

# 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

#### Balance sheet

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

Service charge income	
Service charge expenses	
Net service charge income	
Other property operating expenses	
Total net property outgoings	

2006 £m	2005 £m
7.9	5.0
(8.5)	(5.0)
(0.6)	–
(41.0)	(45.9)
(41.6)	(45.9)

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

## 7. OTHER INCOME

Fund management and asset management fees	
Project management fees	
Other income	

2006 £m	2005 £m
32.8	12.8
11.3	10.2
8.8	6.9
52.9	29.9

## 8. ADMINISTRATIVE EXPENSES

Staff costs	
Office costs	
Auditors remuneration – audit services	
– other services	
Other professional fees	
Other administrative expenses	

2006 £m	2005 £m
51.1	35.6
10.9	9.5
0.8	0.7
0.1	0.2
8.1	4.6
4.8	2.7
75.8	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	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	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	<b>20.2</b>	(0.8)
	<b>4.8</b>	–
	<b>25.0</b>	(0.8)
	<b>508.7</b>	368.1
	<b>(145.0)</b>	(121.6)
	<b>59.5</b>	75.1
	<b>423.2</b>	321.6
	<b>127.0</b>	96.5
	<b>6.0</b>	4.7
	<b>7.4</b>	1.7
	<b>(23.0)</b>	(2.3)
	<b>(0.2)</b>	(0.2)
	<b>27.3</b>	2.6
	<b>144.5</b>	103.0
	<b>34.1%</b>	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	<b>2,264.4</b>	1,936.0
22	<b>1,658.3</b>	1,390.8
19	<b>85.6</b>	71.4
22	<b>242.9</b>	107.3
23	<b>115.4</b>	51.5
24	<b>56.5</b>	68.0
27	<b>48.7</b>	34.5
22	<b>120.6</b>	68.2
	<b>4,592.4</b>	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	–	7.2
Acquisitions	0.1	2.3	2.4
Disposals	–	(0.4)	(0.4)
Exchange	–	(0.2)	(0.2)
At 31 December 2006	7.3	1.7	9.0
<b>Amortisation/impairment</b>			
At 1 January 2006	(3.3)	–	(3.3)
Provision for impairment	(0.2)	–	(0.2)
Amortisation	–	(0.6)	(0.6)
At 31 December 2006	(3.5)	(0.6)	(4.1)
<b>Carrying amount</b>			
At 1 January 2006	3.9	–	3.9
At 31 December 2006	3.8	1.1	4.9
<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

### 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

<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

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
Less than one year	<b>0.3</b>	<b>0.3</b>	<b>-</b>	0.7	0.7	-
Between one and five years	<b>1.2</b>	<b>1.2</b>	<b>-</b>	2.7	2.7	-
More than five years	<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> <b>£m</b>	2005 £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> <b>£m</b>	2005 £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.