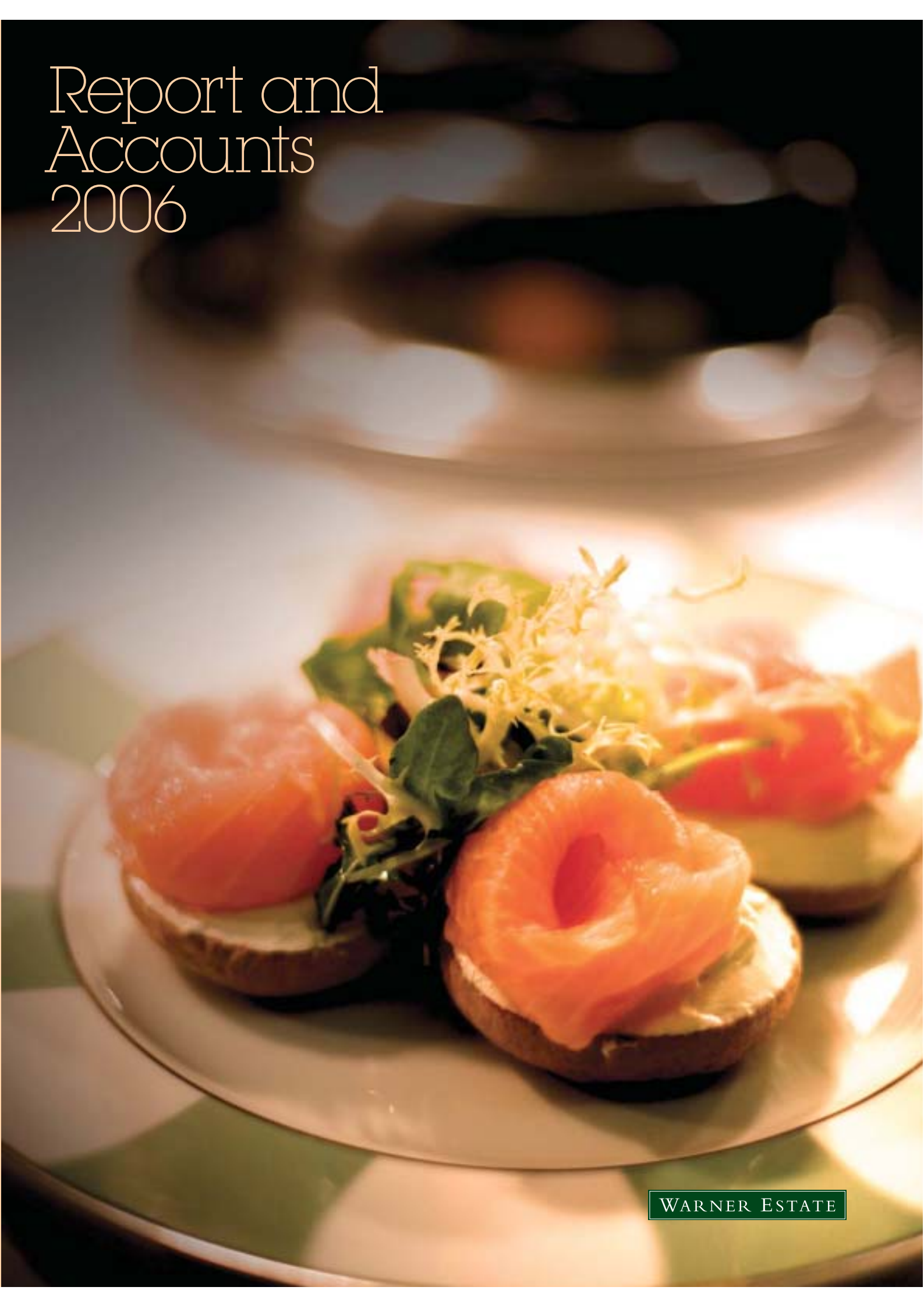


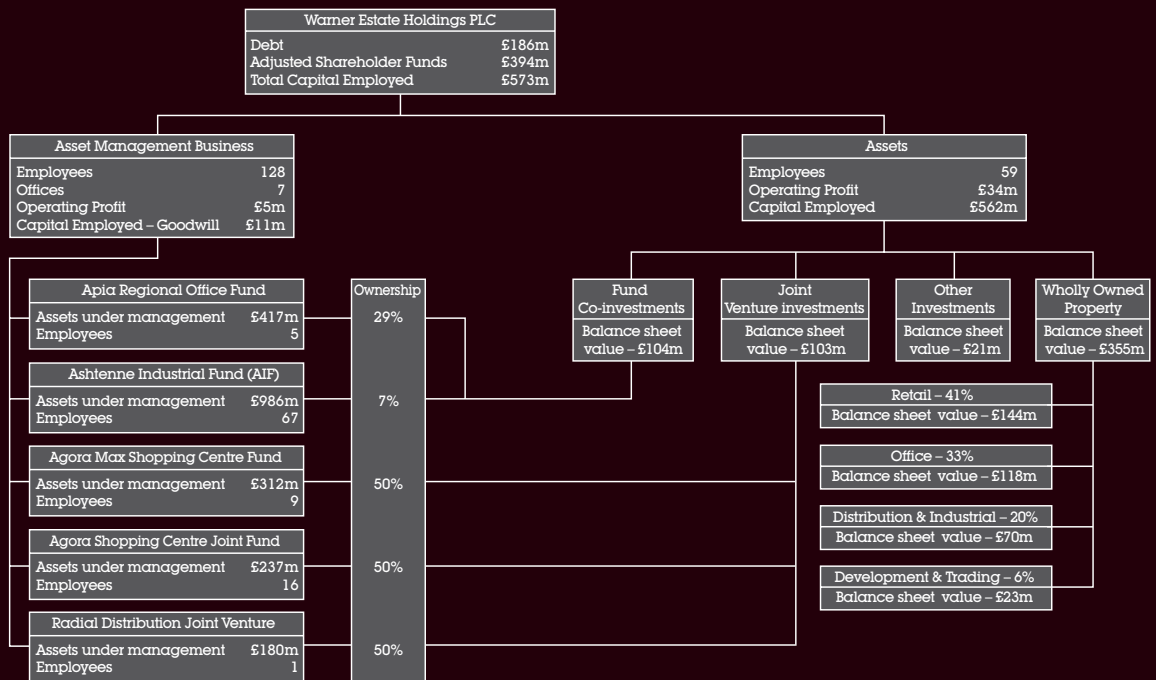
Report and Accounts 2006



CONTENTS

3	Business Structure and Change in Property under Management
4	Finance Review
24	Board of Directors
25	Corporate Information
26	Directors' Report
30	Statement of Director's Responsibility
31	Corporate Social Responsibility
33	Directors' Remuneration Report
39	Corporate Governance Statement
44	Significant Events
46	Independent Auditors' Report to the Members of Warner Estate Holdings PLC
49	Consolidated Income Statement
50	Balance Sheets
51	Statement of Recognised Income and Expense
52	Cash Flow Statements
53	Notes to the Financial Statements
103	Five Year Record
106	Significant Assets Under Management
108	Glossary
109	Notice of Meeting
111	Financial Calendar

Business Structure



Change in Property under Management

	Opening value	Acquisitions & CapEx	Disposals	Revaluation	Closing value
Wholly owned	335	91	(98)	27	355
JVs	742	183	(251)	55	729
FUNDS					
Apia	–	381	–	36	417
AIF	–	938	(41)	89	986
TOTAL	1,077	1,593	(390)	207	2,487

18 (from Disposals to Closing value)
48 (from Disposals to Closing value)
175 (from Disposals to Closing value)
27 (from Disposals to Closing value)

193 (a) (from Acquisitions to Disposals)
75 (b) (from Acquisitions to Disposals)

(a) This represents the disposals from the Skipper group and Bristol Unit Trust into the Apia Regional Office Fund set up in June 2005

(b) This represents the disposals of properties from the Bareway group together with various properties from the wholly owned portfolio into the Ashtenne Industrial Fund in November 2006

Finance Review

This is the first set of audited annual results prepared by the Group under International Financial Reporting Standards (IFRS), as adopted in the EU, and their appearance is very different to those previously reported. This is mainly because unrealised fair value gains and losses are now shown as Income Statement items rather than reserve movements with only a Balance Sheet impact.



Peter Collins
Finance Director

The other significant change is the inclusion in the Balance Sheet of the tax that may arise on the disposal of all the properties and investments owned by the Group. Of less significance is the treatment of the Group's investment in Bride Hall which had previously been reported as an investment, but under IFRS must now be treated as an associate. However, these changes are purely presentational and have no impact on the cash flow of the Group, or its underlying performance. Details of the effect of these changes are provided in Note 39 to the accounts. The interim report for the six months to September 2005, a copy of which can be found on the Group's website, www.warnerestate.co.uk, was also prepared under IFRS.

The Group has made a decision in presenting these results not to reconcile back to current year UK GAAP numbers because the results which management formerly concentrated on were those where adjustments had been made to the UK GAAP figures. These adjusted numbers more accurately reflect management's view of the Group's performance.

OVERVIEW

The last year has been one of substantial change which, coupled with the implementation of IFRS, makes it more difficult to understand the present position of the business.

The changes have largely arisen in the asset management business of the Group as a result of which properties under management, excluding those wholly owned, have risen in value from £0.74billion to £2.13billion at the year end, employees have increased from 71 to 187 and the Group now has six regional offices. The value of properties wholly owned by the Group has remained relatively constant at £0.35billion (2005: £0.33billion). Although the accounts show the performance of the Group for the year, the full benefits of the year's activity are expected to be more apparent during the current financial year particularly in terms of the asset management business. Pro forma unaudited information for the Apia Regional Office Fund and the Ashtenne Industrial Fund (AIF) asset management businesses showing the level of profitability of these businesses as if they had been wholly owned and operational for the year compared to the actual results incorporated in these accounts, together with information on the terms on which the management fees are earned, will be found on pages 11 to 13.



Finance Review

continued

RETURN ON CAPITAL

As previously reported, the Group measures its performance by the total return it achieves on shareholders' triple net asset funds, which has increased to 30.7% (2005: 19.6%). Whilst a total return calculated under IFRS on the current results would be similar to the total return calculated below, we shall continue to use our method of calculation. The reason for this is that there are fundamental differences between the two calculations in the computation of deferred tax, treatment of finance lease assets and dividends payable. Specifically, the calculation of deferred tax under IFRS on fair value gains does not allow for any mitigation of that liability through tax planning on investment properties and similar non-current assets. Under IFRS, we have to treat an element of our property portfolio as finance leases. This reduces the net asset value of those assets below their latest independent valuation. In the case of dividends, because these are now only charged when declared, the final dividend liability is no longer accrued within the accounts, so that the impact of the Group's continued increase in the dividend payable is not taken into account.

In addition, the return this year has been adjusted to add back the net profits of £17.7million of fair value gains arising on assets from Ashtenne Holdings PLC deemed surplus to the Group's requirements but which reduced the goodwill arising on the purchase from £28.9million previously indicated last year to £11.2million.

	2006	2005
	£million	£million
Profit for the year (excluding minority interest)	74.4	45.0
Add back effect of treating investment properties as finance leases	0.3	0.8
Add back deferred tax on fair value gains (including joint ventures)	9.2	9.3
Add back fair value adjustments on derivative financial instruments	1.4	0.8
Add back goodwill reduction on Ashtenne asset management business	17.7	-
	<u>103.0</u>	<u>55.9</u>
Deferred tax arising from unrealised gains	(17.2)	(9.5)
Change in fair value of debt, net of tax	(0.5)	0.6
Total adjusted return for the year	<u>85.3</u>	<u>47.0</u>
Shareholders' triple net asset funds at start of period	277.7	239.7
Return on shareholders' triple net asset funds	30.7%	19.6%
Of which		
Post tax profit	10.8%	7.5%
Net gain from fair value adjustment on properties	15.1%	11.5%
Net gain from fair value adjustment on investments	5.0%	0.3%
Change in fair value of debt	(0.2)%	0.3%

RESULTS

The table below illustrates the different constituents that make up the results for the year. As can be seen, recurring profits are £15.9million (2005: £14.6million). These results are further analysed to show the respective contribution from asset management and wholly owned activities in the tables on page 7 and 8.

Income Statement

	2006	2005
	£million	£million
Recurring profit	15.9	14.6
Property disposals and other non-recurring profit	12.2	7.3
Profit before net gain from fair value adjustments	28.1	21.9
Net gain from fair value adjustments	71.0	36.7
Profit including joint ventures and associates before tax	99.1	58.6
Current tax(α)	(15.7)	(4.5)
Deferred tax(α)	(8.9)	(9.1)
Profit for the year	<u>74.5</u>	<u>45.0</u>

(α) This includes £2.9million (2005: £0.4million) of current tax and £5.2million (2005: £3.0million) of deferred tax in joint ventures and associates.

Finance Review

continued

PROFIT ANALYSIS – YEAR TO 31 MARCH 2006

	Asset Management	Joint Ventures (our 50% share)	Sub Total	Property Investment and Head Office Costs	Other Income	Total
	Under Management			Wholly Owned		
	£'000	£'000	£'000	£'000	£'000	£'000
Asset value						
100% of Properties Managed / Owned	1,403,000	729,000	2,132,000	355,000	-	2,487,000
Income						
Rental and similar income	-	22,168	22,168	24,003	-	46,171
Asset management fees receivable	6,065	3,187	9,252	-	-	9,252
Asset management fees payable	-	(3,005)	(3,005)	-	-	(3,005)
Performance fees receivable	3,271	-	3,271	-	-	3,271
Performance fees payable	-	(1,947)	(1,947)	-	-	(1,947)
Expenses	(3,512)	(3,002)	(6,514)	(8,003)	-	(14,517)
Operating profit	5,824	17,401	23,225	16,000	-	39,225
Investment income	3,363	491	3,854	-	1,247	5,101
Interest receivable/(payable)	3,540	(19,521)	(15,981)	(12,461)	-	(28,442)
Recurring profit	12,727	(1,629)	11,098	3,539	1,247	15,884
Net gain from fair value adjustments on investment properties	-	28,915	28,915	27,101	-	56,016
Net gain from fair value adjustments on investments	14,968	1,063	16,031	-	1,082	17,113
Change in fair value of derivative financial instruments	-	(2,016)	(2,016)	(72)	-	(2,088)
Profit on sale of investment properties	-	4,700	4,700	3,102	-	7,802
Profit on sale of investments	98	77	175	-	2,926	3,101
Profit on sale of trading properties	-	420	420	6,583	-	7,003
Non-recurring expenses	(578)	(1,992)	(2,570)	(2,573)	-	(5,143)
Investment properties treated as finance lease assets	-	(237)	(237)	-	-	(237)
Cost of employee share option schemes	-	-	-	(375)	-	(375)
Profits before tax including joint ventures and associates	27,215	29,301	56,516	37,305	5,255	99,076
Taxation including joint ventures and associates – current	-	(2,772)	(2,772)	-	(110)	(2,882)
Taxation including joint ventures and associates – deferred	-	(5,238)	(5,238)	-	-	(5,238)
Profit before income tax	27,215	21,291	48,506	37,305	5,145	90,956
Percentage of operating profit	14.8%	44.4%	59.2%	40.8%	n/a ¹	100.0%

Note: the interest costs within the Group have not been reapportioned to reflect the cost of the Group's equity investments in the funds and joint ventures.

Finance Review

continued

PROFIT ANALYSIS – YEAR TO 31 MARCH 2005

	Asset Management	Joint Ventures our 50% share	Sub Total	Property Investment and Head Office Costs	Other Income	Total
	Under Management			Wholly Owned		
Asset value	£'000	£'000	£'000	£'000	£'000	£'000
100% of Properties Managed / Owned	-	742,000	742,000	335,000	-	1,077,000
Income						
Rental and similar income	-	23,528	23,528	26,521	-	50,049
Asset management fees receivable	2,265	-	2,265	-	-	2,265
Asset management fees payable	-	(2,265)	(2,265)	-	-	(2,265)
Performance fees receivable	1,650	-	1,650	-	-	1,650
Performance fees payable	-	(1,650)	(1,650)	-	-	(1,650)
Expenses	(1,437)	(278)	(1,715)	(5,596)	-	(7,311)
Operating profit	2,478	19,335	21,813	20,925	-	42,738
Investment income	-	-	-	-	533	533
Interest receivable / (payable)	5,842	(20,114)	(14,272)	(14,383)	-	(28,655)
Recurring profit	8,320	(779)	7,541	6,542	533	14,616
Net gain from fair value adjustments on investment properties	-	13,530	13,530	21,871	-	35,401
Net gain from fair value adjustments on investments	-	-	-	-	2,397	2,397
Change in fair value of derivative financial instruments	-	(1,403)	(1,403)	315	-	(1,088)
Profit on sale of investment properties	-	5,415	5,415	2,260	-	7,675
Profit on sale of trading properties	-	-	-	1,658	-	1,658
Non recurring expenses	-	(294)	(294)	(1,362)	-	(1,656)
Investment properties treated as finance lease assets	-	(274)	(274)	-	-	(274)
Cost of employee share option schemes	-	-	-	(95)	-	(95)
Profits before income tax including joint ventures and associates	8,320	16,195	24,515	31,189	2,930	58,634
Taxation	-	(429)	(429)	-	-	(429)
including joint ventures and associates – current						
Taxation	-	(3,042)	(3,042)	-	-	(3,042)
including joint ventures and associates – deferred						
Profit before income tax	8,320	12,724	21,044	31,189	2,930	55,163
Percentage of operating profit	5.8%	45.2%	51.0%	49.0%	n/a	100.0%

Note: the interest costs within the Group have not been reapportioned to reflect the cost of the Group's equity investments in the funds and joint ventures.



Finance Review

continued

ASSET MANAGEMENT BUSINESS

The asset management business employs 128 people, of which 36 are service chargeable (i.e. recovered through the service charge). It has six regional offices throughout the UK and the business manages some £2.1 billion of property through management contracts. There are two funds and three joint ventures contracts which range in length from two to fifteen years; the business also receives income from its equity and loan investments in these funds and joint ventures.

ASSET MANAGEMENT PERSONNEL

	Total	of which service charge recoverable
Apia Regional Office Fund	5	-
Ashtenne Industrial Fund	67	20
Agora Max Shopping Centre Fund*	9	6
Agora Shopping Centre Joint Venture	16	10
Radial Distribution Joint Venture	1	-
Finance & Administration	30	-
	<hr/> 128	<hr/> 36

*Treated as a joint venture

The Profit Analysis tables on the previous pages show the results for this business for the years ending March 2005 and 2006. The results for 2006 have been materially affected by the following key events:-

1. THE PURCHASE OF ASHTENNE HOLDINGS PLC IN MAY 2005

The Ashtenne asset management business was acquired as part of the purchase of Ashtenne Holdings PLC by Industrial Funds Ltd (IFL), a joint venture owned 50:50 with Anglo Irish Bank. The Group purchased the other 50% in IFL from our partner on 1 December 2005 and this is now a wholly owned business.

The business manages the property assets of the Ashtenne Industrial Fund (AIF) which, at 31 March 2006, had a value of £986million funded as to 44% by debt and 56% by equity. Our equity stake was worth £39million, representing a 7% stake in the Fund's equity. The Group, in addition to the investment income it earns from its equity interest in the Fund, earns management fees plus fees for lettings, rent reviews, acquisitions and disposals as well as a performance fee. The table on page 11 shows the results of this business as if it had been wholly owned for the twelve months to 31 March 2006 compared to the actual results included in the Group's accounts using a notional tax rate of 30%. The reason for this is to provide a better understanding of the profitability of this business because the accounts for the year to 31 March 2006 only include this business on a 100% basis from 1 December 2005 when IFL became a wholly owned subsidiary. Prior to that IFL was a joint venture from 31 May 2005 to 1 December 2005 and accounted for as such.

Finance Review

continued

Ashtenne Asset Management Business

	Unaudited Pro Forma Actual 12 months 01/04/2005 to 31/03/2006 £'000	Amount included in the Financial Statements		
		Our share of the IFL joint venture 01/06/2005 to 30/11/2005 £'000	Wholly owned 01/12/2005 to 31/03/2006 £'000	Total 01/06/2005 to 31/03/2006 £'000
Asset management fees	4,440	1,087	1,591	2,678
Letting and other fees	2,296	800	435	1,235
Total fees	6,736	1,887	2,026	3,913
Costs	(4,565)	(1,139)	(1,660)	(2,799)
Profit before performance fees	2,171	748	366	1,114
Performance fees	1,324	-	1,324	1,324
Recurring profit	3,495	748	1,690	2,438
Notional tax charge @ 30%	(1,049)	(224)	(507)	(731)
	<u>2,446</u>	<u>524</u>	<u>1,183</u>	<u>1,707</u>
Goodwill in financial statements				11,205
P/E ratio based on that used for Ashtenne on acquisition				12.7
Assessed value of Ashtenne asset management business on this basis				31,000
Investment in AIF				
Distributions from fund	3,058			1,959
Value of units at 31 March 2006	38,572			38,572
% share of fund	7.09%			7.09%
Yield on 12 month holding	7.93%			n/a

2. THE ESTABLISHMENT OF THE APIA REGIONAL OFFICE FUND

In June 2005 the £256million Apia Regional Office Fund was formed from the £175million Skipper Regional Office Jersey Property Unit Trust ("JPUT"), in which the Group had a 50% stake an £18million property from the Group's wholly owned portfolio held in a JPUT and a £63million JPUT from Morley Fund Management as their equity contribution to the Fund. The Fund subsequently expanded in November 2005 with the acquisition of a £120million portfolio from the Co-operative Insurance Society. Following the year end revaluation of the Fund, property assets were £417million at 31 March 2006. The Fund is financed as to 47% by debt and 53% by equity. The Group's share of the equity investment at 31 March 2006 was 29%. In order to provide a better understanding of the impact of 10 months ownership, the table on page 12 shows the results for Apia for the ten month period since inception and those results on an annualised basis, together with a notional tax rate of 30%.

Finance Review

continued

Apia Asset Management Business

	Unaudited Pro Forma Annualised results for 12 months (based on 10 months Accounts)	Amount included in the Financial Statements (10 months) ^(a)
	£'000	£'000
Asset management fees	1,241	1,034
Performance fees	-	-
Total fees	<u>1,241</u>	<u>1,034</u>
Costs	<u>(640)</u>	<u>(533)</u>
Recurring profit	601	501
Notional tax charge @ 30%	<u>(180)</u>	<u>(150)</u>
	<u>421</u>	<u>351</u>
Goodwill in financial statements		-
P/E ratio based on that used for Ashtenne on acquisition		12.7
Assessed value of Apia Asset Management Business on this basis using annualised figures		5,300
Investment in Apia		
Distributions from fund	2,263	1,886
Value of units at 31 March 2006	64,374	64,374
% share of fund	28.78%	28.78%
Yield on 12 month holding on a pro-rata basis ^(b)	3.52%	n/a

(a) Since inception on 7 June 2005

(b) The yield is depressed by the write off of set up costs in the period. The yield in the quarter to March 2006 was 6.42%

The value of the asset management business applicable to AIF and Apia on a price earnings ratio of 12.7 is approximately £36million, of which only £11.2million is included in the accounts as goodwill. The value of this business is equivalent to a further 58p per share.

3. THE ESTABLISHMENT OF THE AGORA MAX SHOPPING CENTRE FUND

In October 2005, the Agora Max Shopping Centre Fund was established and purchased the Pallasades Shopping Centre via a JPUT for £152million. The shopping centres in Birkenhead, which had previously been limited company joint ventures with Bank of Scotland, were converted into JPUTs in early December 2005 and were subsequently purchased by the Agora Max Shopping Centre Fund in March 2006. This Fund had a value of £312million at 31 March 2006 with the ownership of the units being held as to 50% by the Group and 50% by the Bank of Scotland and as such is treated as a joint venture in the Group's results.

The Group earns management fees from this Fund as detailed on page 13.

Finance Review

continued

MANAGEMENT FEES

The following is a brief summary of the terms on which the business receives its management fee income from each of the funds and joint ventures.

Name	Year End	Management fee based on Property value %	Management fee based on rents %	Other Fees	Performance Fees	Property Valuation 31 March 2006	Rent Roll 31 March 2006
FUNDS							
Apia	31/12 ^(a)	0.4% ^(b)	N/A	N/A	Based on outperforming the IPD regional office index (excluding business parks) on a 3-year rolling basis	£417million	£26million
AIF	31/12 ^(a)	0.5%	N/A	Lettings, disposals additions etc,	Based on outperforming the IPD all industrial index on a 3-year rolling basis	£986million	£63million
JOINT VENTURES							
Agora Max	31/03	N/A	5%	N/A	Based on exceeding an IRR of 20% over the life of the funds or on disposal	£312million	£17million
Agora	31/03	N/A	5%	N/A	Based on exceeding an IRR of 20% over the life of the funds or on disposal(c)	£237million	£13million
Radial	31/03	N/A	5%	N/A	Profit share at end of joint venture	£180million	£12million

(a) The performance fees in these Funds will always be receivable in the second half of the Group's financial year to 31 March because the fees are calculated on the results of the Funds for the year to 31 December. In the case of Apia, as the Fund was only established in June 2005, no performance fee is currently receivable.

(b) The Apia management fee reduces to 0.35% on the property assets managed between £0.5billion and £1.0billion and to 0.3% on the property assets managed over £1.0billion.

(c) During the year ended 31 March 2006, £1.9million in performance fees was achieved on the disposal of Sale Shopping Centre (2005: £1.6million on the disposal of Ellesmere Port Shopping Centre).

THE GROUP'S WHOLLY OWNED PROPERTIES

Rental income from the Group property portfolio of £24million is some £2.5million lower than last year. This is due to the disposal of higher yielding industrial properties and their replacement with lower yielding retail properties as well as the increased investment in the development programme which is currently non-yielding.

OTHER INCOME

The other income receivable in the year was £1.25million (2005: £0.53million). This was dividend income from our quoted investments and our share of profits from Bride Hall Group Ltd which is treated as an associate. The dividend income includes £0.31million from East Surrey Holdings plc, an investment which was disposed of in November 2005. The investment in Bride Hall took place in September 2004 and the March 2005 results do not include any share of profits from that investment.

TAXATION

The Group has a clearly defined tax strategy; namely the aim is to actively manage our tax planning without compromising the Group's ability to carry out its business. We do this by maximising the availability and use of capital and industrial buildings allowances as well as setting up tax efficient corporate structures both on and off-shore.

Finance Review

continued

The tax charge for the year in the Group, excluding tax in joint ventures of £8.0million (2005: £3.6million), is £16.5million (2005: £10.2million) of which £12.8million (2005: £4.1million) is current tax and £3.7million (2005: £6.1million) is deferred tax.

Material factors affecting the tax charge were:

- (i) A credit of £1.8million of deferred tax released on disposal of properties.
- (ii) The disposing of all properties within individual subsidiaries, thereby allowing the balance of capital allowances to be utilised during the year.
- (iii) The use of losses available reducing the tax charge by £2.4million.
- (iv) IFRS, under which the whole proportion of capital gains tax on disposals is charged to the current year tax, compared to UK GAAP where only the portion applicable to the profit on the disposal is charged to income with the balance being a reserve movement.

During the current year, the accounting profit on disposal of the shares in East Surrey Holdings plc was £2.8million, compared to the overall gain over the period of ownership of £14.2million which generated a capital gains tax of £4.2million. Tax provided on the previous year's fair value gains has been released from deferred tax.

The table below shows the tax reconciliation for the last two years:

Reconciliation of tax charge

	2006	2005
	£million	£million
Profit on ordinary activities before taxation	91.0	55.2
Tax @ 30%	27.3	16.5
Share of joint venture and associate post tax profits	(6.6)	(3.8)
Net tax on assets sold during the year	(0.4)	(0.6)
Net capital allowances on asset disposal	(4.3)	(0.5)
Share Scheme timing differences	0.7	-
Other	0.1	0.1
Net tax movement on fair value gains of assets	0.6	(1.6)
(Over) / under provision in respect of prior years	(0.9)	0.1
Total tax charge in the accounts	<u>16.5</u>	<u>10.2</u>
Of which: Current tax	12.8	4.1
Deferred tax	3.7	6.1

Finance Review

continued

EARNINGS PER SHARE

Earnings per share were 140.2p (2005: 89.2p) and recurring earnings per share were 22.9p (2005: 22.3p restated). Earnings per share include the fair value gains of 103.8p (2005: 56.2p) and one-off profits of 13.5p (2005: 10.7p) which are excluded from recurring earnings. The growth in earnings was depressed by the placing of 5% of the Company's shares in early April 2005 to help fund the acquisition of Ashtenne Holdings PLC in late May 2005 the full benefits of which did not start to flow until 100% ownership was achieved on 1 December 2005.

CASH FLOW

	2006		2005	
	£million	£million	£million	£million
Cash generated from operations	25		34	
Net interest	(8)		(8)	
Tax	(11)		(3)	
Cash flows from operating activities				23
Acquisitions	(160)		(62)	
Disposals	152		69	
Dividends received	9		1	
Cash flows from investing activities		1		8
Issue of shares	14		-	
Net repayment of bank loans	(92)		(3)	
Dividends	(10)		(9)	
Other cash flows	1		-	
Cash flows from financing activities		(87)		(12)
Net cash (outflow) / inflow		(80)		19

The cash flow statement is the one area under IFRS which is not materially different, except presentationally, to that previously reported. During the year cash generated from operations was £25million (2005 £34million). The reduction in the cash generated is largely due to the acquisition of the remaining 50% of Industrial Funds Limited and also Skipper Offices Limited on selling its property portfolio to Apia. Between them, they contained £22million in cash which was offset by movements in debtors and creditors. There has been an increase in receipts from the disposal of trading properties which is due mainly to the disposal of properties acquired through Industrial Funds Limited. If this effect is adjusted, the Group generates a net inflow from operations during the year of £22million (2005 £25million). This is cash generated excluding any property additions and disposals, to pay interest, tax and dividends.

The main flows resulting in the net outflow of £80million arose through purchases of investment properties less leasehold liabilities of £46million, investments made in Apia and the Ashtenne Industrial Fund of £67million, investments in joint ventures and associates of £67million. This is offset by sales of investment properties of £95million, sales of investments of £15million, loans repaid and dividends received from joint ventures, associates and investments of £49million and cash acquired through purchase of subsidiaries of £22million.

The tax paid is significantly higher than last year due to the profits made by the Group on disposals of properties and the investment in East Surrey Holdings.

In addition the placing of shares during the year raised £14million and restructuring of the Group's debt resulted in an outflow of £92million.

BALANCE SHEET

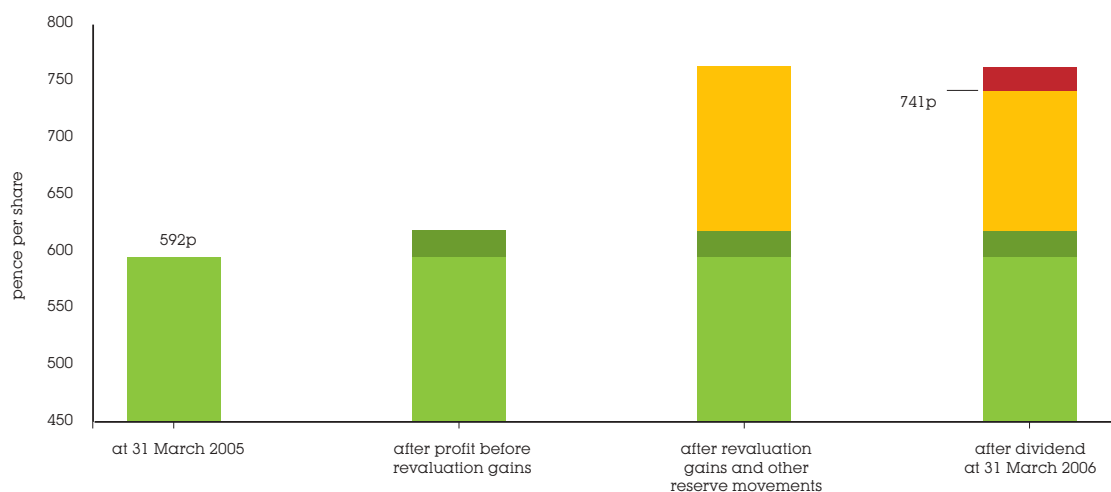
As at 31 March 2006, Equity Shareholders' funds were £350.6million (2005: £272.1million), an increase of 24% excluding the impact of the additional equity of £13.6million which was raised through a placing in April 2005. The underlying elements of the growth in Shareholders' funds is analysed in the table on page 16, but it is not expected that the deferred taxation provided would become payable in full if the properties and investments were sold.

Finance Review

continued

	£million	Pence per share
Shareholders funds at 31 March 2005	272.1	539.9
Change in weighted average number of shares		(27.5)
		512.4
Movement in the Year to March 2006		
Profit before fair value gains	28.6	53.9
Net fair value gains	71.0	133.7
Effect of the treatment of investment properties as finance leases	(0.2)	(0.4)
Cost of employee share option schemes	(0.4)	(0.8)
Taxation – current	(15.7)	(29.5)
Taxation – deferred	(8.9)	(16.8)
Profit for the year	74.4	140.1
Other equity movements		
Shares issued	13.6	25.6
Dividends paid	(10.1)	(19.0)
Actuarial losses on retirement benefit obligations	(0.1)	(0.1)
Investment in own shares	0.7	1.3
Shareholders' funds at 31 March 2006	350.6	660.3

GROWTH IN ADJUSTED NAV PER SHARE



Adjusted Shareholders' funds as shown in the table below rose by 32% (excluding the impact of the £13.6million of equity raised in the year this would be 27%) to £393.5million (2005: £298.3million). This uplift is after deducting paid and proposed dividends of £10.3million (19.5p per share) which, if included, gives an overall uplift of 31%. In IFRS terms, the Group's NAV per share was 660p (2005: 540p), whilst adjusted NAV per share was 741p (2005: 592p) and TNAV 669p (2005: 551p).



Finance Review

continued

	2006		2005		Increase	
	£million	Pence per share	£million	Pence per share	Including new equity %	Excluding new equity %
Shareholders' funds	350.6	660.3	272.1	539.9	29	24
Add back deferred tax on fair value gains (including joint ventures)	42.9	80.8	27.6	54.7		
Add back effects of treating investment properties as finance leases	3.9	7.3	3.6	7.1		
Less proposed dividend	(5.3)	(10.0)	(4.8)	(9.5)		
Add back/(less) fair value adjustments on derivative financial instruments	0.4	0.8	(1.0)	(2.0)		
Add other IFRS adjustments	1.0	1.9	0.8	1.6		
Adjusted Shareholders' funds	393.5	741.1	298.3	591.8	32	27
Less potential deferred tax	(32.9)	(62.0)	(15.7)	(31.1)		
Less fair value adjustment net of tax on debt	(5.4)	(10.2)	(4.9)	(9.8)		
Shareholders' triple net asset funds	355.2	668.9	277.7	550.9	28	23

INVESTMENT IN ASSET MANAGEMENT BUSINESS

As referred to earlier, the Group purchased Ashtenne Holdings PLC for £120million through IFL, a joint venture owned 50:50 with Anglo Irish Bank. The purpose of this acquisition was to acquire the asset management business represented by the AIF and t3 Funds which, when the other assets of Ashtenne were sold, would result in IFL owning a business that cost circa £56million (restated). This was represented by £27million of units owned in the Funds under management and £28.9million of goodwill which was the value attributed to the asset management business. Subsequently, in early December 2005 we purchased Anglo Irish's 50% stake in IFL for £0.35million. Since the purchase, the majority of the assets and the t3 Fund have been disposed of at a profit of £17.7million which has been used to reduce the goodwill paid for the asset management business to £11.2million. The result is that we have acquired for £11.2million a business which last year generated £3.5million before tax, compared to the value we had expected to pay for this business of £28.9million. This £17.7million of additional value created by the Group is not recognised within the Group Balance Sheet even though in practice the AIF asset management business is probably worth more today than the value it was originally purchased for, let alone the written down value in these accounts.

However, the £17.7million has been added back to get to the total adjusted return.

The table opposite shows the anticipated purchase cost at the end of May 2005 and the actual purchase cost. The profit figures are the pro forma profit figures used in May 2005 and the pro forma profit figures for this business for the year to 31 March 2006.

Finance Review

continued

	Anticipated purchase cost at May 2005	Disposal surpluses	Actual purchase cost at May 2005
	£million	£million	£million
Fixed Assets			
Goodwill	22.8	(17.7)	5.1
Adjustment for IFRS	6.1	-	6.1
Goodwill (restated)	28.9	(17.7)	11.2
Investment in Funds			
AIF	20.8	-	20.8
t3	6.3	(6.3)	-
	27.1	(6.3)	20.8
IFRS deferred tax	(6.1)	-	(6.1)
Net assets	49.9	(24.0)	25.9
	Proforma 12 months to 31 December 2005		Proforma 12 months to 31 March 2006
	£million		£million
Fund Fees⁽ⁱ⁾			
Management fees	4.4		6.7
Performance fees	2.2		1.3
Costs	(4.0)		(4.5)
Profit before tax	2.6		3.5
Less tax @ 30%	(0.8)		(1.0)
	1.8		2.5
Goodwill⁽ⁱⁱ⁾	22.8		5.1
Multiple paid for asset management business	12.7 p/e		2.0 p/e

Note:

- (i) The return does not include investment income or investment in the Funds
(ii) Goodwill utilised for this purpose is that paid before adjusting for IFRS deferred tax

However, the Balance Sheet continues to recognise some value for this business which, as reported above, made £3.5million pre tax profit over the last twelve months to March 2006 on a pro forma basis, whereas it contains no value for the rest of the asset management business in respect of the fees being generated from the Apia Regional Office Fund, or the Agora Max, Agora and Radial joint ventures.

At the year end, the value of the investment in AIF was £38.7million, including the purchase of £12million additional units in August 2005, and that in Apia £64.4million.

DISPOSAL OF INDUSTRIAL PROPERTIES TO AIF

The AIF asset management agreement contains a non-compete clause regarding the purchase of industrial property. As a result, the Group disposed of £51million of wholly owned industrial property to AIF together with £27million of properties in Bareway, the Group's joint venture with Barclays, in November 2005. The Group continues to own some industrial property although this is currently under review.

BRIDE HALL

Under IFRS, this investment has been accounted for as an associate having been previously treated as an investment under UK GAAP and so, rather than being shown as a fixed asset investment, it is equity accounted. This results in our recording our share of profits receivable in the Income Statement rather than in dividends received and reporting the value of the investment on the Balance Sheet as our share of the company's net assets plus goodwill. During the year, under the terms of the purchase agreement with the owner of Bride Hall,

Finance Review

continued

a further £10million payment was made in respect of our 25% stake in that business, bringing our total cost of this investment to £15million. This payment was based upon an earn out agreement which was capped at £15million so no further payments will be due.

LEASEHOLD LIABILITY PORTFOLIO

The balance sheet includes £12million (£13.75million at acquisition) in respect of liabilities acquired with the portfolio of properties purchased in December 2005 from the Co-operative Insurance Society. Since purchase, the liability has been reduced by £1.75million which represents the net payments of liabilities to March 2006. The overall liability that would arise if no management initiatives were undertaken is £38million. However, the Group has reassessed the value of the liability at March 2006 and remains of the opinion that the value at which the liability was acquired, less subsequent payments, remains unchanged and no profit or loss has been recorded. This assessment has been supported by offers in respect of these liabilities received by the Group.

CONTINGENT ASSETS

No provision has been included in these accounts for potential performance fees arising under the Agora Shopping Centre and Radial Distribution joint venture agreements. The contingent asset which is included as a note to these accounts represents the potential profit that could arise over the next two to three years of £6million being £5million in respect of Agora and £1million in respect of Radial.

BORROWINGS

DEBT

Total net borrowings for the Group at the year end were £185.6million (2005: £153million). Since the year end, net debt has increased by £11million to fund an acquisition for the wholly owned property portfolio, increasing net debt to £197million and raising net gearing on adjusted shareholders' funds at the year end from 48% (2005: 50%) to 51% currently.

	On balance sheet	Share of	Share	Total
	£million	joint ventures	of funds	£million
	£million	£million	£million	£million
Net short-term debt	(96.4)	(11.0)	-	(107.4)
Long-term debt	282.0	271.2	87.8	641.0
Total net debt at 31 March 2006	185.6	260.2	87.8	533.6
Of which:				
Total net recourse debt	137.1	-	-	137.1
Long-term non-recourse debt	48.5	260.2	87.8	396.5
Gearing (on adjusted shareholders' funds)	48%			138%
Recourse gearing	35%			35%
Total net debt at 31 March 2005	153.0	323.1	-	476.1
Gearing (on adjusted shareholders' funds)	51%			160%
Recourse gearing	35%			35%

The Group's average cost of debt was 6.07% (2005: 6.91%) at the year end.

During the year the Group refinanced two long-term loans totalling £57million which had been reclassified as short-term loans in last year's accounts because the decision had been made to repay them prior to 31 March 2005. This was funded via a new £26million six year term loan with Canada Life and an increase in the Group's Barclays three year revolving facility from £25million to £60million. In addition the Group also extended its Royal Bank of Scotland three-year revolving facility from £60million to £100million so as to provide the Group with the flexible finance needed to be able to respond quickly to purchasing opportunities.

A dedicated financing line of £25million has been put in place with Anglo Irish Bank PLC to fund the development of a new shopping centre at Folkestone. At 31 March 2006, £11million of this facility had been drawn down.

Finance Review

continued

The Group has repaid a £21million fixed term loan from disposal proceeds arising from the sale of properties to AIF in November 2005.

The Group had unutilised facilities of £44million (2005: £53million) at 31 March 2006, which are sufficient to meet our working capital requirements.

IFL, the joint venture with Anglo Irish Bank which purchased Ashtenne was financed in part by an £80million bank loan. Some £37million of this loan was repaid from cash within Ashtenne at acquisition and the proceeds of disposals prior to the Group acquiring Anglo Irish's shares in IFL in December 2005. Subsequent to the Group acquiring IFL as a subsidiary the outstanding bank debt of £43million was repaid by the end of January 2006.

In the joint ventures, the Agora Max Shopping Centre Fund established during the year had debt of £234million at 31 March 2006. This joint venture is financed as to 66% by debt and 34% equity and rental income covers interest 1.6 times. In the Agora Shopping Centre Fund ("Agora"), the disposal of the Sale Shopping Centre in the year brought external debt down to £142million at the year end. This joint venture at 31 March 2006 had an external loan to value ratio of 60% and rental income covered external interest 1.4 times. In Radial, the acquisition of the property at Brackmills for £8million and the disposal of the property at Yate for £18million resulted in external debt being reduced to £126million by the year end. This joint venture had an external loan to value ratio of 70% and rental income to interest cover of 1.4 times. The Bareway joint venture disposed of its properties to AIF in November 2005 and used the proceeds to repay an £18million term loan. Both the Agora and Radial joint ventures are partially funded by debt as well as equity from the partners. The Group debt information excludes the internal debt between the group and joint ventures.

At 31 March 2006, the Group held investments in the Apia Regional Office Fund and Ashtenne Industrial Fund amounting to 29% and 7% respectively. Apia has drawn down debt of £196million and AIF has net debt of £427million. Both Funds have loan to value ratios of less than 50% and more than 2.5 times rental income to interest cover. There is headroom within the existing facilities of Apia and AIF of £21million and £53million respectively as at 31 March 2006.

HEDGING

The interest rate exposure on the Group's debt is managed to ensure that there is a balance between flexibility and certainty over the interest cost on our current level of borrowings. In terms of the Group debt, £74.3million is fixed and the balance is fully covered by derivatives (interest rate swaps and caps). As can be seen from the table below, the Group's hedging strategy has historically been to protect the Group from large movements in interest rates rather than to cap specific exposures on what is, essentially, working capital debt. However, the Group has taken advantage of a 10 year cancellable swap effective from 31 March 2006, whereby the interest charge is fixed at 3.5% for the first six months to 30 September 2006 and thereafter at 4.19% for the remaining 9½ years. The Bank has the right to cancel the swap on 30 September 2006 or at the end of each quarter thereafter. This cancellable swap effectively covers the drawn balance of £90million on the two revolving credit facilities with The Royal Bank of Scotland and Barclays at 31 March 2006.

NET DEBT AS AT 31 MARCH 2006

	On balance sheet	Share of joint ventures
	£million	£million
Fixed rate debt	74.3	-
Floating rate debt	111.3	260.2
	<u>185.6</u>	<u>260.2</u>
Percentage of floating rate loans at 31 March 2006		
Covered by swaps	91%	75%
Covered by caps	9%	25%
	<u>100%</u>	<u>100%</u>
Percentage of floating rate loans at 31 March 2005		
Covered by swaps	30%	76%
Covered by caps	70%	5%
	<u>100%</u>	<u>81%</u>

Finance Review

continued

In respect of the Group's share of £520.4million of net debt in the joint ventures, approximately one quarter is fixed at 4.1% by a swap, another quarter is fixed by a swap at 4.96% and a third quarter is fixed by a swap at 4.5775%. The remainder is covered by two enhanced collars, the first for £124million is capped at 5.0% and the second for £27million is capped at 5.5%.

Both of the Funds, Apia and AIF, were virtually fully hedged through a combination of swaps and caps as at 31 March 2006.

POST BALANCE SHEET EVENTS

There have been no material post balance sheet events requiring adjustment. A list of the material, though non-adjusting events and transactions, are noted in the Significant Events post 31 March 2006 section on page 45.

BUSINESS RISKS

The Group reviews regularly business risks with the aim of ensuring that the key controllable risks faced by the Group are kept to a minimum. Risks that are outside our control, particularly legislative, the Group, and industry in general, can do little to mitigate.

As advised earlier in this report, this year the Group has gone through a period of significant expansion both in terms of the assets under management, which increased by £1.4billion to £2.1billion, and as a result of the acquisition and integration of the AIF asset management business which has seen numbers employed increasing from 71 to 187 people and the incorporation of a substantial regional office network. This has involved a significant logistical exercise to ensure that the right systems and controls are in place to manage the enlarged Group. Specifically, the management structure of the Group has been overhauled with the appointment of divisional directors who have management responsibility for their own business units, and the recruitment of directors of Development and Human Resources. The business software has been integrated and an upgrade of the current software is currently being rolled out across the Group. New procedures have been, and are continuing to be, put in place to ensure that personnel who have been empowered have the authority as well as the information to be able to run their businesses.

In addition, the Group has appointed Grant Thornton as internal auditors reporting to the Audit Committee. They are carrying out a programme of audit work set by that committee based around a risk matrix which was prepared for the enlarged Group. The internal audit work that will be performed by Grant Thornton should give increasing assurance that the risks from the recent expansion and planned future expansion are minimised.

Another area where the Group faces a key business risk is in its asset management business where there is a need to perform to certain agreed standards if contracts are to be retained. Equally, above average fund business performance secures for the Group potentially significant performance fees as well as the opportunity to further expand this profitable business.

Finance Review

continued

The key financial risks arising in the business are liquidity, interest rate and market price risks. Liquidity risk is managed by ensuring that there is always sufficient headroom available to meet the working capital requirements of the business. The interest rate and market price risk is managed by the use of financial instruments such as swaps and caps to eliminate substantially all the exposure to interest rate and market price fluctuations. This provides certainty over the amount of interest payable both in the short-term and the long-term, given the current level of borrowings.

The Group has had to become much more proactive as a result of the continuing rapid expansion of the business. The broad nature of this expansion has ensured that the Group's spread of property activities should provide protection from short-term changes, in individual property sectors. Furthermore, should there be a very significant increase in property yields, something the Group does not currently anticipate, the financial strength of the Group, the lack of any pressure on borrowing covenants and the financial hedging that the Group undertakes should ensure that the Group can cope with such an eventuality.

On the legislative front, as highlighted in last year's accounts, the reporting pressures continue to mount resulting in more cost to the Group with little or no benefit. The forthcoming REIT legislation, however, could well be a first in terms of legislative benefit, although this has yet to be finalised.

Another significant problem has been the introduction of IFRS this year which has been costly for the Group in terms of its implementation and presented a real problem as to how to explain to our shareholders what is actually going on in our business.

REAL ESTATE INVESTMENT TRUSTS ("REITS")

The year has also seen the promise of a welcome change to the regulatory environment in the proposed legislation to permit the formation of Real Estate Investment Trusts (REITs) with effect from 1 January 2007. As presently drafted, it is probable that the Group will take advantage of this change. However, we shall review the legislation when the Finance Bill is enacted and the regulations published and consider at that time whether conversion to REIT status is in shareholders' interests.

Peter Collins
Finance Director

Board of Directors

PRESIDENT

Sir Henry Warner Bt.

EXECUTIVE DIRECTORS

P C T Warner (Chairman and Chief Executive)#

Age 55, joined the Board in May 1979 and was appointed Chairman in March 1993. A barrister, a non-executive director of Stonemartin PLC and a director of several private companies, including Bride Hall Group Ltd. Chairman of the Nomination Committee.

P W Collins, MBA, BSc, FCA (Finance)

Age 57, joined the Company and the Board in May 1998 as Finance Director. Prior to joining the Company was group finance director and company secretary of Jourdan plc.

R Moore, FRICS

Age 60, joined the Company in July 2000 and was appointed to the Board as Property Director in April 2001. Relinquished the role of Property Director on 1 January 2006 and is responsible for managing the Agora Shopping Centre Fund development programme and overseeing the Company's relationship with Bride Hall. Prior to joining the Company was Head of Estates at NatWest Group Property.

M J Stevens, BSc, FRICS, FInst CPD (Property)

Age 42, joined the Company in 2000 and was appointed to the Board in February 2005 as Operations Director. Became Property Director on 1 January 2006. Prior to joining the Company was with Celexa/SPP Investment Management.

NON-EXECUTIVE DIRECTORS

W R Broderick, BSc, FBCS, CEng * #

Age 65, joined the Board in May 1991, working in information technology strategy with business interests in software development and publishing. Senior Independent Director and Chairman of the Remuneration Committee.

J R Avery, LLB * ‡ #

Age 60, joined the Board in July 2004. Appointed Chairman of Equity Insurance Group Ltd in August 2005. Previously Chief Executive of Wellington Underwriting plc, where he spent 11 years until his retirement in 2004. Prior to joining Wellington, was employed in senior management positions in the investment and international banking divisions of the Lloyds Bank Group for 20 years. Also Chairman of Invesco Perpetual AiM VCT plc; a Non-executive director of Aspen Insurance Holdings Ltd and a former non-executive director of East Surrey Holdings plc.

G A Cooke, BSc, MRICS #

Age 57, joined the Board in July 1993, Chairman of Atisreal Limited and a member of the British Council of Offices.

R H Warner, ACA * #

Age 49, joined the Board in March 1994. From 1992 to 2002, Finance Director and Company Secretary of Aukett Group Plc. Finance Director of Neptune Investment Management and a director of several private companies. Chairman of the Audit Committee.

SECRETARY

D J Lanchester, ACIS

DIVISIONAL DIRECTORS



P A Hodgson,
MRICS (Property)



K R Meade,
BSc, FRICS (Property)



M D Ovens,
ACCA (Property)



J Peacock,
MRICS (Development)



V B Vaghela,
FCCA (Finance)

* Member of the Audit Committee
All the Non-executive Directors are
members of the Remuneration Committee

Members of the Nomination Committee
‡ Independent Non-executive

Corporate Information

REGISTERED OFFICE

Warner Estate Holdings PLC is a public limited liability company

Registered in England & Wales No. 870816
Nations House
103 Wigmore Street
London W1U 1AE

BANKERS

Bank of Scotland
New Uberior House
11 Earl Grey Street
Edinburgh LH3 9BN

Barclays Bank PLC
1 Churchill Place
London E14 5HP

The Royal Bank of Scotland plc
1 Exchange Flags
Liverpool L2 3XN

SOLICITORS

Clifford Chance LLP
10 Upper Bank Street
London E14 5JJ

REGISTERED AUDITORS

PricewaterhouseCoopers LLP
Southwark Towers
32 London Bridge Street
London SW1 9SY

STOCKBROKERS

HSBC Bank plc
8 Canada Square
London E14 5HQ

VALUERS

Cushman & Wakefield Healey & Baker
43/45 Portman Square
London W1A 3BG

REGISTRARS AND TRANSFER OFFICE

Capita Registrars
The Registry
34 Beckenham Road
Beckenham, Kent BR3 4TU

Directors' Report

The Directors submit herewith their Annual Report and the audited Accounts for the year ended 31 March 2006.

BUSINESS OF THE GROUP

The principal business of the Group is property investment, together with the management of properties in the United Kingdom.

The Annual Review and Summary Financial Statements should be read in conjunction with this report.

RESULTS FOR THE YEAR AND DIVIDENDS

The Group results are set out in the consolidated income statement on page 49. A review of the results for the year and the prospects for the future are included in the Chairman's Statement, the Property Review and the Finance Review in the Annual Review and Summary Financial Statements.

An interim dividend of 9.50p per share was paid on 24 February 2006 and it is proposed to pay a final dividend of 10.0p per share, making a total of 19.5p per share for the year ended 31 March 2006. If approved by the Annual General Meeting to be held on 7 September 2006, the proposed dividend will be paid on 15 September 2006.

PROPERTIES

Purchases and additions to investment properties during the year totalled £60.8million. A further £21.8million was acquired through the purchase of the remaining 50% of Industrial Funds Limited.

Investment properties with book values at the date of sale of £92.0million were disposed of during the year.

A valuation of the Group's investment properties at the date of the balance sheet has been made which amounts to £332.1million and the Directors have incorporated this in the accounts as shown in Note 15. The commercial investment properties were valued by Cushman & Wakefield Healey & Baker and DTZ Debenham Tie Leung or, in the case of properties purchased within twelve months of the balance sheet date, by the Directors. Details of these valuations may be found in Note 15.

INVESTMENTS IN FUNDS

Additions during the year totalled £66.9million, and a further £23.1million was acquired through the purchase of the remaining 50% of Industrial Funds Limited.

Investments with book values of £0.9million were disposed of during the year.

The Group's share of net asset value of investments in funds has been incorporated in the balance sheet as shown in note 18.

INVESTMENTS IN LISTED AND UNLISTED

The market value of the shares of listed investments and the book value of unlisted investments has been incorporated in the balance sheet as shown in Note 19 with a book value of £11.5 million investments were disposed of during the year.

CHARITABLE CONTRIBUTIONS

Charitable contributions during the year totalled £38,219 (2005: £26,650). No contributions of a political nature were made.

DIRECTORS

The present Directors, together with their brief biographical details, are as shown on page 24. All the Directors served throughout the year. Mr R Moore has indicated his intention to retire at the conclusion of the Annual General Meeting on 7 September 2006.

In accordance with the Articles of Association and the requirements of the Combined Code, Messrs. P C T Warner and J R Avery retire by rotation and offer themselves for re-election. Mr R Moore is due to retire by rotation, but is not offering himself for re-election. In addition, Messrs. W R Broderick, G A Cooke and R H Warner, having served as Directors for more than nine years, are subjecting themselves to re-election at the Annual General Meeting in accordance with the provisions of the Combined Code. Mr J R Avery has a three year service agreement terminable by the Company giving six months notice. Messrs. P C T Warner, W R Broderick, G A Cooke and R H Warner do not have service contracts with the Company or any of its subsidiaries.

Directors' Report

continued

The interests of the Directors and their families in the shares of the Company at 31 March 2006 were as follows:

	Ordinary shares			
	Beneficial		Non-beneficial ¹	
	March 2006	March 2005	March 2006	March 2005
P C T Warner	895,899	895,899	9,449,955	9,449,240
R H Warner	1,090,000	1,090,000	5,673,810	5,673,095
J R Avery	1,500	1,500	–	–
P W Collins	25,000	13,968	–	–
R Moore	25,294	–	–	–
M J Stevens	10,234	350	–	–

¹The non-beneficial interests of Mr P C T Warner include the non-beneficial interests of Mr R H Warner and both these interests are included within the notified interests of Sir Henry Warner Bt. shown below. During the year, 715 shares were purchased by a Trust that forms part of the notified interests of Sir Henry Warner Bt.

No rights to subscribe for shares in or debentures of the Company were granted to or exercised by any Director or a member of his immediate family during the financial year ended 31 March 2006, other than in relation to the Company's share schemes at 31 March 2006 as set out below:

	Share options		WEHPSP		AESOP	
	March 2006	March 2005	March 2006	March 2005	March 2006	March 2005
P C T Warner	237,656	237,656	28,056	–	5,944	4,997
P W Collins	171,492	181,376	22,903	–	6,520	5,396
R Moore	91,702	194,342	24,048	–	6,520	5,396
M J Stevens	71,945	81,829	16,032	–	6,128	5,014

A full analysis of the Directors' options to subscribe for Ordinary shares and their awards under the Warner Estate Holdings PLC Performance Share Plan (WEHPSP) and their holdings under the All-Employee Share Ownership Plan (AESOP) are given in the Directors' Remuneration Report on pages 33 to 38.

Messrs. Cooke and Broderick have no interest in the shares of the Company as at 31 March 2006.

The interests of Directors in contracts with the Company or its subsidiaries are shown in Note 31 to the financial statements.

No other changes in Directors' interests occurred between 31 March 2006 and 20 June 2006 except for shares purchased under the AESOP totalling approximately £2,000 in value and 38,720 shares were gifted to a Trust that forms part of the notified interests of Sir Henry Warner Bt, increasing the non-beneficial interests of Mr P C T Warner and Mr R H Warner to 9,488,675 shares and 5,712,530 shares respectively.

The Directors have the benefit of "qualifying third party indemnity provisions" for the purposes of sections 309A to 309C of the Companies Act 1985.

CREDITOR PAYMENT POLICY

It is the Group's policy to pay creditors in accordance with their normal terms and conditions of trading or, where applicable, such other terms as are mutually agreed. The level of the Company's trade creditors at 31 March 2006 was not significant and in terms of the number of days, the ratio of such creditors to the aggregate of the amounts invoiced during the year was 23 (2005: 12).

Directors' Report

continued

SUBSTANTIAL INTERESTS

At 20 June 2006 the Company had been notified of the following interests in three per cent or more of the Ordinary share capital:

	Number of shares held	% held
Sir Henry Warner Bt.	9,488,675	17.73
Trefick Limited	7,356,223	13.75
The AXA S.A. Group	2,377,800	4.44
Fooks Property Company Limited	2,000,000	3.74

SHARE CAPITAL

This section concerns information relevant to business to be conducted at the Annual General Meeting and is important. You are being asked to vote on several Ordinary and Special Resolutions concerning matters which either the Directors have determined should be decided by the Company in a general meeting or are required to be so decided by the terms of the Company's Articles, the law, or the Listing Rules. If you are in any doubt as to what action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other independent professional adviser. If you have sold all your shares in the Company, you should pass this Annual Report and the accompanying form of proxy to the person through whom the transaction was effected, for transmission to the purchaser or transferee.

2,547,738 Ordinary shares were issued on 5 April 2005 through a placing of shares. The Company does not currently hold any treasury shares.

The Directors consider that purchases of Ordinary shares in the capital of the Company are in the Company's and shareholders' interests when the purchase of Ordinary shares at a price below the value of the net assets attributable to each share increases the value of the net assets attributable to the remaining Ordinary shares. A resolution is being proposed at the Annual General Meeting as Special Business which, if passed, will give authority for the purchase of up to 8,025,376 shares, representing approximately 14.99% of the Company's issued Ordinary share capital (as at 20 June 2006), at a price not exceeding 5% above the average of the middle market quotations derived from the London Stock Exchange Daily Official List for the five business days before the purchase is made, nor below 5p per share. The total number of options to subscribe for Ordinary shares that were outstanding as at 20 June 2006 was 840,011 representing approximately 1.57% of the issued share capital at that date (and 1.85% if the authority to purchase shares under this resolution is used in full).

There is no present intention by the Directors to use this authority or to cancel or hold in treasury any Ordinary shares which may be purchased pursuant to the authority. However, the Board considers that it is in the best interests of the Shareholders as a whole to have such an authority in place and recommends that you vote in favour of the resolution.

The Directors' consider it desirable that authority be granted to the Directors to issue equity securities up to a maximum nominal amount equal to the existing authorised but unissued share capital of the Company and for the disapplication of pre-emption rights in respect of the issue for cash of equity securities of a nominal amount not exceeding 5% of the nominal value of the Company's present issued Ordinary share capital and two Resolutions dealing with this matter will be proposed at the Annual General Meeting as Special Business. Having regard to the equity securities presently in issue, if the Resolutions are passed, the Directors will have the authority to allot up to 6,497,492 Ordinary shares representing 12.14% of the issued share capital (as at 20 June 2006) and the power to make allotments for cash, without a pre-emptive offer, will be limited to 2,675,125 Ordinary shares, representing 5% of the issued share capital. These powers will expire on the earlier of the date of the next Annual General Meeting or 15 months after the passing of the resolution. There is no present intention by the Board to exercise any of these powers, but the Board considers that it is in the best interests of the Shareholders as a whole to have such authorities in place and recommends that you vote in favour of the resolutions.

FINANCIAL INSTRUMENTS

The Group's financial instruments comprise share capital, borrowings, borrowing facilities (unutilised borrowing lines), listed investments and working capital (debtors, creditors, etc.) arising directly from the Group's operations. The purpose of these instruments is to fund the Group's business activities.

The Group also purchases financial instruments that are in practice a form of insurance, to manage the Group's exposure to fluctuations in the market rate of interest. This risk, together with the need to ensure that the Group has adequate liquidity to enable it to conduct its business, are the main risks that arise from the Group's financial instruments. The Board reviews and agrees policies for managing these risks which are summarised below and have remained unchanged throughout this year. The Board also has a policy that it is not the business of the Group to trade in financial instruments and no such trading has occurred.

INTEREST RATE RISK

The Group borrows at both fixed and floating rates of interest and then uses relevant financial instruments (swaps, caps, etc.) to ensure that the interest rate profile matches the Group's business profile. The interest rate hedging policy is to ensure that the wholly owned investment portfolio is funded using a matching debt and interest profile and to provide certainty as to the amount of interest payable given the Group's level of borrowings. The proportion of the investment portfolio that is targeted for replacement, together with trading properties, is funded via flexible short-term facilities. At the year end, 95% (2005: 51%) of the Group's borrowings were at fixed rates after taking account of the relevant financial instruments.

LIQUIDITY RISK

The Group has reviewed its policy in view of its business strategy where there is an increasing requirement for flexibility. To this end, as reported in the Finance Review, the two revolving credit facilities now comprise more than half of the Group's debt in respect of the core investment portfolio. The remainder of the debt is matched with properties that are intended to be held for more than three years. At the end of the year, 37% (2005: 44%) of the Group's borrowings were due to mature in more than three years, which represented 73% (2005: 49%) of term debt.

MARKET PRICE RISK

The Group is exposed to market price risk through interest rate movements. The Group's policy is to substantially eliminate the risk arising from changes in interest rates by hedging the floating rate debt, such that in the long-term any fluctuations in interest rates will have little or no impact on reported profits. The Group is, however, exposed to market price risk in respect of the fair value of its fixed rate financial instruments.

CREDIT RISK

The Group has no significant concentration of credit risk as exposure is spread over a large number of counterparties. The credit risk in liquid funds and derivative financial instruments is limited due to the counterparties being banks with high credit ratings assigned by international credit rating agencies.

CASH FLOW RISK

The Group's cash flow is managed to ensure that rental income is always sufficient to cover the interest payments due and comply with the interest cover covenants on the related debt. Acquisitions and capital expenditure are funded through dedicated financing facilities following detailed financial appraisals being approved by the Board. The matching of revenue receipts to cover interest payments and capital expenditure being funded through dedicated financing facilities, once the financial appraisal has been approved, ensures that cash flow risk is not material.

COMPANY WEBSITE

The Company has a website providing information on the Company including the latest set of accounts and press releases. This can be found by going to the Company website address which is www.warnerestate.co.uk.

FINANCIAL STATEMENTS

So far as each of the Directors is aware, there is no relevant information that has not been disclosed to the Company's Auditors and each of the Directors believes that all steps have been taken that ought to have been taken to make them aware of any relevant audit information and to establish that the Company's Auditors have been made aware of that information. A statement by the Directors of their responsibilities for preparing the financial statements is included in the Statement of directors' responsibility on page 30. The Directors' statement on going concern is included in the Corporate Governance Statement on page 43.

AUDITORS

A resolution to reappoint PricewaterhouseCoopers LLP as Auditors to the Company will be proposed at the forthcoming Annual General Meeting.

By Order of the Board

D J Lanchester

Secretary
20 June 2006

Statement of Directors' Responsibility

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of the affairs of the Company and the Group as at the end of the financial year and of the profit or loss for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

A copy of the Annual Report is placed on the Warner Estate Holdings PLC website. The maintenance and integrity of the website is the responsibility of the Directors and the work carried out by the Auditors does not involve consideration of these matters.

Accordingly, the Auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Corporate Social Responsibility

Corporate Social Responsibility (CSR) continues to grow in significance along with our business. The Company is committed to conducting its business activities in a socially responsible way to achieve business growth. Built on strong values, we recognise the need for commitment to all our stakeholders, whether Shareholders, local communities, tenants, investment partners, financial institutions or staff. Following the growth of our fund management business through the addition of the Ashtenne Industrial Fund and the Apia Regional Office Fund during 2005, the importance of this commitment is reinforced.

CSR is reported upon at every Board meeting. It is a part of our risk management of the business. We are a learning company continually evaluating our progress and ensuring our values are known by all staff, contractors and other interested parties.

HEALTH AND SAFETY

A group of our senior managers meets regularly, chaired by the Property Director, to consider on-going and new health and safety initiatives to be implemented throughout the Company. This team also ensures that we satisfy legislative and regulatory requirements that are placed on us as an employer and as an owner and manager of property.

We have an ongoing programme of staff training to make our managers aware of their health and safety responsibilities. The results of this will be an improvement in the effectiveness with which we can manage health and safety within the Company.

We are progressing work on a health and safety protocol with the assistance of Marsh Risk Consultancy and when completed this will help to guide us on all property related health and safety issues.

Last year an external comprehensive Risk Assessment audit of a sample of our shopping centres was undertaken and this exercise is being repeated this year on the Ashtenne Industrial Fund.

All projects where major building works are being undertaken produce regular reports on health and safety issues and measures taken to reduce the risk of any incidents. Lessons learnt are applied to all other projects. We are also pro-active with measures such as our decision to place defibrillators in all of our shopping centres.

ENVIRONMENTAL AWARENESS

Maintaining our environment is seen as an issue of growing importance by the public, the media and within government. Our ownership, management and development of property brings with it a responsibility to act in a considerate manner in all of our operations; balancing the needs of today against those of the future.

With the growing importance of the environment we are increasing our expertise in this area and reducing, wherever practicable, any adverse impact on the environment. European Community regulations leading to the classification of buildings by their consumption of energy may become increasingly important in the valuation of buildings. We are monitoring the progress of the regulations and their potential impact on the value of our investments and developments.

BREEAM (Building Research Establishment Environmental Assessment Method) is the industry recognised method of assessing the impact of buildings on our environment. Working with the UK's leading body in assessing the performance of buildings is a meaningful way of measuring our success with new developments that we undertake. In appropriate circumstances we will work to achieve the maximum accreditation available.

As the design of several major projects progresses towards a start on site we are working with our professional consultants to review and amend the design to minimise environmental impact wherever practical. We have established a working party on sustainability, drawing from our leading design and construction consultants under the direction of our Director of Development. The purpose is to establish an appropriate benchmark for all of our activities and to monitor compliance.

Our improvements to Middleton town centre are an example of how we can deliver improvements to the environment in which people live and work, promoting public transport with an integrated scheme and generating a convenient local shopping choice for people living and working in the area. With the design of schemes in Bolton and Preston progressing we are working to minimise energy usage both in construction but more importantly in long-term operation.

Corporate Social Responsibility

continued

We have worked hard at improving our IT systems in an effort to move to a paperless office. We have recycling bins for all types of waste which are collected regularly by a recognised recycling company. We also hold an annual filing day when employees set aside the day to sort out their filing and are encouraged to dispose of as much paper as realistic for recycling.

EMPLOYEES

We recognise that the success of our business depends on the capabilities and dedication of our people. We continue to employ a diverse workforce, recognising that valuing diversity is simply the right thing to do as well as making good business sense. The impact of changing demographics and social and technological change makes good diversity management an important element of sustainable success. We strive to be the employer of choice in our industry and to attract, retain, motivate and reward high calibre people. We are committed to developing employees to do their job in the most effective way, identifying their potential and providing training, development and career opportunities. In this way we can maximise their contribution to the overall performance of Warner Estate. Our approach to talent management is one of continuous development. Once we have attracted individuals, from within Warner Estate and the external market, we continue to focus on their learning and development. Our preference is for each person to take ownership of their personal development plan and all are actively encouraged to seek further improvement through external programmes. We continue to invest in management programmes such as those offered by Ashridge Management College and Cranfield School of Management. We provide a total remuneration package that is competitive, endeavouring to reward our employees fairly; and regularly review our remuneration packages to ensure they remain competitive. We use performance management, linked closely to the business plan and bonus schemes to encourage employees to achieve both business and personal goals. Our codes of practice are reviewed regularly to ensure our protocols keep them in line with our values and objectives.

We recognise the importance of providing employees with a continual and consistent flow of information. Announcements and press releases are emailed to all staff and presentations of the Company's year end and interim results are available on the website. Plans for an intranet are well advanced, which is particularly important following the acquisition of Ashtenne last year and, as a result the addition of six new regional offices.

Following the acquisition of Ashtenne, a great effort was made to make the Ashtenne employees feel part of the Warner Estate family, with several joint social events held and senior management visiting the regional offices to outline the Company's plans to the Staff there.

The Company holds an annual away day and everyone enjoyed the treasure hunt last year from our offices in the West End of London down to historic Greenwich and across the river to the Tower of London.

COMMUNITY CONCERN

The Company recognises that every building it manages is to a varying degree part of someone else's community, so every effort is made to bridge the link to the community. The shopping centres, by their very nature, provide an excellent example of the process, by supporting local community activities such as last year's search for a star competition held at the Birkenhead shopping centres.

On a national basis we have supported, inter alia, Land Aid Charitable Trust, Cancer Research UK and London Youth.

Finally, there is the involvement which comes from Staff participating in sponsored events such as fun runs. One of the most energetic efforts of the year being one of our Finance team running the Prague half marathon, raising over £2,500 for the Farleigh Hospice.

Warner Estate strives to be with the best at CSR, as our continued membership of the FTSE4Good Index Series recognises.

Directors' Remuneration Report

Certain sections of this Report are subject to a statutory audit, as required by the Directors' Remuneration Report Regulations 2002. Those sections are indicated in the section title. All other sections have not been audited.

THE REMUNERATION COMMITTEE

The Remuneration Committee comprises all the Non-executive Directors and determines all aspects of remuneration for the Executive Directors. The Committee met four times during the year. The Executive Directors determine the fees for Non-executive Directors, subject to a limit approved by Shareholders at a general meeting. No Director is involved in deciding his own remuneration. The Committee is directly accountable to Shareholders and the approval of this report will be sought at the Annual General Meeting. As Chairman of the Committee, Mr W R Broderick will be available at the Annual General Meeting to answer questions about the remuneration of Executive Directors.

The Committee seeks advice from independent external advisors when required. The Company's legal advisors, Clifford Chance LLP, provide advice to the Committee on share scheme matters. The Company Secretary has also provided administrative support and information to the Committee. During the year, New Bridge Street Consultants LLP advised the Committee on the remuneration packages of the Executive Directors and designed a new long-term incentive plan, the Performance Share Plan, introduced in 2005.

REMUNERATION POLICY

The Committee has given full consideration to the requirements of the Listing Rules and has determined as the objective of its policy the fair reward to the Executive Directors for their contribution in a form and amount to attract, retain and motivate high quality management. In implementing the policy, the Committee takes into account remuneration packages available within other companies, including property companies, comparable to the Company, as well as the Group's overall financial performance.

SERVICE CONTRACTS

Details of the service contracts/letters of appointment of the Directors serving at the year end are as follows:

Name	Contract date	Notice from Company	Notice from Director
P C T Warner	None	None	None
P W Collins	23 Feb 1998	12 months	6 months
R Moore	18 May 2000	12 months	6 months
M J Stevens	28 Mar 2001	12 months	6 months
J R Avery	15 Jul 2004	6 months	6 months
W R Broderick	None	None	None
G A Cooke	None	None	None
R H Warner	None	None	None

In the event of early termination of an Executive Director's contract, the Committee determines the amount of compensation (if any) to be paid by reference to the circumstances of the case at the time. It is the Committee's policy not to reward poor performance and to take account of the Executive Director's duty to mitigate loss.

BONUS SCHEME

The Group operates a bonus scheme for all employees, including the Executive Directors, which is not pensionable. The criteria for the scheme are the level of profit achieved from certain aspects of the Group's business activities against targets, together with an assessment of each individual's performance during the period. Bonuses payable to the Executive Directors in respect of the year under review are approved by the Remuneration Committee and are shown in the table of Directors' Emoluments.

Directors' Remuneration Report

continued

LONG-TERM INCENTIVES

The Committee is responsible for supervising the Company's executive share incentive arrangements. The Company has previously operated the Warner Estate Holdings 1995 Share Option Scheme ("the Share Option Scheme") and the Warner Estate Holdings Long-term Incentive Plan ("the WEHLTIP"). Shareholders approved amendments to the Share Option Scheme in 2001 and since that approval, no allocations have been made under the WEHLTIP. The Share Option Scheme came to the end of its ten year duration on 23 March 2005. The Warner Estate Holdings PLC Performance Share Plan ("the WEHPSP") was approved by Shareholders at an Extraordinary General Meeting on 8 September 2005. The WEHLTIP is due to come to the end of its ten year duration on 27 February 2007 and no further awards will be made under that Plan.

Under the WEHPSP, the Committee may grant an award in one of three forms: (i) conditional allocations, where a participant will receive free Ordinary shares in the Company automatically on the vesting of his award; (ii) nil (or nominal) cost options, where a participant can decide when to exercise his award during a period of six months after it has vested; or (iii) forfeitable Shares, where a participant will receive complete ownership of free Shares automatically on the vesting of his award but, unlike conditional awards, he will have certain shareholder benefits prior to the vesting of his award. The Committee may also decide to grant cash-based awards of an equivalent value to share-based awards or to satisfy share-based awards in cash (either in whole or part), although it does not currently intend to do so.

An individual may not receive an award under the Plan in any financial year over Shares having a market value in excess of 125% of his or her annual base salary in that financial year except in exceptional circumstances such as recruitment when an award of up to 200% of annual base salary can be made. Awards will normally vest on or following the third anniversary of grant once the Committee has determined the extent to which the applicable performance conditions have been satisfied and provided the participant is still employed in the Company's Group.

All awards will be subject to performance conditions set by the Committee each year which measure the Company's performance over a single three year period (i.e. with no re-testing facility).

The following tables explain how the performance conditions for the initial grants under the Plan will operate:

FOR AWARDS OVER SHARES WORTH UP TO 100% OF SALARY

TSR element (65% of award)

Performance	% of this portion of award that vests
Below median	0%
Median	25%
Upper quartile	100%
Between median and upper quartile	Straight-line between 25% and 100%

EPS element (35% of award)

Average annual EPS growth	% of this portion of award that vests
Below RPI+3%	0%
RPI+3%	25%
RPI+8%	100%
Between RPI+3% and RPI+8%	Straight-line between 25% and 100%

FOR PORTION OF AWARDS OVER SHARES WORTH MORE THAN 100% OF SALARY

TSR element (65% of award)

Performance	% of this portion of award that vests
Below upper quartile	0%
Upper quartile	0%
Upper decile	100%
Between upper quartile and upper decile	Straight-line between 0% and 100%

EPS element (35% of award)

Average annual EPS growth	% of this portion of award that vests
Below RPI+8%	0%
RPI+8%	0%
RPI+10%	100%
Between RPI+8% and RPI+10%	Straight-line between 0% and 100%

Directors' Remuneration Report

continued

The earnings per share ("EPS") performance condition will take account of the Company's EPS in each of the three years of the performance period which will then be aggregated and compared with the average aggregate EPS that would be required to satisfy the above targets, rather than simply comparing the third year following grant with the year prior to grant. This approach ensures that executives are encouraged to deliver sustained EPS growth over the three year period.

In order to take account of likely volatility in earnings in the transition to International Accounting Standards, for the purposes of calculating EPS a normalised EPS figure will be used which is the recurring EPS of 22.9p (2005: 22.3p restated). The table on page 6 shows how profit after tax is reconciled back to recurring profit.

The Company's total shareholder return ("TSR") will be measured against the FTSE All Share Real Estate Sector. For the purposes of calculating TSR, share price plus dividends reinvested will be averaged over the three months prior to the start and end of the performance period.

The Committee may vary the performance conditions applying to existing awards to take account of exceptional circumstances and technical events (e.g. further changes in accounting standards) provided that, in the reasonable opinion of the Committee, the conditions remain at least as challenging as the ones originally set (taking account of the relevant circumstance or event). Shareholders will be consulted before any material variations are made.

For future awards, different performance conditions may be set by the Committee, but Shareholders will be consulted before materially different performance conditions are set.

The first award under the WEHPSP was granted by the Committee on 4 October 2005 to senior management within the Group totalling 158,294 shares. A second award was granted by the Committee on 19 January 2006 totalling 36,216 shares to senior former Ashtenne employees who transferred to employment by the Company. Both awards were structured as nil-cost options and no participant received awards worth more than 100% of their salary.

Under the Share Option Scheme, the value of shares subject to options granted to an individual were subject to a maximum of one times basic salary per annum. Options become exercisable after three years subject to a performance target and at an exercise price which is fixed at the market value of shares at the time of grant.

The performance conditions under the Share Option Scheme are:

- (i) 100% of the award becomes exercisable if the increase in Triple Net Asset Value (TNAV) (plus dividends) per share equals the Investment Property Databank All-Fund Benchmark (IPD) plus 9% over three years.
- (ii) 50% of the award becomes exercisable if the increase in TNAV (plus dividends) per share equals IPD plus 6% over three years.

For performance between these points, the proportion of the award which becomes exercisable is calculated on a straightline basis. If the performance condition is not satisfied in full after three years, it shall be retested each year up to six years from the date of grant. In such circumstances, the targets of IPD plus 6% and IPD plus 9% will accordingly be increased by 2% and 3% respectively for each year beyond the third year.

The Share Option Scheme provided for the grant of tax beneficial Inland Revenue approved options as well as unapproved options. The performance conditions in respect of the options granted on 16 August 2001 and 17 July 2002 were met and those options are, therefore, exercisable by the participants.

ALL-EMPLOYEE SHARE OWNERSHIP PLAN

An Inland Revenue approved All-Employee Share Ownership Plan ("the AESOP") was approved by Shareholders in 2001. Under the AESOP an employee can buy Partnership shares from pre-tax monthly salary up to an initial maximum of £125 per month (or 10% of their total salary if less) and the Company awards the employee one free Matching share for each Partnership share. The Company can also award up to £3,000 worth of Free Shares a year to an employee and dividends on any Free, Partnership and Matching shares can be used by an employee to purchase Dividend shares. Capita IRG Trustees Limited acts as Trustee and holds the shares purchased/awarded for a minimum of five years for Matching and Free shares and three years for Dividend shares.

In respect of the 2006 financial year, an appropriation of 10% of salary has been agreed at a cost of £346,772 to award Free shares to employees under the AESOP.

Directors' Remuneration Report

continued

DIRECTORS' INTERESTS IN SHARE SCHEMES (AUDITED)

Directors with nil cost awards under the WEHPSP to acquire Ordinary 5p shares were as follows:

	Date of award	1 April 2005	Awards granted	Awards exercised	Awards lapsed	31 March 2006	Date from which exercisable	Expiry date
P C T Warner	04/10/05	–	28,056	–	–	28,056	04/10/08	04/04/09
		–	28,056	–	–	28,056		
P W Collins	04/10/05	–	22,903	–	–	22,903	04/10/08	04/04/09
		–	22,903	–	–	22,903		
R Moore	04/10/05	–	24,048	–	–	24,048	04/10/08	04/04/09
		–	24,048	–	–	24,048		
M J Stevens	04/10/05	–	16,032	–	–	16,032	04/10/08	04/04/09
		–	16,032	–	–	16,032		

Directors with options to subscribe for Ordinary 5p shares, details of which are given in Note 28 on page 84, were as follows:

	Date of grant	1 April 2005	Options granted	Options exercised	Options lapsed	31 March 2006	Exercise price	Date from which exercisable	Expiry date
P C T Warner	16/08/01	65,899*	–	–	–	65,899	303.5p	16/08/04	15/08/11
	17/07/02	65,831*	–	–	–	65,831	319.0p	17/07/05	16/07/12
	27/06/03	59,866	–	–	–	59,866	367.5p	27/06/06	26/06/13
	08/07/04	46,060	–	–	–	46,060	495.0p	08/07/07	07/07/14
		237,656	–	–	–	237,656			
P W Collins	16/08/01	47,779*	–	9,884	–	37,895	303.5p	16/08/04	15/08/11
	17/07/02	50,159*	–	–	–	50,159	319.0p	17/07/05	16/07/12
	27/06/03	47,075	–	–	–	47,075	367.5p	27/06/06	26/06/13
	08/07/04	36,363	–	–	–	36,363	495.0p	08/07/07	07/07/14
		181,376	–	9,884	–	171,492			
R Moore	16/08/01	47,779*	–	47,779	–	–	303.5p	16/08/04	15/08/11
	17/07/02	54,861*	–	54,861	–	–	319.0p	17/07/05	16/07/12
	27/06/03	51,702	–	–	–	51,702	367.5p	27/06/06	26/06/13
	08/07/04	40,000	–	–	–	40,000	495.0p	08/07/07	07/07/14
		194,342	–	102,640	–	91,702			
M J Stevens	16/08/01	21,500*	–	9,884	–	11,616	303.5p	16/08/04	15/08/11
	17/07/02	22,572*	–	–	–	22,572	319.0p	17/07/05	16/07/12
	27/06/03	21,306	–	–	–	21,306	367.5p	27/06/06	26/06/13
	08/07/04	16,451	–	–	–	16,451	495.0p	08/07/07	07/07/14
		81,829	–	9,884	–	71,945			

*Share options granted have vested.

The middle market price of the shares at 31 March 2006 was 759p (2005: 551.5p) and during the year ranged from between 545p and 759p. The aggregate gain on the exercise of the share options by Directors in the year was £352,450 (2005: Nil).

Directors' Remuneration Report

continued

In addition to that opposite, under the AESOP, Partnership Shares and Dividend Shares were purchased and Matching Shares and Free Shares were awarded and held by the Trustee of the AESOP, Capita IRG Trustees Limited, on behalf of Directors as follows:

	Total number of AESOP Shares at 1 April 2005	Number of Partnership Shares purchased	Number of Matching Shares awarded	Number of Free Shares awarded	Number of Dividend Shares purchased	Total number of AESOP Shares at 31 March 2006
P C T Warner	4,997	232	232	483	–	5,944
P W Collins	5,396	232	232	483	177	6,520
R Moore	5,396	232	232	483	177	6,520
M J Stevens	5,014	233	233	483	165	6,128

DIRECTORS' REMUNERATION (AUDITED)

Directors' remuneration for the year ended 31 March 2006 was as follows:

	2006	2005
Emoluments	£000	£000
Pension contributions to defined benefit scheme	1,770	1,437
Pension contributions to money purchase schemes	24	23
	90	67
	1,884	1,527

Mr P C T Warner is a Non-executive Director of Stonemartin plc, but does not receive any fees in respect of that directorship.

DIRECTORS' EMOLUMENTS (AUDITED)

Director	Salary and fees	Benefits		Bonus ^(d)	AESOP	Total emoluments excluding pensions 2006	Total emoluments excluding pensions 2005	Pension contributions ^(b) 2006	Pension contributions ^(b) 2005
		Cash	Non-cash			£000	£000	£000	£000
Executive^(a)									
P C T Warner	245	15	7	208	5	480	425	32	31
P W Collins ^(b)	200	14	6	215	5	440	390	24	23
R Moore	189	12	8	200	5	414	376	37	36
M J Stevens ^(c)	146	14	3	146	5	314	147	21	–
Non-executive^(a)									
W R Broderick	33	–	–	–	–	33	28	–	–
G A Cooke	28	–	–	–	–	28	25	–	–
R H Warner	33	–	–	–	–	33	28	–	–
J R Avery ^(d)	28	–	–	–	–	28	18	–	–
	902	55	24	769	20	1,770	1,437	114	90

(a) Fees for each of the Non-executive Directors were increased from £28,500 p.a. to £33,000 p.a. for Committee Chairmen and from £25,500 p.a. to £28,008 p.a. for the other Non-executives with effect from 1 April 2005. The rate with effect from 1 April 2006 is £35,508 p.a. for the Committee Chairmen and £30,000 p.a. for the other Non-executives.

(b) Mr P W Collins is a member of the Warner Estate Group Retirement Benefits Scheme. A contribution representing 23% of a salary capped for pension purposes at £105,600 was paid by the Company. The contributions in respect of Mr P C T Warner, Mr R Moore and Mr M J Stevens are in respect of private money purchase schemes. Mr P C T Warner's contribution in the year ended 31 March 2006 represented 30% of annual salary, capped at the Inland Revenue maximum salary of £105,600. Mr R Moore's contribution in the year ended 31 March 2006 represented 35% of annual salary capped at the Inland Revenue maximum salary of £105,600. Mr M J Stevens' contribution in the year ended 31 March 2006 represented 20% of annual salary capped at the Inland Revenue maximum salary of £105,600 and his contribution for the year ended 31 March 2005 was paid prior to him being appointed a Director.

(c) The remuneration of the Executive Directors is determined by the Remuneration Committee.

(d) The Remuneration Committee, in arriving at Directors' bonuses, took account of the overall performance of the Group, including major transactions.

Directors' Remuneration Report

continued

(e) 2005 remuneration reflects that received by Mr M J Stevens from his appointment as a Director on 11 February 2005.

(f) 2005 fee reflects that received by Mr J R Avery from his appointment as a Director on 15 July 2004.

(g) None of the Directors waived any emoluments during the year.

DIRECTORS' PENSION ENTITLEMENTS (AUDITED)

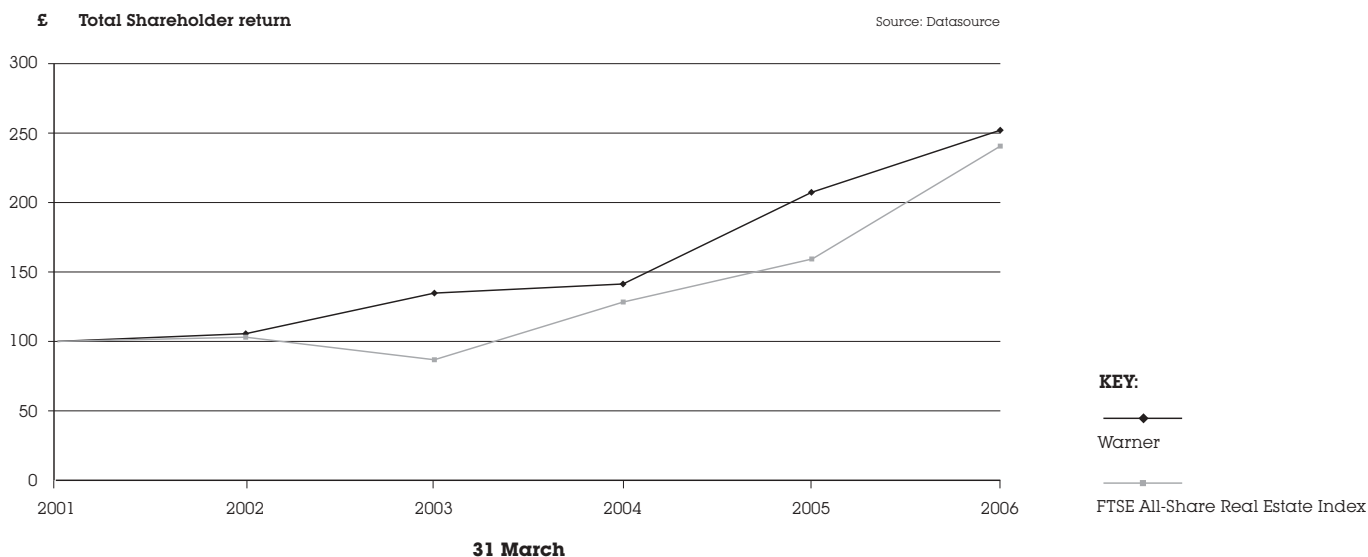
Full details of The Warner Estate Group Retirement Benefits Scheme ("the Scheme") are set out in Note 4 on pages 64 and 66. The Scheme is a defined benefit scheme having the approval of the Inland Revenue and is not contracted out. The Scheme provides members with a pension of up to two thirds of pensionable salary, which excludes bonuses, performance incentives and benefits in kind, on retirement at age 60 after 40 years' service, together with a lump sum death in service benefit of four times pensionable salary and half pensions for spouses of members on their death following retirement. Pensions may be increased by up to 5% each year.

The pension for each Director shown in the table below is that which would be paid annually on retirement at age 60 based on service to the end of the year. The increase in accrued pension below excludes the effect of inflation.

	At 31 March 2006		Accrued pension	Accrued pension	Increase in accrued pension	Transfer value	Transfer value
	Age	Length of service	2006	2005		2006	2005
P W Collins	57	eight years	£ 13,933	£ 11,758	£ 2,175	£ 232,848	£ 161,772

PERFORMANCE GRAPH

The graph displayed below shows the performance of the Company, measured by total shareholder return relative to the total return of the FTSE All-Share Real Estate Index. Performance is measured by Total Return for Shareholders and the Index as represented by share price growth plus reinvested dividends. The graph looks at the value, by the 31 March 2006, of £100 invested in Warner Estate on 31 March 2001 compared with the value of £100 invested in the FTSE All-Share Real Estate Index.



APPROVAL

An Ordinary Resolution to approve this report will be proposed at the Annual General Meeting of the Company. This report was approved by the Board of Directors on 20 June 2006 and was signed on its behalf by:

W R Broderick

Chairman of the Remuneration Committee

For and on behalf of the Board

20 June 2006

Corporate Governance Statement

The Board is responsible for the Company's system of corporate governance and is ultimately accountable for the Group's activities, strategy and financial performance. Whilst the Board subscribes to the principles of best practice set out in the Combined Code, the age and size of the Company and the small number of Directors that form the Board have made full application impracticable.

The Company has complied throughout the accounting year with the provisions of the Combined Code with the following exceptions:

- A.2.1 The Combined Code requires that the roles of Chairman and Chief Executive be separated. Mr P C T Warner has combined the roles of Chairman and Chief Executive since 1993 to the present time. The Board, having considered the matter carefully, believe that the Group's "collective" style of management, coupled with the presence of effective Non-executive Directors, ensures that there is a proper balance of power and authority within the Company.
- A.3.2 The Combined Code requires at least half the Board, excluding the Chairman, should comprise Non-executive Directors determined by the Board to be independent. Whilst the Board believes all its Non-executive Directors to be independent by the way they conduct themselves in that role, Messrs. W R Broderick, G A Cooke and R H Warner are not deemed independent under provision A.3.1 of the Combined Code as they have served on the Board for more than nine years. Mr R H Warner is also not deemed independent under the same provision due to his relationship to the Chairman. The Board, having considered the matter, believes it is not appropriate to change the successful composition of the Board at present.
- A.3.3 The Combined Code provides that the Board should appoint one of the independent Non-executive Directors to be the Senior Independent Director (SID). Mr W R Broderick has held the position of SID for a number of years, but is not regarded as independent as explained above. The Board has considered the matter and believes Mr Broderick should remain the SID due to his seniority as the longest serving Non-executive Director.
- A.4.1 The Combined Code provides that the majority of the members of the Nomination Committee should be independent Non-executive Directors. The membership of the Nomination Committee consists of the Chairman and the Non-executive Directors. Due to the reasons explained above regarding the non-independence of Messrs. Broderick, Cooke and R H Warner, the Company has not complied with this provision throughout the year.
- A.4.4 The Combined Code provides that a letter of appointment should be in place for each Director. Messrs. Broderick, Cooke and R H Warner do not have a letter of appointment. However, a summary of their terms and conditions of appointment is maintained and is available for inspection as required under the Combined Code. The Company continues to review service contracts for Directors with a view to putting these in place for all Directors.
- A.7.2 The Combined Code provides that Non-executive Directors should be appointed for specified terms subject to re-election. Messrs. Broderick, Cooke and R H Warner are not appointed for specified terms. This will be addressed once new service contracts are introduced. However, as these three Non-executive Directors have served longer than nine years, they are subject to annual re-election at the Annual General Meeting.
- B.2.1 The Combined Code provides that the Remuneration Committee should comprise at least two independent Non-executive Directors. Due to the reasons explained above regarding the non-independence of Messrs. Broderick, Cooke and R H Warner, the Company has not complied with this provision throughout the year.

Corporate Governance Statement

continued

C.3.1 The Combined Code provides that the Audit Committee should comprise at least two independent Non-executive Directors. Due to the reasons explained on the previous page regarding the non-independence of Messrs. Broderick and R H Warner, the Company has not complied with this provision throughout the year.

C.3.4 The Combined Code provides that the Audit Committee should make arrangements by which staff of the Company may, in confidence, raise concern about possible improprieties in matters of financial reporting or other matters. The Audit Committee has reviewed such an arrangement and recommended a whistleblowing procedure to the Board, which agreed to implement the procedure at its Board meeting on 9 June 2005. However, due to the activity of the Company over the last year and the acquisition of Ashtenne and its staff, the implementation of the policy was postponed. The policy will be implemented during 2006.

DIRECTORS

The Board

The Board's primary role is to provide entrepreneurial leadership and to develop a coherent long-term strategy for the Group. Its other roles are to supervise the Management, to maintain control over the Group's assets and to establish high ethical standards of behaviour, together with developing robust risk management practices and procedures.

Matters referred to the Board are considered by the Board as a whole and no one individual has unrestricted powers of decision. There are well documented procedures and controls, including a schedule of matters that require the Board's specific approval. This provides the framework for the decisions to be taken by the Board and those which can be delegated to committees of the Board. The Board considers and approves all Board appointments and removals, the appointment and removal of the principal advisers and auditors, changes to the Group's management and control structure, all matters relating to the Company's share listing, the Group's strategy, including acquisition and disposal of businesses, and high level financial decisions.

The full Board meets at least six times a year and retains full and effective control over the Group's activities. The regular meetings review the performance of the Group against its budget and strategy, examine purchases and disposals and formulate the Group's policy. Board papers containing appropriate and timely information are circulated in advance of Board meetings to all Directors. The full Board actually met seven times during the year. The attendance by Directors at scheduled Board and Committee meetings during the year was 100% in all cases, apart from Mr Moore, who missed one Board meeting due to illness.

Whilst the Board retains final authority over all significant capital investments and borrowing transactions, day to day management is delegated to an Executive Board consisting of the Executive Directors and Divisional Directors, operating within an annual strategic plan and budget set by the full Board. However, there is regular communication with Non-executive Directors to keep them informed of the Company's operations.

A Statement of Directors' Responsibilities in respect of the Financial Statements is set out on page 30.

For some years the Company has purchased insurance to cover its Directors and officers against their costs in defending themselves in civil legal proceedings taken against them in that capacity and in respect of damages resulting from the unsuccessful defence of any proceedings.

Chairman and Chief Executive

Mr P C T Warner has combined the roles of Chairman and Chief Executive since 1993 to the present time. His responsibilities include chairing meetings of the full Board, regular meetings with the Executive Board and executive leadership, involvement in corporate policy development, property acquisitions and Shareholder relations. The Combined Code requires that the roles of Chairman and Chief Executive be separated. The Board, having considered the matter carefully, believe that the Group's "collective" style of management, coupled with the presence of effective Non-executive Directors, ensures that there is a proper balance of power and authority within the Company.

Corporate Governance Statement

continued

Board balance and independence

The Board of the Company comprises four Executive Directors, including the Chairman, and four Non-executive Directors. Under the Combined Code Messrs. W R Broderick, G A Cooke and R H Warner can no longer be considered independent as they have each served on the Board for more than nine years from the date of their first election. The Board notes that the Combined Code guidance recommends that at least half the Board should comprise independent Non-executive Directors. Due to the structure of the Company, it is considered that it is not appropriate to change the successful Board composition at present. The non-independence of the majority of the Non-executive Directors also means that the membership of the Audit, Nomination and Remuneration Committees does not meet the recommendations of the Combined Code.

Mr W R Broderick is the Senior Independent Director and his prime responsibility is to provide a communication channel between the Chairman and the Non-executive Directors and to ensure that the views of each Non-executive Director are given due consideration. He is also an additional point of contact for Shareholders if they have reason for concern which contact through the normal channel of Chairman has failed to resolve or for which contact is inappropriate.

Biographies of the Directors are shown on page 24.

Appointments to the Board

Recommendations for appointments to the Board are the responsibility of the Nomination Committee. The Nomination Committee is chaired by Mr P C T Warner and its members are the Non-executive Directors. It meets when appropriate to consider the selection and approval of candidates for appointment to the Board and did not meet during the year. For the appointment of external candidates to the Board, the Nomination Committee evaluates prospective candidates who are then considered and, if appropriate, are recommended to the full Board for approval.

The Terms of Reference for the Nomination Committee are available on the Company's website.

Information and professional development

For each scheduled Board meeting the Chairman and the Company Secretary ensure that, during the week before the meeting, the Directors receive a copy of the agenda for the meeting and financial and operating information to ensure that they are properly appraised of the Group's current per-

formance as well as information on any other matter which is to be referred to the Board for consideration. In the months where there is no scheduled Board meeting, the Directors receive the prior month and cumulative financial and operating information.

There is an extensive internal induction programme that introduces a newly appointed Director to the Group. The Company Secretary gives guidance on Board procedures and corporate governance. All Directors receive ongoing training in matters that are relevant to their role on the Board. The Chairman arranges for the Directors to visit a number of the Company's properties each year.

The Company Secretary, who is appointed by the Board, is responsible for taking Board minutes and the recording of any concerns relating to the running of the Company or proposed actions arising there from that are expressed by a Director in a Board meeting. He is also Secretary to the Audit and Nomination committees. Under the direction of the Chairman, he is responsible for the communication of relevant information between the Board and senior management. The Company Secretary is available to give ongoing advice to all Directors on Board procedures, corporate governance and regulatory compliance. Should a Director reasonably request independent professional advice to carry out his duties, such advice is made available to him at the Company's expense.

Performance evaluation

The performance of the Chairman and Executive Directors was evaluated by the Remuneration Committee during the year. The performance of the Non-executive Directors was evaluated by the Chairman during the year. Performance evaluation of the Directors will continue to be conducted and the process of such evaluation will be reviewed by the Board.

Re-election of Directors

The Board ensures that each Executive and Non-executive Director should be required to submit himself for re-election by Shareholders at least every three years. The Company's Articles of Association state that a Director should be proposed for election if he has been appointed to the Board since the date of the last Annual General Meeting and for one third of the Board to retire by rotation each year. Any Non-executive Director who has served more than nine years on the Board is subject to annual re-election at the Annual General Meeting.

Corporate Governance Statement

continued

REMUNERATION

Level and make-up of directors' remuneration

The following sections on directors' remuneration should be read in conjunction with the Directors' Remuneration Report on pages 33 to 38.

The Board recognises the importance of the Executive Directors' remuneration, not only to motivate and retain the individuals concerned, but also in the wider context both within the Company and in comparable geographic and business areas. In addition to base salary, benefits in kind and retirement benefits, Executive Directors' remuneration is composed of both short-term and long-term elements that are related to Group's performance in the context of its sector.

The fees for Non-executive Directors are determined having regard to current market practice and the time spent on the Company's behalf. They do not participate in any incentive or share option schemes.

Information as to directors' basic salary, benefits in kind, short and long-term incentive arrangements and retirement benefits is disclosed in the Directors' Remuneration Report.

Policy for directors' remuneration

The Remuneration Committee is chaired by Mr W R Broderick and its members are the Non-executive Directors. The Committee advises the Board on executive remuneration policy and, in particular, makes recommendations regarding terms of employment of Executive Directors, their remuneration and the awarding of options and other incentives. Non-executive Directors' fees are recommended by the Chairman and approved by the Board. No Director is involved in deciding his own remuneration. The Committee met four times during the year.

The Terms of Reference for the Remuneration Committee are available on the Company's website.

ACCOUNTABILITY AND AUDIT

Financial reporting

The intention of the Annual Report and the Interim Report is to provide a clear assessment of the performance and prospects of the Company. In recent years the Company has prepared a separate Annual Review and Summary Financial Statement and Report and Accounts. Shareholders who have not requested the Annual Report and Accounts receive only the Annual Review and Summary Financial Statement.

A summary of the Directors' responsibilities for the financial statements are set out on page 30.

Internal control

The Board has overall responsibility for the Group's framework of internal control, including financial, operational and compliance controls and risk management systems, and the monitoring of its effectiveness. The internal control systems are designed to meet the particular needs of the Group and the risks to which it is exposed and the Board is satisfied that the systems are in accordance with the guidance of the Turnbull Report for the year ended 31 March 2006. A risk matrix is used to create an ongoing programme of investigations. During the year the Audit Committee appointed Grant Thornton UK LLP to carry out the internal audit function on behalf of the Company and to report to the Chairman of the Audit Committee. Grant Thornton reviewed the effectiveness of the Group's system of controls on behalf of the Audit Committee and have commenced a programme of internal audit reviews. Their first review report was presented to the Audit Committee at its meeting in March 2006. Any such system of control can, however, provide only reasonable, but not absolute assurance against material misstatement or loss. Every year, as part of the Group's risk management, a specific overview is prepared on the current risk status of the Group. Such an analysis was reviewed at a Board meeting in September 2005.

The main features of the Group's framework for internal control which operate within the established organisation structure with formally defined areas of responsibility are:

- a comprehensive budgeting system with an annual budget and strategic plan approved by the Board
- monthly management accounts showing operating results and cash flow as compared with budget
- forecasts reviewed quarterly during the year
- regular reports to the Board on financial, property, IT and legal matters
- a budgeted expenditure programme with clearly defined guidelines which includes detailed appraisal and review procedures and levels of authority
- investment appraisals for major investments
- the monitoring of business risks by the Executive Directors at regular meetings throughout the year

Corporate Governance Statement

continued

Audit Committee and Auditors

The Chairman of the Audit Committee is Mr R H Warner and its other members are Mr W R Broderick and Mr J R Avery. It met four times during the year and the external Auditors and the Finance Director attend by invitation. The Audit Committee reviews the annual accounts and the preliminary financial results announcement prior to submission to the Board, compliance with accounting standards, the scope and extent of the external audit programme, the appointment of the Auditors and monitors the adequacy of the Group's internal controls. The Chairman of the Audit Committee reports to the Board on matters discussed at Audit Committee meetings.

The Terms of Reference for the Audit Committee are available on the Company's website.

In addition to the annual appointment of auditors by the Shareholders, there is an ongoing process of monitoring the Auditors' performance undertaken by the Audit Committee. The Audit Committee monitors regularly the non-audit services being provided to the Group by its external Auditors, and has developed a formal independence policy to help ensure that there are no impairment to their independence or objectivity. PricewaterhouseCoopers LLP were engaged by the Group for certain non-audit activities, the fees for which are set out in Note 3 to the Financial Statements. The nature and materiality of this work has been reviewed by the Audit Committee which is satisfied that there has been no conflict with the need for audit independence and objectivity.

The Audit Committee regularly reviews all services being provided by the external Auditors in order to consider the independence and objectivity of the external Auditors, taking into account relevant professional and regulatory requirements. In forming their opinion of the independence, objectivity and effectiveness of the external Auditors, the Audit Committee also takes into account the safeguards operating within PricewaterhouseCoopers LLP.

RELATIONS WITH SHAREHOLDERS

Dialogue with private and institutional Shareholders

The Company values dialogue with institutional and private Shareholders. The Chairman and the Directors attended a number of meetings with both analysts and institutional investors during the year ended 31 March 2006, and intend to continue to do so in future. The Board uses meetings with private client brokers to communicate with private investors.

The Non-executive Directors, including the Senior Independent Director are offered the opportunity to attend meetings with major Shareholders and would expect to attend such meetings if requested to do so. In addition, the Company has a website which Shareholders can access for information on the Company. A presentation is made to representatives of the investment community following the announcement of the final and interim results and the presentation is then made available online on the Company website.

Annual General Meeting

The principal communication with private Shareholders is through the Annual Review or Annual Report, the Interim Report and the Annual General Meeting which is held at a central London location. The Notice of the Annual General Meeting and any related papers are posted to Shareholders with the Annual Review or, if requested, the Annual Report, at least 20 working days before the date of the Annual General Meeting to ensure that Shareholders have sufficient time in which to consider the items of business.

At the Annual General Meeting, Shareholders are given the opportunity to ask questions of the Board and the Chairman of each Board committee and meet all the Directors informally after the Meeting. Separate resolutions are proposed for each item of business and the 'for', 'against' and 'withheld' proxy votes cast in respect of each resolution proposed at the Meeting are counted and announced after the Shareholders present have voted on each resolution. An announcement confirming whether all the resolutions have been passed at the Annual General Meeting is made through the London Stock Exchange.

CORPORATE SOCIAL RESPONSIBILITY

The Board recognises the importance of social, environmental and ethical matters in the conduct of the Company's business. A report on Corporate Social Responsibility is given on page 31.

GOING CONCERN BASIS

After making enquiries, the Directors consider that the Group has adequate resources and committed borrowing facilities to continue in operational existence for the foreseeable future. Consequently, they continue to adopt a "Going Concern Basis" in preparing the accounts.

The attention of Shareholders is drawn to the Report of the Independent Auditors on page 46 which incorporates their report on Corporate Governance.

Significant Events During the Year Ended 31 March 2006

DATE	DETAIL	CATEGORY
April 2005	5% placing of shares in Warner Estate Holdings PLC to part finance the acquisition of Ashtenne Holdings PLC	Group
April 2005	Purchase of Townsend Farm Industrial Estate, Dunstable by Bareway Industrial joint venture for £5.5million	Joint venture
May 2005	Offer to acquire Ashtenne Holdings PLC is declared unconditional	Joint venture
June 2005	£256million Apia Regional Office Fund established in conjunction with Morley Fund Management which combined the Skipper Offices properties and Westgate, Bristol from the Wholly Owned Portfolio with Morley's existing £63million portfolio of offices.	Funds
June 2005	Sale of 120 Ham Road, Worthing for £8.6million	Group Investment Property
July 2005	Completion of acquisition of Ashtenne Holdings PLC by Industrial Funds Ltd	Joint venture
August 2005	Purchase of "Immanis" at Brackmills Distribution Park, Northampton by Radial Distribution joint venture for £8million	Joint venture
August 2005	Purchase of 7,993,098 units in Ashtenne Industrial Fund for £12million, representing 2.69% of the Fund to add to 5.168% owned by Ashtenne	Group Investment
September 2005	Sale of Great Western Business Park, Yate by Radial Distribution joint venture for £18.55million	Joint venture
October 2005	Establishment of Agora Max Shopping Centre Fund and the purchase of The Pallasades Shopping Centre in Birmingham via a Jersey Property Unit Trust for £152million	Joint venture
October 2005	Sale of land at Pollards Lane, Leeds by Industrial Funds Ltd for £7.2million	Joint venture
November 2005	Sale of all industrial properties owned by t3, in which Industrial Funds Ltd had a 17% stake, for £96million	Joint venture
November 2005	Sale of The Square Shopping Centre, Sale by Agora Shopping Centres joint venture for £40million	Joint venture
November 2005	Consideration of £14million received in settlement of offer by Kellen Acquisitions Ltd for shares in East Surrey Holdings plc	Group Investment
November 2005	Sale of all industrial properties owned by Bareway Industrial joint venture to Ashtenne Industrial Fund for £29million	Joint venture
November 2005	Sale of industrial portfolio to Ashtenne Industrial Fund for £51million	Group Investment Property
November 2005	Purchase of The Royals Shopping Centre in Southend with lease liabilities for a net £33million	Group Investment Property

Significant Events During the Year Ended 31 March 2006

continued

DATE	DETAIL	CATEGORY
November 2005	Purchase of a portfolio of seven regional office buildings by Apia Regional Office Fund for £120million	Funds
December 2005	Purchase of remaining 50% stake in Industrial Funds Ltd from Anglo Irish Bank for £0.35million	Group Investment
December 2005	Sale of three industrial buildings in Europe by Industrial Funds Ltd for £12.7million (€ 18.4million)	Group Investment Property
December 2005	Sale of a portfolio of buildings and land by Industrial Funds Ltd for £9.7million	Group Investment Property
January 2006	Sale of two ex-Ashtenne properties for £12.7million	Group Investment Property
February 2006	Secondary Placing of 7,356,223 shares by Trefick Limited reducing its shareholding to 13.75%	Group
March 2006	Pyramids and The Grange shopping centres in Birkenhead transferred to the Agora Max Shopping Centre Fund	Joint venture
March 2006	Collaboration Agreement signed with Aylesbury Vale District Council appointing the Company as principal developer for the multi million pound retail element of the waterside development scheme integrating Hale Leys Shopping Centre	Group Investment Property

Significant events post 31 March 2006

April 2006	Purchase of Alpha 1 at Hams Hall National Distribution Park, Birmingham by Radial Distribution joint venture for £17.62million	Joint venture
May 2006	Purchase of 24-26 Minories, London EC3 for £10.85million	Group Investment Property

Independent Auditors' Report to the Members of Warner Estate Holdings PLC

We have audited the Group and Parent company financial statements (the "financial statements") of Warner Estate Holdings PLC for the year ended 31 March 2006 which comprise the consolidated income statement, the group and parent company balance sheets, the group and parent company Statement of Recognised Income and Expense, the Group and Parent Company Reconciliation in Movements in Shareholders' Funds, the Group and Parent Company Cash Flow Statements, and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration 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 and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

We report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. We also 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 review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Property and Finance Reviews, the Corporate Governance Statement and Significant Events pages. 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 other information.

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 and the part of the Directors' Remuneration Report to be audited. 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 group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited.

OPINION

In our opinion:

- the group 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 affairs as at 31 March 2006 and of its profit and cash flows for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provision of the Companies Act 1985, of the state of the parent company's affairs as at 31 March 2006 and cash flows for the year then ended;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the Financial Statements.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
London
20 June 2006



Consolidated Income Statement

	Notes	2006	2005
		£000	£000
Revenue		67,478	45,052
Rental and similar income		24,003	26,521
Turnover from property trading activities		31,167	12,446
Cost of sales of property trading activities		(24,584)	(10,788)
Service charge and similar income		2,972	2,170
Service charge expense and similar charges		(3,591)	(2,773)
Net rental and trading income	3	29,967	27,576
Turnover from asset management activities		9,336	3,915
Asset management expenses		(3,512)	(1,437)
Net income from asset management activities	3	5,824	2,478
Administrative expenses		(2,390)	(1,755)
Property management expenses		(7,517)	(4,453)
Operating profit before net gains on investments	3	25,884	23,846
Net gain from fair value adjustments on investment properties		27,101	21,871
Net gain from fair value adjustment on investments		16,050	2,397
Profit on sale of investment properties	6	3,102	2,260
Profit on sale of investments	7	3,024	-
Operating profit		75,161	50,374
Finance income	8	8,306	6,698
Finance expense	9	(14,445)	(14,948)
Change in fair value of derivative financial instruments		(72)	315
Share of associates' post tax profits	20	715	-
Share of joint ventures' post tax profits	17	21,291	12,724
Profit before income tax		90,956	55,163
Taxation – current	10	(12,842)	(4,098)
– deferred	10	(3,659)	(6,109)
Profit for the year		74,455	44,956
Attributable to:			
Equity holders		74,432	44,954
Minority interests		23	2
		p	p
Earnings per share	13	140.17	89.20
Fully diluted earnings per share	13	138.79	88.59

Balance Sheets

	Notes	2006	Group	2005	Company	2005
		£000		£000	£000	£000
ASSETS						
Non-current assets						
Goodwill	14	11,205		-	-	-
Investment properties	15	333,198		327,737	-	-
Properties under the course of development	15	12,261		-	-	-
Plant and equipment	16	465		347	-	-
Investments in joint ventures	17	103,372		102,517	-	-
Investments in funds	18	104,081		-	-	-
Investments in listed and unlisted shares	19	5,115		15,518	113,476	113,476
Investments in associates	20	15,518		5,327	15,009	5,327
Deferred income tax assets	25	552		450	-	-
Derivative financial assets	24	-		11	-	11
Trade and other receivables	21	363		350	-	-
		586,130		452,257	128,485	118,814
Current assets						
Inventories		10,939		8,235	-	-
Trade and other receivables	21	23,096		9,051	249,103	169,338
Current income tax assets		-		-	6,632	2,973
Cash and cash equivalents		98,358		109,366	-	-
		132,393		126,652	255,735	172,311
Total assets		718,523		578,909	384,220	291,125
LIABILITIES						
Non-current liabilities						
Borrowings, including finance leases	22	(283,625)		(195,638)	(75,915)	-
Derivative financial liabilities	24	(1,361)		(1,162)	-	-
Deferred income tax liabilities	25	(29,563)		(20,112)	-	-
Retirement benefit obligations	4	(481)		(336)	-	-
Provisions for other liabilities and charges	26	(12,503)		(128)	(503)	(128)
		(327,533)		(217,376)	(76,418)	(128)
Current liabilities						
Borrowings, including finance leases	22	(1,893)		(68,269)	-	(48,238)
Trade and other payables	27	(29,569)		(18,791)	(104,157)	(51,779)
Current income tax liabilities		(5,608)		(2,118)	-	-
		(37,070)		(89,178)	(104,157)	(100,017)
Total liabilities		(364,603)		(306,554)	(180,575)	(100,145)
Net assets		353,920		272,355	203,645	190,980
EQUITY						
Capital and reserves attributable to the Company's equity holders						
Share capital	28	2,675		2,548	2,675	2,548
Reserves	29	348,837		271,222	201,896	190,099
Investment in own shares	30	(926)		(1,667)	(926)	(1,667)
Equity shareholders' funds		350,586		272,103	203,645	190,980
Minority interest	36	3,334		252	-	-
Total equity		353,920		272,355	203,645	190,980

The accounts on pages 49 to 102 were approved by the Board of Directors on 20 June 2006 and were signed on its behalf by:

Philip Warner Director Peter Collins Director

Statement of Recognised Income and Expense

	Notes	Group		Company	
		2006	2005	2006	2005
		£000	£000	£000	£000
Profit for the year		74,432	44,954	8,438	7,696
Actuarial (losses)/profits on retirement benefit obligations net of deferred tax recognised directly in equity	4	(219)	50	-	-
Deferred tax arising on retirement benefit obligations	4	43	(33)	-	-
Total recognised income and expense for the year attributable to equity shareholders		74,256	44,971	8,438	7,696

Reconciliation of Movements in Shareholders' Funds

	Notes	Group		Company	
		2006	2005	2006	2005
		£000	£000	£000	£000
Opening equity in shareholders' funds		272,103	235,951	190,980	192,103
Shares issued	28	127	-	127	-
Share premium on shares issued	29	13,493	-	13,493	-
Acquisition of investment in own shares	30	(139)	(169)	(139)	(169)
Disposal of investment in own shares	30	880	191	880	191
		286,464	235,973	205,341	192,125
Total recognised income and expense for the year		74,256	44,971	8,438	7,696
Dividend paid in year	12	(10,134)	(8,841)	(10,134)	(8,841)
Closing equity shareholders' funds		350,586	272,103	203,645	190,980

Cash Flow Statements

For the year ended 31 March 2006

	Notes	2006	Group	2005	Company	2006	2005
		£000		£000		£000	£000
Cash flows from operating activities							
Cash generated from operations	32	24,703		34,020		(22,416)	313
Interest paid		(13,209)		(14,097)		(3,077)	(1,720)
Interest received		5,285		6,735		119	239
UK Corporation tax paid		(10,604)		(3,209)		(2,452)	(339)
Net cash inflow/(outflow) from operating activities		6,175		23,449		(27,826)	(1,507)
Cash flows from investing activities							
Purchase of investment properties and related capital expenditure		(59,787)		(30,963)		-	-
Sale of investment properties		95,063		46,179		-	-
Purchase of plant and equipment		(154)		-		-	-
Sale of investments in listed shares		14,411		-		-	-
Purchase of investments in funds		(66,910)		-		-	-
Sale of investments in funds		1,000		-		-	-
Purchase of investments in associates		(5,000)		(5,327)		(5,000)	(5,327)
Net cash acquired from purchase of shares in subsidiary company	37	22,600		250		-	-
Purchase of shares in joint ventures		(16,676)		(4,175)		-	-
Sale of shares in joint ventures		-		205		-	205
Loans to joint ventures		(47,544)		(22,440)		-	-
Loans repaid by joint ventures		37,559		23,276		-	3,764
Loans repaid by associates		4,651		-		-	-
Payment received for leasehold liabilities		13,750		-		-	-
Dividends received from listed investments		422		533		-	-
Dividends received from funds		1,566		-		-	-
Dividends received from joint ventures		1,000		-		-	-
Dividends received from associates		5,058		-		995	-
Net cash inflow/(outflow) from investing activities		1,009		7,538		(4,005)	(1,358)
Cash flows from financing activities							
Net proceeds from issue of Ordinary share capital		13,620		-		13,620	-
Purchase of own shares for AESOP scheme		(139)		(169)		(139)	(169)
Disposal of own shares for share option scheme		807		175		807	175
Dividends paid		(10,134)		(8,841)		(10,134)	(8,841)
Net proceeds from issue of new bank loan		37,915		-		-	-
Repayment of bank loans		(72,232)		(2,250)		-	-
Repayment of mortgages and other loans		(57,346)		(794)		-	-
Net cash (outflow)/inflow from financing activities		(87,509)		(11,879)		4,154	(8,835)
Net (decrease)/increase in cash and cash equivalents*		(80,325)		19,108		(27,677)	(11,700)
Cash and cash equivalents at beginning of year		2,653		(16,455)		(48,238)	(36,538)
Cash and cash equivalents at end of year		(77,672)		2,653		(75,915)	(48,238)

*Includes overdraft facility balances shown in borrowings.

Notes to the Financial Statements

1 TRANSITION TO IFRS

In previous years, Warner Estate Holdings PLC ('Warner Estate' or the 'Group') has prepared its financial statements under UK Generally Accepted Accounting Principles ('UK GAAP'). Under European legislation, all companies listed in the European Union ('EU') are required to prepare consolidated financial statements under International Financial Reporting Standards as adopted by the EU ('IFRS') for financial periods beginning on or after 1 January 2005. As a result the Group is required to prepare its consolidated financial statements in accordance with IFRS. These are the Group's first full financial statements under IFRS.

This report is prepared in accordance with the transitional provisions set out in IFRS 1 – 'First-time Adoption of International Financial Reporting Standards' in order to provide a starting point for reporting under IFRS. The date of transition to IFRS is 1 April 2004 and all information in these financial statements has been restated to reflect the Group's adoption of IFRS.

The Group has also adopted International Accounting Standards (IAS) 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement" from 1 April 2004.

Advantage has been taken of certain exemptions afforded by IFRS 1 "First-time adoption of International Financial Reporting Standards" as follows:

- The accounting for business combinations prior to 1 April 2004 has not been amended; and
- The Group has applied IFRS 2 "Share-based Payment" retrospectively only to awards made after 23 June 2003 that had not vested at the balance sheet date.

Details with respect to the Group's transition from UK GAAP to IFRS, including accounting policies used, reconciliations and descriptions of the effect of the transition on the Group's net income, equity and cash flows are provided in the section "Reconciliations between IFRS and UK GAAP".

2 ACCOUNTING POLICIES

BASIS OF PREPARATION

The Financial Statements set out on pages 49 to 102 comprise the consolidated financial statements of the Group for the year ended 31 March 2006 and have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations endorsed by the European Union ("EU") and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

The basis of accounting and format of presentation is subject to change following any further interpretative guidance that may be issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretation Committee ("IFRIC") from time to time.

Additionally, IFRS is being applied in the United Kingdom and in a large number of countries simultaneously for the first time. Furthermore, due to a number of new and revised standards included within the body of standards that comprise IFRS, there is not yet a significant body of established practice on which to draw in forming options regarding interpretation and application. Accordingly, practice is continuing to evolve.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain assets and liabilities, which are carried at fair value, and in accordance with those IFRS standards and IFRIC interpretations issued and effective or issued and early adopted as at the time of preparing these accounts.

The parent company's financial statements have also been prepared in accordance with IFRS, as applied in accordance with the provisions of the Companies Act 1985. The Directors' have taken advantage of the exemption offered by Section 230 of the Companies Act not to present a separate income statement for the parent company.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group's accounting policies. Although these estimates are based on management's best knowledge of the amount, events or actions, actual results ultimately may differ from those estimates.

Notes to the Financial Statements

continued

2 ACCOUNTING POLICIES continued

STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS THAT ARE NOT YET EFFECTIVE

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 April 2006 or later periods but which the Group has not early adopted, as follows:

IFRS 7, Financial Instruments: Disclosures, and a complementary amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007)

IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of IAS 1. The Group will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 April 2006.

IFRIC 8, Scope of IFRS 2 (effective from 1 May 2006)

IFRIC 8 is not relevant as the only share-based payments issued by the Group are in relation to employee services which are already accounted for in accordance with IFRS 2.

CONSOLIDATION

(a) Subsidiary undertakings

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.

The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date control ceases. All inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated upon consolidation.

(b) Interests in joint ventures

Interests in jointly controlled entities are accounted for using the equity method. Unrealised gains and losses on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. The Group's share of profit of joint ventures represents the Group's share of the joint venture's profit after tax.

(c) Associates

Investments in associates are accounted for using the equity method. Associates are all entities over which the Group is in the position to exercise significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. The Group's share of profit of associates represents the Group's share of the associates profit before tax. The above principles regarding joint ventures are also applicable to associated undertakings.

SEGMENT REPORTING

The Group's primary reporting format is business activity, being property investment and asset management.

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

PLANT AND EQUIPMENT

Plant and equipment is initially measured at cost. After initial recognition, the fixed assets are carried at cost less subsequent depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Plant and equipment is depreciated by equal annual instalments over their estimated useful lives of between three and ten years and are carried at historic cost less accumulated depreciation.

Where the carrying amount of a fixed asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Recoverable amount is the higher of fair value less costs to sell and value in use and is determined for an individual asset. After initial recognition, the item is carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Notes to the Financial Statements

continued

2 ACCOUNTING POLICIES continued

GOODWILL

Business combinations are accounted for by applying the purchase method. The excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities, recognised in accordance with IFRS 3, Business Combinations, constitutes goodwill, and is recognised as an asset. Goodwill on acquisition of subsidiaries is included in "Goodwill". Goodwill on acquisition of associates is included in "Investments in associates". After initial recognition, goodwill is measured at cost less any accumulated impairment losses, until disposal or termination of the previously acquired business (including planned disposal or termination where there are indications that the value of the goodwill has been permanently impaired), when the profit or loss on disposal or termination will be calculated after charging the book amount of any such goodwill through the income statement. Goodwill arising on acquisitions before 1 April 2004, the date of transition to International Financial Reporting Standards, has been retained at the previous UK GAAP amounts, subject to being tested for impairment at that date.

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment.

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

INVESTMENT PROPERTY

(a) Initial recognition

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group, is classified as investment property.

Investment property comprises freehold land, freehold buildings, land held under operating leases and buildings held under finance leases. When the Group begins to redevelop an existing investment property for continued future use as an investment property, the property remains an investment property and is accounted for as such.

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

Property that is being constructed or developed for future use as an investment property, but which has not previously been classified as such, is classified as properties under the course of development within assets under course of development. This is recognised initially at cost but is subsequently re-measured to fair value at each reporting date. Any gain or loss on re-measurement is taken direct to equity unless any loss in the period exceeds any net cumulative gain previously recognised in equity. In the latter case, the amount by which the loss in the period exceeds the net cumulative gain previously recognised is taken to profit or loss. On completion, the property is transferred to investment property with any final difference on re-measurement accounted for in accordance with the foregoing policy.

Land held under operating leases is classified and accounted for as investment property when the rest of the definition of investment property is met. In such cases, the operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs.

Notes to the Financial Statements

continued

2 ACCOUNTING POLICIES continued

(b) Fair value

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specified asset. If this information is not available, the Group uses alternate valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are performed in accordance with the guidance issued by the International Valuation Standards Committee. These valuations are reviewed at each financial reporting period end by external valuers. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property.

Some of those outflows are recognised as a liability, including finance lease liabilities in respect of land classified as investment property; others, including contingent rent payments, are not recognised in the financial statements.

(c) Subsequent expenditure

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefit associated with the item will flow to the Group and the cost of the item can be measured reliably. All repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred. Gross borrowing costs associated with direct expenditure on properties under development or undergoing major refurbishment are capitalised. With specific developments, the amount capitalised is the gross interest incurred on those borrowings less any investment income arising on their temporary investment. Interest is capitalised as from the commencement of the development work until the date of practical completion. The capitalisation of finance costs is suspended if there are prolonged periods when development activity is interrupted. Interest is also capitalised on the purchase cost of a site or property acquired specifically for redevelopment in the short-term but only where activities necessary to prepare the asset for redevelopment are in progress.

(d) Changes and transfers

Changes in fair values are recorded in the income statement for investment properties.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment property is classified as properties under the course of development and stated at cost until construction or development is complete, at which time it is reclassified and subsequently accounted for as investment property.

INVENTORIES

Property inventories are stated at the lower of cost and estimated net realisable value. No interest is capitalised within inventories. Properties that are acquired and subsequently developed for future sales are reclassified as inventories at their deemed cost, which is the carrying amount at the date of reclassification. They are subsequently carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less cost to complete redevelopment and selling expenses.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprises cash balances, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. 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. Bank overdrafts are disclosed in current and non-current liabilities.

EMPLOYEE BENEFITS

The Group accounts for pensions under IAS 19 'Employee Benefits'. In respect of defined benefit pension schemes, obligations are measured at discounted present value while scheme assets are measured at their fair value.

Notes to the Financial Statements

continued

2 ACCOUNTING POLICIES continued

The operating and financing costs of such plans are recognised separately in the income statement. Service costs are spread systematically over the working lives of the employees concerned with the charge for the period included in operating costs in the income statement.

Financing costs are recognised in the periods in which they arise and are included in interest expense. Actuarial gains and losses arising from either experience differing from previous actuarial assumptions or changes to those assumptions are recognised immediately in the statement of recognised income and expense.

Contributions to defined contribution schemes are expensed as incurred.

INCOME TAXES

The charge for current taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. It is calculated using rates that have been enacted or substantively enacted by the balance sheet date. Tax payable upon realisation of fair value gains recognised in prior periods is recorded as a current tax charge with a release of the associated deferred tax.

Deferred tax is provided using the balance sheet liability method in respect of temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in computation of taxable profit with the exception of deferred tax on fair value surpluses where the tax basis used is the accounts historic cost. Provision is made for temporary differences between the carrying value of assets and liabilities in the consolidated financial statements and the values used for tax purposes. Temporary differences are not provided for when they arise from initial recognition of assets and liabilities that do not affect accounting or taxable profit.

When distributions are controlled by the Group, and it is probable the temporary difference will not reverse in the foreseeable future, deferred tax which would arise on the distribution of profits realised in subsidiaries, associates and joint ventures is provided in the same period as the liability to pay the distribution is recognised in the financial statements.

Deferred tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. It is recognised in the income statement except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset only when they relate to taxes levied by the same authority, with a legal right to set off and when the Group intends to settle them on a net basis.

PROVISIONS

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Where the Group, as lessee, is contractually required to restore a leased property to an agreed condition, prior to release by a lessor, provision is made for such dilapidation costs as they are identified.

(α) Onerous contracts

Provision is made in respect of costs incurred on vacant leasehold properties or for leasehold properties sublet at a level which renders the properties loss-making over the length of the lease, being the net cash outflow committed to be incurred over the lives of the leases. Any increase or decrease in the provision is taken to the income statement each financial period. Since these provisions have only been held for a period of three months, the movement in the provision only reflects the net amount which has been utilised. The provision will be valued by discounting net future cash flows at the next balance sheet date.

Notes to the Financial Statements

continued

2 ACCOUNTING POLICIES continued

(b) Share-based payments

The cost of granting share options and other share-based remuneration to employees and directors is recognised through the income statement with reference to the fair value at the date of the grant. The Group has used the Black-Scholes option valuation model and a stochastic model to establish the relevant costs. The resulting values are amortised through the income statement over the vesting period of the options and other grants. The charge is reversed if it appears probable that applicable performance criteria will not be met.

Own shares held in connection with employee share plans or other share-based payment arrangements are treated as treasury shares and deducted from equity. No profit or loss is recognised in the income statement on their sale, re-issue or cancellation.

REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable and is stated net of sales taxes and value added taxes. Revenue includes 'Rental and similar income', 'Turnover from property trading activities', 'Service charge and similar income' and 'Turnover from asset management activities'. Revenue is recognised as follows:

(a) Rental and similar income

Rental income from operating lease income is recognised on a straight-line basis over the lease term.

When the Group provides incentives to its customers, the cost of incentives are recognised over the lease term, on a straight-line basis, as a reduction of rental income.

(b) Service charge and similar income

Service and management charge income is recognised on a gross basis in the accounting period in which the services are rendered. Where the Group is acting as an agent, the commission rather than gross income is recorded as revenue.

(c) Income from investments

Dividend income from investments is recognised when the Shareholders' rights to receive payment have been established.

(d) Income from property trading

Profits or losses arising from the sale of trading and investment properties are included in the income statement of the Group where an exchange of contracts has taken place under which any outstanding conditions are entirely within the control of the Group. Profits or losses arising from the sale of trading and investment properties are calculated by reference to their carrying value and are included in operating profit.

(e) Income from asset management activities

Management fees earned are calculated on an accruals basis. Asset management income is recognised in the accounting period in which the services are rendered.

LEASES

(a) A Group company is the lessee

- (i) Operating lease – leases in which substantially all risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.
- (ii) Finance lease – leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease commencement date at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding.

The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The investment properties acquired under finance leases are carried at the fair value.

Notes to the Financial Statements

continued

2 ACCOUNTING POLICIES continued

(b) A Group company is the lessor

(i) Operating lease – properties leased out under operating leases are included in investment property in the balance sheet.

(ii) Finance lease – when assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable accrues as finance income. Lease income is recognised over the term of the lease using the net investment method before tax, which reflects a constant periodic rate of return.

FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Derivatives

IAS 32 and IAS 39 have been adopted as at 1 April 2004.

The Group uses derivatives to help manage its interest rate and foreign exchange rate risk. In accordance with its treasury policy, the Group does not hold or issue derivatives for trading purposes.

Derivatives are recognised at fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the hedge relationship.

HEDGE ACCOUNTING

Where a financial instrument is designated as a hedge, the Group formally documents the relationship between the hedging instrument and the hedged item as well as its risk management objectives and its strategy for undertaking the various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in the hedging transactions are highly effective in offsetting the changes in fair values or cash flows of the hedged items.

Where hedge accounting requirements were not met, changes in fair value of derivatives are recognised through the income statement.

INVESTMENTS

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and reviews this designation at each reporting date.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in the former category if acquired principally for the purpose of selling in the short-term or if so designated by Management. Derivatives are also classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value.

Notes to the Financial Statements

continued

2 ACCOUNTING POLICIES continued

Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

TRADE AND OTHER RECEIVABLES

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment in trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The changes to the provision are recognised in the income statement.

BORROWINGS

Borrowings are initially recognised at the fair value of consideration received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

SHARE CAPITAL

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are included in the cost of acquisition as part of the purchase consideration.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

CRITICAL ACCOUNTING POLICIES AND JUDGEMENTS

The preparation of the Consolidated Financial Statements requires Management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and disclosure of contingencies at the date of the Consolidated Financial Statements. If in the future such estimates and assumptions, which are based on Management's best judgement at the date of the Consolidated Financial Statements, deviate from the actual circumstances, the original estimates and assumptions will be modified, as appropriate, in the period in which the circumstances change. The following policies are considered to be of greater complexity and/or particularly subject to the exercise of judgement.

Notes to the Financial Statements

continued

2 ACCOUNTING POLICIES continued

(a) Goodwill

As required by IAS 36, Impairment of Assets, the Group regularly monitors the carrying value of its assets, including goodwill. Impairment reviews compare the carrying values to the present value of future cash flows that are derived from the relevant asset or cash-generating unit. These reviews therefore depend on Management estimates and judgements, in particular in relation to the forecasting of future cash flows and the discount rate applied to the cash flows.

(b) Post-employment benefits

Application of IAS 19, Employee Benefits, requires the exercise of judgement in relation to setting the assumptions used by the actuaries in assessing the financial position of each scheme. The Group determines the assumptions to be adopted in discussion with its actuaries, and believe these assumptions to be in line with IAS generally accepted practice.

(c) Provisions

The Group carries balance sheet provisions in respect of onerous contracts and dilapidations amongst other exposures. Judgement is involved in assessing the exposure in these area and hence in setting the level of the required provisions.

(d) Estimate of fair value of investment properties

The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgement, the Group considers information from a variety of sources including:

- (i) current prices in an active market for properties of a different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;
- (ii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
- (iii) discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

(e) Principal assumptions for Management's estimation of fair value of investment properties

If information on current or recent prices of assumptions underlying the discounted cash flow approach investment properties are not available, the fair values of investment properties are determined using discounted cash flow valuation techniques. The Group uses assumptions that are mainly based on market conditions existing at each balance sheet date.

The principal assumptions underlying Management's estimation of fair value are those related to: the receipt of contractual rentals; expected future market rentals; void periods; maintenance requirements; and appropriate discount rates. These valuations are regularly compared to actual market yield data, and actual transactions by the Group and those reported by the market.

The expected future market rentals are determined on the basis of current market rentals for similar properties in the same location and condition.

Notes to the Financial Statements

continued

3 SEGMENTAL REPORTING

BUSINESS SEGMENTS

For Management purposes the Group is organised into two operating divisions, Property investment and Asset management:

	Property investment	Asset management	Unallocated and other activities	Group Total
	£000	£000	£000	£000
Year ended 31 March 2006				
Rental and similar income	24,003	-	-	24,003
Turnover from property trading activities	31,167	-	-	31,167
Cost of sales of property trading activities	(24,584)	-	-	(24,584)
Service charge and similar income	2,972	-	-	2,972
Service charge expense and similar charges	(3,591)	-	-	(3,591)
Net rental and trading income	29,967	-	-	29,967
Turnover from asset management activities				
Management fee income	-	6,065	-	6,065
Performance fee income	-	3,271	-	3,271
	-	9,336	-	9,336
Asset management expenses	-	(3,512)	-	(3,512)
Administrative expenses	(2,390)	-	-	(2,390)
Property management expenses	(7,517)	-	-	(7,517)
Operating profit before net gain on investments	20,060	5,824	-	25,884
Net gain from fair value adjustments on investment properties	27,101	-	-	27,101
Net gain from fair value adjustments on investments	-	14,968	1,082	16,050
Profit on sale of investment properties	3,102	-	-	3,102
Profit on sale of investments	-	98	2,926	3,024
Operating profit	50,263	20,890	4,008	75,161
Total assets	361,886	223,477	133,160	718,523
Total liabilities	(26,799)	(24,577)	(27,709)	(79,085)
Borrowing, including finance leases	(1,514)	-	(284,004)	(285,518)
Net assets	333,573	198,900	(178,553)	353,920
Other segment items:				
Capital expenditure	9,255	-	-	9,255
Depreciation	139	-	-	139

Notes to the Financial Statements

continued

3 SEGMENTAL REPORTING continued

	Property investment	Asset management	Unallocated and other activities	Group Total
	£000	£000	£000	£000
Year ended 31 March 2005				
Rental and similar income	26,521	-	-	26,521
Turnover from property trading activities	12,446	-	-	12,446
Costs of sales of property trading activities	(10,788)	-	-	(10,788)
Service charge and similar income	2,170	-	-	2,170
Service charge expense and similar charges	(2,773)	-	-	(2,773)
Net rental and trading income	27,576	-	-	27,576
Turnover from asset management activities				
Management fee income	-	2,265	-	2,265
Performance fee income	-	1,650	-	1,650
	-	3,915	-	3,915
Asset management expenses	-	(1,437)	-	(1,437)
Administrative expenses	(1,755)	-	-	(1,755)
Property management expenses	(4,453)	-	-	(4,453)
Operating profit before net gain on investments	21,368	2,478	-	23,846
Net gain from fair value adjustments on investment properties	21,871	-	-	21,871
Net gain from fair value adjustments on investments	-	-	2,397	2,397
Profit on sale of investment properties	2,260	-	-	2,260
Profit on sale of investments	-	-	-	-
Operating profit	45,499	2,478	2,397	50,374
Total assets	337,999	106,873	134,037	578,909
Total liabilities	(22,697)	(5,378)	(14,572)	(42,647)
Borrowings, including finance leases	(1,515)	-	(262,392)	(263,907)
Net assets	313,787	101,495	(142,927)	272,355
Other segment items:				
Capital expenditure	74	-	-	74
Depreciation	109	-	-	109

All turnover and operating profit has arisen from continuing operations.

(a) Rents receivable includes a charge of £25,000 (2005: £803,000 income) which represents the net effect of rent allocated to rent free periods and the write-off of previous adjustments due to the sale of investment properties.

(b) Service charge and similar income includes monies received from tenants in respect of service charge costs the tenants bear on their properties. Service charge costs not recovered ("void costs") are included within service charge expense and similar charges of £348,000 (2005: £603,000 restated).

	2006	2005
	£000	£000
Operating profit is stated after charging:		
Depreciation	139	109
Loss on disposal of plant and equipment	1	1
Operating lease charges – properties	478	454
Employee benefits	576	429

Notes to the Financial Statements

continued

3 SEGMENTAL REPORTING continued

During the year the following amounts were charged to the profit and loss account in respect of auditors' remuneration:

	2006	2005
	£000	£000
Audit services (Company: £232,000 (2005: £139,000))	232	150
Audit related services ⁽¹⁾	181	24
Non-audit services: Taxation	131	171
	544	345

(1) These include the cost of the interim audit, audit certifications for debt covenant purposes and IFRS transition work.

In addition £138,000 was charged by the Auditors for audit services to the joint ventures (2005: £149,000) and £135,000 for tax work (2005: £194,000). In 2006 £150,000 was charged by the Auditors for tax and accounting work to the joint ventures in connection with the setting up of the new unit trusts.

During the year, £115,000 was charged by the Auditors for work related to the acquisition of Ashtenne Holdings PLC.

4 EMPLOYEES

	2006	2005
	£000	£000
Staff costs		
Wages and salaries	7,010	4,391
Social security costs	781	498
Other pension costs	397	342
	8,188	5,231

	2006	2005
	Number	Number
The average number of persons employed during the year was:		
Management and administrative	73	45
Repairs and service	30	21
	103	66

The parent company had no employees during the year (2005: Nil).

RETIREMENT BENEFIT OBLIGATIONS

The Group operates and contributes to pension schemes for certain Directors and employees and makes some discretionary allowances. The costs charged to the income statement for the year to 31 March 2006 in respect of these amounted to £397,000 (2005: £342,000). Pension premiums paid in advance were £70,000 (2005: £70,000).

The Group operated a defined benefit scheme in the UK, The Warner Estate Group Retirement Benefits Scheme. A full valuation was carried out at 1 April 2005. The values at 31 March 2006 were updates of the 1 April 2005 valuation carried out by a qualified independent actuary.

It has been agreed with the Trustees that the Group contributes 26.8% of pensionable salary plus £68,000 per annum.

Notes to the Financial Statements

continued

4 EMPLOYEES continued

The discount rate used to calculate the funding target is equal to the yield on fixed interest gilts of appropriate term at the valuation date plus 2% per annum for active and deferred members over the period to retirement. The inflation assumption is derived from the difference between the yield on fixed interest gilts and the yield on indexed-linked gilts at the valuation date.

The following assumptions were made by the Company:

	2006	2005
	% per annum	% per annum
Discount rate	4.9	5.5
Rate of increase in pensionable salaries	3.5	3.4
Rate of increases to pensions in payment	2.9	2.8
Price inflation	3.0	2.8

Mortality assumptions are based on standard actuarial tables.

The market value of the assets of the Scheme together with the expected rates of return at the beginning and end of the year were as follows:

	Long-term rate of return expected at 31 March 2006	Value at 31 March 2006	Long-term rate of return expected at 31 March 2005	Value at 31 March 2005
	%	£000	%	£000
Equities	7.5	1,338	7.8	906
Fixed interest	4.9	4,357	5.5	4,032
Cash	4.8	125	5.0	123
Total market value of assets		5,820		5,061

RECONCILIATION OF FUNDED STATUS TO BALANCE SHEET

	Value at 31 March 2006	Value at 31 March 2005
	£000	£000
Fair value of Scheme assets	5,820	5,061
Present value of non-insured defined benefit of obligations	(2,025)	(1,449)
Liability in respect of insured pensioners	(4,276)	(3,948)
Liability recognised on the balance sheet	(481)	(336)
Related deferred tax asset	144	101
Net pension liability	(337)	(235)

CHANGES TO THE PRESENT VALUE OF THE DEFINED BENEFIT OBLIGATION

	2006	2005
	£000	£000
Opening defined benefit obligation	5,397	5,373
Current service cost	44	42
Interest cost	290	288
Contributions by plan participants	12	12
Actuarial losses on Scheme liabilities*	890	4
Net benefits paid out	(332)	(322)
Closing defined benefit obligation	6,301	5,397

*Includes changes to the actuarial assumptions.

Notes to the Financial Statements

continued

4 EMPLOYEES continued

CHANGES TO THE FAIR VALUE OF SCHEME ASSETS

	2006	2005
	£000	£000
Opening fair value of Scheme assets	5,061	4,926
Expected return on assets	294	279
Actuarial gains on Scheme assets	671	54
Contributions by the employer	114	112
Contributions by plan participants	12	12
Net benefits paid out	(332)	(322)
Closing fair value of Scheme assets	5,820	5,061

ACTUAL RETURN ON SCHEME ASSETS

	2006	2005
	£000	£000
Expected return on Scheme assets	294	279
Actuarial gains on Scheme assets	671	54
Actual return on Scheme assets	965	333

ANALYSIS OF INCOME STATEMENT CHARGE

	2006	2005
	£000	£000
Current service cost	44	42
Interest cost	290	288
Expected return on plan assets	(294)	(279)
Expense recognised in income statement	40	51

ANALYSIS OF AMOUNTS RECOGNISED IN STATEMENT OF RECOGNISED INCOME AND EXPENSE

	2006	2005
	£000	£000
Total actuarial (losses)/gains	(219)	50
Related deferred tax	43	(33)
Total (loss)/gain in statement of recognised income and expense	(176)	17
Cumulative amount of (losses)/gains recognised in statement of recognised income and expense	(159)	17

HISTORY OF ASSET VALUES, DEFINED BENEFIT OBLIGATION, DEFICIT IN SCHEME AND EXPERIENCE GAINS AND LOSSES

	2006	2005
	£000	£000
Fair value of Scheme assets	5,820	5,061
Defined benefit obligation	(6,301)	(5,397)
Deficit in Scheme	(481)	(336)
Experience gains on Scheme assets	671	54
Experience losses on Scheme liabilities	(890)	(4)

The estimated amounts of contributions expected to be paid to the Scheme during 2007 are £163,000.

Notes to the Financial Statements

continued

5 DIRECTORS' REMUNERATION

A summary of Directors' remuneration, including disclosures required by the Companies Act 1985 and those specified by the Financial Services Authority, is contained in the Directors' Remuneration Report on pages 33 to 38.

6 PROFIT ON SALE OF INVESTMENT PROPERTIES

	2006	2005
	£000	£000
Surplus over book value and fair value gains:		
Investment properties	3,102	1,711
Arising on disposal of properties into joint ventures	–	549
	3,102	2,260

7 PROFIT ON SALE OF INVESTMENTS

	2006	2005
	£000	£000
Surplus over book value:		
Listed investments	2,975	–
Unlisted investments	98	–
Other	(49)	–
	3,024	–

The profit on sale of listed investments of £2.975m has arisen on the disposal of the Group's investment in East Surrey Holdings plc for a consideration of £14m in November 2005.

8 FINANCE INCOME

	2006	2005
	£000	£000
Income from investments		
Dividends from listed investments	422	533
Distributions from funds (see Note 18)	3,363	–
	3,785	533
Interest receivable and similar income:		
From joint ventures	3,540	5,842
Other interest	977	323
Other finance income		
Expected return on pension scheme assets	294	–
Interest on pension scheme liabilities	(290)	–
	4	–
	8,306	6,698

Notes to the Financial Statements

continued

9 FINANCE EXPENSE

	2006	2005
	£000	£000
Interest payable on:		
bank overdrafts	3,912	2,190
bank loans	5,218	5,196
mortgages and other loans	4,445	6,853
	13,575	14,239
Charges in respect of cost of raising finance	1,732	458
	15,307	14,697
Less: Interest capitalised	(991)	–
	14,316	14,697
Interest payable under finance leases	129	242
	14,445	14,939
Other finance cost		
Expected return on pension scheme assets	–	(279)
Interest on pension scheme liabilities	–	288
	–	9
	14,445	14,948

Included within interest payable is £222,000 (2005: £222,000) in respect of amortisation of the fair value adjustment to the debt acquired from the former Winglaw Group Limited on 1 March 2000, and £46,000 relating to debt reorganisation costs (2005: £1,164,000).

Interest is capitalised at an average interest rate of 6.48% which is equal to the average cost of borrowing on the development work at Folkestone.

10 TAXATION

	2006	2005
	£000	£000
Taxation on profit on ordinary activities		
UK corporation tax:		
Current at 30% (2005: 30%)	13,755	3,982
(Over)/under provision in respect of prior year's tax charge	(913)	116
	12,842	4,098
Deferred taxation	3,659	6,109
	16,501	10,207

Reconciliation of taxation charge		2006	2005
Profit on ordinary activities before taxation		90,956	55,163
Tax at 30%		27,287	16,548
Share of joint ventures' post tax profits		(6,387)	(3,817)
Share of associates post tax profits		(215)	–
Net tax on assets sold during the year		(421)	(653)
Dividends received not taxable		(127)	(185)
Net capital allowances on asset disposals		(4,290)	(520)
Disallowable expenses		289	117
Other differences		(39)	216
Share Scheme timing difference		669	–
Net tax on fair value gains of assets		648	(1,615)
Adjustment in respect of prior years		(913)	116
		16,501	10,207

Notes to the Financial Statements

continued

11 PROFIT OF WARNER ESTATE HOLDINGS PLC

The Company has taken advantage of the exemption provided by Section 230 of the Companies Act 1985 from presenting its own profit and loss account. Profit attributable to members includes £8,438,000 (2005: £7,696,000) which has been dealt with in the accounts of the Company.

12 DIVIDENDS

Group and Company	2006	2005
	£000	£000
On Ordinary 5p shares		
Final 9.5p at 31 March 2005 paid 5 September 2005 (Final at 31 March 2004: 8.75p)	5,065	4,418
Interim 9.5p at 30 September 2005 paid 21 February 2006 (Interim at 30 September 2004: 8.75p)	5,069	4,423
	10,134	8,841

A final dividend of 10.0p per share amounting to a total of £5,336,000 is proposed by the Board. The dividend proposed is not accounted for until it has been approved at the Annual General Meeting. The amount will be accounted for as an appropriation of revenue reserves in the year ending 31 March 2007.

13 EARNINGS PER SHARE

Earnings per share of 140.17p (2005: 89.2p) are calculated on the profit on for the year of £74,432,000 (2005: £44,954,000) and the weighted average of 53,100,390 (2005: 50,399,047) shares in issue throughout the year.

Diluted earnings per share of 138.79p (2005: 88.59p) are calculated on the profit for the year as above divided by the weighted average number of shares in issue, being 53,628,509 (2005: 50,707,241) after the dilutive impact of share options granted.

A reconciliation of the weighted average number of shares used to calculate earnings per share and to that used to calculate diluted earnings per share is shown below:

	2006	2005
Earnings per share: weighted average number of shares	53,100,390	50,399,047
Weighted average Ordinary shares to be issued under employee incentive arrangements	528,119	308,194
Diluted earnings per share: weighted average number of shares	53,628,509	50,707,241

14 GOODWILL

	£000
Group	
Cost	
At 31 March 2005	-
Additions	11,205
At 31 March 2006	11,205
Impairments	-
At 31 March 2006	-
Net book value at 31 March 2006	11,205

The goodwill was as a result of the acquisition of the remaining 50% of Industrial Funds Limited as shown in Note 37. Goodwill is not amortised but is subject to an annual impairment test. The goodwill of £11,205,000 is allocated to the cash generating unit ("CGU") defined as the fund management business owned by Industrial Funds Limited. The recoverable amount of the CGU has been calculated based on the value-in-use calculations. These calculations use cash flow projections based on financial projections approved by Management covering a five year period.

Notes to the Financial Statements

continued

15 INVESTMENT PROPERTIES AND PROPERTIES UNDER THE COURSE OF DEVELOPMENT

	Freehold	Leasehold with over 50 years unexpired	Total investment properties	Properties under the course of development
	£000	£000	£000	£000
Group				
At 31 March 2005	276,169	51,568	327,737	–
Acquired during the year from business combinations	21,804	–	21,804	–
Additions	48,323	–	48,323	3,200
Capital expenditure	30	164	194	9,061
Disposals	(89,941)	(2,020)	(91,961)	–
Net gain from fair value adjustments on investment property	23,148	3,953	27,101	–
At 31 March 2006	279,533	53,665	333,198	12,261

The properties under the course of development relate to the Group's investment in a shopping centre development at Folkestone.

Properties purchased within 12 months of the balance sheet date are included at Directors' valuation. The remainder of the Group's investment portfolio was valued externally principally by Cushman & Wakefield Healey & Baker on an open market basis in accordance with the recommended guidelines of the Royal Institution of Chartered Surveyors as at 31 March 2006.

Investment properties were valued as follows:

	£000
DTZ Debenham Tie Leung	7,675
Cushman & Wakefield Healey & Baker	275,561
King Sturge	533
Directors' valuation	48,323
	332,092

A reconciliation of investment property valuations to the balance sheet carrying value of property is shown below:

	2006	2005
	£000	£000
Investment property at market value as determined by external valuers and Directors' valuation	332,092	326,593
Add minimum payment under head leases separately included as a creditor in the balance sheet	1,515	1,515
Less accrued lease incentives separately accrued as a debtor in the balance sheet	(409)	(371)
Balance sheet carrying value of investment property	333,198	327,737

Included within investment properties is interest capitalised of £991,000 at 31 March 2006 (2005: £Nil).

All repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred. Therefore, no costs in respect of repairs and maintenance are included within the above figures (2005: £Nil).

On an historical cost basis the investment properties which have been included above at valuation would have been shown at cost as £288,435,000 (2005: £288,094,000).

Notes to the Financial Statements

continued

16 PLANT AND EQUIPMENT

	£000
Group	
Cost	
At 31 March 2005	996
Acquired during the year from business combinations	104
Additions	154
Disposals	(1)
At 31 March 2006	1,253
Depreciation	
At 31 March 2005	649
Charge for year	139
At 31 March 2006	788
Net book value at 31 March 2006	465
Net book value at 31 March 2005	347

Plant and equipment include plant, machinery, fixtures, fittings, motor vehicles and equipment.

17 INVESTMENTS IN JOINT VENTURES

	£000	
Group		
Share of joint ventures		
At 31 March 2005		102,517
Share of post-tax profits for the year		21,291
Net equity movements		15,415
Net loan movements		(35,851)
At 31 March 2006		103,372
	2006	2005
	£000	£000
Unlisted shares at cost less amounts written-off	27,632	11,040
Group's share of post acquisition retained profits and reserves	37,929	17,815
	65,561	28,855
Amounts owed by joint ventures	37,811	73,662
	103,372	102,517

Notes to the Financial Statements

continued

17 INVESTMENTS IN JOINT VENTURES continued

Included in share of joint ventures' gross assets and liabilities are:

	Agora Shopping Centres ^(a)	Skipper Offices Limited ^(b)	Radial Distribution Limited ^(c)	Bareway Industrial Properties Limited ^(d)	Industrial Funds Limited ^(e)	Agora Max Limited ^(f)	Others ^(g)	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Year to 31 March 2006								
Group share of results								
Revenue	14,178	2,086	5,372	686	3,962	2,863	1,261	30,408
Operating profit before net gains on investments	8,153	996	4,896	564	284	1,582	(361)	16,114
Net gain from fair value adjustments on investment properties	13,936	-	7,856	-	-	7,123	-	28,915
Net gain from fair value adjustments on investments	-	-	-	-	1,063	-	-	1,063
Profit/(loss) on sale of investment properties	4,023	(810)	892	664	(80)	11	-	4,700
Profit on sale of fixed asset investments	-	-	-	-	77	-	-	77
Operating profit	26,112	186	13,644	1,228	1,344	8,716	(361)	50,869
Net finance expense	(10,110)	(1,486)	(4,731)	(584)	(832)	(1,796)	18	(19,521)
Change in fair value of derivative financial instruments	(1,454)	(305)	(308)	-	-	51	-	(2,016)
Share of associate's post tax loss	-	-	-	-	(200)	-	-	(200)
Profit/(loss) before income tax	14,548	(1,605)	8,605	644	312	6,971	(343)	29,132
Taxation - current	(1,067)	(375)	(321)	(320)	(421)	(262)	(6)	(2,772)
- deferred	(1,735)	839	(2,429)	267	-	(2,180)	-	(5,238)
Profit/(loss) after income tax	11,746	(1,141)	5,855	591	(109)	4,529	(349)	21,122
Minority interests	(4)	-	-	-	185	(12)	-	169
Profit/(loss) for the period	11,742	(1,141)	5,855	591	76	4,517	(349)	21,291
Amounts receivable by Group								
Asset management fees	1,082	150	596	68	57	208	840	3,001
Performance fees	1,947	-	-	-	-	-	-	1,947
Interest receivable	674	537	516	370	1,443	-	-	3,540
Group share of								
Non-current assets								
Investment properties	122,561	-	81,802	-	-	171,179	-	375,542
Investments in unlisted shares	-	-	-	-	-	-	25	25
Finance lease assets	-	-	4,085	-	-	-	-	4,085
Deferred income tax assets	-	-	87	-	-	-	-	87
Derivative financial assets	1,147	-	-	-	-	51	-	1,198
Other non-current assets	272	-	-	-	-	-	-	272
	123,980	-	85,974	-	-	171,230	25	381,209
Current assets								
Finance lease assets	-	-	250	-	-	-	-	250
Other current assets	25,812	-	4,245	2,000	-	9,449	4,063	45,569
	25,812	-	4,495	2,000	-	9,449	4,063	45,819
Total assets	149,792	-	90,469	2,000	-	180,679	4,088	427,028
Non-current liabilities								
Deferred income tax liabilities	(8,087)	-	(3,518)	-	-	(2,180)	-	(13,785)
Borrowings, including finance leases	(86,181)	-	(73,731)	-	-	(131,024)	-	(290,936)
Derivative financial liabilities	-	-	(289)	-	-	-	-	(289)
	(94,268)	-	(77,538)	-	-	(133,204)	-	(305,010)
Current liabilities								
Borrowings, including finance leases	(4,704)	-	-	(108)	-	(7)	-	(4,819)
Other current liabilities	(15,412)	-	(4,543)	(512)	-	(27,049)	(4,122)	(51,638)
	(20,116)	-	(4,543)	(620)	-	(27,056)	(4,122)	(56,457)
Total liabilities	(114,384)	-	(82,081)	(620)	-	(160,260)	(4,122)	(361,467)
Share of net assets/(liabilities)	35,408	-	8,388	1,380	-	20,419	(34)	65,561
Potential recourse to the Group	Nil	Nil	Nil	Nil	Nil	Nil	Nil	

Notes to the Financial Statements

continued

	Agora Shopping Centres ^(a)	Skipper Offices Limited ^(b)	Radial Distribution Limited ^(c)	Bareway Industrial Properties Limited ^(d)	Others	Total
	£000	£000	£000	£000	£000	£000
Year to 31 March 2005						
Group share of results						
Revenue	12,593	5,743	4,374	818	-	23,528
Operating profit before net gains on investments	9,510	4,599	3,932	726	-	18,767
Net gain from fair value adjustments on investment properties	8,295	1,673	2,679	883	-	13,530
Profit on sale of investment properties	5,152	263	-	-	-	5,415
Operating profit	22,957	6,535	6,611	1,609	-	37,712
Net finance expense	(9,724)	(4,990)	(4,724)	(676)	-	(20,114)
Change in fair value of derivative financial instruments	(764)	(658)	19	-	-	(1,403)
Profit before income tax	12,469	887	1,906	933	-	16,195
Taxation - current	(544)	175	(36)	(24)	-	(429)
- deferred	(2,546)	741	(970)	(267)	-	(3,042)
Profit for the year	9,379	1,803	900	642	-	12,724
Amounts receivable by Group						
Asset management fees	1,116	551	520	78	-	2,265
Performance fees	1,650	-	-	-	-	1,650
Interest receivable	1,031	2,875	1,503	433	-	5,842
Group share of						
Non-current assets						
Investment properties	190,896	87,410	76,931	10,801	-	366,038
Finance lease assets	-	-	5,384	-	-	5,384
Deferred income tax assets	-	-	11	-	-	11
Derivative financial assets	2,601	305	54	-	-	2,960
Other non-current assets	290	-	-	11	-	301
	193,787	87,715	82,380	10,812	-	374,694
Current assets						
Finance lease assets	-	-	289	-	-	289
Other current assets	5,461	1,965	2,563	693	-	10,682
	5,461	1,965	2,852	693	-	10,971
Total assets	199,248	89,680	85,232	11,505	-	385,665
Non-current liabilities						
Deferred income tax liabilities	(6,351)	(839)	(1,013)	(267)	-	(8,470)
Borrowing including finance leases	(126,228)	(83,054)	(78,824)	-	-	(288,106)
Derivative financial liabilities	-	-	(35)	-	-	(35)
	(132,579)	(83,893)	(79,872)	(267)	-	(296,611)
Current liabilities						
Borrowings including finance leases	(35,490)	-	-	(9,823)	-	(45,313)
Other current liabilities	(8,008)	(3,420)	(2,827)	(631)	-	(14,886)
	(43,498)	(3,420)	(2,827)	(10,454)	-	(60,199)
Total liabilities	(176,077)	(87,313)	(82,699)	(10,721)	-	(356,810)
Share of net assets	23,171	2,367	2,533	784	-	28,855
Potential recourse to the Group	Nil	Nil	Nil	7,150	Nil	

Notes to the Financial Statements

continued

- (a) Agora Shopping Centres was set up on 5 March 2003 and subsequently acquired the Pyramids, Birkenhead on 25 June 2003 and The Grange, Birkenhead on 30 September 2004. On 7 March 2006, The Pyramids, Birkenhead and The Grange, Birkenhead were disposed of into the Agora Max joint venture group.
- (b) Skipper Offices Limited was set up on 23 July 2003. In June 2005, the properties were disposed of into the Apia Regional Offices Fund and the Group subsequently acquired the remaining 50% interest of Skipper Offices Limited.
- (c) Fairway Industrial Limited was set up on 29 August 2003 and changed its name to Radial Distribution Limited on 14 October 2004.
- (d) Bareway Industrial Properties Limited was set up on 29 August 2003. In November 2005, the properties were disposed of into the Ashtenne Industrial Fund.
- (e) Industrial Funds Limited was set up in March 2005 and completed the acquisition of Ashtenne Holdings PLC on 13 July 2005. On 1 December 2005, the Group acquired the remaining 50% interest.
- (f) Agora Max Limited was set up on 16 September 2005 and subsequently acquired The Pallasades, Birmingham on 25 October 2005. The Pyramids and The Grange, both in Birkenhead, were acquired from Agora Shopping Centres on 7 March 2006.
- (g) Net assets relate to £25k investment in the general partner of Apia Regional Office Fund and a net liability of £59k which is the investment in smaller joint ventures acquired through Ashtenne.

Joint venture investment properties are valued by DTZ Debenham Tie Leung.

Amounts owed by joint ventures comprise:

	2006	2005
	£000	£000
Group		
Agora Shopping Centres Limited	25,687	25,687
Skipper Offices Limited	-	29,916
Radial Distribution Limited	12,016	12,675
Bareway Industrial Properties Limited	108	5,384
	37,811	73,662

During the year the transactions on the loan accounts between the Group and the joint ventures were as follows:

	Repaid	Loaned	Total
	£000	£000	£000
Skipper Offices Limited	(29,916)	-	(29,916)
Radial Distribution Limited	(659)	-	(659)
Bareway Industrial Properties Limited	(6,984)	1,708	(5,276)
	(37,559)	1,708	(35,851)

Notes to the Financial Statements

continued

18 INVESTMENTS IN FUNDS

	£000
Group	
As at 1 April 2005	–
Acquired during the year from business combinations	23,105
Additions	66,910
Disposals	(902)
Net gain from fair value adjustments	14,968
At 31 March 2006	104,081

Fund information:

	AIF ^(a)	Apia ^(b)	Others ^(c)	Total
	£000	£000	£000	£000
Year to 31 March 2006				
Distributions receivable	1,468	1,886	9	3,363
Net assets at 31 March 2006	546,780	223,774	–	
Percentage share at 31 March 2006	7.09%	28.77%	–	
Group share of net assets	38,752	64,374	955	104,081

(a) The Group invested £12,000,000 in the Ashtenne Industrial Fund in August 2005 which is included in additions. A £23,105,000 investment was acquired on the purchase of the remaining 50% of Industrial Funds Limited.

(b) Apia was set-up on 7 June 2005 and the Group invested an initial £44,088,000. A further £10,000,000 was invested in December 2005, of which £902,000 was disposed of in March 2006. It is treated as an investment rather than an associate as the Group does not exert significant control as a Trustee which is independent of the Group is responsible for the strategic decisions of the unit trust and the Group's investment holding in the unit trust will continue to reduce over the short-term.

(c) This relates to minority interest holdings in Apia IV Unit Trust, Agora Max Unit Trust, Agora Max Birkenhead Unit Trust and The Pallasades Birmingham Unit Trust which were acquired during the year.

Units held in AIF valued at £13,235,000 are used as security for group loans.

19 INVESTMENTS IN LISTED AND UNLISTED SHARES

	Group		Company	
	2006	2005	2006	2005
	£000	£000	£000	£000
Subsidiary undertakings ^(a)	–	–	113,476	113,476
Listed investments ^(b)	5,115	15,518	–	–
	5,115	15,518	113,476	113,476

(a) Subsidiary undertakings

	Shares in subsidiary undertakings	Loans to subsidiary undertakings	Company Total
	£000	£000	£000
Cost			
At 31 March 2005 and 31 March 2006	61,876	51,600	113,476

Notes to the Financial Statements

continued

19 INVESTMENTS IN LISTED AND UNLISTED SHARES continued

(b) Listed investments

	Group	Company
	£000	£000
Listed on the London Stock Exchange		
At 31 March 2005	15,518	–
Disposals	(11,485)	–
Net gain from fair value adjustments	1,082	–
At 31 March 2006	5,115	–
	Group	Company
	£000	£000
Historic cost of listed investments		
At 31 March 2006	6,740	–
At 31 March 2005	7,013	–

Included within listed investments above is the investment in McKay Securities PLC of £3,898,000 which is used as security for group loans.

20 INVESTMENTS IN ASSOCIATES

Associates	Group			Company
	Bride Hall Group Limited	Other	Total	Bride Hall Group Limited
	£000	£000	£000	£000
Cost				
At 1 April 2005	1,491	–	1,491	1,491
Acquired during the year from business combinations ^(a)	–	9,185	9,185	–
Share of profits	677	38	715	677
Equity movements	(995)	(8,714)	(9,709)	(995)
At 31 March 2006	1,173	509	1,682	1,173
Goodwill arising on acquisition				
At 1 April 2005	3,836	–	3,836	3,836
Additions ^(b)	10,000	–	10,000	10,000
At 31 March 2006	13,836	–	13,836	13,836
At 31 March 2006	15,009	509	15,518	15,009
At 1 April 2005	5,327	–	5,327	5,327

(a) These are investments in associates acquired through the acquisition of the Industrial Funds Group which consist of a 33.3% share in Ashtenne Industrial (General Partner) Limited, and a 17% share of the t3 Partnership, which subsequently disposed of its assets, repaid any outstanding loans and made an equity distribution of its profits.

(b) The additional £10m payment was made during the year under the terms of the original acquisition of the 25% stake in Bride Hall Group Limited. The share of profits and net assets of Bride Hall Group Limited have been obtained from audited statutory accounts for the year ended 30 September 2005, and Management accounts for the three months ended 31 December 2005.

Notes to the Financial Statements

continued

21 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2006	2005	2006	2005
	£000	£000	£000	£000
Amounts falling due within one year:				
Trade receivables	2,558	1,514	-	-
Amounts owed by Group undertakings	-	-	247,724	167,742
Other debtors	12,364	2,051	167	482
Lease incentive debtors	68	67	-	-
Prepayments and accrued income	8,106	5,419	1,212	1,114
	23,096	9,051	249,103	169,338
Amounts falling due after more than one year:				
Lease incentive debtors	363	350	-	-
Total trade and other receivables	23,459	9,401	249,103	169,338

22 BORROWINGS, INCLUDING FINANCE LEASES

	Group		Company	
	2006	2005	2006	2005
	£000	£000	£000	£000
Amounts falling due after more than one year:				
Bank overdrafts	176,021	97,994	75,915	-
Bank loans	58,020	73,668	-	-
Mortgages and other loans	48,070	22,461	-	-
Finance lease obligations (see Note 23)	1,514	1,515	-	-
	283,625	195,638	75,915	-
Amounts falling due within one year:				
Bank overdrafts	9	8,719	-	48,238
Bank loans	1,500	2,250	-	-
Mortgages and other loans	384	57,300	-	-
	1,893	68,269	-	48,238
Total borrowings, including finance leases	285,518	263,907	75,915	48,238
Cash and cash equivalents	(98,358)	(109,366)	-	-
Net borrowings	187,160	154,541	75,915	48,238

Bank loans and overdrafts are secured on properties and listed and unlisted investments owned by the Group. Mortgages and other loans are all secured on certain properties owned by the Group and by floating charges on assets of certain subsidiary companies.

During the year the Group repaid a loan amounting to £43,730,000 acquired with Industrial Funds Limited.

Notes to the Financial Statements

continued

22 BORROWINGS, INCLUDING FINANCE LEASES continued

	Group	
	2006	2005
	£000	£000
Repayable otherwise than by instalments between two and five years		
Loan repayable in 2009 at an interest rate of 1.0% over LIBOR	22,351	–
Repayable otherwise than by instalments in more than five years		
Loan repayable in 2009 at an interest rate of 1.0% over LIBOR	–	24,904
11.655% First Mortgage Debenture Stock 2015 (reducing to 9.75% from 2009)	10,000	10,000
9.635% First Mortgage Debenture Stock 2015	12,471	12,461
Mortgage repayable in 2019 at an interest rate of 0.9% over LIBOR ^(a)	–	50,000
	44,822	97,365
Other mortgages and loans		
Redeemable in quarterly instalments of £250,000 maturing 2006	–	21,427
Redeemable in quarterly instalments of £150,000 maturing 2009:		
At an interest rate of 6.29%	20,000	20,000
At an interest rate of 6.89%	6,229	10,454
Redeemable in quarterly instalments of £125,000 maturing 2014 at an interest rate of 9.15% ^(a)	–	4,597
Redeemable in quarterly instalments of £74,000 maturing 2014 at an interest rate of 9.06% ^(a)	–	2,703
Redeemable in quarterly instalments maturing 2011 at an interest rate of 1.3% over GILT rate	25,983	–
	97,034	156,546

(a) These loans were terminated early due to refinancing and have all been repaid.

SUMMARY OF BORROWINGS

	Bank loans and overdrafts		Other borrowings	
	2006	2005	2006	2005
	£000	£000	£000	£000
Group				
Within one year or on demand	1,509	10,969	384	57,346
Between one and two years	13,362	22,000	406	–
Between two and five years	221,076	149,895	1,362	–
In five years or more	–	–	46,556	22,500
	235,947	182,864	48,708	79,846
Future finance costs	(397)	(233)	(254)	(85)
	235,550	182,631	48,454	79,761
Company				
Within one year or on demand	–	48,238	–	–
Between two and five years	75,915	–	–	–
	75,915	48,238	–	–

Of the borrowings at 31 March 2006 £48,700,000 were non-recourse loans (2005: £55,358,000).

Notes to the Financial Statements

continued

23 FINANCE LEASE OBLIGATIONS

	2006	2005
	£000	£000
(a) Minimum lease payments under finance leases fall due:		
Later than five years	1,514	1,515
	1,514	1,515
Future finance charges on finance leases	-	-
Present value of finance lease liabilities	1,514	1,515
(b) Present value of minimum finance lease obligations:		
Later than five years	1,514	1,515
	1,514	1,515

Finance lease obligations are in respect of leased investment property.

Finance lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

24 DERIVATIVE FINANCIAL INSTRUMENTS

IAS 32 and IAS 39 have been adopted as at 1 April 2004.

TREASURY POLICY

The Group enters into derivative transactions such as interest rate swaps and caps in order to manage the financial risks arising from the Group's activities. The main financial risks arising from the Group's financing structure are interest rate risk, liquidity risk and market price risk. The policies for managing each of these risks and the principal effects of these policies on the results for the year are set out below.

INTEREST RATE RISK

One quarter of the Group's debt is fixed and the remainder is floating. The floating debt is either linked to LIBOR or the Base Rate. The Group's policy is to eliminate substantially all the exposure to interest rate fluctuations in order to provide certainty over the amount of interest payable both in the short-term and the long-term, given the current level of borrowings.

LIQUIDITY RISK

The Group's policy is to ensure that there is always sufficient working capital facilities available to meet the requirements of the business. At 31 March 2006, the maturity profile of Group debt showed that the fixed rate debt has a maturity of more than five years and the floating rate debt will mature between two to five years. The revolving credit facilities are for three years each, the intention being to renew these facilities and extend them for a further three years before they mature. The effect is to minimise any refinancing risk.

Capital expenditure to be incurred by the Group is funded through the revolving credit facilities. In the Joint Ventures, capital expenditure is funded through dedicated capital expenditure facilities. This policy ensures that adequate funds are always available to meet any capital expenditure commitments as and when they fall due.

MARKET PRICE RISK

The Group is exposed to market price risk through interest rate movements. As demonstrated in the section on Hedging in the Finance Review, the Group's policy is to substantially eliminate the risk arising from changes in interest rates by hedging the floating rate debt to provide certainty as to how much the interest cost will be, such that in the long-term any fluctuations in interest rates will have little or no impact on reported profits. The Group is, however, exposed to market price risk in respect of the fair value of its fixed rate financial instruments.

Notes to the Financial Statements

continued

24 DERIVATIVE FINANCIAL INSTRUMENTS continued

FOREIGN CURRENCY RISK

The Group had no material foreign currency exposure.

CREDIT RISK

The Group has no significant concentration of credit risk as exposure is spread over a large number of counterparties.

The credit risk in liquid funds and derivative financial instruments is limited due to the counterparties being banks with high credit ratings assigned by international credit rating agencies. As at the balance sheet date the book value of loans (see Note 22) and the fair values of swaps and caps approximates the maximum credit risk the Group is exposed to.

FINANCIAL LIABILITIES

The interest rate profile of the Group's financial liabilities at 31 March after taking account of interest rate instruments taken out by the Group was:

	2006	2005
	£000	£000
Capped rate financial liabilities	13,669	85,574
Fixed rate financial liabilities	194,968	90,654
	208,637	176,228

The above balances are net of cash balances of £79,018,000 (2005: £86,482,000) which can be offset under the Group's borrowing arrangements.

The benchmark rate for determining interest payments for the floating rate financial liabilities was LIBOR/base rate depending upon the facility.

The weighted average interest rate on the fixed rate debt and the average maturity of that debt was as follows:

	2006	2005
	%	%
Weighted average interest rate		
Group	7.37	8.01
Joint ventures	5.66	4.89
	Years	Years
Weighted average period for which interest rate is fixed		
Group	7.08	5.16
Joint ventures	2.75	3.60

Maturity of financial liabilities

	2006	2005
	£000	£000
Group		
Within one year or on demand	1,893	68,315
Between one and two years	13,768	22,000
Between two and five years	222,438	149,895
In five years or more	46,556	22,500
	284,655	262,710
Company		
Within one year or on demand	-	48,238
Between two and five years	75,915	-
	75,915	48,238

Notes to the Financial Statements

continued

24 DERIVATIVE FINANCIAL INSTRUMENTS continued

BORROWING FACILITIES

The Group has various borrowing facilities that were not fully utilised at the year end in which the conditions for utilising those facilities were met.

	2006	2005
	£000	£000
Expiring in one year or less:		
Total facilities	–	73,073
Unutilised	–	52,842
Expiring between two and five years:		
Total facilities	137,741	–
Unutilised	43,691	–

FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities comprise long-term borrowings and other payables, derivative instruments, cash, receivables and investments.

The table below sets out by category the book values and the fair values of the Group's financial assets and liabilities. Where no amount is disclosed in the table below, there is no material difference between the book value and the fair value.

	2006		Difference between book and fair values £000	2005
	Book value	Fair value		Difference between book and fair values
	£000	£000		£000
Group				
Primary Financial Instruments				
Liabilities				
Fixed long-term debt (over one year)	75,008	82,294	(7,286)	(8,500)
Assets				
Financial assets				
Long-term loan notes (over one year)	(25,591)	(25,056)	(535)	(990)
Fixed rate loan	–	–	–	(67)
Joint ventures				
Primary Financial Instruments				
Long-term loan notes	25,591	25,056	535	990
Fixed rate loan	–	–	–	34

The effect on net assets per share of the total fair value adjustment (£7,286,000 less tax of £2,186,000) would be a decrease of 9.6p (2005: 11.8p).

The calculation of the fair values has been arrived at as follows:

Debt has been calculated by discounting cash flows at prevailing rates of interest.

The equity assets have been valued at bid price.

Interest rate swaps have been valued at the usually relative current active market rate for such swaps.

Interest rate derivatives to manage interest rate profile are analysed as follows:

Group:

£9,000,000 swapped at 7.52% fixed to February 2007⁽¹⁾

£19,350,000 swapped at 5.965% fixed to June 2009⁽¹⁾

£2,254,688 swapped at 5.88% fixed to March 2009⁽¹⁾

£100,000,000 capped at 7.25% to June 2007

£90,000,000 callable swap at 3.50% to September 2006⁽²⁾

£90,000,000 callable swap at 4.19% from September 2006 to March 2016⁽²⁾

Notes to the Financial Statements

continued

24 DERIVATIVE FINANCIAL INSTRUMENTS continued

Joint ventures:

- £175,000,000 swapped at 4.1% to April 2008⁽¹⁾
- £109,505,000 swapped at 4.5775% to February 2021⁽¹⁾
- £10,000,000 capped at 6.00% to October 2006⁽¹⁾
- £124,160,000 capped at 5.00% to November 2008⁽³⁾
- £124,160,000 swapped at 4.54% to February 2021⁽¹⁾
- £94,640,000 swapped at 4.96% to December 2009⁽¹⁾
- £27,040,000 capped at 5.5% to December 2009⁽¹⁾⁽⁴⁾

(1) The quarterly payment/receipt is the difference between three month LIBOR and the rate quoted.

(2) RBS has the right to call the SWAP on 30 September 2006 and each quarter end thereafter.

(3) Should LIBOR fall below 4.45% the fixed rate of 4.7% will be charged.

(4) Should LIBOR fall below 4.18% the fixed rate of 4.68% will be charged.

GAINS AND LOSSES ON DERIVATIVES HELD TO MANAGE DEBT

The Group uses interest rate derivatives to manage its interest rate profile. Changes in the fair value of these derivatives are recognised in the income statement. An analysis of these derivatives and gains/(losses) thereon is as follows:

	Derivative financial assets	Derivative financial liabilities
	£000	£000
Fair value at 31 March 2005	(11)	1,162
Change in fair value of derivative financial instruments during the year	11	199
Fair value at 31 March 2006	-	1,361

25 DEFERRED INCOME TAX

	Group		Company	
	2006	2005	2006	2005
	£000	£000	£000	£000
Deferred taxation assets				
Deferred taxation arising from unrealised derivative financial instruments valuations	408	349	-	-
Deferred taxation arising from retirement benefit obligations	144	101	-	-
	552	450	-	-
Deferred taxation liabilities				
Deferred taxation arising from the temporary differences noted below:				
Short-term temporary differences	(108)	(23)	-	-
Capital and industrial buildings allowances claimed on investment properties	(2,107)	(3,763)	-	-
Unrealised property and investment valuations	(27,348)	(16,326)	-	-
	(29,563)	(20,112)	-	-

Notes to the Financial Statements

continued

25 DEFERRED INCOME TAX continued

The movement in deferred tax assets and liabilities during the year is as follows:

	Derivative financial instruments	Retirement benefit obligations	Group Total
	£000	£000	£000
Deferred tax assets at 31 March 2005	349	101	450
Charged to income statement	59	–	59
Charged to reserves	–	43	43
Total impact	59	43	102
Deferred tax assets at 31 March 2006	408	144	552

	Unrealised property and revaluation surpluses	Capital allowances	Short-term timing differences	Group Total
	£000	£000	£000	£000
Deferred tax liabilities at 31 March 2005	(16,326)	(3,763)	(23)	(20,112)
Charged to income statement	(4,930)	1,297	(85)	(3,718)
Acquired during the year from business combinations	(6,092)	359	–	(5,733)
Total impact	(11,022)	1,656	(85)	(9,451)
Deferred tax liabilities at 31 March 2006	(27,348)	(2,107)	(108)	(29,563)

26 PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	Share-based payments	Onerous contracts	Total
	£000	£000	£000
Group			
At 31 March 2005	128	–	128
Charged to consolidated income statement:	375	–	375
Additions during the year	–	13,750	13,750
Released during the year	–	(1,750)	(1,750)
At 31 March 2006	503	12,000	12,503

	Share-based payments	Total
	£000	£000
Company		
At 31 March 2005	128	128
Charged to consolidated income statement	375	375
At 31 March 2006	503	503

Provisions have been analysed between current and non-current as follows:

	Group		Company	
	2006	2005	2006	2005
	£000	£000	£000	£000
Non-current	12,503	128	503	128
Current	–	–	–	–
	12,503	128	503	128

The provision for share-based payments represents the cost of granting share options and other share-based remuneration to employees and Directors. The charge is reversed if it appears probable that applicable performance criteria will not be met.

The onerous lease provision is made in relation to onerous leases on properties which are vacant or sublet at a level which renders the properties loss-making over the remaining life of the lease. The provision represents the Directors' estimate of the net cash flows on the properties.

Notes to the Financial Statements

continued

27 TRADE AND OTHER PAYABLES

	Group		Company	
	2006	2005	2006	2005
	£000	£000	£000	£000
Amounts falling due within one year:				
Trade payables	2,480	1,335	97	46
Amounts owed to Group undertakings	-	-	97,462	50,734
Amounts owed to joint ventures	4,969	4,965	-	-
Other taxation and social security	467	791	35	103
Other creditors	6,758	938	5,000	-
Accruals and deferred income	14,895	10,762	1,563	896
	29,569	18,791	104,157	51,779

28 SHARE CAPITAL

	2006	2005
	£000	£000
Group and Company		
Authorised		
60,000,000 Ordinary shares of 5p	3,000	3,000
Allotted, called up and fully paid		
Ordinary shares of 5p		
At 1 April	2,548	2,548
Allotted through placing of shares (2,547,738 shares)	127	-
At 31 March (2006: 53,502,508 shares, 2005: 50,954,770 shares)	2,675	2,548

During the year 2,547,738 new Ordinary shares of 5p each were allotted for a cash consideration of £13,757,785 through a placing of shares at 540p per share on 5 April 2005.

At 31 March 2006 there were share options to subscribe for Ordinary shares under the Warner Estate Holdings 1995 Share Option Scheme as follows:

	Shares
At 303.5p per share between 16 August 2004 and 15 August 2011	127,405
At 319p per share between 17 July 2005 and 16 July 2012	156,687
At 367.5p per share between 27 June 2006 and 26 June 2013	308,631
At 495p per share between 8 July 2007 and 7 July 2014	247,288

Notes to the Financial Statements

continued

29 OTHER RESERVES

	Non-distributable reserves			Distributable reserves	Total
	Share premium	Revaluation reserve	Other reserve	Retained earnings*	
	£000	£000	£000	£000	£000
Group					
At 31 March 2005	5,559	70,966	7,996	186,701	271,222
Premium on shares issued	13,493	-	-	-	13,493
Retained profit for the year	-	-	-	74,432	74,432
Realised on disposal of investment properties	-	(14,167)	-	14,167	-
Realised on disposal of investments	-	(11,211)	-	11,211	-
Realised on disposal of joint ventures' investment properties	-	(4,803)	-	4,803	-
Net gain from fair value adjustment on investment properties	-	27,101	-	(27,101)	-
Share of joint ventures' net gain from fair value adjustment on investment properties	-	28,915	-	(28,915)	-
Net gain from fair value adjustment on listed investments	-	969	-	(969)	-
Net gain from fair value adjustment on unlisted investments	-	14,968	-	(14,968)	-
Share of joint ventures' net gain from fair value adjustment on investments	-	1,063	-	(1,063)	-
Change in fair value of derivative financial instruments	-	(51)	-	51	-
Change in fair value of joint ventures' derivative financial instruments	-	(1,412)	-	1,412	-
Dividends paid	-	-	-	(10,134)	(10,134)
Actuarial losses on pension scheme assets	-	-	-	(219)	(219)
Deferred tax movement on pension assets	-	-	-	43	43
At 31 March 2006	19,052	112,338	7,996	209,451	348,837

*The closing balance on the profit and loss account includes £337,000 liability (2005: £235,000) stated after a deferred tax asset of £144,000 (2005: £101,000) in respect of the Group's defined benefit pension scheme as set out in Note 4 to the accounts.

	Non-distributable reserves			Distributable reserves	Total
	Share premium	Revaluation reserve	Other reserve	Retained earnings*	
	£000	£000	£000	£000	£000
Company					
At 31 March 2005	5,559	934	7,078	176,528	190,099
Premium on shares issued	13,493	-	-	-	13,493
Retained profit for the year	-	-	-	8,438	8,438
Change in fair value of derivative financial instruments	-	89	-	(89)	-
Dividends paid	-	-	-	(10,134)	(10,134)
At 31 March 2006	19,052	1,023	7,078	174,743	201,896

The Company's distributable reserves include £108,309,000 (2005: £108,309,000) derived from capital profits in subsidiary undertakings.

Notes to the Financial Statements

continued

30 INVESTMENT IN OWN SHARES

Group and Company	Number	Cost
At 31 March 2005		£000
At 31 March 2005	532,200	1,667
Additions	28,214	139
Disposals	(282,402)	(880)
At 31 March 2006	278,012	926

Included in investment in own shares are shares relating to the Inland Revenue Approved All-Employee Share Ownership Plan, as follows:

	2006			2005		
	Number	Cost	Market value	Number	Cost	Market value
		£000	£000		£000	£000
Partnership shares purchased by employees, not yet vested	26,830	-	204	28,122	-	155
Matching and Free shares not yet vested	104,812	470	796	100,226	404	552
	131,642	470	1,000	128,348	404	707

The vesting of Matching and Free shares is conditional on meeting the conditions of the scheme which are summarised on page 35 of the Directors' Remuneration Report.

31 DIRECTORS' INTERESTS AND RELATED PARTY TRANSACTIONS

Transactions between the Company and subsidiaries, which are related parties, have been eliminated on consolidation for the Group.

Compensation of key management personnel is disclosed in the Directors' Remuneration Report on pages 33 to 38.

Transactions between the parent company and its subsidiaries are shown below:

Subsidiary	Nature of transaction	2006	2005
		£000	£000
Cardiff and Provincial Properties Limited	Dividend	500	500
Clay Estates Limited	Dividend	76	-
Clay Group Limited	Dividend	2,900	3,800
Lancaster Holdings Limited	Dividend	2,400	1,500
Lancaster Investments Limited	Dividend	800	1,000
Lotkeep Limited	Dividend	3,000	-
Mainscene Limited	Dividend	-	800
Warner Estate, Limited	Dividend	2,000	1,200
Warner Investments Limited	Dividend	324	1,200

Notes to the Financial Statements

continued

31 DIRECTORS' INTERESTS AND RELATED PARTY TRANSACTIONS continued

Balances outstanding between the parent company and its subsidiaries are shown below:

Subsidiary	Amounts owed by subsidiaries		Amounts owed to subsidiaries	
	2006	2005	2006	2005
	£000	£000	£000	£000
Alliance Holdings Four Limited	-	4	-	-
Alliance Holdings Limited	10	10	-	-
Alliance Holdings One Limited	-	4	-	-
Alliance Holdings Three Limited	-	4	-	-
Alliance Holdings Two Limited	-	4	-	-
Apia Asset Management Limited	130	25	-	-
Cardiff and Provincial Properties Limited	-	-	(16,447)	(3,197)
Clay Estates Limited	-	19	(1,781)	-
Clay Group Limited	8,843	5,943	-	-
Clay Investments Limited	22	23	-	-
Clay Property Limited	-	-	(25,542)	(25,542)
Hulburds (Sittingbourne) Limited	-	4	-	-
Industrial Funds Limited	836	-	-	-
Lancaster Holdings Limited	61,504	64,269	-	-
Lancaster Investments (West Bromwich) Limited	132	71	-	-
Lancaster Investments Limited	144	4,083	-	-
Lotkeep Limited	-	2,375	(25,794)	-
Mainscene Limited	-	-	(13,665)	(6,009)
Market Place (Jersey) Limited	8	8	-	-
Market Place Holdings (Jersey) Limited	9	10	-	-
Middleton Jersey One Limited	9	9	-	-
Middleton Jersey Two Limited	8	8	-	-
Park Street Properties Limited	7	7	-	-
Principal Leasehold Properties Limited	3,002	2	-	-
Skipper Holdings Four Limited	-	3	-	-
Skipper Holdings One Limited	-	3	-	-
Skipper Holdings Three Limited	-	3	-	-
Skipper Holdings Two Limited	-	3	-	-
Skipper Offices Limited	1,685	-	-	-
Skipper Regional Office Holdings Limited	5	5	-	-
Vere Street (Jersey) Limited	167	167	-	-
Vere Street Investments Limited	5,499	-	-	(2,501)
Warner Active Management No 2 Limited	-	12	(3,806)	-
Warner Active Management No 3 Limited	-	-	-	-
Warner Alliance (Jersey) Limited	47	20	(176)	-
Warner Estate (Folkestone) Limited	-	1,629	-	-
Warner Estate (Jersey) Limited	1,646	363	-	-
Warner Estate, Limited	10,304	29,124	-	-
Warner Estate Management Limited	78,828	9,802	-	-
Warner Funds Limited	14,505	49,300	-	-
Warner Industrial Acquisition Limited	60,257	115	-	-
Warner Industrial Investments Limited	115	309	(5,608)	-
Warner Investments Limited	-	-	(4,643)	(12,634)
Warner Regional Offices Holdings Limited	2	2	-	-
Warner Shopping Centre (Jersey) Limited	-	-	-	(851)

No fees were paid in respect of contracts, which provided services in the ordinary course of business to the Group, and in which Directors have or had interests.

During the year there were loan transactions between the Group and joint ventures, as set out in Note 17. Interest payable on these loans and management fees, payable by the joint ventures, are also set out in Note 17.

Notes to the Financial Statements

continued

32 RECONCILIATION OF OPERATING PROFIT TO NET CASH FLOW

	Group		Company	
	2006	2005	2006	2005
	£000	£000	£000	£000
Operating profit/(loss) before net gains on investments	25,884	23,846	(1,921)	(1,424)
Depreciation of plant and equipment	139	109	-	-
Profit/(loss) on sale of plant and equipment	1	1	(49)	-
Decrease in inventories	19,292	9,242	-	-
Decrease/(increase) in trade and other receivables	2,682	(782)	(67,765)	3,274
(Decrease)/increase in trade and other payables	(23,295)	1,604	47,319	(1,537)
Cash generated from operations	24,703	34,020	(22,416)	313

33 CONTINGENT ASSETS

	2006	2005
	£000	£000
Potential performance fees arising under joint venture agreements		
Agora Shopping Centres	5,000	-
Radial Distribution	1,000	-
	6,000	-

These assets have not been recognised on the balance sheet.

34 CONTINGENT LIABILITIES

	2006	2005
	£000	£000
Contingent liabilities in respect of guarantees given by the Company in respect of borrowings of its subsidiaries as follows:		
Bank overdrafts	100,108	58,475
Mortgage debenture and loans	22,500	79,846
Bank loans of joint ventures	-	14,300
	122,608	152,621

These liabilities have not been recognised on the balance sheet.

35 OPERATING LEASE COMMITMENTS

	2006	2005
	£000	£000
Group		
Annual commitments in respect of operating leases on properties are as follows:		
Expiring between two and five years	45	-
Expiring after five years	435	454
	480	454

Notes to the Financial Statements

continued

36 MINORITY INTEREST

This represents investments held by The FI5 Partnership in Balmcrest Estates Limited.

37 ACQUISITIONS

Industrial Funds Limited was set up as a 50-50 joint venture with Anglo Irish Bank and acquired the entire share capital of Ashtenne Holdings PLC on 31 May 2005. Ashtenne Holdings PLC is principally involved in property fund management.

ACQUISITION OF ASHTENNE HOLDINGS PLC BY INDUSTRIAL FUND LIMITED

	Book value	Fair value adjustments	Fair value
	£000	£000	£000
Net assets/(liabilities) acquired			
Investment property	30,288	2,408	32,696
Plant and equipment	105	–	105
Investments in joint ventures	(114)	–	(114)
Investment in funds	20,815	1,053	21,868
Investments in associates	6,748	3,015	9,763
Inventories	13,338	9,771	23,109
Trade and other receivables	7,386	3,516	10,902
Cash and cash equivalents	38,660	–	38,660
Borrowings including finance leases	(460)	–	(460)
Deferred income tax liabilities	–	(6,092)	(6,092)
Trade and other payables	(10,169)	(2,008)	(12,177)
Current income tax liabilities	(3,013)	1,547	(1,466)
Minority interests	(4,592)	(406)	(4,998)
	98,992	12,804	111,796
50% acquired			55,898
Goodwill			5,219
Consideration			61,117
Satisfied by			
		100%	50%
Cash consideration		119,742	59,871
Directly attributable acquisition costs		2,493	1,246
Cash consideration		122,235	61,117

Notes to the Financial Statements

continued

37 ACQUISITIONS continued

On 1 December 2005, the Group acquired the remaining 50% of Ordinary share capital in Industrial Funds Limited (and its subsidiaries), which had previously been accounted for as a joint venture. On the acquisition date 100% of the net liabilities were brought on to the balance sheet.

ACQUISITION OF REMAINING 50% OF INDUSTRIAL FUNDS LIMITED

	Book value	Fair value adjustments	Fair value
	£000	£000	£000
Net assets/(liabilities) acquired			
Goodwill	10,439	(10,439)	–
Investment property	21,804	–	21,804
Plant and equipment	104	–	104
Investments in joint ventures	290	–	290
Investments in funds	23,105	–	23,105
Investments in associates	9,185	–	9,185
Inventories	21,996	–	21,996
Trade and other receivables	15,083	–	15,083
Cash and cash equivalents	12,633	–	12,633
Borrowings including finance leases	(41,824)	(1,994)	(43,818)
Deferred income tax liabilities	(5,731)	–	(5,731)
Trade and other payables	(61,438)	–	(61,438)
Current income tax liabilities	(1,768)	598	(1,170)
Minority interests	(3,315)	–	(3,315)
	563	(11,835)	(11,272)
50% acquired			(5,636)
Goodwill			5,986
Consideration			350
Satisfied by			
Cash consideration			350
Total goodwill relating to acquisition of Ashtenne Holdings PLC			
Initial acquisition treated as a joint venture			5,219
Acquisition of remaining 50% of Industrial Funds Limited			5,986
Goodwill			11,205

Notes to the Financial Statements

continued

37 ACQUISITIONS continued

On 30 June 2005, the Group acquired the remaining 50% of Ordinary share capital in Skipper Offices Limited (and its subsidiaries), which had previously been accounted for as a joint venture. On the acquisition date 100% of the net liabilities were brought on to the balance sheet.

Skipper Offices Limited was set up as a 50-50 joint venture with Royal Bank of Scotland and disposed of its properties to the Apia Regional Offices Fund on 7 June 2005.

ACQUISITION OF REMAINING 50% OF SKIPPER OFFICES LIMITED

	Book value	Fair value adjustments	Fair value
	£000	£000	£000
Net assets/(liabilities) acquired			
Trade and other receivables	5,893	–	5,893
Cash and cash equivalents	10,401	–	10,401
Trade and other payables	(15,545)	–	(15,545)
Current income tax liabilities	(581)	–	(581)
	168	–	168
50% acquired			84
Goodwill			–
Consideration			84
Satisfied by			
Cash consideration			84

Skipper Offices Limited contributed £Nil to revenue and a loss of £10,000 to the Group's profit before tax for the period between the date of acquisition and 31 March 2006.

	£000	£000
Cash acquired		
Industrial Funds Limited		12,633
Skipper Offices Limited		10,401
		23,034
Cash paid on acquisition:		
Industrial Funds Limited	(350)	
Skipper Offices Limited	(84)	
		(434)
Net cash acquired		22,600

Notes to the Financial Statements

continued

38 FIXED ASSET INVESTMENTS AT 31 MARCH 2006

		Issued share capital	Percentage held
		£	
Principal subsidiary companies			
Holding and services			
Apia Asset Management Limited:	£1 Ordinary shares	1	100
*Ashtenne Asset Management Limited:	10p Ordinary shares	100	100
*Ashtenne Holdings Limited:	20p Ordinary shares	7,220,942	100
Clay Group Limited:	£1 Ordinary shares	4,032,000	100
*Industrial Funds Limited:	£1 A Ordinary shares	250,000	100
	£1 B Ordinary shares	250,000	100
Warner Estate Management Limited:	£1 Ordinary shares	2	100
Warner Active Management No 2 Limited:	£1 Ordinary shares	1	100
Warner Active Management No 3 Limited:	£1 Ordinary shares	1	100
Warner Active Management No 4 Limited:	£1 Ordinary shares	1	100
*Warner Advisors (Jersey) Limited (Jersey):	£1 Ordinary shares	1	100
*Warner Funds Limited (Jersey):	£1 Ordinary shares	2	100
Property investment			
Lancaster Holdings Limited:	£1 Ordinary shares	100	100
	£1 Deferred shares	100	100
Lancaster Investments Limited:	£1 shares	1,000	100
*Lancaster Investments (West Bromwich) Limited:	£1 Ordinary shares	1	100
Vere Street Investments Limited:	£1 Ordinary shares	2	100
*Vere Street (Jersey) Limited (Jersey):	£1 Ordinary shares	2	100
Warner Investments Limited:	£1 Ordinary shares	2	100
*Clay Investments Limited:	£1 Ordinary shares	1	100
*Clay Property Limited:	£1 Ordinary shares	100	100
*Mainscene Limited:	£1 Ordinary shares	3,750,100	100
	£1 Deferred shares	900	100
Warner Estate (Folkestone) Limited:	£1 Ordinary shares	1	100
*Warner Industrial Investments Limited:	£1 Ordinary shares	10,001	100
Property trading			
Lotkeep Limited:	£1 shares	100	100
Property development			
*Warner Estate Development (Folkestone) Limited:	£1 Ordinary shares	1	100
Other investment			
Cardiff & Provincial Properties Limited:	25p Ordinary shares	162,000	100
Warner Estate, Limited:	£1 Ordinary shares	1	100
*Warner Estate (AIF) Limited:	£1 Ordinary shares	1	100
	£1 Redeemable Preference shares	12,000,000	100

Notes to the Financial Statements

continued

38 FIXED ASSET INVESTMENTS AT 31 MARCH 2006 continued

		Issued share capital	Percentage held
		£	
Joint ventures			
Property investment			
*Agora Shopping Centres Limited:	£1 A Ordinary shares	5,525,000	100
	£1 B Ordinary shares	5,525,000	–
*Agora Max Limited:	£1 A Ordinary shares	15,650,682	100
	£1 B Ordinary shares	15,650,682	–
*Apia Regional Office Fund (General Partner) Limited:	£1 A Ordinary shares	25,000	–
	£1 B Ordinary shares	25,000	100
*Radial Distribution Limited:	£1 A Ordinary shares	4,225,000	100
	£1 B Ordinary shares	4,225,000	–
Associates			
*Ashtenne Industrial (General Partner) Limited:	£1 A Ordinary shares	120	–
	£1 B Ordinary shares	60	100
Bride Hall Group Limited:	5p Ordinary shares	250,000	25
Principal other investments			
Investment in shares			
*Stonemartin PLC (Listed):	20p Ordinary shares	22,314,284	11
Investment in funds			
*Apia Regional Office Fund Unit Trust (Jersey):	£1 Units	182,883,704	28.77
*Ashtenne Industrial Fund Unit Trust (Jersey):	£1 Units	330,056,241	7.09

*Held through a subsidiary company.

All companies are incorporated in the UK and registered in England unless otherwise indicated.

39 DETAILED TRANSITION TO IFRS

BASIS OF PREPARATION

This financial information has been prepared on the basis of Management's interpretation of IFRS currently. It is possible that conventions which differ from our current interpretation will evolve generally within the property sector, and IFRS are subject to ongoing amendment; accordingly, the amounts disclosed in this paper may be subject to revision.

PRESENTATION OF FINANCIAL STATEMENTS UNDER IFRS

Under IFRS, with effect from 1 April 2004, the Group has prepared its financial statements in accordance with IAS 1 – 'Presentation of financial statements'. Where IAS 1 does not provide definitive guidance on presentation, for example in relation to aspects of the income statements, the Group proposes to adopt a format consistent, where possible, with UK GAAP. The presentation of the primary statements are likely to develop over time through industry practice.

Key changes include:

- The 'profit and loss account' is renamed the 'income statement'.
- All assets and liabilities are required to be analysed between current and non-current items.
- Deferred tax assets have been presented separately from deferred tax liabilities.
- A 'statement of recognised income and expense replaces the 'statement of group total recognised gains and losses'.

UK GAAP comparative information has been reformatted to reflect IFRS reporting requirements.

Notes to the Financial Statements

continued

39 DETAILED TRANSITION TO IFRS continued

OVERVIEW OF IMPACT

The principal changes arising from the adoption of IFRS for the financial statements under review are:

- Property revaluations – surpluses and deficits on investment properties are shown in the income statement, rather than as a movement in reserves.
- Deferred tax – is provided in respect of property valuation surpluses and is accrued as a deferred tax liability. Under UK GAAP, no deferred tax provision was made in respect of property revaluation surpluses.
- Share-based payments – the fair value of share options and other share-based payments is recognised as an expense through the income statement over the vesting period.
- Goodwill – positive goodwill is no longer amortised, but is now subject to an impairment review.
- Head leases – where the Group is the lessee of a finance lease arrangement, the rental obligations have been capitalised and shown as a liability on the balance sheet.
- Lease incentives – are amortised over the term of the lease, in each case typically longer than under UK GAAP, which was to the first rent review.

MAIN CHANGES IN ACCOUNTING UNDER IFRS

IAS 40 – Investment property

Under this standard, investment property is recognised in the accounts at fair value, with fair value gains and losses being taken directly to the income statement rather than to the revaluation reserve as was the case under UK GAAP.

Accumulated revaluation surpluses relating to the investment properties at the date of transition to IFRS have been reallocated to retained earnings. This treatment does not, however, have any impact on the distributable profits.

Full provision for tax on the valuation surpluses has been provided under IAS 12.

IAS 12 – Income taxes

This standard requires full provision to be made for deferred income tax on temporary differences. The main difference compared to the deferred tax provided under UK GAAP is that provision has been made in full for the deferred income tax arising from the revaluation of investment properties. The deferred income tax has been calculated on the basis that the gain (or loss) on the properties will be realised through the income generated by holding the properties. The tax base for each property has been compared to the valuation for that property.

Since the deferred income tax liabilities have been calculated on the basis of continued use of the properties, no account has been taken of the way in which properties may be sold or of the tax which the Group would expect to be payable on the sale of the properties in practice. Indexation allowance which would be available to further reduce the taxable capital gains when properties subject to UK corporation tax are sold has similarly not been taken into account.

Deferred income tax is provided as appropriate on the other adjustments which have been made to convert the UK GAAP accounts to IFRS.

IAS 31 – Financial reporting of interests in joint ventures

Under UK GAAP, the Group accounted for interests in joint ventures under the equity accounting method. Under IFRS, IAS 31 allows companies to make a one-time choice as to whether joint ventures will be accounted under the equity method or proportionally consolidated.

The Group has opted for the equity accounting method of joint venture assets and liabilities as this is consistent with past treatment and, more closely reflects the substance of the Group's joint venture arrangements. Therefore, the Group's share of individual assets and liabilities of the joint venture are shown as one line in the balance sheet and income statement.

Notes to the Financial Statements

continued

39 DETAILED TRANSITION TO IFRS continued

OTHER CHANGES IN ACCOUNTING UNDER IFRS

IFRS 2 – Share-based payments

Under IFRS 2, the fair value of share options and other share-based payments is recognised as an expense through the income statement over the vesting period.

The Group has elected to apply the IFRS 1, share-based payment transition exemption, therefore the Group has applied IFRS 2 from 1 January 2004 to those options that were issued after 7 November 2002 but have not vested by 1 January 2005.

IFRS 3 – Business combinations

Under IFRS 3, goodwill on acquisition is no longer amortised, but is held at its UK GAAP carrying value at the transition date, or acquisition date, as appropriate, and is then subject to impairment review at each reporting date.

Under IFRS, the acquisition of properties, whether by outright purchase or by corporate acquisition, are carefully considered on a case by case basis to determine whether they are, in substance, an acquisition of assets or a business.

The Group has elected to apply the IFRS 1, business combination exemption, therefore the Group has not applied IFRS 3 retrospectively to past business combinations transition exemption.

IFRS 17 – Leases

Under UK GAAP, leases to occupational tenants were almost invariably treated as operating leases, because the risks and rewards in the underlying freehold were usually assessed as remaining with the landlord. However, while IAS 17 is based on a similar principle, it lists a number of situations that individually or in combination would require a lease to be classified as a finance lease and, in particular, it requires an entity to consider land and buildings separately, even if the occupational lease is of the property as a whole and does not make such a distinction. This means that it is more likely that a lease term could be viewed as being for the major part of the economic life of an asset, resulting in finance lease classification of the building element.

The Group has carefully reviewed each of its leases and has concluded that the lease classification and treatment under UK GAAP is consistent with IFRS.

Where an investment property is itself subject to a head or ground lease, that head lease must be treated as if it were a finance lease and accounted for accordingly. In total only thirteen properties are affected, of which three are held by joint ventures leading to the recognition of a finance lease liability and an increase in the carrying value of the Group's investment properties.

SIC 15 – Operating lease incentives

Under SIC 15, the cost of rent free periods and other incentives given to tenants under operating leases must be spread over the term of the lease rather than, as under UK GAAP, to the first review to market rents.

Further, there are no transitional provisions, so that incentives granted before the UK standard came into effect have now been brought back into account. This will therefore change the timing but not the aggregate amount recognised in relation to lease incentives.

For the investment property business, the changes amount to a minor reclassification between rent and revaluation surpluses in the income statement and, in the balance sheet, between investment properties and receivables.

Notes to the Financial Statements

continued

39 DETAILED TRANSITION TO IFRS continued IAS 32 AND IAS 39

HEDGE ACCOUNTING

Where a financial instrument is designated as a hedge, the Group formally documents the relationship between the hedging instrument and the hedged item as well as its risk management objectives and its strategy for undertaking the various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in the hedging transactions are highly effective in offsetting the changes in fair values or cash flows of the hedged items.

Where hedge accounting requirements are not met, changes in fair value of derivatives are recognised through the income statement.

INVESTMENTS

Investments will be carried at fair value on the balance sheet, with changes in the fair value being recognised either in the income statement or in equity and recycled through the income statement when the investments are realised, as appropriate. Under UK GAAP these investments were carried at the lower of cost and market value.

OTHER FINANCIAL INSTRUMENTS

Movements in the fair value of those derivative financial instruments which are not accounted for as hedging instruments are recognised on the face of the income statement and not by way of a note, as is the case under UK GAAP.

BORROWINGS

The version of IAS 39 adopted by the European Union limits the option to carry borrowings at their fair values, and consequently the Group will continue to include borrowings in the balance sheet at amortised cost. The fair value of borrowings will be disclosed under IAS 32, as is the case under UK GAAP.

EXEMPTIONS FROM FULL RETROSPECTIVE APPLICATION

The Group has applied the following optional exemptions from retrospective application:

(a) Share-based payment transaction exemption

The Group has elected to apply this exemption. The Group has applied IFRS 2 from 1 April 2004 to those options that were issued after 7 November 2002 but that have not vested by 1 January 2005.

(b) Designation of previously recognised financial instruments

The Group has elected to apply this exemption. Therefore, financial instruments will be designated at the date of transition as at fair value through profit or loss or as available-for-sale.

The following optional exemptions from retrospective application are not applicable to the Group;

(c) Fair value as deemed cost exemption

(d) Cumulative translation difference exemption

(e) Business combinations exemption

(f) Employee benefits exemption

(g) Compound financial instruments

(h) Assets and liabilities of subsidiaries, associates and joint ventures exemption

(i) Insurance contracts exemption

(j) Decommissioning liabilities included in the cost of property, plant and equipment exemption

(k) Fair value measurement of financial assets or liabilities at initial recognition

EXCEPTIONS FROM FULL RETROSPECTIVE APPLICATION

The Group has applied the following mandatory exception from retrospective application:

(a) Estimates exception

Estimates under IFRS at 1 April 2004 should be consistent with estimates made for the same date under previous GAAP, unless there is evidence that those estimates were in error.

Notes to the Financial Statements

continued

39 DETAILED TRANSITION TO IFRS continued RECONCILIATIONS BETWEEN IFRS AND UK GAAP

RECONCILIATION OF CONSOLIDATED IFRS BALANCE SHEET AT 31 MARCH 2005

	Previously reported under UK GAAP*	Share base payments IFRS 2	Events after balance sheet date IAS 10	Income taxes IAS 12	Leases IAS 17	Lease incentives SIC 15	Investments in associates IAS 28	Financial instruments IAS 39	Investment property IAS 40	Total adjustments	Restated under IFRS
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
ASSETS											
Non-current assets											
Investment property	326,593	-	-	-	-	(371)	-	-	1,515	1,144	327,737
Other tangible assets	347	-	-	-	-	-	-	-	-	-	347
Investments in joint ventures	111,250	-	-	(7,023)	(3,568)	(190)	-	2,048	-	(8,733)	102,517
Investments in listed and unlisted shares	21,135	-	-	-	-	-	(5,327)	(290)	-	(5,617)	15,518
Investment in associates	-	-	-	-	-	-	5,327	-	-	5,327	5,327
Deferred income tax assets	101	-	-	-	-	-	-	349	-	349	450
Derivative financial assets	-	-	-	-	-	-	-	11	-	11	11
Trade and other receivables	-	-	-	-	-	350	-	-	-	350	350
	459,426	-	-	(7,023)	(3,568)	(211)	-	2,118	1,515	(7,169)	452,257
Current assets											
Inventory	8,235	-	-	-	-	-	-	-	-	-	8,235
Trade and other receivables	9,597	-	-	-	-	(235)	-	(311)	-	(546)	9,051
Cash and cash equivalents	22,884	-	-	-	-	-	-	86,482	-	86,482	109,366
	40,716	-	-	-	-	(235)	-	86,171	-	85,936	126,652
Total assets	500,142	-	-	(7,023)	(3,568)	(446)	-	88,289	1,515	78,767	578,909
LIABILITIES											
Non-current liabilities											
Borrowings, including finance leases	(114,008)	-	-	-	-	-	-	(80,115)	(1,515)	(81,630)	(195,638)
Derivative financial liabilities	-	-	-	-	-	-	-	(1,162)	-	(1,162)	(1,162)
Deferred income tax liabilities	(3,786)	-	-	(16,326)	-	-	-	-	-	(16,326)	(20,112)
Retirement benefit obligations	(336)	-	-	-	-	-	-	-	-	-	(336)
Provisions for other liabilities and charges	-	(128)	-	-	-	-	-	-	-	(128)	(128)
	(118,130)	(128)	-	(16,326)	-	-	-	(81,277)	(1,515)	(99,246)	(217,376)
Current liabilities											
Borrowings, including finance leases	(61,902)	-	-	-	-	-	-	(6,367)	-	(6,367)	(68,269)
Trade and other payables	(23,638)	-	4,847	-	-	-	-	-	-	4,847	(18,791)
Current income tax liabilities	(2,197)	-	-	-	-	(11)	-	90	-	79	(2,118)
	(87,737)	-	4,847	-	-	(11)	-	(6,277)	-	(1,441)	(89,178)
Total liabilities	(205,867)	(128)	4,847	(16,326)	-	(11)	-	(87,554)	(1,515)	(100,687)	(306,554)
Net assets	294,275	(128)	4,847	(23,349)	(3,568)	(457)	-	735	-	(21,920)	272,355
EQUITY											
Capital and reserves attributable to the Company's equity holders											
Share capital	2,548	-	-	-	-	-	-	-	-	-	2,548
Reserves	293,142	(128)	4,847	(23,349)	(3,568)	(457)	-	735	-	(21,920)	271,222
Investment in own shares	(1,667)	-	-	-	-	-	-	-	-	-	(1,667)
Equity shareholders' funds	294,023	(128)	4,847	(23,349)	(3,568)	(457)	-	735	-	(21,920)	272,103
Minority interest	252	-	-	-	-	-	-	-	-	-	252
Total equity	294,275	(128)	4,847	(23,349)	(3,568)	(457)	-	735	-	(21,920)	272,355
Notes		a	b	c	d	e	f	g	h		

*Reformatted to reflect IFRS reporting requirements.

Notes to the Financial Statements

continued

39 DETAILED TRANSITION TO IFRS continued RECONCILIATIONS BETWEEN IFRS AND UK GAAP

RECONCILIATION OF CONSOLIDATED IFRS INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2005

	Previously reported under UK GAAP*	Share base payments IFRS 2	Events after balance sheet date IAS 10	Income taxes IAS 12	Leases IAS 17	Lease incentives SIC 15	Investments in associates IAS 28	Financial instruments IAS 39	Investment property IAS 40	Total adjustments	Restated under IFRS
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Rental and similar income	26,387	-	-	-	-	134	-	-	-	134	26,521
Turnover from property trading activities	12,446	-	-	-	-	-	-	-	-	-	12,446
Cost of sales of property trading activities	(10,788)	-	-	-	-	-	-	-	-	-	(10,788)
Service charge and similar income	2,170	-	-	-	-	-	-	-	-	-	2,170
Service charge expense and similar income	(2,773)	-	-	-	-	-	-	-	-	-	(2,773)
Net rental and trading income	27,442	-	-	-	-	134	-	-	-	134	27,576
Turnover from asset management activities	3,915	-	-	-	-	-	-	-	-	-	3,915
Asset management expenses	(1,437)	-	-	-	-	-	-	-	-	-	(1,437)
Net income from asset management activities	2,478	-	-	-	-	-	-	-	-	-	2,478
Administrative expenses	(1,660)	(95)	-	-	-	-	-	-	-	(95)	(1,755)
Property management expenses	(4,695)	-	-	-	-	-	-	-	242	242	(4,453)
Operating profit before net gains on investments	23,565	(95)	-	-	-	134	-	-	242	281	23,846
Net gain from fair value adjustments on investment property	-	-	-	-	-	(273)	-	-	22,144	21,871	21,871
Net gain from fair value adjustments on fixed asset investments	-	-	-	-	-	-	-	2,397	-	2,397	2,397
Profit on sale of investment property	2,260	-	-	-	-	-	-	-	-	-	2,260
Operating profit	25,825	(95)	-	-	-	(139)	-	2,397	22,386	24,549	50,374
Finance income	6,698	-	-	-	-	-	-	-	-	-	6,698
Finance expense	(14,706)	-	-	-	-	-	-	-	(242)	(242)	(14,948)
Change in fair value of derivative financial instruments	-	-	-	-	-	-	-	315	-	315	315
Share of joint venture post tax profits	4,723	-	-	(4,521)	(805)	(36)	-	(982)	14,345	8,001	12,724
Profit before income tax	22,540	(95)	-	(4,521)	(805)	(175)	-	1,730	36,489	32,623	55,163
Taxation - current	(4,117)	-	-	-	-	(7)	-	26	-	19	(4,098)
- deferred	(290)	-	-	(5,698)	-	-	-	(121)	-	(5,819)	(6,109)
Profit for the year	18,133	(95)	-	(10,219)	(805)	(182)	-	1,635	36,489	26,823	44,956
Attributable to:											
Equity holders	18,131	(95)	-	(10,219)	(805)	(182)	-	1,635	36,489	26,823	44,954
Minority interests	2	-	-	-	-	-	-	-	-	-	2
Notes		a	b	c	d	e	f	g	h		

*Reformatted to reflect IFRS reporting requirements.

Notes to the Financial Statements

continued

39 DETAILED TRANSITION TO IFRS continued RECONCILIATIONS BETWEEN IFRS AND UK GAAP

RECONCILIATION OF COMPANY IFRS BALANCE SHEET AT 31 MARCH 2005

	Previously reported under UK GAAP*	Share base payments IFRS 2	Events after balance sheet date IAS 10	Investments in associates IAS 28	Financial instruments IAS 39	Total adjustments	Restated under IFRS
	£000	£000	£000	£000	£000	£000	£000
ASSETS							
Non-current assets							
Investments in joint ventures	-	-	-	-	-	-	-
Investments in listed and unlisted shares	118,803	-	-	(5,327)	-	(5,327)	113,476
Investment in associate	-	-	-	5,327	-	5,327	5,327
Derivative financial assets	-	-	-	-	11	11	11
	118,803	-	-	-	11	11	118,814
Current assets							
Trade and other receivables	181,649	-	(12,000)	-	(311)	(12,311)	169,338
Current income tax assets	2,883	-	-	-	90	90	2,973
	184,532	-	(12,000)	-	(221)	(12,221)	172,311
Total assets	303,335	-	(12,000)	-	(210)	(12,210)	291,125
LIABILITIES							
Non-current liabilities							
Provisions for other liabilities and charges	-	(128)	-	-	-	(128)	(128)
	-	(128)	-	-	-	(128)	(128)
Current liabilities							
Borrowings, including finance leases	(48,238)	-	-	-	-	-	(48,238)
Trade and other payables	(56,626)	-	4,847	-	-	4,847	(51,779)
	(104,864)	-	4,847	-	-	4,847	(100,017)
Total liabilities	(104,864)	(128)	4,847	-	-	4,719	(100,145)
Net assets	198,471	(128)	(7,153)	-	(210)	(7,491)	190,980
EQUITY							
Capital and reserves attributable to the Company's equity holders							
Share capital	2,548	-	-	-	-	-	2,548
Reserves	197,590	(128)	(7,153)	-	(210)	(7,491)	190,099
Investment in own shares	(1,667)	-	-	-	-	-	(1,667)
Total equity	198,471	(128)	(7,153)	-	(210)	(7,491)	190,980
Notes		a	b	f	g		

*Reformatted to reflect IFRS reporting requirements.

Notes to the Financial Statements

continued

39 DETAILED TRANSITION TO IFRS continued RECONCILIATIONS BETWEEN IFRS AND UK GAAP

RECONCILIATION OF CONSOLIDATED IFRS BALANCE SHEET AT 1 APRIL 2004

	Previously reported under UK GAAP*	Share base payments IFRS 2	Events after balance sheet date IAS 10	Income taxes IAS 12	Leases IAS 17	Lease incentives SIC 15	Investments in associates IAS 28	Financial instruments IAS 39	Investment property IAS 40	Total adjustments	Restated under IFRS
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
ASSETS											
Non-current assets											
Investment properties	317,453	-	-	-	-	(208)	-	-	3,038	2,830	320,283
Plant and equipment	429	-	-	-	-	-	-	-	-	-	429
Investments in joint ventures	89,012	-	-	(2,596)	(2,763)	(154)	-	3,030	-	(2,483)	86,529
Investments in listed and unlisted shares	13,371	-	-	-	-	-	-	(250)	-	(250)	13,121
Deferred income tax assets	134	-	-	-	-	-	-	469	-	469	603
Derivative financial assets	-	-	-	-	-	-	-	234	-	234	234
Trade and other receivables	-	-	-	-	-	191	-	-	-	191	191
	420,399	-	-	(2,596)	(2,763)	(171)	-	3,483	3,038	991	421,390
Current assets											
Inventories	17,477	-	-	-	-	-	-	-	-	-	17,477
Trade and other receivables	9,580	-	-	-	-	(100)	-	(449)	-	(549)	9,031
Cash and cash equivalents	16,647	-	-	-	-	-	-	72,406	-	72,406	89,053
	43,704	-	-	-	-	(100)	-	71,957	-	71,857	115,561
Total assets	464,103	-	-	(2,596)	(2,763)	(271)	-	75,440	3,038	72,848	536,951
LIABILITIES											
Non-current liabilities											
Borrowings, including finance leases	(155,061)	-	-	-	-	-	-	-	(3,038)	(3,038)	(158,099)
Derivative financial liabilities	-	-	-	-	-	-	-	(1,562)	-	(1,562)	(1,562)
Deferred income tax liabilities	(3,496)	-	-	(10,628)	-	-	-	-	-	(10,628)	(14,124)
Retirement benefit obligations	(447)	-	-	-	-	-	-	-	-	-	(447)
Provisions for other liabilities and charges	-	(33)	-	-	-	-	-	-	-	(33)	(33)
	(159,004)	(33)	-	(10,628)	-	-	-	(1,562)	(3,038)	(15,261)	(174,265)
Current liabilities											
Borrowings, including finance leases	(36,146)	-	-	-	-	-	-	(72,406)	-	(72,406)	(108,552)
Trade and other payables	(21,413)	-	4,458	-	-	-	-	-	-	4,458	(16,955)
Current income tax liabilities	(1,289)	-	-	-	-	(4)	-	65	-	61	(1,228)
	(58,848)	-	4,458	-	-	(4)	-	(72,341)	-	(67,887)	(126,735)
Total liabilities	(217,852)	(33)	4,458	(10,628)	-	(4)	-	(73,903)	(3,038)	(83,148)	(301,000)
Net assets	246,251	(33)	4,458	(13,224)	(2,763)	(275)	-	1,537	-	(10,300)	235,951
EQUITY											
Capital and reserves attributable to the Company's equity holders											
Share capital	2,548	-	-	-	-	-	-	-	-	-	2,548
Reserves	245,392	(33)	4,458	(13,224)	(2,763)	(275)	-	1,537	-	(10,300)	235,092
Investment in own shares	(1,689)	-	-	-	-	-	-	-	-	-	(1,689)
Total equity	246,251	(33)	4,458	(13,224)	(2,763)	(275)	-	1,537	-	(10,300)	235,951
Notes		a	b	c	d	e	f	g	h		

*Reformatted to reflect IFRS reporting requirements.

Notes to the Financial Statements

continued

39 DETAILED TRANSITION TO IFRS continued RECONCILIATIONS BETWEEN IFRS AND UK GAAP

RECONCILIATION OF COMPANY IFRS BALANCE SHEET AT 1 APRIL 2004

	Previously reported under UK GAAP*	Share base payments IFRS 2	Events after balance sheet date IAS 10	Financial instruments IAS 39	Total adjustments	Restated under IFRS
	£000	£000	£000	£000	£000	£000
ASSETS						
Non-current assets						
Investments in joint ventures	3,968	-	-	-	-	3,968
Investments in listed and unlisted shares	113,476	-	-	-	-	113,476
Derivative financial assets	-	-	-	234	234	234
	117,444	-	-	234	234	117,678
Current assets						
Trade and other receivables	173,058	-	(10,000)	(449)	(10,449)	162,609
Current income tax assets	1,701	-	-	65	65	1,766
	174,759	-	(10,000)	(384)	(10,384)	164,375
Total assets	292,203	-	(10,000)	(150)	(10,150)	282,053
LIABILITIES						
Non-current liabilities						
Provisions for other liabilities and charges	-	(33)	-	-	(33)	(33)
	-	(33)	-	-	(33)	(33)
Current liabilities						
Borrowings, including finance leases	(36,538)	-	-	-	-	(36,538)
Trade and other payables	(57,837)	-	4,458	-	4,458	(53,379)
	(94,375)	-	4,458	-	4,458	(89,917)
Total liabilities	(94,375)	(33)	4,458	-	4,425	(89,950)
Net assets	197,828	(33)	(5,542)	(150)	(5,725)	192,103
EQUITY						
Capital and reserves attributable to the Company's equity holders						
Share capital	2,548	-	-	-	-	2,548
Reserves	196,969	(33)	(5,542)	(150)	(5,725)	191,244
Investment in own shares	(1,689)	-	-	-	-	(1,689)
Total equity	197,828	(33)	(5,542)	150	(5,725)	192,103
Notes		a	b	g		

*Reformatted to reflect IFRS reporting requirements.

Notes to the Financial Statements

continued

39 DETAILED TRANSITION TO IFRS *continued* RECONCILIATIONS BETWEEN IFRS AND UK GAAP

NOTES TO THE IFRS RECONCILIATIONS

(a) IFRS 2 – Share-based payments

Share option plans are fair valued at the date of grant and costs taken to the income statement over the vesting period. IFRS 1 transitional exemption has been applied. A corresponding release from equity means that there is no effect on the balance sheet or NAV.

(b) IAS 10 – Events after balance sheet date

Only dividends actually declared at balance sheet date should be provided for, therefore proposed dividends have been reversed, and are reinstated on payment.

(c) IAS 12 – Income taxes

Provision is now made for the deferred tax liability associated with the revaluation of investment properties. This was not required under UK GAAP. Capital gains tax which was previously charged directly to reserves is now included in the income statement, but this has no impact on net assets.

(d) IAS 17 – Leases

This adjustment represents those leases that have been classified as finance lease assets.

(e) Statements of Investment Circular (SIC) 15 – Lease incentives

Lease incentives are now amortised over the lease term rather than to the first rent review. As the value of lease incentives is included within the property valuation, investment property and reserves have been adjusted by the value of the lease incentive debtor to prevent double counting.

(f) IAS 28 – Investments in associates

Under IFRS an investment in associate is where the investor has the power to exercise significant influence. Previously under UK GAAP an investor had to actually exercise significant influence. Therefore the investment in Bride Hall was previously treated as a fixed asset investment, and has now been equity accounted.

(g) IAS 32 and 39 – Financial instruments

Financial assets and liabilities such as interest rate swaps and caps, have been included in the balance sheet at fair value. Investments are carried at fair value on the balance sheet.

(h) IAS 40 – Investment property

Investment property valuation movements and tax thereon has been taken through the income statement.

Investment property head leases, which are deemed finance leases, the rental obligations are capitalised and shown as a corresponding finance lease creditor.

Five Year Record

ANALYSIS OF GROSS RENTAL AND SIMILAR INCOME

	IFRS		UK GAAP		
	Year to 31 March 2006	Year to 31 March 2005	Year to 31 March 2004	Year to 31 March 2003	Year to 31 March 2002
	£000	£000	£000	£000	£000
By property type					
Offices	10,797	13,485	16,846	22,535	13,801
Retail	5,955	4,765	4,035	8,527	8,333
Industrial	7,251	8,271	6,577	5,935	5,273
	24,003	26,521	27,458	36,997	27,407
By activity					
Property investments	23,385	25,767	25,932	33,230	24,686
Property trading	618	754	1,526	3,767	2,721
	24,003	26,521	27,458	36,997	27,407

ANALYSIS OF VALUATION OF COMPLETED INVESTMENT PROPERTIES

	IFRS		UK GAAP		
	March 2006	March 2005	March 2004	March 2003	March 2002
	£000	£000	£000	£000	£000
Offices	118,895	130,545	161,903	227,790	218,402
Retail	144,264	92,943	57,309	47,260	117,898
Industrial	69,505	104,249	98,241	58,771	66,886
Land	534	-	-	-	-
	333,198	327,737	317,453	333,821	403,186

Five Year Record

continued

KEY INCOME STATEMENT AND BALANCE SHEET FIGURES

	IFRS		UK GAAP		
	Year to 31 March 2006	Year to 31 March 2005	Year to 31 March 2004	Year to 31 March 2003	Year to 31 March 2002
	£000	£000	£000	£000	£000
Group operating profit	25,884	23,846	20,777	28,729	22,162
Share of operating profit in associate	-	-	-	1,424	2,352
Share of operating profit in joint ventures	-	-	13,655	2,392	754
Operating profit before net gain on investments	25,884	23,846	34,432	32,545	25,268
Net gains from fair value adjustments and profit on sale of investment properties	30,203	24,131	1,567	1,187	(81)
Share of net gains from profit on sale of associates' investment properties	-	-	-	365	-
Share of net gains from profit on sale of joint ventures' investment properties	-	-	9	-	-
Net gains from fair value adjustments and profit on sale of investments	19,074	2,397	-	-	2,164
Operating profit	75,161	50,374	36,008	34,097	27,351
Net finance expense	(6,139)	(8,250)	(7,473)	(14,284)	(10,855)
Share of associates net finance expense	-	-	-	(998)	(1,101)
Share of joint ventures net finance expense	-	-	(12,834)	(2,258)	(245)
Change in fair value of derivative financial instruments	(72)	315	-	-	-
Share of associates post-tax profits	715	-	-	-	-
Share of joint ventures' post-tax profits	21,291	12,724	-	-	-
Profit before income tax	90,956	55,163	15,701	16,557	15,150
Properties	356,398	335,972	334,930	379,865	456,560
Non-current assets	586,130	452,257	420,265	378,748	430,578
Adjusted shareholders' funds	393,530	298,310	251,343	221,821	215,720
Adjustment*	(42,944)	(26,207)	(5,092)	(4,328)	(4,837)
Equity shareholders' funds	350,586	272,103	246,251	217,493	210,883

*For UK GAAP the adjustment is in respect of deferred tax. For the IFRS adjustment is in respect of deferred tax on fair value gains, dividends proposed but not yet paid and the effects of treating investment properties as finance leases.

Five Year Record

continued

		IFRS		
		Year to	Year to	
		31 March 2006	31 March 2005	
		p	p	
Recurring earnings per share		22.86	22.27	
Property investment revaluation gains per share		103.85	56.24	
Other		13.46	10.69	
Basic earnings per share		140.17	89.20	
Dividends per share		19.50	18.25	
Adjusted net assets per share		741	592	
Triple net assets per share		669	551	
		UK GAAP		
		Year to	Year to	Year to
		31 March 2004	31 March 2003	31 March 2002
		p	p	p
Adjusted earnings per share				
Revenue		24.54	23.32	21.42
Capital		1.77	3.08	3.56
Total		26.31	26.40	24.98
Dividends per share		17.00	16.00	15.00
Adjusted net assets per share		498	440	423
Triple net assets per share		475	415	403

Notes:

- (1) The figures prior to 2003 have not been adjusted for the changes resulting from the adoption of UITF Abstract 37 (Purchases and Sales of Own Shares) and UITF Abstract 38 (Accounting for ESOP Trusts).
- (2) Triple net assets per share is after further adjustment of debt to fair value and potential deferred tax to adjusted shareholders' funds.

Significant Assets Under Management

Location	Property	Tenure	Use	Area sq m	Area sq ft	Owned by
Value £150m+						
Birkenhead	The Grange & Pyramids Shopping Centre	Freehold	Retail	56,949	613,000	Agora Max
Birmingham	Pallasades Shopping Centre	Leasehold	Retail	26,915	290,000	Agora Max
Value £75-100m						
Bolton	Market Place Shopping Centre	Leasehold	Retail	30,948	333,123	Agora
Value £50-75m						
Preston	Fishergate Shopping Centre	Freehold	Retail	33,445	360,000	Agora
Manchester	Middleton Shopping Centre	Freehold	Retail	25,300	272,300	Agora
Birmingham	120 Edmund Street	Freehold	Offices	12,839	138,200	Apia
Value £40-50m						
Wolverhampton	The Steel Park	Leasehold	Industrial	67,894	724,720	AIF
Southend-on-Sea	The Royals Shopping Centre	Freehold	Retail	26,454	284,649	Wholly Owned
Daventry	Units A, B and C DIRFT	Freehold	Industrial	56,609	609,349	Radial
Chippenham	Langley Park	Freehold	Industrial	54,071	577,172	AIF
Manchester	Sunlight House	Freehold	Offices	18,329	197,289	Apia
Weybridge	Tesco Distribution Unit, Brooklands Business Park	Freehold	Industrial	29,091	313,135	Radial
Value £30-40m						
Kingston	Surrey House & Lever House	Leasehold	Offices	15,315	164,851	Apia
Aylesbury	Hale Leys Shopping Centre	Freehold	Retail	8,333	89,662	Wholly Owned
Edinburgh	Apex 123, Haymarket Terrace	Leasehold	Offices	8,781	94,522	Apia
Value £20-30m						
Tipton	Autobase Industrial Park	Freehold	industrial	49,124	524,359	AIF
Wimbledon	St George's House	Freehold	Offices	5,537	59,604	Apia
Coleshill	Plot 1, 2 & 3 Gorsley Lane	Freehold	Industrial	24,236	260,884	Radial
Glasgow	Lomond House	Freehold	Offices	5,976	64,331	Apia
Solihull	Sapphire Court, Solihull	Freehold	Offices	8,134	87,563	Apia
Bristol	Westgate House	Leasehold	Offices	8,446	90,924	Apia
Bristol	Western Approach	Freehold	Industrial	22,679	244,115	Radial
Manchester	Norfolk House,	Freehold	Offices	5,073	54,614	Apia
Newcastle	Hampshire Court,	Leasehold	Offices	10,985	118,246	Apia

Location	Property	Tenure	Use	Area sq m	Area sq ft	Owned by
Value £10–20m						
Liverpool	Cavern Walks Shopping Centre	Freehold	Retail/Offices	10,204	109,820	Agora
Redhill	St Pauls House	Freehold	Offices	4,554	49,025	Wholly Owned
Leicester	Antalis Unit, Interlink Business Park, Bardon	Leasehold	Industrial	21,160	227,763	Radial
Preston	Preston Office Centre	Freehold	Offices	13,417	144,417	Apia
Milton Keynes	Ashton/Norfolk House	Freehold	Offices	11,150	120,019	Apia
York	Holgate Park, 156 Holgate Road	Freehold	Industrial	35,697	381,040	AIF
Cheshire	Radway 16, Crewe	Freehold	Industrial	25,656	273,862	AIF
Newcastle	St Ann's Wharf	Freehold	Offices	5,378	57,897	Apia
Portsmouth	Mountbatten Business Park, Farlington	Mixed	Industrial	14,203	151,611	AIF
Leeds	Yorkshire House, Greek Street	Freehold	Offices	7,552	81,293	Apia
Glasgow	225 Bath Street	Leasehold	Offices	8,136	87,578	Apia
Kent	Optima Park, Crayford	Freehold	Industrial	10,001	106,750	AIF
Avonmouth	Sevenside Trading Estate, Burcott Road	Freehold	Industrial	19,058	203,429	AIF
Aberdeen	New Telecom House	Freehold	Office	7,874	84,764	Apia
Newcastle upon Tyne	North Tyne Industrial Estate, Whitley Road	Freehold	Industrial	19,260	205,587	AIF
Folkestone	Bouverie Place Shopping Centre (under construction)	Freehold	Retail	18,581	200,000	Wholly Owned
Manchester	81 Fountain Street	Freehold	Offices	3,707	39,900	Apia
Milton Keynes	Libra Industrial Estate, Maidstone Road	Freehold	Industrial	10,780	115,070	AIF
London N1	Lancaster House, 31–37 Islington High Street	Freehold	Retail/Offices	2,257	24,301	Wholly Owned
Cardiff	Oakleigh House	Freehold	Offices	3,813	41,038	Apia
Hinckley	Harrowbrook Industrial Estate, Fleming Road	Freehold	Industrial	15,170	161,932	AIF
Bradford	Listerhills Science Park, Campus Road	Freehold	Industrial	10,249	109,400	AIF
Value £7.5–10m						
Leeds	Concourse House, 432 Dewsbury Road	Freehold	Offices	10,705	114,273	AIF
Burton on Trent	Shobnall Road	Freehold	Industrial	18,651	199,082	AIF
Doncaster	Carcroft Enterprise Park, Carcroft	Freehold	Industrial	26,987	288,062	AIF
Norwich	Hellesdon Hall Industrial Estate	Freehold	Industrial	11,823	126,197	AIF
Flintshire	Engineer Park, Babbage Road	Freehold	Industrial	14,924	159,308	AIF
Oxfordshire	Witan Park Industrial Estate, Witney	Freehold	Industrial	10,415	111,173	AIF
Liverpool	Fallows Way, Whiston	Leasehold	Industrial	12,623	135,885	Wholly Owned
Northampton	72 Salthouse Road, Brackmills	Freehold	Industrial	11,743	126,411	Radial
London W3	152 Dukes Road	Freehold	Industrial	2,967	31,938	Wholly Owned
Renfrew	Old Govan Road	Freehold	Industrial	18,591	198,448	AIF
Brighton	Sussex House	Freehold	Offices	3,437	36,996	Apia
Harlow	Roydonbury Industrial Estate, Horsecroft Road	Freehold	Industrial	9,739	103,959	AIF
Alton	Mill Lane Industrial Estate, Caker Stream Road	Freehold	Industrial	12,120	129,376	AIF

Glossary

PERFORMANCE MEASURES

Dividend cover	The ratio of profit to dividends, calculated by dividing earnings per share by the dividend per share.
Earnings per share	A revenue related performance measure calculated by dividing the profit for the financial year by the weighted average number of shares in issue during the year.
Gearing returns	The ungeared return on the Group's investment property assets adjusted for the impact of debt and after allocating a share of administrative expenses.
Net asset value per share	The most generally accepted performance measure within the Property Investment Sector arrived at by dividing shareholders' funds by the weighted average number of shares in issue at the end of the year.
Recurring revenue	This comprises rental income, investment income and income from joint ventures less property outgoings, administration costs and net interest.

TREASURY INDICATORS

Interest cover	Total pre-tax profits before interest divided by net interest payable adjusted for capitalised interest.
Gearing	The ratio of net borrowings (borrowings less cash) to equity capital (shareholders' funds).

INTEREST RATE SWAP

A financial instrument where two parties agree to exchange an interest rate obligation for a predetermined amount of time. They are used to convert floating rate debt to fixed rate.

ACCOUNTING AND TAX TERMINOLOGY

ACT	As from 6 April 1999, Advance Corporation Tax was abolished. Unrelieved ACT also known as Surplus ACT can be carried forward and subject to certain restrictions, utilised against future profits of the Group.
FRS	Financial Reporting Standards issued by the Accounting Standards Board having prescriptive effect.
IFRS	International Financial Reporting Standards. These standards will be used for the consolidated financial statements for all listed groups in the EU for financial years beginning on or after 1 January 2005.
SSAP	Statements of Standard Accounting Practice issued by the Accounting Standards Committee and adopted by the Accounting Standards Board its successor on its formation. These have mandatory effect. No further Statements are being issued and some have been superseded by the newer Financial Reporting Standards.
UITF	Account Abstracts issued by Urgent Issues Task Force usually with immediate effect.

PROPERTY RELATED TERMINOLOGY

Contracted annualised rent	The current annual rent also known as the passing rent receivable from a property.
ERV	Estimated rental value - the real market rental value of a property as opposed to that currently being paid.
ITZA	In terms of Zone A
Open Market value	An opinion of the best price at which the sale of an interest in property would have been completed unconditionally for cash consideration on the date of valuation assuming a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.
IPD	Is Investment Property Databank Ltd, a company that produces an independent benchmark of property returns
Initial Yield	Is the annualised net rents generated by the portfolio expressed as a percentage of the portfolio valuation, excluding development properties
Use Classes Order	For planning purposes, this system of categorisation groups uses into four different classes as follows:

Class A	Class B	Class C	Class D
A1 Shops	B1 Office and light industrial uses	C1 Hotels	D1 Non-residential institutions
A2 Financial/professional services	B2 General industrial	C2 Residential institutions	D2 Assembly and leisure
A3 Food and drink	B8 Storage or Distribution	C3 Dwelling houses	

CORPORATE GOVERNANCE

Combined Code	A set of principles and provisions on Corporate Governance appended to the Listing Rules of the Financial Services Authority. The Combined Code was revised following the publication of the Higgs and Smith reports in July 2003 and the revised Code applies to reporting years beginning on or after 1 November 2003.
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Notice of Meeting

This notice is important and requires your immediate attention. If you are in any doubt as to what action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other independent professional adviser. If you have sold all your shares in the Company, you should pass this Annual Report to the person through whom the transaction was effected, for transmission to the purchaser or transferee.

Notice is hereby given that the Forty-first Annual General Meeting of Warner Estate Holdings PLC will be held at Claridge's, Brook Street, London W1A 2JQ on 7 September 2006 at 12 noon for the following purposes:

ORDINARY BUSINESS

To consider and, if thought fit, pass the following Ordinary Resolutions:

- 1 That the Reports of the Directors and Auditors and the Accounts for the year ended 31 March 2006 be received.
- 2 That the Directors' Remuneration Report for the year ended 31 March 2006 be approved.
- 3 That a final dividend on the issued Ordinary shares of 10.0p per share in respect of the year ended 31 March 2006 be declared and be paid on 15 September 2006 to Shareholders on the register at the close of business on 18 August 2006.
- 4 That Mr P C T Warner be re-elected a Director of the Company.
- 5 That Mr J R Avery be re-elected a Director of the Company.
- 6 That Mr W R Broderick be re-elected a Director of the Company.
- 7 That Mr G A Cooke be re-elected a Director of the Company.
- 8 That Mr R H Warner be re-elected a Director of the Company.
- 9 That PricewaterhouseCoopers LLP be re-appointed Auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the Company and that the Directors be authorised to fix their remuneration.

SPECIAL BUSINESS

To consider and, if thought fit, pass the following Special Resolutions:

- 10 That:
 - A the Company be and is hereby generally and unconditionally authorised to purchase on the London Stock Exchange (by way of market purchases as defined in Section 163(3) the Companies Act 1985) not more than 8,025,376 Ordinary shares of 5p each in the capital of the Company at a price not exceeding 5% above the average of the middle market quotations for an Ordinary share derived from The London Stock Exchange Daily Official List for the five business days immediately preceding the day of purchase nor less than 5p per share for a period expiring (unless previously renewed, varied or revoked by the Company in General Meeting) 15 months after the passing of this resolution or at the conclusion of the next Annual General Meeting of the Company following the passing of this resolution, whichever first occurs; and
 - B the Company may, before the expiry of this authority, make a contract to purchase Ordinary shares under this authority which will or may be executed wholly or partly after the expiry of the authority, and may make a purchase of Ordinary shares in pursuance of any such contract.
- 11 That the Directors be and are hereby generally and unconditionally authorised in accordance with Section 80 of the Companies Act 1985 (the "Act") to exercise all or any of the powers of the Company to allot relevant securities (within the meaning of Section 80(2) of the Act) up to an aggregate nominal amount of £324,874.60 for a period expiring (unless previously renewed, varied or revoked by the Company in General Meeting) 15 months after the passing of this resolution or on the conclusion of the next Annual General Meeting of the Company following the passing of this resolution, whichever first occurs, save that the Company may prior to such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities pursuant to any such offer or agreement as if the authority conferred by this resolution had not expired.

Notice of Meeting

continued

12 That subject to the passing of Resolution 11 set out in the notice of this meeting, the Directors be and are hereby generally empowered pursuant to Section 95 of the Companies Act 1985 (the "Act") to allot equity securities (within the meaning of Section 94(2) of the Act) of the Company for cash pursuant to the authority conferred by the said Resolution 11 as if Section 89(1) of the Act did not apply to such allotment provided that this power:

(I) shall expire 15 months after the passing of this resolution or on the conclusion of the next Annual General Meeting of the Company following the date of the passing of this resolution, whichever first occurs, save that the Company may prior to such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities pursuant to any such offer or agreement as if the power conferred by this resolution had not expired; and

(II) shall be limited to:

(a) any allotment of equity securities in connection with a rights issue or other offer of equity securities to holders of equity securities in proportion (as nearly as may be) to their then holdings subject only to the Directors having a right to make such exclusions or arrangements in connection with such offer as they deem necessary or expedient:

(i) to deal with equity securities representing fractional entitlements and

(ii) to deal with legal or practical problems arising in any overseas territory or the requirements of any recognised regulatory body or any stock exchange, or any other matter whatsoever; and

(b) any other allotments of equity securities for cash up to an aggregate nominal amount of £133,756.25.

The power conferred on the Directors by this Resolution 12 shall also apply to a sale of treasury shares, which is an allotment of equity securities by virtue of Section 94(3A) of the Act, but with the omission of the words "pursuant to the authority conferred by the said Resolution 11".

By Order of the Board

D J Lanchester Secretary

Nations House
103 Wigmore Street
London W1U 1AE
7 August 2006

NOTES

- 1 A member entitled to attend and vote at the Meeting may appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company. Completion of a form of proxy does not prevent a member from attending and voting at the Meeting in person.
- 2 To be valid, forms of proxy, completed in accordance with the instructions printed on them, must be lodged with the Company's Registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not less than 48 hours before the time fixed for holding the Meeting.
- 3 Pursuant to Regulation 41 of The Uncertificated Securities Regulations 2001, the Company specifies that only those Shareholders registered in the register of members of the Company as at close of business on 5 September 2006 shall be entitled to attend and/or vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries on the register of members after close of business on 5 September 2006 shall be disregarded in determining the rights of any person to attend or vote at the meeting.
- 4 Copies of the Directors' service contracts and the terms of appointment of the Non-executive Directors of the Company are available for inspection at the Company's registered office at Nations House, 103 Wigmore Street, London W1U 1AE during normal business hours on weekdays (excluding Saturdays and public holidays) and will be available for inspection at the place of the meeting for a least 15 minutes prior to, and during, the Meeting. The register of Directors' interests kept by the Company under Companies Act 1985 Section 325 will be available for inspection at the Meeting.

Financial Calendar

ANNOUNCEMENT OF RESULTS AND DIVIDENDS

Half year	December
Full year	June

DIVIDENDS PAID

Interim	February
Final	September

ANNUAL REPORT POSTED TO SHAREHOLDERS

August

ANNUAL GENERAL MEETING

September

CAPITAL GAINS TAX

The market values of the Company's shares and loan stock for capital gains tax purposes were as follows:

ON 6 APRIL 1965

Ordinary shares adjusted for sub-division and the following capitalisation issue

January 1967 – Ordinary shares

January 1972 – Ordinary shares

July 1979 – 10% Cumulative Preference shares of £1 6.093p

£1 of 6½% Unsecured Loan Stock 1991/1996 68.75p

The above-stated values of the Ordinary shares require adjustment where Ordinary Shareholders exercised their options to receive scrip dividends in August 1974 and/or January 1975; in such cases Shareholders are recommended to consult their professional advisers as to the adjustment necessary.

ON 31 MARCH 1982

Ordinary shares 60.60p

£1 of 6½% Unsecured Loan Stock 1991/1996 49.25p