005 US\$m
<b>ASSETS</b>		
<b>Non-current assets</b>		
Investment property	4431.9	3,323.7
Investment property under development	167.5	122.6
Other property, plant and equipment	84.4	58.0
Investments in joint ventures	1,934.3	1,356.3
Investment in associates	121.0	50.5
Other financial assets	97.8	121.9
Intangible assets	9.6	6.7
Deferred tax assets	128.8	163.1
<b>Total non-current assets</b>	<b>6,975.3</b>	5,202.8
<b>Current assets</b>		
Trading properties	95.3	59.2
Trade and other receivables	260.5	129.6
Other financial assets	18.4	–
Income tax receivable	60.0	21.8
Cash and cash equivalents	891.3	661.8
<b>Total current assets</b>	<b>1,325.5</b>	872.4
<b>TOTAL ASSETS</b>	<b>8,300.8</b>	6,075.2
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Interest-bearing loans and borrowings	(1,107.0)	(953.0)
Trade and other payables	(302.6)	(302.2)
Employee benefits	(30.9)	(47.7)
Deferred tax liabilities	(1,086.6)	(773.6)
<b>Total non-current liabilities</b>	<b>(2,527.1)</b>	(2,076.5)
<b>Current liabilities</b>		
Overdrafts	(9.0)	(2.1)
Interest-bearing loans and borrowings	(174.8)	(32.8)
Trade and other payables	(209.2)	(162.4)
Income tax payable	(46.2)	(30.4)
Provisions	(310.8)	(17.2)
<b>Total current liabilities</b>	<b>(750.0)</b>	(244.9)
<b>TOTAL LIABILITIES</b>	<b>(3,277.1)</b>	(2,321.4)
<b>NET ASSETS</b>	<b>5,023.7</b>	3,753.8
<b>Equity</b>		
Issued capital	119.0	104.4
Share premium	338.8	297.2
Reserves	411.4	412.4
Retained earnings	3,863.1	2,776.9
<b>Shareholders' funds</b>	<b>4,732.3</b>	3,590.9
Minority interest	291.4	162.9
<b>TOTAL EQUITY</b>	<b>5,023.7</b>	3,753.8

The above statement, prepared under IFRS accounting standards, is translated at the closing exchange rate for the relevant year.

# CONSOLIDATED INCOME STATEMENT PRESENTED IN EUROS

for the year ended 31 December 2006

	2006 €m	2005 €m
<b>Total revenue</b>	<b>517.6</b>	571.0
Gross rental income	<b>156.7</b>	141.3
Property outgoings	<b>(61.0)</b>	(67.0)
<b>Net rental income</b>	<b>95.7</b>	74.3
Other income	<b>77.6</b>	43.7
Administrative expenses	<b>(111.2)</b>	(77.8)
Loss on trading and development properties	<b>(259.1)</b>	(10.7)
Gains on other investments	<b>0.4</b>	–
Gains on revaluation and sale of investment property	<b>761.0</b>	360.2
Impairment of goodwill	<b>(0.3)</b>	(4.8)
Share of profit of joint ventures	<b>219.5</b>	177.5
Share of loss of associates	<b>(6.7)</b>	–
<b>Profit from operations including share of joint ventures and associates</b>	<b>776.9</b>	562.4
Dividend income	<b>1.6</b>	0.4
Financial income	<b>28.3</b>	31.3
Financial expenses	<b>(60.4)</b>	(56.8)
<b>Net financing costs</b>	<b>(30.5)</b>	(25.1)
<b>Profit before tax</b>	<b>746.4</b>	537.3
Current tax	<b>(29.5)</b>	(12.4)
Deferred tax	<b>(182.5)</b>	(137.9)
<b>Profit for the year</b>	<b>534.4</b>	387.0
<b>Attributable to:</b>		
Equity holders of the parent	<b>509.3</b>	367.1
Minority interest	<b>25.1</b>	19.9
<b>Profit for the year</b>	<b>534.4</b>	387.0

The above statement, prepared under IFRS accounting standards, is translated, at the average exchange rate for the relevant year.

# CONSOLIDATED BALANCE SHEET PRESENTED IN EUROS

as at 31 December 2006

	<b>Group 2006 €m</b>	Group 2005 €m
<b>ASSETS</b>		
<b>Non-current assets</b>		
Investment property	<b>3,360.8</b>	2,817.7
Investment property under development	<b>127.0</b>	103.9
Other property, plant and equipment	<b>64.0</b>	49.2
Investments in joint ventures	<b>1,466.8</b>	1,149.8
Investment in associates	<b>91.7</b>	42.7
Other financial assets	<b>74.2</b>	103.3
Intangible assets	<b>7.3</b>	5.7
Deferred tax assets	<b>97.7</b>	138.3
<b>Total non-current assets</b>	<b>5,289.5</b>	4,410.6
<b>Current assets</b>		
Trading properties	<b>72.3</b>	50.2
Trade and other receivables	<b>197.5</b>	109.9
Other financial assets	<b>14.0</b>	–
Income tax receivable	<b>45.6</b>	18.4
Cash and cash equivalents	<b>675.9</b>	561.1
<b>Total current assets</b>	<b>1,005.3</b>	739.6
<b>TOTAL ASSETS</b>	<b>6,294.8</b>	5,150.2
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Interest-bearing loans and borrowings	<b>(839.5)</b>	(807.9)
Trade and other payables	<b>(229.5)</b>	(256.2)
Employee benefits	<b>(23.4)</b>	(40.5)
Deferred tax liabilities	<b>(824.0)</b>	(655.8)
<b>Total non-current liabilities</b>	<b>(1,916.4)</b>	(1,760.4)
<b>Current liabilities</b>		
Overdrafts	<b>(6.8)</b>	(1.7)
Interest-bearing loans and borrowings	<b>(132.5)</b>	(27.8)
Trade and other payables	<b>(158.7)</b>	(137.8)
Income tax payable	<b>(35.0)</b>	(25.7)
Provisions	<b>(235.7)</b>	(14.6)
<b>Total current liabilities</b>	<b>(568.7)</b>	(207.6)
<b>TOTAL LIABILITIES</b>	<b>(2,485.1)</b>	(1,968.0)
<b>NET ASSETS</b>	<b>3,809.7</b>	3,182.2
<b>Equity</b>		
Issued capital	<b>90.2</b>	88.5
Share premium	<b>256.9</b>	251.9
Reserves	<b>312.0</b>	349.6
Retained earnings	<b>2,929.5</b>	2,354.1
<b>Shareholders' funds</b>	<b>3,588.6</b>	3,044.1
Minority interest	<b>221.1</b>	138.1
<b>TOTAL EQUITY</b>	<b>3,809.7</b>	3,182.2

The above statement, prepared under IFRS accounting standards, is translated at the closing exchange rate for the relevant year.

# PROPERTY PORTFOLIO SUMMARY

## PORTFOLIO ANALYSIS – PROPRIETARY ASSETS

	Investment properties					Development programme		Financial assets	Total
	Number	Value	Passing rent	ERV	Running yield	Number	Completed cost	Carrying value	
	No.	£m	£m	£m	%	No.	£m	£m	£m
Britain & Ireland									
Office	287	873.1	35.5	50.8	4.1%	6	20.3	–	<b>893.4</b>
Retail	134	630.6	25.6	35.9	4.1%	6	671.0	–	<b>1,301.6</b>
Residential *	346	639.0	11.1	n/a	1.7%	8	122.1	–	<b>761.1</b>
	767	2,142.7	72.2	n/a	3.4%	20	813.4	–	<b>2,956.1</b>
Americas									
Office	8	122.6	7.8	10.0	6.4%	2	33.6	0.8	<b>157.0</b>
Retail	41	256.6	15.0	19.2	5.8%	3	57.1	–	<b>313.7</b>
Residential	3	43.9	2.7	3.2	6.1%	2	92.7	14.7	<b>151.3</b>
Industrial	11	51.6	2.9	2.9	5.6%	–	–	–	<b>51.6</b>
Car parks	1	35.1	2.7	2.7	7.7%	–	–	–	<b>35.1</b>
	64	509.8	31.1	38.0	6.1%	7	183.4	15.5	<b>708.7</b>
Continental Europe									
Office	2	43.3	1.7	1.7	4.0%	2	53.0	–	<b>96.3</b>
Retail	109	989.3	58.2	60.0	5.9%	13	332.5	–	<b>1,321.8</b>
Industrial	–	–	–	–	–	6	47.3	–	<b>47.3</b>
	111	1,032.6	59.9	61.7	5.8%	21	432.8	–	<b>1,465.4</b>
Australia Asia Pacific									
Office	4	119.9	7.9	9.3	6.6%	2	62.4	4.1	<b>186.4</b>
Retail	1	7.6	0.3	0.3	3.9%	–	–	16.1	<b>23.7</b>
Residential	24	23.1	1.2	1.2	5.2%	3	61.7	4.6	<b>89.4</b>
Industrial	11	41.3	3.1	3.2	7.5%	1	6.1	–	<b>47.4</b>
Car parks	2	43.3	1.5	1.5	3.5%	–	–	–	<b>43.3</b>
	42	235.2	14.0	15.5	6.0%	6	130.2	24.8	<b>390.2</b>
Grosvenor Fund Management (investment in fund vehicles)									
Office	1	0.9	n/a	n/a	n/a	–	–	8.1	<b>9.0</b>
Retail	1	1.3	n/a	n/a	n/a	–	–	8.1	<b>9.4</b>
	2	2.2	n/a	n/a	n/a	–	–	16.2	<b>18.4</b>
Total Group									
Office	302	1,159.8	52.9	71.8	4.6%	12	169.3	13.0	<b>1,342.1</b>
Retail	286	1,885.4	99.1	115.4	5.3%	22	1,060.6	24.2	<b>2,970.2</b>
Residential	373	706.0	15.0	n/a	2.1%	13	276.5	19.3	<b>1,001.8</b>
Industrial	22	92.9	6.0	6.1	6.5%	7	53.4	–	<b>146.3</b>
Car parks	3	78.4	4.2	4.2	5.4%	–	–	–	<b>78.4</b>
	986	3,922.5	177.2	n/a	4.5%	54	1,559.8	56.5	<b>5,538.8</b>

\* The majority of the residential portfolio in Britain & Ireland is ground rented (low fixed rent).  
The average yield on the rack rented residential portfolio is 3.8%.

# PROPERTY PORTFOLIO SUMMARY

## GEOGRAPHIC ANALYSIS – PROPRIETARY ASSETS

	Investment properties £m	Development programme £m	Financial assets £m	<b>Total £m</b>
Britain & Ireland				
West End	1,707.5	95.7	–	<b>1,803.2</b>
City	19.0	–	–	<b>19.0</b>
Outside London	416.2	717.7	–	<b>1,133.9</b>
	2,142.7	813.4	–	<b>2,956.1</b>
Americas				
USA	316.4	45.6	6.2	<b>368.2</b>
Canada	193.4	137.8	9.3	<b>340.5</b>
	509.8	183.4	15.5	<b>708.7</b>
Continental Europe				
France	109.0	–	–	<b>109.0</b>
Spain	267.1	265.2	–	<b>532.3</b>
Portugal	562.7	18.7	–	<b>581.4</b>
Italy	45.3	56.9	–	<b>102.2</b>
Germany	–	81.2	–	<b>81.2</b>
Greece	10.0	10.8	–	<b>20.8</b>
Brazil	38.5	–	–	<b>38.5</b>
	1,032.6	432.8	–	<b>1,465.4</b>
Australia Asia Pacific				
Australia	193.4	73.6	–	<b>267.0</b>
Hong Kong	17.2	37.5	12.8	<b>67.5</b>
Japan	24.6	19.1	–	<b>43.7</b>
Singapore	–	–	12.0	<b>12.0</b>
	235.2	130.2	24.8	<b>390.2</b>
Grosvenor Fund Management Investment in fund vehicles	2.2	–	16.2	<b>18.4</b>
	2.2	–	16.2	<b>18.4</b>
Total Group	3,922.5	1,559.8	56.5	<b>5,538.8</b>

# PROPERTY PORTFOLIO

## BRITAIN & IRELAND

Grosvenor Britain & Ireland has an interest in a portfolio of assets across 300 acres of Mayfair and Belgravia. More than 760 retail, residential and commercial properties make up the portfolio. It is not practical to list all these assets. However, the table below shows assets held outside London, large individual properties in the London portfolio and assets grouped at street-level that are strategic locations on the London Estate. The ownership of some of these strategic locations lies with Grosvenor family trusts. The number of assets on each street, together with the total floor area, is recorded in the table below.

Property	Description	Location	Area sq m
<b>Investment properties – directly or Trust owned</b>			
Chantry House	Residential apartment block	West End, London, UK	5,100
Duke Street	19 offices, 20 exclusive apartments and 24 retail units.	West End, London, UK	25,300
Eaton Square	Residential units on 6 floors in historic Grade 2* listed buildings	West End, London, UK	68,200
Ebury Street	25 offices, 86 residential and 48 retail units	West End, London, UK	6,400
Elizabeth Street	5 offices, 28 residential and 58 retail units on historic Georgian street	West End, London, UK	2,000
Erskin House	Residential apartment block	West End, London, UK	1,000
Grosvenor Square	52 units, of which 19 are offices and 34 are residential	West End, London, UK	71,600
4/8 Grosvenor Street & 30/32 Avery Row	6 floor office building with 5 retail units	West End, London, UK	2,900
73 Grosvenor Street	6 floor refurbished and partly rebuilt office building	West End, London, UK	1,300
75 Grosvenor Street	6 floor refurbished and partly rebuilt office building	West End, London, UK	1,500
Grosvenor Hill Court	2 floor office building with 30 residential units above and car park	West End, London, UK	7,300
Mount Street	21 offices, 33 residential, 28 retail	West End, London, UK	70,600
Motcomb Street	4 offices, 26 residential units and 41 retail units	West End, London, UK	9,600
16/20 North Audley Street	6 floor refurbished and partly rebuilt office building	West End, London, UK	11,300
97/99 Park Street	Residential apartment block	West End, London, UK	1,600
Peterson House, 25 Gilbert Street	Residential apartment block	West End, London, UK	1,500
Pimlico Road	1 office, 14 residential units and 60 retail units	West End, London, UK	1,200
St. Anselm House, 65 Davies Street	8 floor 1930's office building	West End, London, UK	7,800
Terminal House, 52 Grosvenor Gardens	7 floor office building with 9 retail units	West End, London, UK	8,200

This analysis excludes Operating Companies' interests in properties managed by Grosvenor Fund Management.

# PROPERTY PORTFOLIO

## BRITAIN & IRELAND (continued)

Property	Description	Location	Area sq m
<b>Investment properties – held in joint ventures</b>			
Grosvenor Street	Comprising 113 units of which 85 are offices, 13 are residential and 15 are retail.	West End, London, UK	57,600
10 Grosvenor Street	6 floor open plan office building	West End, London, UK	5,300
Liffey Valley Shopping Centre	Regional shopping centre with 94 retail units and cinema	Dublin, Republic of Ireland	36,300
Viewpoint - Mayfair	9 floor open plan refurbished office building with 3 retail units in Oxford Street	West End, London, UK	4,600
<b>Development properties – directly owned</b>			
Montrose Place	Residential apartment block	West End, London, UK	60,000
Preston	£600m retail-led mixed use urban regeneration scheme	Preston, Lancashire, UK	145,900
<b>Development properties – held in joint ventures and associates</b>			
Bankside	Residential apartment block	Central London, UK	66,000
Edinburgh Technopole	Science Park	Edinburgh, Scotland, UK	46,500
Fountain North	Mixed use city centre scheme	Edinburgh, Scotland, UK	83,200
Grand Arcade	Mixed use city centre development	Cambridge, East Anglia, England	41,800
Liverpool One	£600m retail-led, mixed-use urban regeneration project.	Liverpool, Merseyside, UK	191,000
Pacific Quay	15 acres of commercial development at the heart of Glasgow's new urban business district	Glasgow, Scotland, UK	46,500

This analysis excludes Operating Companies' interests in properties managed by Grosvenor Fund Management.

# PROPERTY PORTFOLIO

## AMERICAS

Property	Description	Location	Area sq m
<b>Investment properties – directly owned</b>			
Annacis Business Park	Warehouse and distribution park	Vancouver, B.C., Canada	80,500
Ascent	Multiple low-rise apartment buildings containing 90 units	Seattle, WA, USA	7,000
Bow Parkade	2 multi-level parking structures (1,000 parking spaces) with ground floor retail	Calgary, AB, Canada	2,400
Chelsea at Juanita Village	2 mid-rise apartment buildings containing 196 units and ground floor retail	Seattle, WA, USA	14,800
Crowfoot Corner	Community shopping centre	Calgary, AB, Canada	5,800
Crowfoot Village	Community shopping centre	Calgary, AB, Canada	4,700
1777 F Street	8-storey office building	Washington, D.C., USA	5,500
The Grosvenor Building	22 storey office building with retail space and parking	Vancouver, B.C., Canada	18,900
Los Gatos Village Square	Neighbourhood shopping centre	Los Gatos, CA, USA	4,200
Sancerre	Multiple low-rise apartment buildings comprising 140 units	Seattle, WA, USA	10,500
1799 Union Street	2-storey retail and office building	San Francisco, CA, USA	1,200
1944 Union Street	Single building restaurant building	San Francisco, CA, USA	400
Venator Building	Urban retail building	Calgary, AB, Canada	2,300
Viscount & Viceroy	2 low-rise apartment buildings comprising 26 units	Calgary, AB, Canada	1,600
Walnut Gate	Neighbourhood retail centre	Langley, B.C., Canada	2,500
Westgate West	Neighbourhood shopping centre	San Jose, CA, USA	21,900
<b>Investment properties – held in joint ventures and associates</b>			
Best Buy Metro Center	Community shopping centre	Springfield, VA, USA	9,800
Broadmead Village Shopping Centre	Neighbourhood retail centre	Saanich, B.C., Canada	11,800
Carlyle Gateway I & II	Two 6-storey office buildings with ground floor retail	Alexandria, VA, USA	23,200
Church Street Plaza	Community lifestyle centre	Evanston, IL, USA	16,400
Coventry Hills Shopping Centre	Community retail centre	Calgary, AB, Canada	12,200
DC Urban Retail Portfolio	Retail portfolio comprising 17 buildings	Washington, D.C., USA	42,900
2 North Lake	11-storey office building, 3-storey historic building and an 8-storey split-level garage	Pasadena, CA, USA	20,500
830 North Michigan Avenue	6-storey urban retail building	Chicago, IL, USA	11,600
1701 Pennsylvania Avenue, N.W.	12-storey office building with ground floor retail and parking	Washington, D.C., USA	17,700
180 Post Street	Urban retail building	San Francisco, CA, USA	2,700
251 Post Street	Urban retail/office building	San Francisco, CA, USA	3,400
Rice Lake Square	9 building community retail centre	Wheaton, IL, USA	23,400
308 – 310 N. Rodeo Drive	Urban retail building	Beverly Hills, CA, USA	1,400
South Edmonton Common	Regional 'power centre'	Edmonton, AB, Canada	16,800
South Point Exchange	Community shopping centre	Surrey, B.C., Canada	20,600
USCO Distribution Facility	Single floor warehouse/distribution building	Calgary, AB, Canada	28,100
Valley River Center	2 building retail centre with theatre	Eugene, OR, USA	96,000

This analysis excludes Operating Companies' interests in properties managed by Grosvenor Fund Management.

# PROPERTY PORTFOLIO

## AMERICAS (continued)

Property	Description	Location	Area sq m
<b>Principal developments – directly owned</b>			
15th Avenue/7th Street (Beltline Site)	High rise (17 storey) residential development site comprising 98 units	Calgary, AB, Canada	10,500
5955 Balsam	Mid rise (12 storey) luxury residential development comprising 42 units	Vancouver, B.C., Canada	6,800
Hamilton Marketplace	8.93 acre site, planned for a 90,000 sq ft grocery-anchored Neighbourhood retail centre	Novato, CA, USA	8,400
Melcor Site	High rise (20 storey) residential development site comprising 320 units in two towers	Calgary, AB, Canada	25,900
Triangle Assembly	Low rise (4 storey) residential development site comprising 220 units	Surrey, B.C., Canada	22,100
<b>Principal developments – held in joint ventures</b>			
Avondale (Lions Gate Hospital Site)	Low rise residential development comprising 83 units	North Vancouver, B.C., Canada	9,000
The Boulevard @ South Point Exchange	Fashion oriented lifestyle centre	Surrey, B.C., Canada	3,100
High Street @ South Point Exchange	Mixed use development comprising 88 residential units and 17,000 s.f. of retail	Surrey, B.C., Canada	9,300
The RISE (2300 Cambie Street)	Mixed use commercial and residential urban development	Vancouver, B.C., Canada	25,900
185 Post Street	6 storey retail urban re-development	San Francisco, CA, USA	2,400
South Edmonton Common	'Big Box' retail development expansion	Edmonton, AB, Canada	223,000
The Village @ South Point Exchange	Community oriented main street retail and residential development	Surrey, B.C., Canada	47,900
WesTech Restaurant Park	In-line retail building and 5 restaurant and bank "pad" sites	Silver Spring, MD, USA	3,900

This analysis excludes Operating Companies' interests in properties managed by Grosvenor Fund Management.

# PROPERTY PORTFOLIO

## CONTINENTAL EUROPE

Property	Description	Location	Area sq m
<b>Investment properties – directly owned</b>			
Paris Antiques market	Two galleries with 450 small retail units	Paris, France	8,300
<b>Principal Investment properties – held by joint ventures</b>			
Airone	Shopping centre with 42 retail units	Monselice, Italy	9,900
AlgarveShopping	Shopping centre with 133 retail units	Guia, Portugal	42,400
ArrábidaShopping	Shopping centre with 180 retail units	Vila Nova de Gaia, Portugal	56,400
Avenida M40	Shopping centre with 136 retail units	Leganés, Madrid, Spain	48,300
Boavista Shopping	Shopping centre with 182 retail units	São Paulo, Brazil	23,900
CascaShopping	Shopping centre with 169 retail units	Cascais, Portugal	72,200
Centro Colombo	Shopping centre with 427 retail units	Lisbon, Portugal	120,000
CoimbraShopping	Shopping centre with 69 retail units	Coimbra, Portugal	26,500
Dos Mares	Shopping and leisure centre with 84 retail units	San Javier, Spain	24,300
Estação Viana Shopping	Shopping centre with 114 retail units	Viana do Castelo, Portugal	65,500
La Farga	Shopping and leisure centre with 128 retail units	Barcelona, Spain	18,600
Faubourg Saint-Honoré, 68	Office building with 9 tenants	Paris, France	9,600
Franca Shopping	Shopping centre with 95 retail units	São Paulo, Brazil	18,200
GaiaShopping	Shopping centre with 167 retail units	Vila Nova de Gaia, Portugal	59,700
Grancasa	Shopping centre with 166 retail units	Zaragoza, Spain	79,400
GuimarãeShopping	Shopping centre with 92 retail units	Guimarães, Portugal	26,900
LouresShopping	Shopping centre with 123 retail units	Loures, Portugal	39,000
Luz del Tajo	Shopping centre with 134 retail units	Toledo, Spain	45,600
MadeiraShopping	Shopping centre with 112 retail units	Funchal, Portugal	26,600
MaiaShopping	Shopping centre with 112 retail units	Maia, Portugal	30,900
Max Centre	Shopping centre with 159 retail units	Bilbao, Spain	59,400
Mediterranean Cosmos	Shopping and leisure centre with 209 retail units	Thessaloniki, Greece	46,000
Metrópole	Shopping centre with 131 retail units	São Paulo, Brazil	23,600
NorteShopping	Shopping centre with 289 retail units	Porto, Portugal	71,900
Parque Atlântico	Shopping and leisure centre with 104 retail units	Ponta Delgado, Portugal	22,300
Parque Dom Pedro	Shopping centre with 390 retail units	Campinas, Brazil	107,000
Parque Principado	Shopping centre with 159 retail units	Oviedo, Spain	76,800
Pátio Brazil	Shopping centre with 167 retail units	Brasília, Brazil	28,500
Penha Shopping	Shopping centre with 191 retail units	São Paulo, Brazil	26,400
Plaza Eboli	Shopping centre with 97 retail units	Pinto, Spain	28,500
Plaza Mayor	Shopping and leisure centre with 99 retail units	Malaga, Spain	33,300
Plaza Sul	Shopping centre with 238 retail units	Jd.Saúde, Brazil	27,100
Rio Sul	Shopping and leisure centre with 137 retail units	Seixal, Portugal	39,700
SerraShopping	Shopping centre with 86 retail units	Lugar da Qta. do Pinheiro, Portugal	17,700
Tivoli	Shopping centre with 265 retail units	São Paulo, Brazil	22,500
Valecentre	Shopping centre with 91 retail units	Macron, Italy	26,700
Valle Real	Shopping centre with 102 retail units	Santander, Spain	47,700
Vasco da Gama	Shopping centre with 164 retail units	Lisbon, Portugal	47,600
ViaCatarinaShopping	Shopping centre with 100 retail units	Porto, Portugal	11,900
Warner Village	Leisure centre with 5 retail units	Marcon, Italy	11,700
Zubiarte	Shopping and leisure centre with 79 retail units	Bilbao, Spain	20,700

This analysis excludes Operating Companies' interests in properties managed by Grosvenor Fund Management.

# PROPERTY PORTFOLIO

## CONTINENTAL EUROPE (continued)

Property	Description	Location	Area sq m
<b>Principal Development properties – held by joint ventures</b>			
Alexa	City centre retail development	Berlin, Germany	56,000
Arganda	Industrial development	Arganda, Spain	14,900
Colombo Towers	Office development	Lisbon, Portugal	48,000
Coslada 2	Industrial development	Coslada, Spain	18,700
Coslada 3	Industrial development	Coslada, Spain	11,000
El Rosal	Shopping centre development	Ponferrada, Spain	49,100
Freccia Rossa	Retail and leisure development	Brescia, Italy	30,300
Galatsi	Shopping centre development	Athens, Greece	39,000
Gli Orsi	Shopping centre development	Biella, Italy	27,000
Lima Retail Park	Shopping centre development	Viana, Portugal	10,700
Omega	Office development	Madrid, Spain	50,700
Pinto	Industrial development	Pinto, Spain	18,800
Plaza Mayor Shopping	Expansion of existing shopping centre	Málaga, Spain	18,800
São João da Madeira	Shopping centre development	SJ Madeira, Portugal	19,800
Torrejon	Industrial development	Torrejon, Spain	44,800
Valencia	Industrial development	Valencia, Spain	13,300
Weiterstadt	Shopping centre development	Weiterstadt, Germany	61,300

This analysis excludes Operating Companies' interests in properties managed by Grosvenor Fund Management.

# PROPERTY PORTFOLIO

## AUSTRALIA ASIA PACIFIC

Property	Description	Location	Area sq m
<b>Investment properties – directly owned</b>			
Abbot Road, Seven Hills	Retail Trade Outlet	Sydney, Australia	7,500
Cinema Centre Car Park	Car park with 906 spaces	Sydney, Australia	26,800
114 Flinders Street	Car park with 864 spaces plus 2500m <sup>2</sup> of office	Melbourne, Australia	28,800
151&153 Glendenning Road	2 industrial distribution buildings	Sydney, Australia	12,000
20 Hunter Street	'A' grade office building	Sydney, Australia	10,000
2828-2840 Ipswich Road	Industrial warehouse	Brisbane, Australia	13,900
61 Plumpton Road	Industrial distribution building	Sydney, Australia	10,000
22-34 Rosebery Avenue	Industrial warehouse	Sydney, Australia	5,700
259 Queen Street	'A+' grade office building	Brisbane, Australia	24,700
Vienna Apartment	High-end serviced apartment building	Shanghai, China	13,800
Yoshiyasu-kanda Office	Office in Chiyoda-ku, Tokyo	Japan	3,200
<b>Investment properties – held in joint ventures</b>			
15/F Lippo Centre I	Office on 15th floor of Lippo Tower	Hong Kong	1,200
Sir Joseph Banks Corporate Park	Hi Tech business park	Sydney, Australia	32,000
Kichijoji	Town retail in suburban Tokyo	Japan	1,400
<b>Development properties – directly owned</b>			
Banyo	Residential and industrial sub-division (*land area)	Brisbane, Australia	136,700*
19-21 Church Street, 20-23 Tomaree Street	58 Serviced apartments	Nelson Bay, Australia	8,300
<b>Development properties – held in joint ventures</b>			
103 Castle Peak Road	Residential development	Castle Peak, Hong Kong	16,200
400 George Street	Office development	Brisbane, Australia	41,400
25 Smith Street	Office development	Parramatta, Australia	11,000
Kamizonochi	Residential development	Tokyo, Japan	17,900

This analysis excludes Operating Companies' interests in properties managed by Grosvenor Fund Management.

# PROPERTY PORTFOLIO

## PROPERTIES MANAGED BY GROSVENOR FUND MANAGEMENT

Property	Description	Location	Area sq m
<b>Grosvenor Shopping Centre Fund</b>			
Coopers Square	Covered shopping centre with 70 retail outlets	Burton-on-Trent, East Midlands, UK	35,800
Dolphin Centre	Shopping centre with 125 retail units	Poole, Dorset, UK	46,100
The Eastgate Centre	Covered shopping centre with 65 retail units	Inverness, Scotland, UK	38,100
Freshney Place	Single level covered shopping centre with 100 retail outlets	Grimsby, Lincolnshire, UK	46,500
<b>Grosvenor London Office Fund</b>			
Almack House, King Street	7 floor 1990s office building	West End, London, UK	9,300
Belgrave House	8 floor open plan office building	West End, London, UK	25,500
40 Grosvenor Place	6 floor open plan office building	West End, London, UK	18,600
25 Moorgate	7 floor open plan office building	City, London, UK	7,700
<b>Grosvenor Festival Place Fund</b>			
Festival Place, Basingstoke	Covered two level shopping centre with 195 shops, restaurants and cafes	Basingstoke, Hampshire, UK	96,700
<b>Talbot Residential Investment Fund</b>			
Astwick Manor	8 three bedroom townhouses	Hatfield, Hertfordshire, UK	1,100
Beaumont House	8 unit residential building	Willesden Green, London, UK	300
Belgrave House	19 unit residential building	Pimlico, London, UK	900
Bridge Court	13 two bedroom flats	Welwyn Garden City, Hertfordshire, UK	800
Grosvenor House	9 two bedroom flats; 2 three bedroom flats	Cheltenham, Gloucestershire, UK	1,000
23 Hulse Road	16 two bedroom apartments	Southampton, Hampshire, UK	1,200
The Rosery	3 one bedroom flats; 5 two bedroom flats	Worcester, Worcestershire, UK	500
Trenchard Close	18 two bedroom terraced houses	Stanmore, Middlesex, UK	1,300
<b>Grosvenor Retail European Property</b>			
10 rue d'Alsace Lorraine	High street retail unit	Toulouse, France	700
19 rue d'Alsace Lorraine	High street retail unit	Toulouse, France	600
6 Avenue Pierre Broselette	Three retail units	Cannes, France	400
Porte de Chatillon	Retail warehouse unit and shopping gallery	Malakoff, France	5,800
48 rue de la Chaussée d'Antin	Retail space located in one of the prime retail areas of Paris	Paris, France	300
Cisalfa Portfolio	One town centre and one warehouse retail unit	Bergamo, Italy	5,800
French retail warehouse portfolio	Three retail warehouse parks with a total of 15 units	Bondy, Bourges, France	16,300
15-19 Place Gambetta	Four storey Virgin Megastore	Bordeaux, France	5,500
28-30 Avenue George V	Three restaurant units	Paris, France	2,000
Lyon Jacobins	Retail space divided into ten small boutiques and a restaurant	Lyon, France	900
10 Place du Marché	Town centre retail gallery with 7 units	Thionville, France	2,200
Place du RER	Two retail warehouse style units	Saint Ouen, France	3,100
102 rue de Rivoli	High street retail unit	Paris, France	1,100
Rue Jean Monnet	Retail warehouse park with 17 units	Claye Souilly, France	16,900
SPIIC Portfolio	Portfolio of 11 French high street retail properties with a total of 23 units	Bordeaux, Toulouse, Avignon, Paris; France	18,600
Transeuropean Retail Warehouses	Portfolio of 8 retail warehouses	Belgium and Luxembourg	11,300
Avenue de l'Avenir, Avenue de Lézenes	Retail warehouse park with 7 units and office space	Villeneuve d'Ascq, France	10,500

# PROPERTY PORTFOLIO

## PROPERTIES MANAGED BY GROSVENOR FUND MANAGEMENT (continued)

Property	Description	Location	Area sq m
<b>Grosvenor Land Property Fund</b>			
Chester Court	12 unit residential building	Hong Kong	1,700
15C Fairlane Tower	1 residential unit	Hong Kong	100
46C Tavistock II	1 residential unit	Hong Kong	200
<b>Grosvenor Diamond Capital – Stable Residential Fund</b>			
Chester Court, Nihonbashi	104 unit residential building	Tokyo, Japan	4,900
Chester Court, Sengoku	23 unit residential building	Tokyo, Japan	1,500
Chester House Funabori	54 unit residential building	Tokyo, Japan	1,300
Chester House, Mejiro	18 unit residential building	Tokyo, Japan	400
Chester House Yoyogi	28 unit residential building	Tokyo, Japan	1,200
Mayfair Court, Nishiiazabu	9 unit residential building	Tokyo, Japan	1,300
Mayfair Court, Roppongi	11 unit residential building	Tokyo, Japan	1,900
KJ Maison Kishine Koen	70 unit residential building	Kanagawa, Japan	1,400
Vert Varie Kitasando	144 unit residential building	Tokyo, Japan	5,000
<b>Grosvenor Capital Advisers Partnership</b>			
Buena Vista Shimiz	33 unit residential building	Osaka, Japan	2,300
Chester Court, Honkomagome	36 unit residential building	Tokyo, Japan	2,200
Chester Court, Kasuga	68 unit residential building	Tokyo, Japan	3,600
Chester Court, Mitsukoshimae	36 unit residential building	Tokyo, Japan	1,400
Chester House, Nishimagome	52 unit residential building	Tokyo, Japan	1,600
Hakusan Heights	32 unit residential building	Tokyo, Japan	2,700
Modulor Asagaya	32 unit residential building	Tokyo, Japan	1,000
Modulor Shirokane	36 unit residential building	Tokyo, Japan	1,000
Rafine Yotsubashi	19 unit residential building	Osaka, Japan	2,200
Takanawa Compound	6 unit residential building	Tokyo, Japan	1,400
Toei Building	47 unit residential building	Kanagawa, Japan	1,300
Yoyogi Uehara Terrace	5 unit residential building	Tokyo, Japan	1,000
<b>ISPT Grosvenor International Property Trust</b>			
L'Anec Blau	Covered Shopping Centre over 3 levels	Barcelona, Spain	27,800
4501 N. Fairfax Drive	9 floor office building	Arlington, VA, USA	18,100
ParkRidge Four	6 floor office building	Littleton, CO, USA	17,900
The River	Shopping Centre with 41 units	Rancho Mirage, CA, USA	21,200
<b>Shmael U.S. Real Estate Fund</b>			
5505 Morehouse Drive	3 floor office building	San Diego, CA, USA	6,700
1350 Piccard Drive	4 floor office building	Rockville, MD, USA	9,700

# PROPERTY PORTFOLIO

## PROPERTIES MANAGED BY GROSVENOR FUND MANAGEMENT (continued)

Property	Description	Location	Area sq m
<b>Grosvenor Investment Management US Inc. – Representative Properties Managed on Behalf of Separate Account Clients</b>			
Alcoa Building	6 floor office building	Pittsburgh, PA USA	21,300
AtlanTech Tower	12 floor office building	Ft. Lauderdale, FL, USA	48,400
Benchmark Assisted Living	15 assisted living facilities with 1,181 units	New England, USA	84,900
1180 Church Road	Office/warehouse building	Lansdale, PA USA	19,000
Collegeville Marriott Courtyard	130 room hotel	Collegeville, PA USA	7,200
Cornerstone	2 floor medical office building	Warrenville, IL USA	5,900
Digital Lightwave Drive	3 floor office building	Clearwater, FL, USA	8,600
GSW Building	3 floor office building	Westerville, OH USA	9,000
Heritage of Green Hills	619 unit senior housing community	Reading, PA USA	58,300
1500 K Street	11 floor office building	Washington D.C., USA	22,600
Koppers Building	31 floor office building	Pittsburgh, PA USA	33,100
Meadowood Apartments	296 unit residential complex	San Antonio, TX USA	23,300
Mifflin County Commons	Retail strip center	Lewistown, PA USA	18,400
1200 Morris Drive	3 floor office building	Wayne, PA USA	10,600
79 North Industrial	Industrial warehouse park with 7 buildings plus 23.4 acres of buildable land	Sewickley, PA USA	37,800
701 North Michigan Avenue	2 floor retail building	Chicago, IL, USA	2,100
Parkway 120	5 floor office building	Old Bridge, NJ USA	19,000
Spread Eagle Village	Specialty retail center	Strafford, PA USA	7,400
Station Square	346 unit residential complex	Lansdale, PA USA	36,100
Toll Brothers Realty Trust I & II	Interest in 6 projects including office, residential and retail	Multiple locations, USA	209,200

# FIVE YEAR SUMMARY

	2002 £m	2003 £m	2004 £m	2005 £m	2006 £m
<b>INCOME STATEMENT</b>					
Net rental and other income	108.0	101.1	61.7	80.8	<b>118.1</b>
Administrative expenses	(35.5)	(41.5)	(46.7)	(53.3)	<b>(75.8)</b>
Profit/(loss) on trading and development properties	2.6	6.5	9.6	(7.3)	<b>(176.6)</b>
(Losses)/gains on other investments	(17.3)	3.3	22.9	–	<b>0.3</b>
Net gains on revaluation and sale of investment properties	24.6	37.2	198.8	246.8	<b>518.7</b>
Impairment of goodwill	–	–	–	(3.3)	<b>(0.2)</b>
Share of profit from joint ventures	17.7	22.3	123.8	121.6	<b>149.6</b>
Share of loss from associates	–	–	–	–	<b>(4.6)</b>
Profit before net financing costs and tax	100.1	128.9	370.1	385.3	<b>529.5</b>
Net financing costs	(39.3)	(37.2)	(28.0)	(17.2)	<b>(20.8)</b>
<b>Profit before tax</b>	<b>60.8</b>	<b>91.7</b>	<b>342.1</b>	<b>368.1</b>	<b>508.7</b>
<b>BALANCE SHEET</b>					
<b>Total property assets including share of joint ventures and associates</b>	<b>2,678.0</b>	<b>2,728.8</b>	<b>3,237.3</b>	<b>3,727.7</b>	<b>4,592.4</b>
Investment property (including under development)	2,079.1	2,050.5	1,809.1	2,007.4	<b>2,350.0</b>
Investment in joint ventures and associates	209.4	222.4	694.6	819.4	<b>1,050.1</b>
Other financial assets	93.0	85.6	58.3	71.0	<b>50.0</b>
Other non-current assets	28.1	23.9	100.1	132.7	<b>113.8</b>
	<b>2,409.6</b>	<b>2,382.4</b>	<b>2,662.1</b>	<b>3,030.5</b>	<b>3,563.9</b>
Trading properties	81.6	94.4	44.1	34.5	<b>48.7</b>
Cash and cash equivalents	143.9	204.0	264.2	385.5	<b>455.4</b>
Other net current assets	(21.9)	8.4	1.4	(34.2)	<b>42.7</b>
	<b>203.6</b>	<b>306.8</b>	<b>309.7</b>	<b>385.8</b>	<b>546.8</b>
Borrowings (including current)	(748.9)	(687.6)	(614.5)	(575.4)	<b>(659.5)</b>
Deferred tax	(30.7)	(31.5)	(317.9)	(450.6)	<b>(555.2)</b>
Other non-current liabilities	(14.0)	(7.9)	(130.1)	(203.8)	<b>(329.2)</b>
	<b>(793.6)</b>	<b>(727.0)</b>	<b>(1,062.5)</b>	<b>(1,229.8)</b>	<b>(1,543.9)</b>
<b>Net assets</b>	<b>1,819.6</b>	<b>1,962.2</b>	<b>1,909.3</b>	<b>2,186.5</b>	<b>2,566.8</b>
Share capital and share premium	233.9	233.9	233.9	233.9	<b>233.9</b>
Reserves	1,519.2	1,614.5	1,561.4	1,857.7	<b>2,184.0</b>
	<b>1,753.1</b>	<b>1,848.4</b>	<b>1,795.3</b>	<b>2,091.6</b>	<b>2,417.9</b>
Minority interest	66.5	113.8	114.0	94.9	<b>148.9</b>
<b>Total equity</b>	<b>1,819.6</b>	<b>1,962.2</b>	<b>1,909.3</b>	<b>2,186.5</b>	<b>2,566.8</b>

International Financial Reporting Standards were adopted with effect from 1 January 2004. Figures prior to 2004 are presented under UK GAAP.

# GROSVENOR OFFICES

## GROSVENOR GROUP

### London

The Grosvenor Office  
70 Grosvenor Street  
London  
W1K 3JP  
England  
Tel: + 44 (0) 20 7408 0988  
Fax: + 44 (0) 20 7629 9115

## BRITAIN & IRELAND

### Edinburgh

22 Alva Street  
Edinburgh  
EH2 4PV  
Scotland  
Tel: + 44 (0) 131 225 5775  
Fax: + 44 (0) 131 225 1995

### Liverpool

1st Floor  
76-78 Lord Street  
Liverpool  
L2 1TL  
England  
Tel: + 44 (0) 151 471 5020  
Fax: + 44 (0) 151 471 5049

### London

70 Grosvenor Street  
London (as above)

## AMERICAS

### Philadelphia

Suite 1310  
1600 Market Street  
Philadelphia PA19103  
USA  
Tel: +1 215 446 8100  
Fax: +1 215 446 8101

### San Francisco

Suite 2500  
One California Street  
San Francisco  
California 94111  
USA  
Tel: + 1 415 434 0175  
Fax: + 1 415 434 2742

### Vancouver

2000 The Grosvenor Building  
1040 West Georgia Street  
Vancouver  
British Columbia  
V6E 4H1  
Canada  
Tel: + 1 604 683 1141  
Fax: + 1 604 687 3235

### Washington, D.C.

Suite 1050  
1701 Pennsylvania Avenue NW  
Washington D.C. 20006  
USA  
Tel: + 1 202 293 1235  
Fax: + 1 202 785 2632

## CONTINENTAL EUROPE

### Luxembourg

46a, avenue John F Kennedy  
1855 Luxembourg  
Luxembourg  
Tel: + 35 2 26005-213  
Fax: + 35 2 26005-803

### Madrid

Plaza de Coló n.2,  
Torre 2 Planta 12B  
28046 Madrid  
Spain  
Tel: + 34 9 1292 0890

### Milan

Piazzale Biancamano, 8  
20121 Milan  
Italy  
Tel: + 390 262 032 138  
Fax: + 390 262 034 000

### Paris

5th Floor  
69 Boulevard Haussmann  
75008 Paris  
France  
Tel: + 33 (0) 1 44 51 75 00  
Fax: + 33 (0) 1 44 51 75 01

## AUSTRALIA ASIA PACIFIC

### Brisbane

Level 15  
Waterfront Place  
1 Eagle Street  
Brisbane  
Queensland 4000  
Australia  
Tel: + 61 7 3220 1799  
Fax: + 61 7 3220 1833

### Hong Kong

3505-09 Jardine House  
1 Connaught Place  
Central  
Hong Kong  
Tel: + 852 2956 1989  
Fax: + 852 2956 1889

### Shanghai

Unit 906 Platinum,  
No. 233 Taicang Road  
Shanghai 200021  
China  
Tel: + 86 21 5306 3322  
Fax: + 86 21 5382 3431

### Sydney

Level 38, Citigroup Centre  
2 Park Street, Sydney  
New South Wales 2000  
Australia  
Tel: + 61 2 8268 7333  
Fax: + 61 2 8268 7330

### Tokyo

24th Floor,  
ARK Mori Building  
1-12-32 Akasaka  
Minato-Ku  
Tokyo 107-6024  
Japan  
Tel: + 813 5510 3040  
Fax: + 813 5510 3041

## GROSVENOR FUND MANAGEMENT

### Hong Kong

London  
Paris  
Philadelphia  
Sydney  
Tokyo

Inner back cover: 10 Montrose Place; *architects, Hamiltons Associates Architects Ltd;*  
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