

Annual  
Review and  
Summary  
Financial  
Statements  
2006

Right ingredients, right team, right results

WARNER ESTATE

As Warner Estate enters a new scale of business, our continued success is the product of coordinated management and exceptional teamwork. It is the extreme care and attention at every level of business that defines us.

This year's report reflects the benefits of careful planning, hard work and organisation necessary to produce a beautifully realised end product – having the right ingredients, the right team and achieving the right results.

Where better to illustrate this than the kitchen at Claridge's Hotel, London, where pressure and results are dealt with on a daily basis.

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## Financial Highlights

Total adjusted return<sup>(i)</sup>

30.7% – £85.3million

(2005: 19.6% – £47.0million)

Adjusted net asset value per share<sup>(ii)</sup>

up 25% to 741p

Net asset value per share

up 22% to 660p

Triple net asset value per share<sup>(iii)</sup>

up 21% to 669p

Recurring earnings per share<sup>(iv)</sup>

22.9p

(2005: 22.3p restated)

Earnings per share

140.2p

(2005: 89.2p)

35th successive year

of dividend growth<sup>(v)</sup>

Average dividend growth over the last five years of<sup>(v)</sup>

6.8% per annum

Dividend raised by 6.8% to

19.5p

(i) See table on page 44 for explanation

(ii) Adjusted for deferred tax on fair value gains and other items per table on page 56

(iii) Adjusted as in (ii) and for potential deferred tax and the fair value of debt per table on page 56

(iv) Adjusted for net gains on investment properties and other items per table on page 46

(v) Dividend paid and proposed out of profit for the year



## Business Highlights

Property owned and under management

up 131% to £2.5 billion

Commercial rent roll owned and under management

£152million

Successful acquisition and integration of

Ashtenne Holdings PLC

Acquisition goodwill on Ashtenne

£11.2million

substantially less than £28.9million anticipated<sup>(vi)</sup>

Launch of £256million  
Apia Regional Office Fund

with Morley Fund Management

Substantial expansion of Apia via the purchase of

£120million of property

Establishment of the

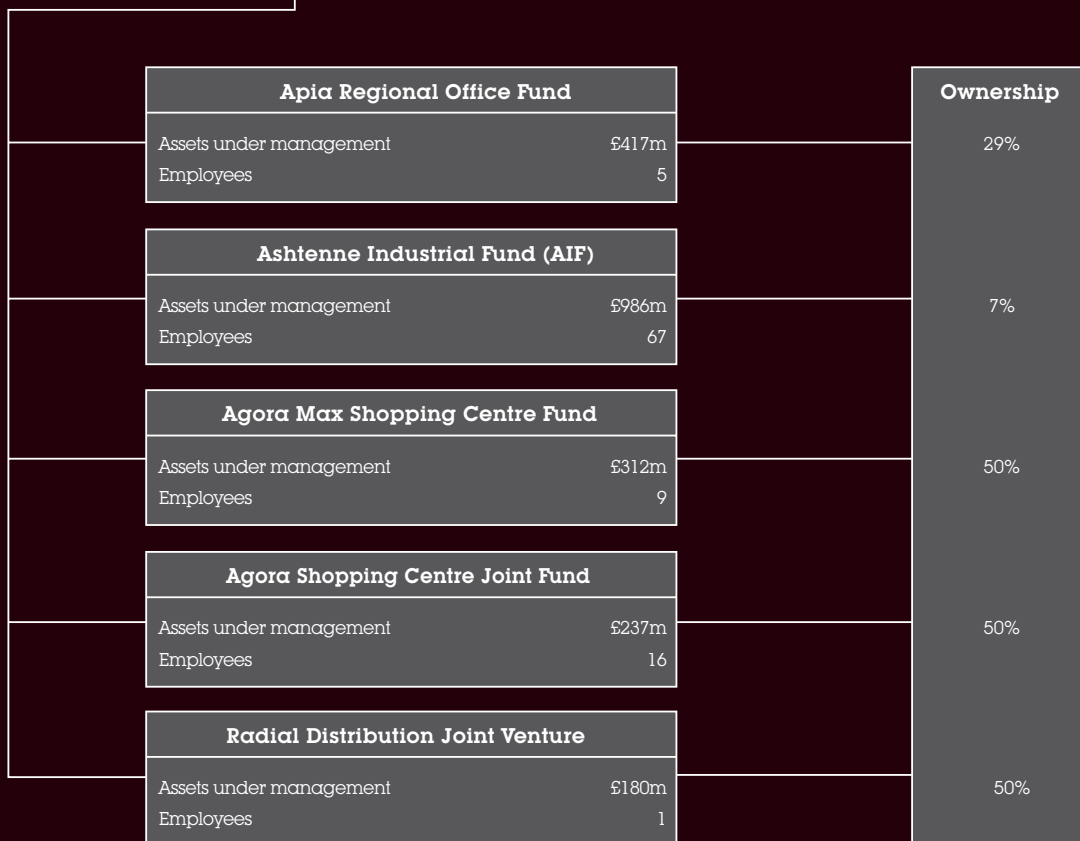
£312million Agora Max  
Shopping Centre Fund

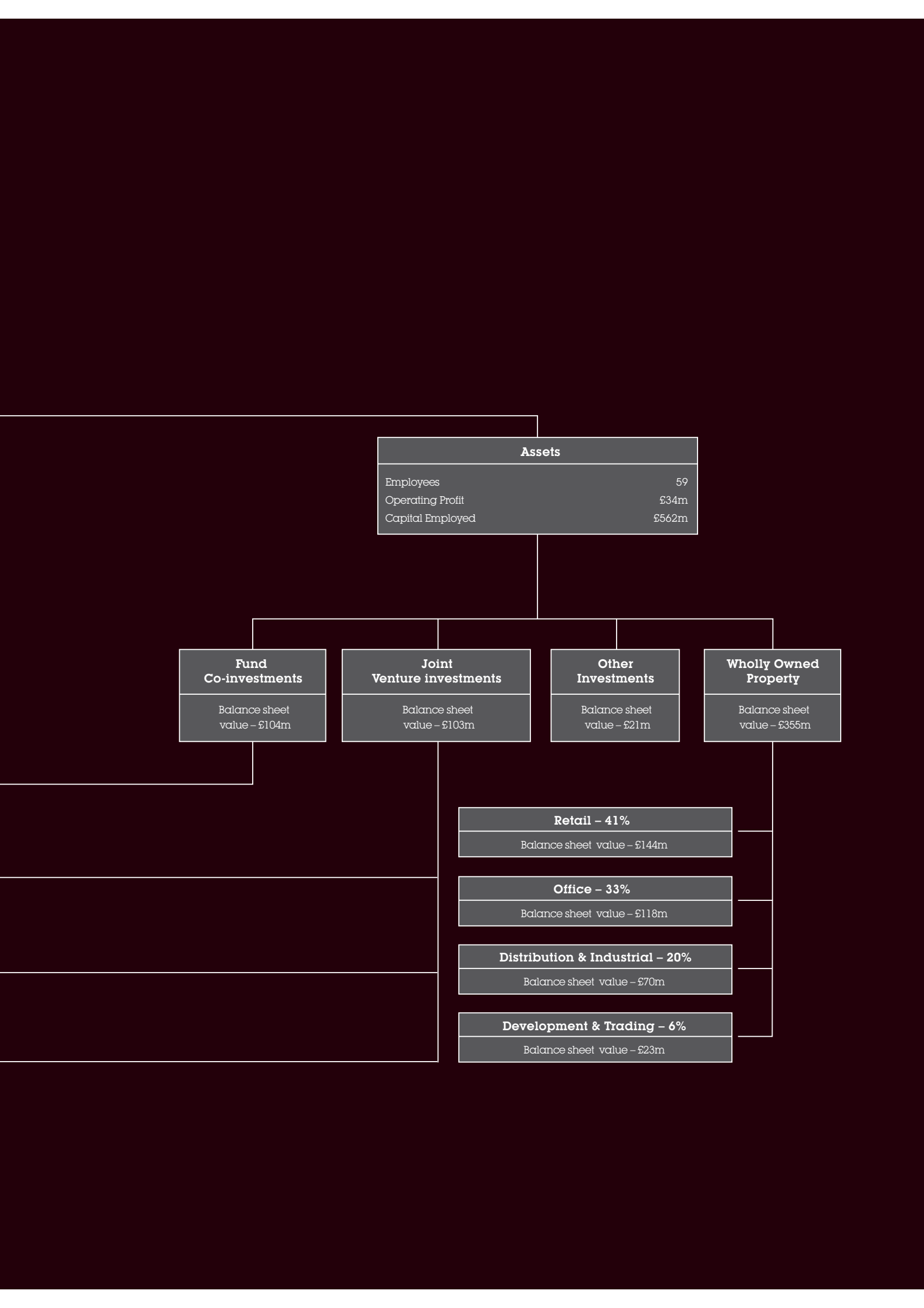
<sup>(vi)</sup> This is less than anticipated due to higher than expected fair values on assets offset by deferred tax on the fair value

# Business Structure

| Warner Estate Holdings PLC |       |
|----------------------------|-------|
| Debt                       | £186m |
| Adjusted Shareholder Funds | £394m |
| Total Capital Employed     | £573m |

| Asset Management Business   |      |
|-----------------------------|------|
| Employees                   | 128  |
| Offices                     | 7    |
| Operating Profit            | £5m  |
| Capital Employed – Goodwill | £11m |





| Assets           |       |
|------------------|-------|
| Employees        | 59    |
| Operating Profit | £34m  |
| Capital Employed | £562m |

| Fund Co-investments         | Joint Venture investments   | Other Investments          | Wholly Owned Property       |
|-----------------------------|-----------------------------|----------------------------|-----------------------------|
| Balance sheet value - £104m | Balance sheet value - £103m | Balance sheet value - £21m | Balance sheet value - £355m |

|  |
|--|
| <b>Retail - 41%</b>                        |
| Balance sheet value - £144m                |
| <b>Office - 33%</b>                        |
| Balance sheet value - £118m                |
| <b>Distribution &amp; Industrial - 20%</b> |
| Balance sheet value - £70m                 |
| <b>Development &amp; Trading - 6%</b>      |
| Balance sheet value - £23m                 |

# Chairman's Statement

**I** am pleased to report another year of considerable success for Warner Estate, in terms of both performance and strategic progress. An excellent performance generated a rise of 21% in triple net asset value and a total adjusted return of 31%. The Group's asset management business made the strategic move from 50:50 joint ventures to multi-investor funds through the successful acquisition and integration of Ashtenne Holdings PLC and the establishment and expansion of the Apia Regional Office Fund with Morley Fund Management. Property under management, including that wholly owned, rose from £1.1billion last March to £2.5billion at the year end and that managed throughout the year increased in value by 13%.




Philip Warner  
Chairman

## RESULTS OVERVIEW

This is the first year we have reported results prepared under International Financial Reporting Standards (IFRS). As I advised in my statement in the interim accounts to 30 September 2005, these results are very different in their appearance, but this is purely presentational and has no impact on the substance of the business. Nevertheless, 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 in the Finance Review on pages 42 to 61.



Bringing the  
expertise of so  
many together  
with such  
precision takes  
exceptional  
management

## Chairman's Statement

continued

In the year to 31 March 2006 adjusted net asset value per share increased by 25% from 592p to 741p, net asset value by 22% from 540p to 660p and triple net asset value (TNAV), on which the Group assesses its total return, by 21% from 551p to 669p. At the time of the Ashtenne acquisition we estimated goodwill at £22.8million before taking into account an additional £6.1million of goodwill in respect of deferred tax required under IFRS, bringing the total estimated goodwill to £28.9million, which we considered a fair reflection of the value of the asset management business. However, subsequent disposals of property assets have produced a surplus of £17.7million, equivalent to 33p a share, which reduced the goodwill to £11.2million, although the real worth of the asset management business has been maintained, if not increased. The total adjusted return of 31% takes that surplus into account and comfortably exceeds the IPD All Fund Universe (March 2006) return of 20.7%.

Pre-tax profits have increased by £36million to £91million. A significant proportion of this increase is due to a £35million increase in the fair value gains (including our share of joint ventures) to £73million. The Group also made substantial realised profits of £11million on the disposal of properties and investments, an increase of £3million on last year. Recurring pre-tax profits, which are a measure of the Group's core maintainable income, were up 9% to £15.9million (2005: £14.6million).

Recurring earnings per share were 22.86p (2005: 22.28p) and basic earnings per share, which include the fair value gains, were 140.17p (2005: 89.20p). 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.

Adjusted shareholders' funds were £393million (2005: £298million) which, after deducting for the £13.6million of equity raised in April 2005 to help fund the purchase of Ashtenne Holdings PLC, represents an increase of 27% after dividends. Shareholders' funds were £351million (2005: £272million).

Adjusted gearing decreased slightly to 48% (2005: 51%) and currently stands at 51% following the recently announced London office purchase, still comfortably below the Group's internal policy ceiling of 100%. The Group's share of debt within the funds and joint ventures was £348million (2005: £323million), all of which is non-recourse. Interest was covered 1.9 times (2005: 1.6 times) by recurring profit before interest and tax.

A more detailed analysis of the year will be found in the Reviews from the Property Director and the Finance Director that follow this statement.

The Board recommends a 6.8% rise in dividends per share from 18.25p to 19.5p, the Company's 35th successive annual increase. Over the last five years the dividend has been raised by 7% per annum compound, well above the rate of inflation. The dividend is covered 1.2 times by recurring revenue earnings and, if approved at the Annual General Meeting, the final dividend per share of 10.0p will be paid on 15th September 2006 to shareholders on the register at close of business on 18 August 2006. It remains the Board's policy to pay a progressive and above inflation increase in dividend.

### STRATEGY

Five years ago the Group embarked upon the still current and successful strategy of building an asset management business with an emphasis on the quality and quantity of income. Last year's transactions illustrate particularly well the progress which has been made from the wholly owned £290million portfolio in March 2001 to the £2.5billion of property under management at this year end, with the ownership structure moving from wholly owned to include 50:50 joint ventures and multi-investor funds as the Group established its reputation.

During the year we acquired Ashtenne for its asset management of the AIF which had assets under management of £690million and six regional offices. Following successful integration, AIF achieved a 25.7% return in its year to December 2005 and at the year end had £986million of assets under management. Ashtenne also owned a number of other assets including European assets, most of which have been sold, but a move by the Group into Europe in due course has not been ruled out.

In June 2005, the Apia Regional Office Fund was established with the merger of assets held in the Skipper Jersey Property Unit Trust (JPUT) with a £63million JPUT owned by Morley Fund Management. This created a £256million fund which was subsequently increased by £120million through a purchase of further properties in November 2005 from the Co-operative Insurance Society. The Fund had £417million of assets under management at the year end and now has five investors.

In October 2005, the Group created the Agora Max JPUT, a sub-regional shopping centre fund valued at £312million and owned 50:50 by ourselves and Bank of Scotland, as is the Radial Distribution joint venture,





## Chairman's Statement

continued



which now has £198million of assets under management following an £18million purchase after the year end.

It remains our intention to continue this expansion through both the existing funds, where the Group has asset management contracts, and the formation or acquisition of further funds as dictated by research and opportunity.

An important part of our asset management process is development, particularly in the Agora and Agora Max shopping centres where there is a pipeline of more than 500,000sq.ft. Outside the funds, our 200,000sq.ft. shopping centre development at Folkestone with Bride Hall Group, the specialist development company in which we have a 25% interest, is making good progress and we expect the Bride Hall connection to lead to further such projects. In particular, in Aylesbury, where the Group owns the Hale Leys shopping centre, a Collaboration Agreement has been signed with Aylesbury Vale District Council for the development with Bride Hall of 265,000sq.ft. of new retail space. We are building our own in-house team to manage the increase in the Group's development opportunities.

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.

### SHAREHOLDERS

As referred to above, 5% of additional stock was issued in April, raising a net £13.6million. In February 2006, 14% of the Company's equity, which was held by Trefick Ltd, was placed with a group of institutional shareholders, reducing Trefick Ltd's stake to 13.75%. These transactions have given the Group a much broader shareholder base and encouraged an increased turnover in the Company's shares.

### PERSONNEL

As reported above, this year has seen a substantial increase in the number of employees, from 71 to 187.

We recognise that the quality of our results depends upon the quality of our employees. In order to further our objective of maintaining and improving existing standards, Sandie Harries joined the Group from Computer Associates in April 2006 as director of Human Resources. The level of property development is also increasing and to manage that process John Peacock joined the Group from Lend Lease in February 2006 as director of Development.

The Board reviewed the senior tier of management below board level and the title of associate director has been altered to divisional director to reflect better the Group's structure. Paul Hodgson was promoted to divisional director during the year, with responsibility for Apia and Agora, and, as a result of the acquisition of Ashtenne, Mark Ovens joined as divisional director responsible for the Ashtenne Industrial Fund.

At Board level, Richard Moore stepped down as Property Director on 1 January with Michael Stevens taking over that role, and has now announced that he will be retiring from the Board, following the Annual General Meeting on 7 September 2006. Richard was one of the architects of the current successful strategy and, on behalf of all shareholders, I thank him for his invaluable contribution over the last six years.

### PROSPECTS

The Group is well placed, with £2.5billion of property under management, to benefit from the sustained strong performance of the commercial property market. Despite rises in gilt yields and swap rates, demand for property continues, driving prices still higher. The advent of REITs is expected to reinforce demand, although the concerns leading to falls in equity markets worldwide may prove a sobering influence. Rising prices will make the task of expanding our funds more challenging. However, we have bought well and, with efficient management of existing assets and a substantial development pipeline, the Group's performance is not dependent on further purchasing. I am confident of continuing progress and thank our skilled and experienced team for making this possible.

**Philip Warner**  
Chairman



Sourcing the  
right product in  
the right place,



and managing  
the resources  
you have is  
fundamental

# Property Review

**T**his year we have more than doubled our assets under management, from £1.1billion (March 2005) to £2.5billion (March 2006). It is rewarding that this has been achieved through a number of factors: organic growth from enhancing the values of existing stock; the acquisition of new assets by existing businesses when competition for stock has been fierce; and corporate activity in purchasing Ashtenne Holdings PLC.



Michael Stevens  
Property Director

Through acquiring Ashtenne, we took over the asset management remit for the £690million Ashtenne Industrial Fund (AIF), a mature, multi-investor fund, co-managed by Morley Fund Management. This was an important step, being our first multi-investor fund, rapidly increasing our exposure to multi-let industrial investments, for which we had earlier set up our £27million Bareway joint venture with Barclays. The Bareway properties along with £51million from our wholly owned portfolio were subsequently sold to the Ashtenne Industrial Fund. In November 2005 we sold the t3 Trade Park Fund, co-managed by Ashtenne with AXA REIM for £96million, triggering a performance fee of £4.4million which was taken as a reduction in the purchase cost of Ashtenne.

We have sold the majority of the properties wholly owned by Ashtenne which were surplus to our requirements, including development land at Falkirk and Hull, three small properties in Germany and Belgium and a portfolio of nine assets, some with residential potential. Disposals were achieved ahead of the values anticipated at the time of purchase of Ashtenne, which again reduced the cost of this purchase.

In June 2005 we launched the Apia Regional Office Fund, also co-managed with Morley. The assets from our Skipper Regional Office Jersey Property Unit Trust (JPUT) with Royal Bank of Scotland were merged with £63million of complementary stock from Morley, creating a fully fledged £256million unitised fund. In November 2005 a further £120million of regional office investments were acquired and the Fund now stands at over £400million with a target size of £750million by the end of 2008. In March and May 2006 two new investors joined the Fund, increasing its profile as a multi-investor vehicle.

In October we launched the Agora Max Shopping Centre Fund, with the £152million purchase of The Pallasades Shopping Centre, Birmingham in a JPUT. This created a second shopping centre joint venture with Bank of Scotland, building on the success and experience of the Agora Shopping Centre Fund. A second asset, the combined shopping centres of The Grange and Pyramids at Birkenhead, was purchased from the Agora Shopping Centre Fund in March 2006 and the Agora Max Shopping Centre Fund now has over £300million under management. It will own



Planning and  
preparation  
are the keys to  
successful fund  
management

## Property Review

continued

sub-regional shopping centres of £100million to £200 million in value, with strong medium term development potential.

The Agora Shopping Centre Fund sold The Square at Sale, Greater Manchester in November for £40million after a successful £7million extension and refurbishment. Zone A rents were driven from around £30 per sq.ft. to over £50 per sq.ft., well ahead of expectation and with the first wave of active management initiatives completed it was logical to sell, earning our second performance fee from Agora. We continue to make good progress with our preparations to redevelop and extend The Market Place at Bolton and Fishergate, Preston, both of which we expect to start this year. The 45,000 sq.ft. (4,180 sq.m.) first phase extension to the Middleton Shopping Centre completes in June this year with 73% pre-let to Peacocks, Quality Save and Streetwise Sports.

Our Radial Distribution Fund joint venture with Bank of Scotland acquired Immanis, a warehouse let to Panasonic at Brackmills, Northampton for £8million and since the year end has purchased the 218,872 sq.ft. (20,333 sq.m.) Accident Exchange Group warehouse at Hams Hall, Birmingham for £18million. Radial sold the former Sainsbury's distribution unit at Yate, Avon in September 2005 for £18.6million after a successful lease re-gearing with Morrisons supermarket group.

Our policy of co-investment in each fund aligns our interests with our partners and allows us to leverage our resources. We concentrate on asset management and making the property assets perform; our fund management partners deal with investor relations, fund marketing and FSA compliance issues.

As indicated last year, the wholly owned properties are no longer treated as a fund. Their performance is part of the benchmarking of the whole Group which allows for more entrepreneurial activity and less adherence to sector weighting. The Royals Shopping Centre, Southend was purchased for £48million in November 2005 from Co-operative Insurance Society along with a leasehold liability portfolio of 105 former CIS offices, which will be sublet, surrendered or assigned; we have to date already disposed of 18 with a further 9 in solicitors' hands. Construction started on the 200,000 sq.ft. (18,581 sq.m.) Bouverie Place Shopping Centre at Folkestone which we are developing in partnership with Bride Hall Group, the specialist development company in which we have a 25%

interest and we signed a Collaboration Agreement with Aylesbury Vale District Council in March 2006 as preferred developer for the 265,000 sq.ft. (24,620 sq.m.) extension to Hale Leys Shopping Centre, Aylesbury.

We have grown each area of our business throughout the year. The teams which run each fund are specialists in their fields. Their concentration on specialisation increases focus which is the key to out-performance, in particular knowledge of our markets and our tenants and anticipating tenant business needs for mutual benefit. Each team is now led by a managing director of the business unit, increasing the sense of ownership and responsibility. The specialist business units have been established with REITs in mind – investors can judge the risk/return characteristics of each property sector/sub-sector and make their choices accordingly.

Our challenge for next year is to grow our asset management business by increasing the size of those funds already established and ensuring their relative out-performance, by establishing new funds and by generating new and better quality income streams. Sector specific derivatives and increased levels of secondary trading of property fund units will bring greater sophistication and liquidity to the market. However, owning tangible assets with the potential to add value remains the key attraction of the property sector. Whilst a multitude of investment vehicles have brought investors into property, the challenge for management is to deliver returns in line with expectations in a climate of more limited yield compression. In such an environment we are confident that our asset management abilities will come to the fore allowing us to continue to deliver out-performance.

### VALUATION/PERFORMANCE

During the year, as shown opposite, properties under management increased from £1.077billion to £2.487 billion due to activities described above. Our standing investments, those held throughout the twelve months (excluding trading), increased overall by 13.4% from £935million to £1,060million, a £125million uplift over the year.

The IPD All Fund Universe Index over the 12 months to March 2006 recorded total returns for all property at an average of 20.7%, driven substantially by strong capital returns as its all property average net initial yield fell from 6.6% to 4.9%. There was around £51billion of investment activity in the 2005 calendar year beating the previous record set in 2004 by £11billion.

## Property Review

continued

### 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           |
| <b>FUNDS</b> |               |                      |         |              |             |               |
| Apia         | –             | 381                  | 193 (a) | –            | 36          | 417           |
| AIF          | –             | 938                  | 75 (b)  | (41)         | 89          | 986           |
| <b>TOTAL</b> | <b>1,077</b>  | <b>1,593</b>         |         | <b>(390)</b> | <b>207</b>  | <b>2,487</b>  |

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

(b) This represents the disposal of properties from the Bareway group together with various properties from the wholly owned portfolio into the Ashtenne Industrial Fund in November 2005

Our preliminary results for individual funds are as follows:

#### PERFORMANCE

|           | (Total Return) | Sub-Sector Benchmark |
|-----------|----------------|----------------------|
| Apia*     | 33.7%          | 19.5%                |
| AIF       | 31.3%          | 19.2%                |
| Agora Max | n/a            | 17.6%                |
| Agora     | 42.2%          | 17.6%                |
| Radial    | 54.2%          | 18.3%                |

\*From inception in June 2005

These returns do take account of transactions during the year.

#### DEVELOPMENT ACTIVITY

We are undertaking development projects in both the wholly owned portfolio and all of our funds. These initiatives are planned to generate additional new income, development profit and improved investment

performance. Projects will be undertaken either in house under John Peacock, our newly appointed director of Development, or in conjunction with Bride Hall.

## Property Review

continued

A summary of our development activity:

| Scheme   | Business Area | Size (sq.ft.)                    | Status   |
|--|---------------|----------------------------------|--|
| AIF – Development Land   | AIF           | 190 acres                        | Various schemes under consideration  |
| AIF – Chippenham   | AIF           | 50 acre existing industrial site | Outline planning application submitted in March 2006 with ASDA for potential retail and residential uses.      |
| The Grange and Pyramids Shopping Centre, Birkenhead – Phase 1, New Foodcourt   | Agora Max     | 6 new units – 1,000 each         | Works on site. Practical completion programmed for July 2006   |
| The Grange and Pyramids Shopping Centre, Birkenhead – Phase 2, New retail unit | Agora Max     | 30,000                           | Proposed new retail unit at entrance to shopping centre. Planning permission granted May 2006.                 |
| The Grange and Pyramids Shopping Centre, Birkenhead – Master planning          | Agora Max     | c. 100,000+                      | A master plan being discussed with the local authority.  |
| Pallasades, Birmingham   | Agora Max     | c. 100,000+                      | Discussions ongoing with Network Rail and local authority over plans to upgrade station and retail area above. |
| Preston, Fishergate  | Agora         | 190,000                          | Planning permission granted in September 2004. Scheme will be phased.  |
| Bolton Market Place  | Agora         | 100,000                          | Planning permission and Listed Building Consent granted in March 2005.   |
| Middleton – Phase 1  | Agora         | 45,000                           | Works on site. Practical completion programmed for June 2006.  |
| Middleton – Phase 2  | Agora         | 17,500                           | Planning permission granted in April 2005.   |
| Bardon, Leicester  | Radial        | 51,500                           | Planning consent granted for warehouse extension in April 2006.  |
| Sevenside, Bristol   | Radial        | 30,000                           | Planning permission for warehouse extension granted in February 2006.  |
| Folkestone   | Wholly owned  | 200,000                          | Forward funding, works on site; programmed to complete in June 2007.   |
| Aylesbury, Hale Leys Shopping Centre – Phase 2                                 | Wholly owned  | 265,000                          | Preferred developer appointed by local authority in March 2006.  |
| Southend, The Royals Shopping Centre – Phase 1                                 | Wholly owned  | 38,000 (incl. existing)          | Extension of existing TK Maxx Store.   |
| Long Eaton   | Wholly owned  | 45,600                           | Viability and feasibility assessments underway.  |
| <b>Total</b>   |               | <b>1,218,600<br/>+ 240 acres</b> | <b>Of which 670,000 sq.ft. (55%) has planning consent and / or has started</b>                                 |

The scale of development and refurbishment activity varies considerably in size, but all projects are carefully managed to control risk through pre-letting before construction starts and securing maximum price or fixed price contracts from builders. In Bolton for example, we have agreed on behalf of Agora terms providing the Fund with an option to secure vacant

possession when it is ready to proceed with the Market Hall development. This is expected to be in 2007. In Bardon, we have secured planning approval for Radial for an extension to its distribution warehouse investment and discussions are now progressing with an occupier. For AIF, we continue to identify development initiatives across its portfolio.





## Property Review

continued

### KEY STATISTICS

|                              | Total under management |               | Wholly owned* |               |
|------------------------------|------------------------|---------------|---------------|---------------|
|                              | 31 March 2006          | 31 March 2005 | 31 March 2006 | 31 March 2005 |
| Capital Value                | £2,487million          | £1,077million | £344million   | £327million   |
| Annualised Rent Roll         | £151.5million          | £72.8million  | £20.7million  | £23.7million  |
| Initial Yield                | 5.8%                   | 6.5%          | 5.6%          | 6.9%          |
| Average Unexpired Lease Term | 4.25 yrs               | 9.4 yrs       | 12.2 yrs      | 10.6 yrs      |
| Void Rate                    | 9.5%                   | 3.0%          | 4.0%          | 4.0%          |
| Number of Properties         | 499                    | 104           | 66            | 72            |
| Average Lot Size             | £4.99million           | £10.36million | £5.21million  | £4.54million  |

\* Investment properties and properties under the course of development, where the capital value is before the accounting adjustment for ground lease interest for leasehold properties of £1.1m (2005: £1.1m).

The breakdown by sector at 31 March 2006 was as follows:

|                                     | No. of Properties | Capital Value<br>£million | Annual Rent Roll<br>£million | ERV<br>£million | Net Initial yield | Weighting |
|-------------------------------------|-------------------|---------------------------|------------------------------|-----------------|-------------------|-----------|
| Retail                              |                   |                           |                              |                 |                   |           |
| Retail Warehouses                   | 6                 | 26.6                      | 6.4                          |                 |                   |           |
| High Street                         | 11                | 117.2                     | 1.7                          |                 |                   |           |
| Retail sub total                    | 17                | 143.8                     | 8.1                          | 9.6             | 5.30%             | 42%       |
| Offices sub total                   | 26                | 118.0                     | 8.1                          | 8.8             | 6.48%             | 34%       |
| Distribution                        | 3                 | 16.4                      | 0.9                          |                 |                   |           |
| Industrial                          | 14                | 53.3                      | 3.6                          |                 |                   |           |
| Distribution & Industrial sub total | 17                | 69.7                      | 4.5                          | 5.4             | 6.07%             | 20%       |
| Land                                | 5                 | 0.5                       | -                            | -               | -                 | -         |
| Development                         | 1                 | 12.3                      | -                            | -               | -                 | 4%        |
| Total                               | 66                | 344.3                     | 20.7                         | 23.8            | 5.63%             | 100%      |
| Trading (Inventories)               | 10                | 10.9                      | 0.5                          | 0.7             | 6.36%             |           |
| Total wholly owned                  | 76                | 355.2                     | 21.2                         | 24.5            | 5.68%             |           |

|                                    | No. of Properties | Capital Value<br>£million | Annual Rent Roll<br>£million | ERV<br>£million | Net initial yield |
|------------------------------------|-------------------|---------------------------|------------------------------|-----------------|-------------------|
| <b>Aggregate of all properties</b> |                   |                           |                              |                 |                   |
| Apia Regional Offices              | 20                | 417.3                     | 26.0                         | 28.9            | 5.85%             |
| Ashtenne Industrial                | 387               | 986.0                     | 63.0                         | 76.9            | 6.03%             |
| Agora Max Shopping Centres*        | 2                 | 311.9                     | 16.9                         | 22.9            | 5.10%             |
| Agora Shopping Centres*            | 4                 | 236.7                     | 12.9                         | 15.4            | 5.03%             |
| Radial Distribution*               | 10                | 180.0                     | 11.5                         | 11.6            | 6.03%             |
| Wholly owned (including trading)*  | 76                | 355.2                     | 21.2                         | 24.5            | 5.68%             |
| Total under management             | 499               | 2,487.1                   | 151.5                        | 180.2           | 5.75%             |

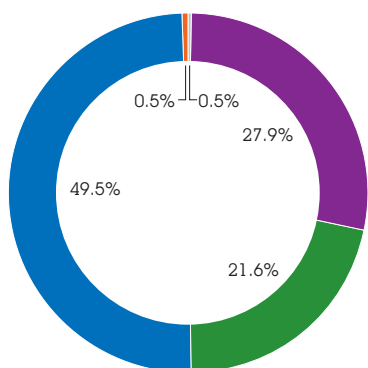
\* Capital value is before accounting adjustments for ground lease interest for leasehold properties, and certain properties treated as finance lease assets.

## Property Review

continued

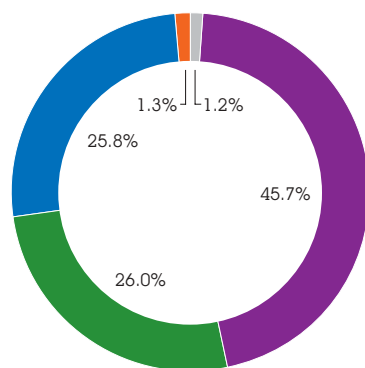
The mix in properties under management and the Group's investment in the wholly owned portfolio, and share of Joint Ventures and Funds is illustrated below:

Under Management at 31 March 2006

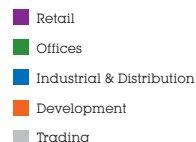


Total portfolio – £2.5billion

Group owned and share of Joint Ventures and Funds at 31 March 2006



Total portfolio – £0.9billion



### APIA REGIONAL OFFICE FUND VALUE £417MILLION – RENT ROLL £26.0MILLION PA

The Apia Regional Office Fund was established in June 2005 and has an existing portfolio of 20 properties with a combined value of £417million representing over 1.7million sq.ft. (159,140 sq.m.) under management. The Fund focuses on office investments with asset management potential in the principal regional cities in the UK. Apia is asset managed by Warner Estate; the Fund Manager is Morley Fund Management. There were four investors in the fund at 31st March. A fifth joined in May 2006.

Offices have become the favoured sector over the last year with investors taking advantage of the potential growth in the financial services sector boosting rental growth in the short to medium term, not only in central London, but also in prime locations within the stronger regional economic centres where total returns have historically been less volatile than London and underpinned by a higher proportion of income and less speculative development.

### ABERDEEN, NEW TELECOM HOUSE Size – 84,764 sq.ft. (7,874 sq.m.)

An eleven storey, 1970's office investment close to Aberdeen railway station with 47 car parking spaces. The building is let to British Telecommunications.

### EDINBURGH, APEX 123, HAYMARKET TERRACE Size – 94,522 sq.ft. (8,781 sq.m.)

A four storey modern air conditioned building located close to Haymarket Station, one mile west of the city centre with 135 car spaces. Tenants include Scottish Enterprise, Secretary of State for the Environment, Edinburgh Fund Managers and Abbey National Bank PLC. A refurbishment of 17, 836 sq.ft. (1,657 sq.m.) has just completed and the upgraded space will be let to generate evidence of rental growth.

### GLASGOW, 225 BATH STREET Size – 87,578 sq.ft. (8,136 sq.m.)

A seven storey office building, built in 1978 and substantially refurbished in 1997, located in Glasgow's CBD (central business district) with 33 surface car spaces, let to two principal tenants, National Australia Group and Teletech Ltd. Teletech's lease on 65,439 sq.ft. (6,079 sq.m.) expires in July 2006. We have been working with them to secure new tenants and have pre-let a floor (13,383 sq.ft./1,244 sq.m.) to Faber Maunsell. A refurbishment programme will be initiated in the summer this year to upgrade the vacant space and create improved rental income.

### GLASGOW, LOMOND HOUSE Size – 64,331 sq.ft. (5,976 sq.m.)

An eleven storey 1990's office investment within Glasgow's CBD with 23 basement car parking spaces. The building is let to Intel and Deloitte & Touche.

All projects are  
carefully managed



**NEWCASTLE, ST ANN'S WHARF**

**Size – 57,897 sq.ft. (5,378 sq.m.)**

A five storey 1990's multi-let Grade A office investment on Newcastle's Quayside with 197 car parking spaces. Principally let to Dickenson Dee Solicitors with whom agreement has been reached for a lease variation which will increase rental income.

**NEWCASTLE, HAMPSHIRE COURT**

**Size – 118,246 sq.ft. (10,985 sq.m.)**

Three office buildings on Newcastle Business Park, 1.5 miles from Newcastle City centre with 387 car parking spaces let to Lombard North Central, WSP, Fujitsu, Norwich Union and SoS for the Environment. Discussions are underway with a number of tenants to extend their leases.

**LEEDS, YORKSHIRE HOUSE, GREEK STREET**

**Size – 81,293 sq.ft. (7,552 sq.m.)**

A seven storey office building with ground floor retail and A3 units and 45 basement car parking spaces in Leeds CBD. The office tenants include Lupton Fawcett and AIG with the retail units let to Lloyds TSB, Target PIL and Regent Inn. A refurbishment programme is being discussed with the principal tenant, Lupton Fawcett, to upgrade their specification and re-gear their leases.

**PRESTON, PRESTON OFFICE CENTRE**

**Size – 144,417 sq.ft. (13,417 sq.m.)**

A ten storey, 1970's office investment within Preston city centre with 97 car parking spaces. Let principally to Trillium (Prime) Property and occupied by Government departments.

**MANCHESTER, NORFOLK HOUSE**

**Size – 54,614 sq.ft. (5,073 sq.m.)**

A five storey modern air conditioned office building built in 1996 within Manchester's prime office core, providing 47 car parking spaces. Occupiers include Halliwells LLP, Secretary of State, Zurich and Watson Wyatt LLP. The common parts are being upgraded and refurbished to enhance the building appearance.

**MANCHESTER, 81 FOUNTAIN STREET**

**Size – 39,900 sq.ft. (3,707 sq.m.)**

A nine storey office building constructed in 1987 and located in Manchester's office core, with 19 car parking spaces. The building is let to BUPA. Sub-let space which has become vacant will be upgraded and refurbished which should improve the rental tone in the building, when re-let.

**MANCHESTER, SUNLIGHT HOUSE**

**Size – 197,289 sq.ft. (18,329sq.m.)**

A fifteen storey, 1930's landmark office investment within Manchester's Central Business District with 212 car parking spaces. Let to SoS for the Environment, SoS for Transport, Building Design Partnership, Capita and others.

**NOTTINGHAM, YORK HOUSE**

**Size 79,020 sq.ft. (7,341 sq.m.)**

An eight storey, 1960's office investment within Nottingham city centre with 73 car parking spaces. Let principally to Nottingham Trent University until 2008.

**BIRMINGHAM, 120 EDMUND STREET**

**Size – 138,200 sq.ft. (12,839 sq.m.)**

A nine storey Grade A office building in Birmingham's prime office district with 104 basement car parking spaces. The building is let to tenants including HSBC Bank and Donaldsons. A vacant part floor of 6,992 sq.ft. (650 sq.m.) is being marketed.

**SOLIHULL, SAPPHIRE COURT, STREETS BROOK ROAD**

**Size – 87,563 sq.ft. (8,134 sq.m.)**

A three storey multi-let office building close to Solihull Railway Station, constructed in 1986 including 266 surface car parking spaces. 45% of the income is received from the Government with the remainder let to investment grade covenants or subsidiaries. Sub-let space which has become vacant will be upgraded and re-let to improve the rental tone in the building.

Offices have become the favoured sector over the last year



- 1 Newcastle, St Ann's Wharf
- 2 Manchester, Sunlight House
- 3 Cardiff, Oakleigh House
- 4 Glasgow, Lomond House



## Property Review

continued

The scale of development and refurbishment activity varies considerably in size



### **MILTON KEYNES, ASHTON / NORFOLK HOUSE**

**Size – 120,019 sq.ft. (11,150 sq.m.)**

A three storey, two building 1970's multi-let office investment within Milton Keynes CBD. The building is let to tenants including Deloitte & Touche, Abbey National and Barclays Bank.

### **CARDIFF, OAKLEIGH HOUSE**

**Size – 41,038 sq.ft. (3,813 sq.m.)**

A three storey 1990's single let office investment within Cardiff's CBD with 23 car parking spaces. The building is let to Cunningham Lindsey.

### **WIMBLEDON, ST GEORGE'S EAST**

**Size – 59,604 sq.ft. (5,537 sq. m)**

A six storey, 1980's mixed use office and retail investment within Wimbledon town centre with 35 car parking spaces. The office building is let and occupied by the BIS Group Company and the retail units are let to Lloyds TSB, Starbucks and Dixons.

### **KINGSTON, SURREY & LEVER HOUSE**

**Size – 164,851 sq.ft. (15,315 sq.m.)**

A prominent island site at the southern tip of Kingston town centre, with two principal office buildings (Surrey House and Lever House) providing office accommodation including ancillary retail units at ground floor level, a nightclub and a three storey car park. Tenants include Lever Faberge, HMV and Multiyork. We expect the multi storey car park may shortly be re-let by tender on a conventional lease of 10-15 years.

### **BRISTOL, WESTGATE**

**Size – 90,924 sq.ft. (8,446 sq.m.)**

A six storey landmark Grade A building in Bristol city centre, comprehensively refurbished in 1992 with 63 basement car parking spaces. Royal & Sun Alliance occupy the entire building.

### **BRIGHTON, SUSSEX HOUSE**

**Size – 36,996 sq.ft. (3,437 sq.m.)**

A six storey, 1980's office investment within Brighton town centre with six basement car parking spaces. The building is let to Lloyds TSB.



**ASHTENNE INDUSTRIAL FUND**  
**VALUE £986MILLION**  
**RENT ROLL £63.0MILLION PA**

The Ashtenne Industrial Fund was established in July 2001. The Fund invests in multi-let industrial properties throughout the UK. The focus of the Fund is intensive asset management, with a view to generating both a high income return and consistent capital returns. AIF is asset managed by Warner Estate from six offices around the country and fund managed by Morley Fund Management.

The Market has been strong throughout the last 12 months for industrial property, particularly multi-let estates which offer asset management potential. However, investors have become more selective and demand has concentrated on well located, recently built estates with rental growth potential.

As at 31 March 2006, the Fund had a gross asset value of £986million, comprising 387 assets totalling 19.4million sq.ft. (1,803,984 sq.m.). The Fund is open to professional investors with over £1million to invest. A sample of the main properties is set out below:

**CREWE, CHESHIRE, RADWAY 16**  
**Size – 273,900 sq.ft. (25,500 sq.m.)**

The well established Business Centre has been redeveloped and refurbished to provide a variety of business space designed to meet the demands of today's 24 hour / 365 day business occupiers. The Business Centre is set within secure landscaped grounds, with excellent circulation and parking facilities.

**CHIPPENHAM, LANGLEY PARK**

Langley Park comprises a large prominent industrial estate lying adjacent to Chippenham railway station and Hathaway Retail Park on the north eastern side of the town.

The Park extends to 48 acres and comprises 815,000 sq.ft. (75,716 sq.m.) of industrial accommodation.

Langley Park is a landmark site which has been identified in the Local Plan for future mixed use redevelopment. An outline planning application was submitted in March 2006 for the redevelopment of 33 acres.

**CRAYFORD, KENT, OPTIMA PARK**

The site extends to 11.93 acres which is being developed in two phases. Phase 1 comprised 140,000 sq.ft. (13,006 sq.m.) of B1(c), B2 and B8 uses and was completed in November 2005. The units range in size from 2,000 to 25,000 sq.ft., with the terrace fronting onto Thames Road, being ideal for trade counter operators. Nine industrial units have been sold totalling 70,300 sq.ft. equating to circa £7.1million of sales.

The remaining 4.95 acres (Phase 2) offer design and build opportunities for occupiers' requirements from circa 20,000 sq.ft. to 80,000 sq.ft.

**PORTSMOUTH, MOUNTBATTEN BUSINESS PARK**

Mountbatten Business Park is prominently located at Jackson Close, to the north of Portsmouth town centre. The development comprises two phases of industrial accommodation extending to 151,612 sq.ft. (14,084 sq.m.) in total. Planning consent includes uses within B1, B2 and B8. A recent letting of one of the Trade Units has just been completed at £10.00 per sq.ft.



The focus of the fund is to generate both a high income return and consistent capital returns

- 1 Chippenham, Langley Park
- 2 Portsmouth, Mountbatten Business Park
- 3 Crewe, Cheshire, Radway 16
- 4 Crayford, Kent, Optima Park



**AGORA MAX SHOPPING CENTRE FUND**

**VALUE £312MILLION**

**RENT ROLL £16.9MILLION PA**

Agora Max Shopping Centre Fund, which is a Jersey Property Unit Trust, was created in October 2005 with the aim of producing consistent high investment returns from the ownership and active management of a portfolio of sub-regional shopping centres across the UK. It is owned 50/50 with Bank of Scotland and invests in shopping centres of between £100million and £200million with strong medium term development potential.

The Fund acquired the Pallasades Shopping Centre in Birmingham in October 2005. The Grange and Pyramids shopping centres in Birkenhead were purchased from the Agora Shopping Centre Fund in March 2006. We have 0.9million sq.ft. (83,864 sq.m.) under management.

The retail sector has suffered from challenging trading conditions on the High Street with retailers squeezing suppliers to maintain their margins. As investment yields have continued to fall, the best prospects lie with asset managers who can improve the shopping experience and retail offer to attract more discerning consumers into their schemes, whether in shopping centres or out-of-town retail parks.

**BIRKENHEAD, THE GRANGE & PYRAMIDS SHOPPING CENTRE**

**Size – 613,000 sq.ft. (56,949 sq.m.)**

The scheme comprises the major retailing element of the town centre, anchored by a number of major national retailers including Marks & Spencer, Argos, Dixons, WH Smith, Next and TJ Hughes, providing circa 160 retail units and 1,225 car parking spaces. Phase I of our redevelopment, a major reconfiguration of the food court providing 6 new units, 4 of which are pre-let to Burger King, Say Potato, Subway and BB's Cake & Muffins, is due to complete in June 2006. Our planning application for Phase II, a 30,000 sq.ft. (2,787 sq.m.) reconfiguration of the St John's Pavement site was submitted in March 2006 and approved in May 2006. A master planning exercise has been initiated to provide new space for retailers currently unrepresented in the town.

**BIRMINGHAM, PALLASADES SHOPPING CENTRE**

**Size – 290,000 sq.ft. (26,915 sq.m.)**

Pallasades Shopping Centre occupies a prime location above Birmingham's New Street Station and forms part of Network Rail and Birmingham City Council's plans for the redevelopment of the station and its immediate surroundings.

Pallasades is anchored by a number of major national retailers including Argos, Boots, HMV and Woolworths and served by a 1,000 space multi-storey car park.

Our asset management plan identifies a number of initiatives to attract new retailers to the scheme to help improve the footfall circulation and reposition the tenant mix.

**AGORA SHOPPING CENTRE FUND**

**VALUE £237MILLION**

**RENT ROLL £12.9MILLION PA**

The Agora Shopping Centre Fund is a 50/50 joint venture with Bank of Scotland which was launched in March 2003. The business owns town and city centre shopping centres in the heart of the Northwest. Each shopping centre is capable of dominating the local retail offer and has strong asset management potential. Agora currently owns four shopping centres totalling 1.07million sq.ft. (99,232 sq.m.) following the disposal of The Square, Sale, in November 2005.

**PRESTON, FISHERGATE SHOPPING CENTRE**

**Size – 360,000 sq.ft. (33,445 sq.m.)**

Fishergate Shopping Centre is situated next to Preston railway station on an eleven acre site and is anchored by Debenhams. Primark are opening a new flagship store over the summer, and we are underway with a scheme to finish refurbishing the Fishergate entrance, which has seen the introduction of Starbucks and Lush to the tenant line up. Discussions with potential tenants to pre-let our phased 190,000 sq.ft. (17,625 sq.m.) extension are underway.

**BOLTON, MARKET PLACE SHOPPING CENTRE AND MARKET HALL**

**Size – 333,123 sq.ft. (30,948 sq.m.)**

Market Place is a prime retail location in Bolton. Planning consent has been obtained for a redesign and extension of 100,000 sq.ft. (9,290 sq.m.) to the attached Listed Victorian Market Hall. In February 2006, we secured conditional agreement with all of the Market Hall tenants to achieve vacant possession ahead of the development. Pre-letting discussions are underway with new tenants and the scheme could be initiated in early 2007.

**Property Review**  
continued

**LIVERPOOL, CAVERN WALKS SHOPPING CENTRE**

**Size – 30,580 sq.ft. (2,842 sq.m.) of retail and 79,240 sq.ft. (7,362 sq.m.) of office space**

Cavern Walks Shopping Centre, although the smallest of the Agora shopping centres, is the most fashion led in the group offering a wide variety of high profile designer retailers right in the heart of Liverpool's city centre. Tenants include Cricket Designwear, Versace, Dolce & Gabbana, Arrogant Cat and Vivienne Westwood. We are seeking to capitalise on these lettings, and improve dwell times by further improving the tenant mix with complementary leisure and beauty orientated uses. The office accommodation, now fully let, adds significantly to the footfall.

**MANCHESTER, MIDDLETON SHOPPING CENTRE**

**Size – 272,300 sq.ft. (25,300 sq.m.)**

Situated on the main route north of Manchester between Oldham and Rochdale, Middleton Shopping Centre is undergoing an extensive development and refurbishment, scheduled to complete in June 2006, creating a further 45,000 sq.ft. (4,181 sq.m.) of new retail space, pre-let to Streetwise Sports, Quality Save and Peacocks. Wilkinsons are on site fitting out an extended 32,000 sq.ft. (2,973 sq.m.) unit. Improvements to the vertical circulation and the introduction of a Mall Café are also planned for Summer 2006. Planning consent for a further 17,500 sq.ft. was granted in April 2005.



- 1 Bolton, Market Place Shopping Centre
- 2 Preston, Fishergate Shopping Centre
- 3 Birkenhead, Pyramids Shopping Centre
- 4 Birmingham, Pallasades Shopping Centre



**RADIAL DISTRIBUTION FUND**

**VALUE £180MILLION**

**RENT ROLL £11.5MILLION PA**

The Radial Distribution Fund was established in 2003 as a joint venture with Bank of Scotland, responding to the significant changes occurring in the distribution and logistics markets. It owns ten sites with over 2.3million sq.ft. (214,918 sq.m.) under management.

The fund specifically target large distribution properties with active management potential and low site cover close to major transport interchanges, ports, airports and rail freight terminals.

There is an occupier trend towards bigger and strategically located high bay distribution units of 200,000 sq.ft. (18,580 sq.m.) or more, driven by efficiency demands in supply chain technology. Higher fuel costs, availability of labour and the new European Working Time Directive restricting drivers to a typical 48 hour (rather than 60 hour) week have focused operators onto the best located sites polarising demand for them. Availability continues to be restrained by increasingly restrictive planning policies. Investor appetite has remained strong with purchasers attracted by relatively high initial yields and secure lease terms, typically 10 years or more.

**GLASGOW, KUEHNE & NAGEL LOGISTICS UNIT,**

**CAMBUSLANG INVESTMENT PARK**

**Size – 123,871 sq.ft. (11,508 sq.m.)**

Cambuslang Investment Park is one of the most popular distribution locations in Scotland, located 8 miles south of Glasgow and very close to Junctions 1 & 2 of the M74. The unit stands on a site of 3.25 hectares (8.02 acres) and has low site coverage of around 35%. The unit is let to Kuehne & Nagel Logistics Limited, who use the site for a contract with B&Q.

**MANCHESTER, STAKEHILL DISTRIBUTION PARK**

**Size – 102,526 sq.ft. (9,525 sq.m.)**

Stakehill Distribution Park lies 8 miles north east of Manchester, just south of Junction 19 of the M62 and 2 miles from Junction 20 of the M60. The property has a site area of 2.94 hectares (7.25 acres) with site coverage of 32%. Neighbouring occupiers include Booker, Christian Salvesen, Aldi, Cert Logistics and Tesco. The property is let to Dunlop Tyres until 2020, with a tenant break option in 2010.

**LEICESTER, ANTALIS UNIT, INTERLINK PARK, BARDON**

**Size – 227,763 sq.ft. (21,160 sq.m.)**

Interlink Park is close to Junction 22 of the M1. The Antalis unit was built for the tenant in 1997 and was subsequently extended in 2001. Site coverage on the 5.05 hectare (12.47 acre) site is still only 42% and there is potential for expansion by a further 50,000 sq.ft. (4,654 sq.m.) for which planning permission was granted in February 2006. The property is let on institutional terms until 2017.

**TAMWORTH, RELAY POINT**

**Size – 85,903 sq.ft. (7,981 sq.m.)**

Relay Point is a recently built manufacturing and distribution park, adjacent to Junction 10 of the M42 at its intersection with the A5 trunk road in Staffordshire. The site is 2.28 hectares (5.62 acres), providing 35% site coverage. Neighbouring occupiers include Britvic, Safeway Distribution, AAH Pharmaceuticals and Swish Products. The property is let to NYK Logistics until 2018.

**BIRMINGHAM, COLESHILL, HIGHWAY POINT,**

**GORSEY LANE**

**Size – 260,884 sq.ft. (24,236 sq.m.)**

Highway Point is a purpose built distribution scheme, with excellent motorway connections. Junction 9 of the M42 lies just to the north and Junction 4 of the M6 a mile to the south. Both units are let until 2027, to Greenwoods Communications and Lucas Aerospace. Both units have expansion land each providing an additional 40,000 sq.ft. (3,716 sq.m.)

**DAVENTRY, UNITS A, B AND C, DIRFT**

**Size – 609,349 sq.ft. (56,609 sq.m.)**

DIRFT (Daventry International Rail Freight Terminal) is one of the premier distribution locations in the UK. The park is located at Junction 18 of the M1, where it intersects with the A5 trunk road and the West Coast Mainline. Other occupiers on DIRFT include Tesco, Royal Mail, Exel Logistics and Wincanton. Units A and B are both let to Eddie Stobart Ltd until 2025 (with break options in 2015). Unit C is let to Ingram Micro until 2010.

- 1 Daventry, Unit C, DIRFT
- 2 Birmingham, Coleshill, Highway Point, Gorsey Lane
- 3 Birmingham, Hams Hall National Distribution Park, Alpha One
- 4 Northampton, Brackmills, Panasonic Distribution Unit





**NORTHAMPTON, BRACKMILLS, PANASONIC  
DISTRIBUTION UNIT**

**Size – 126,411 sq.ft. (11,743 sq.m.)**

Brackmills is a dedicated distribution park, with dual carriageway access to Junction 15 of the M1. Other occupiers on the park include John Lewis, Stanley Tods, MFI, Black & Decker, Office Depot and GE Lighting. The unit is let to Panasonic Logistics until April 2009.

**BRISTOL, FOCUS DIY, WESTERN APPROACH  
DISTRIBUTION PARK**

**Size – 244,115 sq.ft. (22,679 sq.m.)**

Western Approach Distribution Park is one of the South West's premier logistics locations, lying close to Junction 22 of the M4. The unit is let to Focus DIY until March 2022 and is capable of expansion by a further 30,000 sq.ft. (2,787 sq.m.) for which planning permission was granted in April 2006.

**WEYBRIDGE, TESCO DISTRIBUTION UNIT, BROOKLANDS  
BUSINESS PARK**

**Size – 313,135 sq.ft. (29,091 sq.m.)**

Brooklands Business Park is close to Junctions 10 and 11 of the M25 and to the A3 artery into London. Occupiers include Waitrose, Daimler Chrysler, Marks & Spencer and Sony. The unit is let to Tesco until 2014.

**Post 31 March 2006 Year End Purchase**

**BIRMINGHAM, HAMS HALL NATIONAL DISTRIBUTION  
PARK, ALPHA ONE**

**Size – 218,872 sq.ft. (20,333 sq.m.)**

Hams Hall National Distribution Park covers an area of approximately 430 acres (174 hectares) and has its own international rail freight terminal. It lies approximately twelve miles (18 km) north east of Birmingham City Centre and one mile (1.6km) from Junction 9 off the M42. Birmingham International Airport is eight miles to the south. The building is let to Accident Exchange until 2021 with a tenant break option in 2016.

Investor appetite has remained strong with purchasers attracted by relatively high initial yields and secure lease terms



## Property Review

continued

## Wholly owned Investments

### WHOLLY OWNED INVESTMENTS

**VALUE £355MILLION**

**RENT ROLL £21.2MILLION PA**

The wholly owned portfolio, including trading, comprises 76 properties and represents a flexible and proactive area of the Group's activities. Its remit is to create value through entrepreneurial asset management initiatives with the added possibility of providing property for funds and joint ventures, either current or future.

#### SOUTHEND-ON-SEA, THE ROYALS SHOPPING CENTRE

**Size – 284,649 sq.ft. (26,454 sq.m.)**

Acquired in November 2005, this modern centre is anchored by a 122,000 sq.ft. Debenhams department store, 32,000 sq.ft. TK Maxx unit and 25,500 sq.ft. Boots unit.

#### AYLESBURY, HALE LEYS SHOPPING CENTRE

**Size 89,662 sq.ft. (8,333 sq.m.)**

Modern town centre shopping centre originally constructed in 1983. The scheme provides 30 units which are substantially let to major national retailers including Boots, Next and River Island. The Group has entered into an exclusivity agreement with Aylesbury Vale District Council to progress the development of a further 265,000 sq.ft. of retailing adjacent to Hale Leys designed around a new 80,000 sq.ft. department store and 50,000 sq.ft. food store.

#### FOLKESTONE, BOUVERIE PLACE SHOPPING CENTRE

**Size – 200,000 sq.ft. (18,581 sq.m.)**

Shopping centre development funded by the Group and being developed by Bride Hall. The scheme includes pre-lettings to Asda of 70,000 sq.ft., 21,000 sq.ft. to Bhs, 19,000 sq.ft. to Next plus George, HMV, New Look and Peacocks. The scheme is programmed for completion in June 2007.

#### REDHILL, ST PAULS HOUSE

**Size – 49,025 sq.ft. (4,554 sq.m.)**

Headquarters office building let to St Paul Travellers Management Limited to December 2016. The property has planning consent for a further 15,000 sq.ft. of additional offices.

#### LONDON, LANCASTER HOUSE, 31/37 ISLINGTON HIGH ST

**Size – 24,301 sq.ft. (2,257 sq.m.)**

Mixed retail and office building let to Boots and Burger King on the ground floor and basement with a lease to Prudential on the upper offices.

#### LIVERPOOL, FALLOWS WAY, WHISTON

**Size – 135,885 sq.ft. (12,623 sq.m.)**

Warehouse let to Littlewoods subsidiary for a term expiring June 2018.

#### Post 31 March 2006 Year End Purchase

#### LONDON, EC3, 24/26 MINORIES

**Size – 25,169 sq.ft. (2,338 sq.m.)**


A City of London office building let to Barclays Bank and Groupama until 2009 having been comprehensively refurbished in 2000. It was acquired in May 2006.

**Michael Stevens**  
Property Director



- 1 Aylesbury, Hale Leys Shopping Centre
- 2 Southend-on-Sea, The Royals Shopping Centre
- 3 London EC3, 24/26 Minories
- 4 Redhill, St Paul's House





Performing well in a high  
pressure environment is a  
key characteristic



# Finance Review

**T**his 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. 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](http://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.

## 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 on page 44, 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.

A close-up photograph showing a hand holding a thin, golden wire sculpture of a flower. The sculpture consists of several thin, curved lines that form the petals and stem of a flower. Below the wire sculpture is a real yellow flower, which is slightly out of focus. The background is a soft, blurred mix of light and dark colors, suggesting an indoor setting with natural light. The overall mood is artistic and creative.

Creative  
thinking is  
what adds  
real value

## Finance Review

continued

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              | <u>277.7</u> | <u>239.7</u> |
| 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 on page 46 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 pages 46 and 47.





## Finance Review

continued

### 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                                       | 74.5     | 45.0     |

(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.

### PROFIT ANALYSIS – YEAR TO 31 MARCH 2006

|   | Asset<br>Management | Joint<br>Ventures<br>(our 50% share) | Sub Total | Property<br>Investment<br>and Head<br>Office Costs | Other<br>Income | Total     |
|---|---------------------|--------------------------------------|-----------|--|-----------------|-----------|
|   | UNDER MANAGEMENT    |                                      |           | WHOLLY OWNED                                       |                 |           |
| Asset value   | £'000               | £'000                                | £'000     | £'000  | £'000           | £'000     |
| 100% of Properties Managed / Owned                            | 1,403,000           | 729,000                              | 2,132,000 | 355,000  | -               | 2,487,000 |
| <b>Income</b>   |                     |                                      |           |  |                 |           |
| 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/α             | 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<br>Management | Joint<br>Ventures<br>(our 50% share) | Sub Total | Property<br>Investment<br>and Head<br>Office Costs | Other<br>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 |
| <b>Income</b>   |                     |                                      |           |  |                 |           |
| 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 including joint ventures and associates – current        | -                   | (429)                                | (429)     | -  | -               | (429)     |
| Taxation including joint ventures and associates – deferred       | -                   | (3,042)                              | (3,042)   | -  | -               | (3,042)   |
| 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         | -                                   |
|                                     | <u>128</u> | <u>36</u>                           |

\*Treated as a joint venture

The Profit Analysis 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 £986 million funded as to 44% by debt and 56% by equity. Our equity stake was worth £39 million, 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 50 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<br>Pro Forma | Amount included in the Financial Statements        |   |  |
|--------------------------------|------------------------|--|---|--|
|                                |                        | Actual 12 months<br>01/04/2005<br>to<br>31/03/2006 | Our share of the<br>IFL joint venture<br>01/06/2005<br>to<br>30/11/2005 | Wholly owned<br>01/12/2005<br>to<br>31/03/2006 |
|                                | £'000                  | £'000  | £'000   | £'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)  |
|                                | 2,446                  | 524  | 1,183   | 1,707  |

|  |        |
|--|--------|
| 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 opposite 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<br>Pro Forma   | Amount<br>included in the<br>Financial Statements |
|---------------------------|--|---|
|                           | Annualised results for<br>12 months<br>(based on 10 months Accounts) | (10 months) <sup>(a)</sup>                        |
|                           | £'000  | £'000   |
| Asset management fees     | 1,241  | 1,034   |
| Performance fees          | -  | -   |
| Total fees                | 1,241  | 1,034   |
| Costs                     | (640)  | (533)   |
| Recurring profit          | 601  | 501   |
| Notional tax charge @ 30% | (180)  | (150)   |
|                           | <u>421</u>   | <u>351</u>  |

Goodwill in financial statements

P/E ratio based on that used for Ashtenne on acquisition

Assessed value of Apia Asset Management Business on this basis using annualised figures

-  
12.7  
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 <sup>(b)</sup> | 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 52.

#### 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.

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continued

| Name                  | Year End             | Management fee based on property value % | Management fee based on rents % | Management Other Fees                            | Performance Fees  | Valuation 31 March 2006 | Property Rent Roll 31 March 2006 |
|-----------------------|----------------------|--|---------------------------------|--|---|-------------------------|----------------------------------|
| <b>Funds</b>          |                      |  |                                 |  |   |                         |                                  |
| Apia                  | 31/12 <sup>(a)</sup> | 0.4% <sup>(b)</sup>                      | 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 <sup>(a)</sup> | 0.5%                                     | N/A                             | Lettings, rent reviews, disposals, additions etc | Based on outperforming the IPD all industrial index on a 3-year rolling basis                             | £986million             | £63million                       |
| <b>Joint Ventures</b> |                      |  |                                 |  |   |                         |                                  |
| 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 £1.25 million (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 £0.31 million 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.

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.



## Finance Review

continued

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                      | 16.5     |  | 10.2     |  |
| Of which: Current tax                                 | 12.8     |  | 4.1      |  |
| Deferred tax  | 3.7      |  | 6.1      |  |

### 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 |  |
| Cash generated from operations       | 25       |  | 34       |  |
| Net interest                         | (8)      |  | (8)      |  |
| Tax                                  | (11)     |  | (3)      |  |
| Cash flows from operating activities | 6        |  | 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.

## Finance Review

continued

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 below, but it is not expected that the deferred taxation provided would become payable in full if the properties and investments were sold.

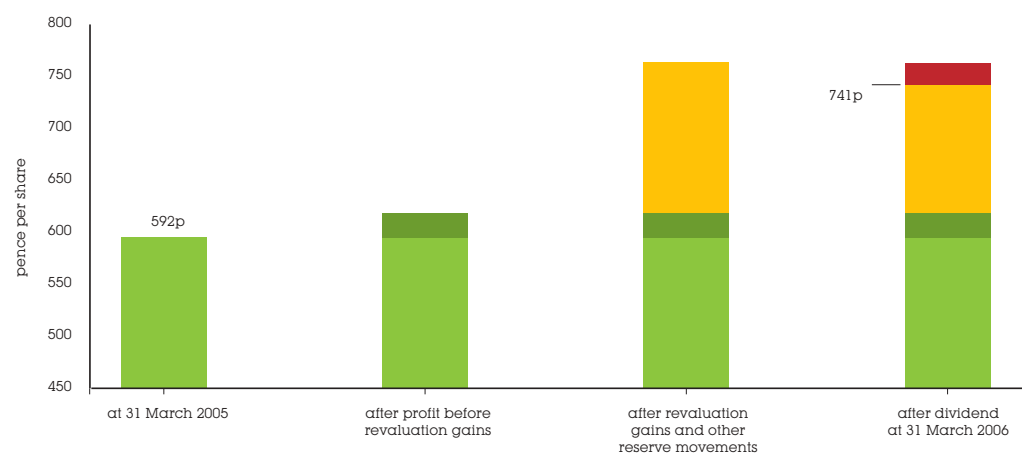
|  | £million     | Pence per share |
|--|--------------|-----------------|
| <b>Shareholders funds 31 March 2005</b>                            | <b>272.1</b> | <b>539.9</b>    |
| Change in weighted average number of shares                        |              | (27.5)          |
|  |              | 512.4           |
| <b>Movement in the Year to March 2006</b>                          |              |                 |
| 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)          |
| <b>Profit for the year</b>   | <b>74.4</b>  | <b>140.1</b>    |
| <b>Other equity movements</b>                                      |              |                 |
| 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             |
| <b>Shareholders' funds 31 March 2006</b>                           | <b>350.6</b> | <b>660.3</b>    |

Adjusted Shareholders' funds as shown in the table on page 56 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

### GROWTH IN ADJUSTED NAV PER SHARE



|  | 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<br>purchase cost at<br>May 2005 | Disposal<br>surpluses | Actual purchase<br>cost at<br>May 2005 |
|----------------------------|---|-----------------------|--|
|                            | £million                                    | £million              | £million                               |
| <b>Fixed Assets</b>        |   |                       |  |
| Goodwill                   | 22.8  | (17.7)                | 5.1                                    |
| Adjustment for IFRS        | 6.1   | -                     | 6.1                                    |
| Goodwill (restated)        | 28.9  | (17.7)                | 11.2                                   |
| <b>Investment in Funds</b> |   |                       |  |
| AIF                        | 20.8  | -                     | 20.8                                   |
| t3                         | 6.3   | (6.3)                 | -                                      |
|                            | 27.1  | (6.3)                 | 20.8                                   |
| IFRS deferred tax          | (6.1)                                       | -                     | (6.1)                                  |
| <b>Net assets</b>          | <b>49.9</b>                                 | <b>(24.0)</b>         | <b>25.9</b>                            |

|  | Proforma 12 months to<br>31 December 2005 | Proforma 12 months to<br>31 March 2006 |
|--|---|--|
|  | £million                                  | £million                               |
| <b>Fund Fees<sup>(i)</sup></b>                 |   |  |
| 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 <sup>(ii)</sup>                       | 22.8                                      | 5.1                                    |
| Multiple paid for<br>asset management business | <b>12.7 p/e</b>                           | <b>2.0 p/e</b>                         |

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, 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.

## Finance Review

continued

### 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<br>£million | Share of joint<br>ventures<br>£million | Share of funds<br>£million | Total<br>£million |
|---|------------------------------|--|----------------------------|-------------------|
| Net short-term debt                       | (96.4)                       | (11.0)                                 | -                          | (107.4)           |
| Long-term debt                            | 282.0                        | 271.2                                  | 87.8                       | 641.0             |
| <b>Total net debt at 31 March 2006</b>    | <b>185.6</b>                 | <b>260.2</b>                           | <b>87.8</b>                | <b>533.6</b>      |
| 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.

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

## Finance Review

continued

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 71.

### 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.

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 Group has reviewed the proposed draft legislation in respect of REIT's and, if the legislation that is enacted and the regulations arising from this accord with the draft legislation, then the Group sees considerable potential benefits to the shareholders from these proposals.

**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

## Summary Directors' Report

### **BUSINESS OF THE GROUP**

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

### **RESULTS FOR THE YEAR AND DIVIDENDS**

The Group results are set out in the consolidated income statement summary on page 74. A review of the results for the year and the prospects for the future are included in the Chairman's Statement on page 8, the Property Review on page 16 and the Finance Review on page 42.

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.

### **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](http://www.warnerestate.co.uk).

By Order of the Board

**D J Lanchester**

Secretary

20 June 2006

## 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 & 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 minimize 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 minimize energy usage both in construction but more importantly in long term operation.

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.

## Corporate Social Responsibility

continued

### 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 e-mailed 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.

## Summary of 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 February 1998 | 12 Months           | 6 Months             |
| R Moore       | 18 May 2000      | 12 Months           | 6 Months             |
| M J Stevens   | 28 March 2001    | 12 Months           | 6 Months             |
| J R Avery     | 15 July 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.

## Summary of Directors' Remuneration Report

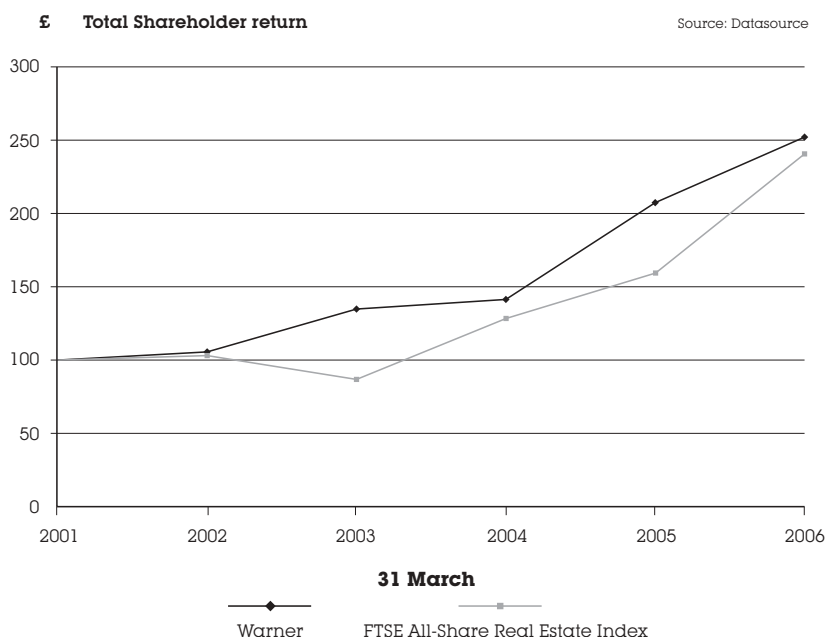
continued

### DIRECTORS' EMOLUMENTS (AUDITED)

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

### 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.



- (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.
- (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.

## Significant events during the year ended 31 March 2006

| DATE                 | DETAIL   | CATEGORY                         |
|----------------------|--|----------------------------------|
| April 2005           | <b>5% placing of shares in Warner Estate Holdings PLC to part finance the acquisition of Ashtenne Holdings PLC</b>   | <b>Group</b>                     |
| 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                            |
| <b>June 2005</b>     | <b>Sale of 120 Ham Road, Worthing for £8.6million</b>  | <b>Group Investment Property</b> |
| 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                    |
| <b>August 2005</b>   | <b>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</b>   | <b>Group Investment</b>          |
| 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                    |
| <b>November 2005</b> | <b>Consideration of £14million received in settlement of offer by Kellen Acquisitions Ltd for shares in East Surrey Holdings plc</b>   | <b>Group Investment</b>          |
| November 2005        | Sale of all industrial properties owned by Bareway Industrial joint venture to Ashtenne Industrial Fund for £29million   | Joint venture                    |
| <b>November 2005</b> | <b>Sale of industrial portfolio to Ashtenne Industrial Fund for £51million</b>   | <b>Group Investment Property</b> |
| <b>November 2005</b> | <b>Purchase of The Royals Shopping Centre in Southend with lease liabilities for a net £33million</b>  | <b>Group Investment Property</b> |

## 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 | <b>Purchase of remaining 50% stake in Industrial Funds Ltd from Anglo Irish Bank for £0.35 million</b>  | <b>Group Investment</b>          |
| December 2005 | <b>Sale of three industrial buildings in Europe by Industrial Funds Ltd for £12.7million (€ 18.4million)</b>  | <b>Group Investment Property</b> |
| December 2005 | <b>Sale of a portfolio of buildings and land by Industrial Funds Ltd for £9.7million</b>  | <b>Group Investment Property</b> |
| January 2006  | <b>Sale of two ex-Ashtenne properties for £12.7million</b>  | <b>Group Investment Property</b> |
| February 2006 | <b>Secondary Placing of 7,356,223 shares by Trefick Limited reducing its shareholding to 13.75%</b>   | <b>Group</b>                     |
| March 2006    | Pyramids and The Grange shopping centres in Birkenhead transferred to the Agora Max Shopping Centre Fund  | Joint venture                    |
| March 2006    | <b>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</b> | <b>Group Investment Property</b> |

## 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   | <b>Purchase of 24-26 Minories, London EC3 for £10.85million</b>  | <b>Group Investment Property</b> |

# Independent Auditors' report to the Members of Warner Estate Holdings PLC

We have examined the summary financial statements of Warner Estate Holdings PLC which comprise the consolidated income statement, consolidated balance sheet, statement of recognised income and expense, reconciliation of movements in Shareholders' funds, consolidated cash flow statement, summary Directors' report and summary of Directors remuneration report.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the Annual Review and summary financial statements in accordance with applicable law. Our responsibility is to report to you our opinion on the consistency of the summary financial statements within the Annual Review and summary financial statements with the annual financial statements, the Directors' report and the Directors' remuneration report, and its compliance with the relevant requirements of Section 251 of the Companies Act 1985 and the regulations made thereunder. We also read the other information contained in the Annual Review and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statements.

These statements, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 251 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 statement is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## BASIS OF OPINION

We conducted our work in accordance with Bulletin 1999/6, 'The auditors' statement on the summary financial statement' issued by the Auditing Practices Board for use in the United Kingdom.

## OPINION

In our opinion the summary financial statements are consistent with the Annual Financial statements, the Directors' report and the Directors' remuneration report of Warner Estate Holdings PLC for the year ended 31 March 2006 and complies with the applicable requirements of Section 251 of the Companies Act 1985 and the regulations made thereunder.

## PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors  
London  
20 June 2006

- (a) The maintenance and integrity of the Warner Estate Holdings PLC web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Consolidated Income Statement Summary

|   | 2006          | 2005         |
|---|---------------|--------------|
|   | £m            | £m           |
| Revenue   | 67.5          | 45.1         |
| Rental and similar income                                     | 24.0          | 26.5         |
| Turnover from property trading activities                     | 31.2          | 12.4         |
| Cost of sales of property trading activities                  | (24.6)        | (10.8)       |
| Service charge and similar income                             | 3.0           | 2.2          |
| Service charge expense and similar charges                    | (3.6)         | (2.7)        |
| <b>Net rental and trading income</b>                          | <b>30.0</b>   | <b>27.6</b>  |
| Turnover from asset management activities                     | 9.3           | 3.9          |
| Asset management expenses                                     | (3.5)         | (1.4)        |
| <b>Net income from asset management activities</b>            | <b>5.8</b>    | <b>2.5</b>   |
| Administrative expenses                                       | (2.4)         | (1.8)        |
| Property management expenses                                  | (7.5)         | (4.5)        |
| <b>Operating profit before net gains on investments</b>       | <b>25.9</b>   | <b>23.8</b>  |
| Net gain from fair value adjustments on investment properties | 27.1          | 21.9         |
| Net gain from fair value adjustment on investments            | 16.1          | 2.4          |
| Profit on sale of investment properties                       | 3.1           | 2.3          |
| Profit on sale of investments                                 | 3.0           | -            |
| <b>Operating profit</b>                                       | <b>75.2</b>   | <b>50.4</b>  |
| Finance income  | 8.3           | 6.7          |
| Finance expense   | (14.5)        | (14.9)       |
| Change in fair value of derivative financial instruments      | -             | 0.3          |
| Share of associates' post tax profits                         | 0.7           | -            |
| Share of joint ventures' post tax profits                     | 21.3          | 12.7         |
| <b>Profit before income tax</b>                               | <b>91.0</b>   | <b>55.2</b>  |
| Taxation - current  | (12.8)        | (4.1)        |
| Taxation - deferred   | (3.7)         | (6.1)        |
| <b>Profit for the year</b>                                    | <b>74.5</b>   | <b>45.0</b>  |
| Attributable to:  |               |              |
| Equity holders  | 74.4          | 45.0         |
| Minority interests  | 0.1           | -            |
|   | p             | p            |
| <b>Earnings per share</b>                                     | <b>140.17</b> | <b>89.20</b> |
| <b>Fully diluted earnings per share</b>                       | <b>138.79</b> | <b>88.59</b> |

## Consolidated Balance Sheet Summary

|  | 2006           | 2005           |
|--|----------------|----------------|
|  | £m             | £m             |
| <b>ASSETS</b>  |                |                |
| <b>Non-current assets</b>  |                |                |
| Goodwill   | 11.2           | -              |
| Investment properties  | 333.2          | 327.7          |
| Properties under the course of development                               | 12.2           | -              |
| Plant and equipment  | 0.5            | 0.3            |
| Investments in joint ventures  | 103.4          | 102.5          |
| Investments in funds   | 104.1          | -              |
| Investments in listed and unlisted shares                                | 5.1            | 15.5           |
| Investments in associates  | 15.5           | 5.3            |
| Deferred income tax assets   | 0.5            | 0.5            |
| Trade and other receivables  | 0.4            | 0.4            |
|  | <b>586.1</b>   | <b>452.2</b>   |
| <b>Current assets</b>  |                |                |
| Inventories  | 10.9           | 8.2            |
| Trade and other receivables  | 23.1           | 9.1            |
| Cash and cash equivalents  | 98.4           | 109.4          |
|  | <b>132.4</b>   | <b>126.7</b>   |
| <b>Total assets</b>  | <b>718.5</b>   | <b>578.9</b>   |
| <b>LIABILITIES</b>   |                |                |
| <b>Non-current liabilities</b>   |                |                |
| Borrowings, including finance leases                                     | (283.6)        | (195.6)        |
| Derivative financial liabilities   | (1.4)          | (1.2)          |
| Deferred income tax liabilities  | (29.6)         | (20.1)         |
| Retirement benefit obligations   | (0.5)          | (0.3)          |
| Provisions for other liabilities and charges                             | (12.5)         | (0.1)          |
|  | <b>(327.6)</b> | <b>(217.3)</b> |
| <b>Current liabilities</b>   |                |                |
| Borrowings, including finance leases                                     | (1.9)          | (68.3)         |
| Trade and other payables   | (29.5)         | (18.8)         |
| Current income tax liabilities   | (5.6)          | (2.1)          |
|  | <b>(37.0)</b>  | <b>(89.2)</b>  |
| <b>Total liabilities</b>   | <b>(364.6)</b> | <b>(306.5)</b> |
| <b>Net assets</b>  | <b>353.9</b>   | <b>272.4</b>   |
| <b>EQUITY</b>  |                |                |
| <b>Capital and reserves attributable to the Company's equity holders</b> |                |                |
| Share capital  | 2.7            | 2.5            |
| Reserves   | 348.8          | 271.2          |
| Investment in own shares   | (0.9)          | (1.6)          |
| <b>Equity shareholders' funds</b>  | <b>350.6</b>   | <b>272.1</b>   |
| Minority interest  | 3.3            | 0.3            |
| <b>Total equity</b>  | <b>353.9</b>   | <b>272.4</b>   |

## Summary Statement of Recognised Income and Expense

|  | 2006  | 2005 |
|--|-------|------|
|  | £m    | £m   |
| Profit for the year  | 74.5  | 45.0 |
| Actuarial losses on retirement benefit obligations net of deferred tax recognised directly in equity | (0.2) | -    |
| Total recognised income and expense for the year attributable to equity shareholders                 | 74.3  | 45.0 |

## Summary Reconciliation of Movements in Shareholders' Funds

|  | 2006   | 2005  |
|--|--------|-------|
|  | £m     | £m    |
| Opening equity in shareholders' funds            | 272.1  | 236.0 |
| Shares issued                                    | 0.1    | -     |
| Share premium on shares issued                   | 13.5   | -     |
| Acquisition of investment in own shares          | (0.1)  | (0.2) |
| Disposal of investment in own shares             | 0.8    | 0.1   |
|  | 286.4  | 235.9 |
| Total recognised income and expense for the year | 74.3   | 45.0  |
| Dividend paid in year                            | (10.1) | (8.8) |
| Closing equity shareholders' funds               | 350.6  | 272.1 |

## Consolidated Cash Flow Statement Summary

|   | 2006          | 2005          |
|---|---------------|---------------|
|   | £m            | £m            |
| <b>Cash flows from operating activities</b>                       |               |               |
| Cash generated from operations                                    | 24.7          | 34.0          |
| Interest paid   | (13.2)        | (14.1)        |
| Interest received   | 5.3           | 6.7           |
| UK Corporation tax paid   | (10.6)        | (3.2)         |
| <b>Net cash inflow / (outflow) from operating activities</b>      | <b>6.2</b>    | <b>23.4</b>   |
| <b>Cash flows from investing activities</b>                       |               |               |
| Purchase of investment properties and related capital expenditure | (59.8)        | (31.0)        |
| Sale of investment properties                                     | 95.1          | 46.2          |
| Purchase of plant and equipment                                   | (0.2)         | -             |
| Sale of investments in listed shares                              | 14.4          | -             |
| Purchase of investments in funds                                  | (66.9)        | -             |
| Sale of investments in funds                                      | 1.0           | -             |
| Purchase of investments in associates                             | (5.0)         | (5.3)         |
| Net cash acquired from purchase of shares in subsidiary company   | 22.6          | 0.3           |
| Purchase of shares in joint ventures                              | (16.7)        | (4.2)         |
| Sale of shares in joint ventures                                  | -             | 0.2           |
| Loans to joint ventures   | (47.5)        | (22.4)        |
| Loans repaid by joint ventures                                    | 37.6          | 23.3          |
| Loans repaid by associates  | 4.6           | -             |
| Payment received for leasehold liabilities                        | 13.8          | -             |
| Dividends received from listed investments                        | 0.4           | 0.5           |
| Dividends received from funds                                     | 1.5           | -             |
| Dividends received from joint ventures                            | 1.0           | -             |
| Dividends received from associates                                | 5.1           | -             |
| <b>Net cash inflow / (outflow) from investing activities</b>      | <b>1.0</b>    | <b>7.6</b>    |
| <b>Cash flows from financing activities</b>                       |               |               |
| Net proceeds from issue of ordinary share capital                 | 13.6          | -             |
| Purchase of own shares for AESOP scheme                           | (0.1)         | (0.2)         |
| Disposal of own shares for share option scheme                    | 0.8           | 0.2           |
| Dividends paid  | (10.1)        | (8.8)         |
| Net proceeds from issue of new bank loan                          | 37.9          | -             |
| Repayment of bank loans   | (72.2)        | (2.3)         |
| Repayment of mortgages and other loans                            | (57.4)        | (0.8)         |
| <b>Net cash (outflow) / inflow from financing activities</b>      | <b>(87.5)</b> | <b>(11.9)</b> |
| <b>Net (decrease) / increase in cash and cash equivalents*</b>    | <b>(80.3)</b> | <b>19.1</b>   |
| Cash and cash equivalents at beginning of year                    | 2.6           | (16.5)        |
| <b>Cash and cash equivalents at end of year</b>                   | <b>(77.7)</b> | <b>2.6</b>    |

\* Includes overdraft facility balances shown in borrowings

## Five Year Record

### ANALYSIS OF GROSS RENTAL AND SIMILAR INCOME

|                      | IFRS                              |                                   | UK GAAP                           |                                   |                                   |
|----------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
|                      | Year to<br>31 March<br>2006<br>£m | Year to<br>31 March<br>2005<br>£m | Year to<br>31 March<br>2004<br>£m | Year to<br>31 March<br>2003<br>£m | Year to<br>31 March<br>2002<br>£m |
| By Property Type     |                                   |                                   |                                   |                                   |                                   |
| Offices              | 10.8                              | 13.5                              | 16.8                              | 22.5                              | 13.8                              |
| Retail               | 6.0                               | 4.7                               | 4.0                               | 8.5                               | 8.3                               |
| Industrial           | 7.2                               | 8.3                               | 6.6                               | 6.0                               | 5.3                               |
|                      | <b>24.0</b>                       | 26.5                              | 27.4                              | 37.0                              | 27.4                              |
| By Activity          |                                   |                                   |                                   |                                   |                                   |
| Property Investments | 23.4                              | 25.8                              | 25.9                              | 33.2                              | 24.7                              |
| Property Trading     | 0.6                               | 0.7                               | 1.5                               | 3.8                               | 2.7                               |
|                      | <b>24.0</b>                       | 26.5                              | 27.4                              | 37.0                              | 27.4                              |

### ANALYSIS OF VALUATION OF COMPLETED INVESTMENT PROPERTIES

|            | IFRS             |                  | UK GAAP          |                  |                  |
|------------|------------------|------------------|------------------|------------------|------------------|
|            | March 2006<br>£m | March 2005<br>£m | March 2004<br>£m | March 2003<br>£m | March 2002<br>£m |
| Offices    | 118.9            | 130.6            | 161.9            | 227.8            | 218.4            |
| Retail     | 144.3            | 92.9             | 57.3             | 47.2             | 117.9            |
| Industrial | 69.5             | 104.2            | 98.3             | 58.8             | 66.9             |
| Land       | 0.5              | -                | -                | -                | -                |
|            | <b>333.2</b>     | 327.7            | 317.5            | 333.8            | 403.2            |

## Five Year Record

continued

### KEY INCOME STATEMENT AND BALANCE SHEET FIGURES

|   | IFRS          |         | UK GAAP |         |         |
|---|---------------|---------|---------|---------|---------|
|   | Year to       | Year to | Year to | Year to | Year to |
|   | 31            | 31      | 31      | 31      | 31      |
|   | March         | March   | March   | March   | March   |
|   | 2006          | 2005    | 2004    | 2003    | 2002    |
|   | £m            | £m      | £m      | £m      | £m      |
| Group operating profit  | <b>25.9</b>   | 23.8    | 20.7    | 28.7    | 22.2    |
| Share of operating profit in associate  | -             | -       | -       | 2.4     | 2.4     |
| Share of operating profit in joint ventures                                       | -             | -       | 13.7    | 1.4     | 0.7     |
| Operating profit before net gain on investments                                   | <b>25.9</b>   | 23.8    | 34.4    | 32.5    | 25.3    |
| Net gains from fair value adjustments and profit on sale of investment properties | <b>30.2</b>   | 24.2    | 1.6     | 1.2     | -       |
| Share of net gains from profit on sale of associates' investment properties       | -             | -       | -       | 0.4     | -       |
| Share of net gains from profit on sale of joint ventures' investment properties   | -             | -       | -       | -       | -       |
| Net gains from fair value adjustments and profit on sale of investments           | <b>19.1</b>   | 2.4     | -       | -       | 2.1     |
| Operating profit  | <b>75.2</b>   | 50.4    | 36.0    | 34.1    | 27.4    |
| Net finance expense   | <b>(6.2)</b>  | (8.2)   | (7.5)   | (14.3)  | (11.0)  |
| Share of associates net finance expense   | -             | -       | -       | (1.0)   | (1.1)   |
| Share of joint ventures net finance expense                                       | -             | -       | (12.8)  | (2.2)   | (0.1)   |
| Change in fair value of derivative financial instruments                          | -             | 0.3     | -       | -       | -       |
| Share of associates post-tax profits  | <b>0.7</b>    | -       | -       | -       | -       |
| Share of joint ventures' post-tax profits   | <b>21.3</b>   | 12.7    | -       | -       | -       |
| Profit before income tax  | <b>91.0</b>   | 55.2    | 15.7    | 16.6    | 15.2    |
| Properties  | <b>356.3</b>  | 335.9   | 334.9   | 379.9   | 456.6   |
| Non-current assets  | <b>586.1</b>  | 452.2   | 420.2   | 378.8   | 430.6   |
| Adjusted shareholders' funds  | <b>393.5</b>  | 298.3   | 251.3   | 221.8   | 215.7   |
| Adjustment*   | <b>(42.9)</b> | (26.2)  | (5.1)   | (4.3)   | (4.8)   |
| Equity shareholders' funds  | <b>350.6</b>  | 272.1   | 246.2   | 217.5   | 210.9   |

\* For UK GAAP the adjustment is in respect of deferred tax. For IFRS, the 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<br>31 March<br>2006 | Year to<br>31 March<br>2005 |
| Recurring earnings per share                    | <b>22.86</b>                | 22.27                       |
| Property investment revaluation gains per share | <b>103.85</b>               | 56.24                       |
| Other   | <b>13.46</b>                | 10.69                       |
| Basic earnings per share                        | <b>140.17</b>               | 89.20                       |
| Dividends per share                             | <b>19.50</b>                | 18.25                       |
| Adjusted net assets per share                   | <b>741</b>                  | 592                         |
| Triple net assets per share                     | <b>669</b>                  | 551                         |

|                               | UK GAAP                  |                          |                          |
|-------------------------------|--------------------------|--------------------------|--------------------------|
|                               | Year to<br>31 March 2004 | Year to<br>31 March 2003 | Year to<br>31 March 2002 |
| Adjusted earnings per share   | p                        | p                        | p                        |
| 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     |
|-----------------------|---|-----------|------------|-----------|------------|--------------|
| <b>Value £150m+</b>   |   |           |            |           |            |              |
| 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    |
| <b>Value £75-100m</b> |   |           |            |           |            |              |
| Bolton                | Market Place Shopping Centre                      | Leasehold | Retail     | 30,948    | 333,123    | Agora        |
| <b>Value £50-75m</b>  |   |           |            |           |            |              |
| 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         |
| <b>Value £40-50m</b>  |   |           |            |           |            |              |
| 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       |
| <b>Value £30-40m</b>  |   |           |            |           |            |              |
| 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         |
| <b>Value £20-30m</b>  |   |           |            |           |            |              |
| Tipton                | Autobase Industrial Park                          | Freehold  | Industrial | 49,124    | 524,359    | AIF          |
| Wimbledon             | St George's House                                 | Freehold  | Offices    | 5,537     | 59,604     | Apia         |
| Coleshill             | Plot1, 2 & 3 Gorsley Lane                         | Freehold  | Industrial | 24,236    | 260,884    | Radial       |
| Glasgow               | Lomond House                                      | Freehold  | Offices    | 5,976     | 64,331     | Apia         |
| Solihull              | Sapphire Court                                    | 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         |

## Significant Assets under Management

continued

| Location              | Property   | Tenure    | Use            | Area sq m | Area sq ft | Owned by     |
|-----------------------|--|-----------|----------------|-----------|------------|--------------|
| <b>Value £10-20m</b>  |  |           |                |           |            |              |
| 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<br>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,<br>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,<br>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,<br>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,<br>Whitley Road          | Freehold  | Industrial     | 19,260    | 205,587    | AIF          |
| Folkestone            | Bouverie Place Shopping<br>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,<br>Maidstone Road             | Freehold  | Industrial     | 10,780    | 115,070    | AIF          |
| London N1             | Lancaster House,<br>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,<br>Fleming Road         | Freehold  | Industrial     | 15,170    | 161,932    | AIF          |
| Bradford              | Listerhills Science Park,<br>Campus Road               | Freehold  | Industrial     | 10,249    | 109,400    | AIF          |
| <b>Value £7.5-10m</b> |  |           |                |           |            |              |
| Leeds                 | Concourse House,<br>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,<br>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,                          | Freehold  | Industrial     | 10,415    | 111,173    | AIF          |
| Liverpool             | Fallows Way,<br>Whiston Witney                         | 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,<br>Horsecroft Road       | Freehold  | Industrial     | 9,739     | 103,959    | AIF          |
| Alton                 | Mill Lane Industrial Estate,<br>Caker Stream Road      | Freehold  | Industrial     | 12,120    | 129,376    | AIF          |

## 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