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International Financial Reporting Standards

Illustrative consolidated financial statements 2006 – Investment property

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International Financial Reporting Standards
Illustrative consolidated financial statements 2006 – Investment property

This publication provides an illustrative set of consolidated financial statements, prepared in accordance with International Financial Reporting Standards (IFRS), for a fictitious investment property company (IP Group).

IP Group is an existing preparer of IFRS consolidated financial statements; IFRS 1, First-time Adoption of International Financial Reporting Standards, is not applicable.

For an illustrative set of financial statements for first-time adopters of IFRS, refer to PricewaterhouseCoopers' publication *Adopting IFRS: IFRS 1 – First-time Adoption of International Financial Reporting Standards*.

This publication is based on the requirements of IFRS standards and interpretations for financial years beginning on or after 1 January 2006. It includes the disclosures required by IFRS 7 – Financial Instruments: Disclosures, and IAS 1 Amendment – Presentation of Financial Statements: Capital Disclosures, which were early adopted for the purpose of these illustrative financial statements. No other interpretations, standards and amendments were early adopted.

We have attempted to create a realistic set of financial statements for an investment property company. Example alternative presentations of the cash flow statement and the income statement have been included in Appendix II.

These financial statements are designed to focus on the disclosures required by IAS 40. The company illustrated does not therefore have associates, joint ventures, minority interests, intangible assets, government grants, defined benefit plans, derivatives, fixed-rate borrowings, related-party transactions, treasury shares, preferred shares, convertible debt or share options. There were no acquisitions or disposals of subsidiaries, and no issues of shares in the two years presented. Please refer to the *IFRS Illustrative Corporate Consolidated Financial Statements 2006* for disclosures relating to these items. The shares of the company illustrated are publicly traded; disclosures on segments and earnings per share are therefore included.

The example disclosures should not be considered the only acceptable form of presentation. The form and content of each reporting entity's financial statements are the responsibility of the entity's management. Alternative presentations to those proposed in this publication may be equally acceptable if they comply with the specific disclosure requirements prescribed in IFRS.

These illustrative financial statements are not a substitute for reading the standards and interpretations themselves or for professional judgment as to fairness of presentation. They do not cover all possible disclosures that IFRS requires, nor do they take account of any specific legal framework. Further specific information may be required in order to ensure fair presentation under IFRS. We recommend that readers refer to our publication *IFRS Disclosure Checklist 2006*. Additional accounting disclosures may be required in order to comply with local laws, national financial reporting standards and/or stock exchange regulations.

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Format

The references in the left-hand margin of the financial statements represent the paragraph of the standards in which the disclosure appears – for example, '8p40' indicates IAS 8 paragraph 40. The reference to IFRS appears in full – for example 'IFRS2p6' indicates IFRS 2 paragraph 6. The designation 'DV' (disclosure voluntary) indicates that the relevant IAS or IFRS encourages, but does not require, the disclosure. Additional notes and explanations are shown in footnotes.

IP Group
Consolidated financial statements

31 December 2006

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Consolidated balance sheet

1p68, 1p104		Note	As at 31 December	
			2006	**2005**
	ASSETS			
1p51	Non-current assets			
1p68(b)	Investment property	6	661,084	598,293
1p69, 17p36	Net investment in finance leases	10	1,888	532
1p69, 17p14	Prepaid operating leases	7	9,789	9,906
1p68(a)	Property, plant and equipment	8	60,335	103,178
1p69	Goodwill	9	509	496
1p68(n), 1p70	Deferred income tax assets	16	834	750
			734,439	713,155
1p51, 1p57	**Current assets**			
1p69, 17p36	Net investment in finance leases	10	736	218
1p68(g)	Inventories	11	17,743	–
1p68(h)	Trade receivables	12	3,608	5,800
1p68(i)	Cash and cash equivalents		6,197	35,152
			28,284	41,170
	Total assets		762,723	754,325
	EQUITY			
1p68(p)	**Capital and reserves attributable to the Company's equity holders**			
1p75(e)	Share capital	13	62,720	62,720
1p75(e)	Translation reserve		(6,059)	4,785
1p75(e)	Retained earnings		495,953	491,715
	Total equity		552,614	559,220
	LIABILITIES			
1p51	**Non-current liabilities**			
1p68(l)	Borrowings, including finance leases	15	107,224	102,804
1p68(n), 1p70	Deferred income tax liabilities	16	51,265	49,038
			158,489	151,842
1p51, 1p60	**Current liabilities**			
1p68(j)	Trade and other payables	14	44,143	34,682
1p68(m)	Current income tax liabilities		4,735	4,392
1p68(l)	Borrowings, including finance leases	15	2,192	2,588
1p68(k)	Provisions	17	550	1,601
			51,620	43,263
	Total liabilities		210,109	195,105
	Total equity and liabilities		762,723	754,325

The notes on pages 9 to 32 are an integral part of these consolidated financial statements.

Consolidated income statement – by nature of expense

1p81-83, 1p91			Year ended 31 December	
1p104		Note	2006	2005
40p75(f)	Revenue[1]	18	42,256	40,016
40p76(d)	Net gain from fair value adjustment on investment property	6	7,660	5,048
1p91	Ground rent costs		(1,312)	(1,488)
40p75(f)	Repair and maintenance costs		(3,156)	(3,013)
1p91	Other direct property operating expenses		(1,212)	(1,315)
1p91	Employee benefit	19	(1,448)	(1,400)
1p91	Amortisation of prepaid operating lease payment	7	(104)	(104)
1p91	Depreciation of property, plant and equipment	8	(5,249)	(2,806)
39p14(h)(i)	Interest income		560	1,096
1p91	Other expenses		(616)	(2,009)
1p83	**Operating profit**		37,379	34,025
1p81(b)	Finance costs	20	(10,432)	(9,560)
1p83	**Profit before income tax**		26,947	24,465
1p81(e), 12p77	Income tax expense	21	(6,056)	(6,152)
1p81(f)	**Profit for the year**		20,891	18,313
1p82	**Attributable to:**			
1p82(b)	Equity holders of the Company		20,891	18,313
33p66	**Basic and diluted earnings per share for profit attributable to the equity holders of the Company during the year** (expressed in € per share)	22	0.52	0.46

The notes on pages 9 to 32 are an integral part of these consolidated financial statements.

[1] Service and management charges can only be part of revenue if the Company acts as a principal instead of acting as an agent.

Consolidated statement of changes in equity

		Note	Attributable to equity holders of the Company			Total equity
1p96, 1p97,1p104			Share capital	Translation reserves	Retained earnings	
1p97(c)	**Balance at 1 January 2005**		62,720	3,538	484,781	551,039
1p96(b), 21p52(b)	Currency translation differences		–	1,247	–	1,247
1p96(a)	Profit for the year		–	–	18,313	18,313
1p96(c)	Total recognised income for 2005		–	1,247	18,313	19,560
1p97(a)	Dividend relating to 2004	23	–	–	(11,379)	(11,379)
1p97(c)	**Balance at 31 December 2005**		62,720	4,785	491,715	559,220
1p96(b), 21p52(b)	Currency translation differences		–	(10,844)	–	(10,844)
1p96(a)	Profit for the year		–	–	20,891	20,891
1p96(c)	Total recognised (expense)/income for 2006		–	(10,844)	20,891	10,047
1p97(a)	Dividend relating to 2005	23	–	–	(16,653)	(16,653)
1p97(c)	**Balance at 31 December 2006**		62,720	(6,059)	495,953	552,614

The notes on pages 9 to 30 are an integral part of these consolidated financial statements.

Consolidated cash flow statement – indirect method

			Year ended 31 December	
7p10, 18(b) **1p107**		**Note**	**2006**	**2005**
	Cash flows from operating activities			
	Cash generated from operations	24	39,956	34,422
7p31	Interest paid		(10,020)	(10,324)
7p35	Income tax paid		(3,772)	(6,425)
	Net cash generated from operating activities		26,164	17,673
7p21	**Cash flows from investing activities**			
7p16(a)	Purchases of investment property	6	(4,067)	(1,400)
7p16(a)	Capital expenditure on investment property	6	(1,500)	(370)
7p16(b)	Proceeds from sale of investment property	6	10,552	–
7p16(a)	Purchases of property, plant and equipment	8	(17,322)	(2,568)
7p16(a)	Expenditure on property under construction	8	(30,247)	(10,678)
7p16(f)	Proceeds from settlement of finance lease receivables		316	80
7p31	Interest received		560	1,075
	Net cash used in investing activities		(41,708)	(13,861)
7p21	**Cash flows from financing activities**			
7p17(c)	Proceeds from borrowings		10,763	18,234
7p17(d)	Repayments of borrowings		(6,739)	(8,966)
7p31	Dividends paid to the Company's shareholders	23	(16,653)	(11,379)
	Net cash used in financing activities		(12,629)	(2,111)
	Net (decrease)/increase in cash and bank overdrafts		(28,173)	1,701
	Cash and cash equivalents at beginning of the year		35,152	34,621
	Exchange losses on cash and cash equivalents		(782)	(1,170)
	Cash and cash equivalents at end of the year		6,197	35,152

The notes on pages 9 to 32 are an integral part of these consolidated financial statements.

Notes

1. General information

1p126(b) IP (the Company) and its subsidiaries (together the Group) is an investment property group with a major portfolio in Europe and Asia. It is principally involved in leasing out investment property under operating leases and is also involved in development of investment property.

1p126(a) The Company is a limited liability company incorporated and domiciled in Euravia. The address of its registered office is 5 Skyscraper Road, 5050, Propertyville.

The Company has its primary listing on the EuroMoney stock exchange.

10p17 These consolidated financial statements have been approved for issue by the Board of Directors on 12 March 2007.

2. Summary of significant accounting policies

1p103(a)
1p108(b) The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1p14 ### 2.1 Basis of preparation

1p108(a) The consolidated financial statements of IP Group have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements have been prepared under the historical cost convention except that investment property is carried at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

8p28 *(a) Standards early adopted by the Group*
IFRS 7, Financial Instruments: Disclosures, and the complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures, were early adopted in 2006. IFRS 7 introduces new disclosures relating to financial instruments. This standard does not have any impact on the classification and valuation of the Group's financial instruments.

(b) Standards, amendments and interpretations effective in 2006 but not relevant
The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations:
- IAS 19 (Amendment), Employee Benefits;
- IAS 21 (Amendment), Net Investment in a Foreign Operation;
- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- IAS 39 (Amendment), The Fair Value Option;
- IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts;
- IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards;
- IFRS 6, Exploration for and Evaluation of Mineral Resources;
- IFRIC 4, Determining whether an Arrangement contains a Lease;
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment;.

8p30 *(c) Interpretations to existing standards that are not yet effective and have not been early adopted by the Group*
IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006), is mandatory for the Group's accounting periods beginning on or after 1 May 2006, and the Group has not early adopted it. IFRIC 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply IFRIC 10 from 1 January 2007, but it is not expected to have any impact on the Group's accounts.

Notes to the consolidated financial statements (continued)

DV

(d) Interpretations to existing standards that are not yet effective and not relevant for the Group's operations

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods but are not relevant to the Group's operations:

- IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006). IFRIC 7 provides guidance on how to apply requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. As none of the group entities have a currency of a hyperinflationary economy as its functional currency, IFRIC 7 is not relevant to the Group's operations;
- IFRIC 8, Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006). IFRIC 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of IFRS 2. IFRIC 8 is not expected to have any impact on the Group's accounts; and
- IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006). IFRIC 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. As none of the group entities have changed the terms of their contracts, IFRIC 9 is not relevant to the Group's operations.

1p110

2.2 Consolidation

27p12
27p14

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

27p30

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

IFRS3p14
IFRS3p24
IFRS3p28
IFRS3p36, 37
IFRS3p51
IFRS3p56

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

27p24
27p28

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

1p110

2.3 Segment reporting

14p9

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

Notes to the consolidated financial statements (continued)

1p110 **2.4 Foreign currency translation**

1p110 *(a) Functional and presentation currency*

21p17 **21p9, 18** **1p46(d)** Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements are presented in euros, which is the Company's functional and presentation currency.

1p110 *(b) Transactions and balances*

21p21, 28 **21p32** Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

1p110 *(c) Group companies*

21p39 The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

21p39(a) (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

21p39(b) (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

21p39(c), 1p76(b) (iii) all resulting exchange differences are recognised as a separate component of equity.

39p102 On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

21p47 Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

1p110 **2.5 Investment property**

40p5 Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property[1].

Investment property comprises freehold land, freehold buildings, land held under operating lease and buildings held under finance lease.

40p6, 25 Land held under operating lease is classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

40p20 Investment property is measured initially at its cost, including related transaction costs.

40p75(d-e) After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are reviewed annually by *[name of the external valuers]*. Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value.

40p40 The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of land classified as investment property; others, including contingent rent payments, are not recognised in the financial statements.

[1] Investment property includes properties that companies in a consolidated group lease out to an associate or joint venture that occupies the property (40p15).

Notes to the consolidated financial statements (continued)

40p16 Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

40p35 Changes in fair values are recorded in the income statement.

40p60 If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete. At that time, it is reclassified and subsequently accounted for as investment property.

40p61, 62 If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment under IAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the income statement.

40p12 Hotel buildings held by the Group are not owner-occupied[1]. The Group rents the buildings to third-party hotel operators who run the hotels.

40p56, 58 Investment property held for sale without redevelopment is classified as non-current assets held for sale, under IFRS 5.

1p110 **2.6 Property, plant and equipment**

16p73(a) All property, plant and equipment is stated at historical cost[2] less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

16p12 Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

16p43, 73(b), 16p50, 73(c) Depreciation, based on a component approach, is calculated using the straight-line method to allocate the cost over the asset's estimated useful lives, as follows:

– Land	Nil
– Buildings	25-40 years
– Fixtures and fittings	5-15 years

16p51 The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at least at each financial year-end.

36p59 An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount (Note 2.8).

16p68, 71 16p41 Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement[3].

23p29(a) All borrowing costs are expensed[4].

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[1] The hotels should not be classified as investment property (40p12) if they are owner-occupied.

[2] If PPE is carried at fair value under IAS 16, revaluation gains must be reported in equity; PPE must still be depreciated, and a full year's depreciation charge must be included in the income statement.

[3] If assets are carried under the IAS 16 revaluation model, the amounts included in other reserves are transferred to retained earnings when revalued assets are sold.

[4] Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset can be capitalised as part of the cost of that asset (23p11).

Notes to the consolidated financial statements (continued)

1p110

2.7 Leases

(a) A group company is the lessee

17p4
17p33
17p14
SIC-15p5

(i) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

17p4
32p60(b)
17p20
17p27

(ii) Finance lease

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The investment properties acquired under finance leases are carried at their fair value.

(b) A group company is the lessor

17p49
17p50

(i) Operating lease

Properties leased out under operating leases are included in investment property in the balance sheet (Note 6). Lease income is recognised over the term of the lease on a straight-line basis.

17p36

(ii) Finance lease

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

32p60(b),17p39

Lease income is recognised over the term of the lease using the net investment method before tax, which reflects a constant periodic rate of return.

1p110

2.8 Goodwill

IFRS 3p51
38p118(a)
38p124

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on godwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

36p80

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The Group allocates goodwill to each business segment in each country in which it operates.

1p110

2.9 Impairment of assets

36p9
36p10

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

1p110

2.10 Inventories

40p57(b)
2p9, 36(a)

Investment properties that are being developed for future sale are reclassified as inventories at their deemed cost, which is the carrying amounts at the date of reclassification. They are subsequently carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less cost to complete redevelopment and selling expenses.

Notes to the consolidated financial statements (continued)

1p110 **2.11 Trade receivables**

IFRS7p21, 39p43, 39p46(a), 39p59, IFRS7 AppxBp5(f)

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the income statement.

1p110 **2.12 Cash and cash equivalents**

7p45

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

1p110 **2.13 Share capital**

32p18(a), IFRS7p21

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

1p110 **2.14 Borrowings**

IFRS7p21, 39p47, 39p43

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

1p60

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

1p110 **2.15 Deferred income tax**

12p47, 24, 12p15, 12p46

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

12p24, 34

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

12p39, 44

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

1p110 **2.16 Pensions**

19p44

The Group operates a number of defined contribution plans throughout the world. The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

1p110 **2.17 Provisions**

37p14, 24, 37p72, 37p63

Provisions for legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

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

Notes to the consolidated financial statements (continued)

1p110 **2.18 Revenue recognition**

18p35(a) Revenue includes rental income, service charges and management charges from properties, and income from property trading.

17p50
SIC15p4 Rental income from operating leases is recognised in income on a straight-line basis over the lease term. When the Group provides incentives to its customers, the cost of incentives are recognised over the lease term, on a straight-line basis, as a reduction of rental income.

Service and management charges are recognised in the accounting period in which the services are rendered. When the Group is acting as an agent, the commission rather than gross income is recorded as revenue.

1p110 **2.19 Dividend distribution**

10p12 Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved.

18p29-30(a) **2.20 Interest expense**

IFRS7 AppxB5(e) Interest expenses for borrowings are recognised within 'finance costs' in the income statement using the effective interest rate method.

1p99
18p35(a) The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument, or a shorter period where appropriate to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

3. Financial risk management[1]

3.1 Financial risk factors

IFRS7p31 The Group's activities expose it to a variety of financial risks: market risk (including currency risk, price risk and cash flow interest rate risk), credit risk and liquidity risk. The financial risks relate to the following financial instruments: trade receivables, cash and cash equivalents, trade and other payables and borrowings. The accounting policy with respect to these financial instruments is described in Note 2.

Risk management is carried out by a central treasury department (Group Treasury) under policies approved by the Board of Directors. Group Treasury identifies and evaluates financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investing excess liquidity.

IFRS7p34(a) The reports on the risk management are produced periodically on a legal entities level to the key management personnel of the Group.

(a) Market risk

(i) Foreign exchange risk

IFRS7p33(a) The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the UK pound and the HK dollar. Foreign exchange risk arises from future commercial transactions, recognised monetary assets and liabilities and net investments in foreign operations.

IFRS7p22(c) The Group's policy is not to enter into any currency hedging transactions.

[1] These illustrative financial statements do not include derivatives. Where such arrangements exist, further disclosures are required under IAS 39 and IFRS 7. See Note 3 of the *IFRS Illustrative corporate consolidated financial Statements 2006*.

Notes to the consolidated financial statements (continued)

The tables below summarise the Group's exposure to foreign currency risk at 31 December. The Group's assets and liabilities at carrying amounts are included in the table, categorised by the currency at their carrying amount.

IFRS7p22(c)	As at 31 December 2006	€	£	HK$	Other	Total
DV	Investment property	253,521	174,110	120,267	113,186	661,084
DV	Net investment in finance leases	1,888	–	–	–	1,888
DV	Prepaid operating leases	8,296	767	487	239	9,789
DV	Property, plant and equipment	48,238	12,097	–	–	60,335
DV	Goodwill	509	–	–	–	509
DV	Deferred income tax assets	637	76	65	56	834
DV	Net investment in finance leases	736	–	–	–	736
DV	Inventories	17,743	–	–	–	17,743
	Trade receivables	1,677	540	653	738	3,608
	Cash and cash equivalents	3,399	2,300	369	129	6,197
	Total assets	336,644	189,890	121,841	114,348	762,723
	Trade and other payables	37,416	2,340	3,956	431	44,143
DV	Current income tax liabilities	3,960	356	265	154	4,735
	Borrowings, including finance leases	77,100	15,000	17,316	–	109,416
DV	Provisions	550	–	–	–	550
DV	Deferred income tax	38,291	5,680	5,329	1,965	51,265
	Total liabilities	157,317	23,376	26,866	2,550	210,109
	Net assets	179,327	166,514	94,975	111,798	552,614
	As at 31 December 2005					
DV	Investment property	240,878	154,329	115,432	87,654	598,293
DV	Net investment in finance leases	532	–	–	–	532
DV	Prepaid operating leases	8,363	765	654	124	9,906
DV	Property, plant and equipment	92,089	11,089	–	–	103,178
DV	Goodwill	496	–	–	–	496
DV	Deferred income tax assets	592	45	61	52	750
DV	Net investment in finance leases	218	–	–	–	218
DV	Inventories	–	–	–	–	–
	Trade receivables	3,792	534	631	843	5,800
	Cash and cash equivalents	31,003	3,183	423	543	35,152
	Total assets	377,963	169,945	117,906	89,216	754,325
	Trade and other payables	28,715	2,115	3,456	396	34,682
DV	Current income tax liabilities	3,733	312	212	135	4,392
	Borrowings, including finance leases	76,600	14,292	14,500	–	105,392
DV	Provisions	1,601	–	–	–	1,601
DV	Deferred income tax	36,904	5,308	4,961	1,865	49,038
	Total liabilities	147,533	22,027	23,129	2,396	195,105
	Net assets	230,410	147,918	94,072	86,820	559,220

IFRS7p40(a)

The sensitivity analyses below are based on a change in an assumption while holding all other assumptions constant. In practice this is unlikely to occur and changes in some of the assumptions may be correlated – for example, change in interest rate and change in foreign currency rates.

The Group manages foreign currency risk on an overall basis. The sensitivity analysis prepared by management for foreign currency risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Notes to the consolidated financial statements (continued)

The tables above present financial assets and liabilities denominated in foreign currencies held by the Group in 2006 and 2005 used to monitor foreign currency risk at the reporting dates: If the euro weakened/strengthened by 10% against the HK dollar with all other variables held constant, post-tax profit for the year would have been €325 (2005: €230) higher/lower. If the euro weakened/ strengthened by 10% against the UK pound with all other variables held constant, post-tax profit for the year would have been €456 (2005: €367).

(ii) Price risk

IFRS7p33(a)(b) The Group is exposed to property price and property rentals risk. The Group is not exposed to the market risk with respect to financial instruments as it does not hold any equity securities.

(iii) Cash flow and fair value interest rate risk

IFRS7p33(a) As the Group has no significant interest-bearing assets, its income and operating cash flows are substatially independent of changes in market interest rates.

IFRS7p33(a)(b) The Group's interest rate risk arises from long-term borrowings (Note 15). Borrowings issued at variable rates expose the Group to cash flow interest rate risk.

IFRS7p22(c) The Group's cash flow and fair value interest rate risk is periodically monitored by the Group's management. The cash flow and fair value risk policy is approved quarterly by the Board of Directors. The Group analyses its interest rate exposure on a dynamic basis. It takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest costs may increase as a result of such changes. They may reduce or create losses in the event that unexpected movements arise. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. The scenarios are run only for liabilities that represent the major interest-bearing positions. The simulation is done on a quarterly basis to verify that the maximum loss potential is within the limit given by management.

Trade and other receivables and payables are interest-free and have settlement dates within one year.

IFRS7p40 IG36 The sensitivity analyses below are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated – for example, change in interest rate and change in market values.

An increase in 100 basis points in interest yields would result in a post-tax loss in profit or loss for the period of €9 in 2006 (2005: €8). A decrease in 100 basis points in interest yields would result in a post tax loss for the period of €10 in 2006 (2005: €7)

(b) Credit risk

IFRS7p33(a)(b)
IFRSp34
IFRS7p33, 39(b)

The Group has no significant concentrations of credit risk. Credit risk arises from cash and cash equivalents as well as credit exposures with respect to rental customers, including outstanding receivables. Credit risk is managed on a group basis and structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparty, and to geographical and industry segments. Such risks are subject to an annual and more frequent review. The Group has policies in place to ensure that rental contracts are made with customers with an appropriate credit history. Cash transactions are limited to high-credit-quality financial institutions. The Group has policies that limit the amount of credit exposure to any financial institution. Limits on the level of credit risk by category and territory are approved quarterly by the Board of Directors. The uitilisation of credit limits are regularly monitored.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group Treasury aims to maintain flexibility in funding by keeping committed credit lines available.

The Group's liquidity position is monitored on a daily basis by the management and are reviewed quarterly by the Board of Directors. A summary table with maturity of financial assets and liabilities presented below is used by key management personnel to manage liquidity risks and is derived from managerial reports at entity level.

Notes to the consolidated financial statements (continued)

		2006	2005
DV	**Financial assets – current**	**2006**	**2005**
	Trade receivables – maturity within one year	3,608	5,800
	Cash and cash equivalents – maturity within one year	6,197	35,152
		9,805	40,952
IFRS7p39(a)	**Financial liabilities – non-current**		
	Borrowings		
	Between 1 and 2 years	2,088	2,192
	Between 2 and 5 years	22,054	12,060
	Over 5 years	76,276	80,542
		100,418	94,794
	Finance lease liabilities		
	Between 1 and 5 years	4,900	5,287
	Later than 5 years	1,906	2,723
		6,806	8,010
	Current		
	Trade and other payables – maturity within one year	44,143	34,682
	Finance lease liabitlities – maturity within one year	2,192	2,588
		46,335	37,270

3.2 Capital risk management

1p124A
1IG5

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including borrowings and trade and other payables, as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated balance sheet, plus net debt.

During 2006, the Group's strategy, which was unchanged from 2005, was to maintain a gearing ratio within 15% to 25% and a BB credit rating. The gearing ratios at 31 December 2006 and at 31 December 2005 were as follows:

	2006	2005
Total borrowings	153,559	140,075
Less: cash and cash equivalents	(6,197)	(35,152)
Net debt	147,362	104,932
Total equity	552,614	559,220
Total capital	699,976	664,143
Gearing ratio	21%	16%

Notes to the consolidated financial statements (continued)

4. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience as adjusted for current market conditions and other factors.

1p116

4.1 Critical accounting estimates and assumptions

Management makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

40p46

(a) Estimate of fair value of investment properties

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

(i) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;

(ii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(iii) discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

40p46(c)

(b) Principal assumptions for management's estimation of fair value

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

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

1p119

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

Were the void periods assumed in the discounted cash flow analysis to differ by 10% from management's estimates, the carrying amount of investment properties would be an estimated €990 lower or €1,340 higher.

Were the discounted rate used in the discounted cash flow analysis to differ by 10% from management's estimates, the carrying amount of investment properties would be an estimated €1,230 lower or €1,580 higher.

(c) Income taxes

The Group is subject to income taxes in different jurisdictions. Significant estimates are required in determining the worldwide provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Notes to the consolidated financial statements (continued)

1p113

4.2 Critical judgments in applying the Group's accounting policies

40p75(c)

Distinction between investment properties and owner-occupied properties
The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generates cash flows largely independently of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions can be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property seperately in making its judgment.

5. Segment information

14p50
14p81
1p99(q)

(a) Primary reporting format – business segments
The Group is organised on a worldwide basis into four main business segments determined in accordance with the type of investment property:

- Industrial – principally warehouses,
- Offices – mainly in large cities,
- Hotels – mainly big city (five-star) hotels and a few leisure hotels,
- Retail – mainly shops, supermarkets and shopping centres.

Notes to the consolidated financial statements (continued)

	Year ended 31 December 2006	**Industrial**	**Offices**	**Hotels**	**Retail**	**Group**
14p51,67	Revenue	3,381	16,399	17,405	5,071	42,256
14p52	Segment result	2,511	16,728	14,582	4,132	37,953
	Unallocated costs					(1,134)
14p67	Operating profit					36,819
	Finance costs – net					(9,872)
	Profit before income tax					26,947
	Income tax expense					(6,056)
14p67	**Profit for the year**					20,891
14p55	Segment assets	51,997	365,563	254,911	83,221	755,692
	Unallocated assets					7,031
14p67	Total assets					762,723
14p56	Segment liabilities	3,521	32,393	26,055	8,499	70,468
	Unallocated liabilities					139,641
14p67	Total liabilities					210,109
14p50	**Primary reporting format – business segments**					
14p57	Capital expenditure	3,139	22,833	20,479	6,685	53,136
14p58	Depreciation	220	2,875	1,627	527	5,249
14p58	Amortisation	–	104	–	–	104
	Year ended 31 December 2005					
14p51, 67	Revenue	3,202	15,006	17,006	4,802	40,016
14p52	Segment result	2,263	14,681	13,141	3,723	33,808
	Unallocated costs					(879)
14p67	Operating profit					32,929
	Finance costs – net					(8,464)
	Profit before income tax					24,465
	Income tax expense					(6,152)
14p67	**Profit for the year**					18,313
14p55	Segment assets	47,762	353,867	238,826	77,968	718,423
	Unallocated assets					35,902
14p67	Total assets					754,325
14p56	Segment liabilities	3,033	27,912	22,450	7,282	60,677
	Unallocated liabilities					134,428
14p67	Total liabilities					195,105
14p57	Capital expenditure	982	6,292	5,775	1,967	15,016
14p58	Depreciation	98	1,751	723	234	2,806
14p58	Amortisation	–	104	–	–	104
36p129(a)	Impairment of trade receivables	–	113	–	–	113

Notes to the consolidated financial statements (continued)

14p51 **14p57** There are no transactions between the business segments. Unallocated costs represent corporate expenses. Segment assets consist primarily of investment property, property plant and equipment and receivables. Unallocated assets comprise deferred tax assets, and cash and cash equivalents. Segment liabilities comprise operating liabilities. Unallocated liabilities mainly comprise litigation provisions, taxation liabilities and borrowings. Capital expenditure comprises additions to investment property (Note 6) and property, plant and equipment (Note 8).

(b) Secondary reporting format – geographical segments

14p81 The Group's four business segments operate in five main geographical areas, even though they are managed on a worldwide basis.

14p69 With the exception of countries or territories mentioned, no other individual country contributed more than 10% of consolidated sales or assets.

The location of the customers is the same as the location of the assets.

14p69 **Revenue**

	2006	2005
UK	13,522	12,405
France	10,564	10,004
Other European countries	7,184	6,803
Hong Kong	4,648	4,802
Other countries in Asia	6,338	6,002
	42,256	40,016

14p69 **Total assets**

	2006	2005
UK	189,350	185,793
France	166,630	163,498
Other European countries	128,755	126,340
Hong Kong	121,188	118,906
Other countries in Asia	113,610	111,476
	719,533	706,013
Unallocated assets	43,190	48,312
	762,723	754,325

14p69 **Capital expenditure**

	2006	2005
UK	10,322	1,567
France	30,247	7,126
Other European countries	4,568	1,365
Hong Kong	5,345	2,654
Other countries in Asia	2,654	534
	53,136	13,246

Notes to the consolidated financial statements (continued)

6. Investment property

40p76

Year ended 31 December	2006	2005
At beginning of year	598,293	601,872
Net exchange differences	(8,537)	(9,647)
Additions	5,567	1,770
Transfer from property, plant and equipment (Note 8)[1]	109,355	–
Transfer to property, plant and equipment (Note 8)[2]	(25,456)	–
Transfer to inventories (Note 11)[3]	(15,234)	–
Disposal[4]	(10,564)	(750)
Net gain from fair value adjustments on investment property	7,660	5,048
At end of year	661,084	598,293

40p75(e) The Group's investment properties were revalued at 31 December 2006 by independent professionally qualified valuers *[name of external valuers]*. Valuations were based on current prices in an active market for all properties except for the properties located in [name of country] because this information is not available there. For these properties, the Group used discounted cash flow projections.

40p75(h) At 31 December 2006, the Group had unprovided contractual obligations for future repairs and maintenance of €3,765 (2005: €3,796).

40p75(f)
17p31(a) In the income statement, direct operating expenses include €456 (2005: €412) relating to investment property that was unlet. Investment property includes buildings held under finance leases of which the carrying amount is €25,680 (2005: €23,725).

7. Prepaid operating lease payments

	2006	2005
Opening net book amount (Note 2.1)	9,906	10,017
Exchange differences	(13)	(7)
Amortisation of prepaid operating lease payments	(104)	(104)
Closing net book amount	9,789	9,906

17p35 The up-front payments for an operating lease of the owner-occupied land in Hong Kong (€10,260) were paid in January 2001. The term of the lease is 99 years.

40p57(e) [1] In July 2006, the Group completed the construction of an office complex located in France and reclassified this item from property, plant and equipment (Note 8) to investment property.

40p57(a) [2] A warehouse in the UK, previously leased out under an operating lease, has been used for administration purposes from April 2006. It was reclassified from investment property to property, plant and equipment (Note 8).

40p57(b)
10p21 [3] An office building located in Switzerland was redeveloped in 2006 prior to sale. It was reclassified from July 2006 from investment property to inventories (Note 11). It was sold in January 2007 (Note 28).

[4] A property located in Hong Kong was sold in July 2006 for €8,580.

Notes to the consolidated financial statements (continued)

8. Property, plant and equipment

1p75(a)		Land & buildings	Fixtures & fittings	Property under construction	Total
16p73(d)	**At 1 January 2005**				
	Cost	32,410	13,890	69,348	115,648
	Accumulated depreciation	(15,889)	(6,810)	–	(22,699)
	Net book amount	16,521	7,080	69,348	92,949
16p73(e)	**Year ended 31 December 2005**				
	Opening net book amount	16,521	7,080	69,348	92,949
	Exchange differences	252	110	(573)	(211)
	Additions	1,798	770	10,678	13,246
	Depreciation charge	(1,964)	(842)	–	(2,806)
	Closing net book amount	16,607	7,118	79,543	103,178
16p73(d)	**At 31 December 2005**				
	Cost	34,467	14,772	79,453	128,692
	Accumulated depreciation	(17,860)	(7,654)	–	(25,514)
	Net book amount	16,607	7,118	79,453	103,178
16p73(e)	**Year ended 31 December 2006**				
	Opening net book amount	16,607	7,118	79,453	103,178
	Exchange differences	(643)	(276)	(345)	(1,264)
	Additions	12,125	5,197	30,247	47,569
	Transfer to investment property (Note 6)	–	–	(109,355)	(109,355)
	Transfer from investment property (Note 6)	25,456	–	–	25,456
	Depreciation charge	(3,674)	(1,575)	–	(5,249)
	Closing net book amount	49,871	10,464	–	60,335
16p73(d)	**At 31 December 2006**				
	Cost	71,385	19,693	–	91,078
	Accumulated depreciation	(21,514)	(9,229)	–	(30,743)
	Net book amount	49,871	10,464	–	60,335

36p126(a) There were no impairment charges in 2005 and 2006.

9. Goodwill

	2006	2005
Opening net book amount	496	489
Exchange differences	13	7
Closing net book amount	509	496

36p134(d) Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to country of operation and business segment.

As at 31 December 2006, the goodwill was allocated at the segment level as follows: €307 (2005: €307) relates to offices in France, and €202 (2005: €102) to hotels in other European countries.

36p134(c)
36p134(d)(iii) The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

Notes to the consolidated financial statements (continued)

36p134(d)(i) The key assumptions used for value-in-use calculations are as follows:

		2006		2005	
		France/offices	Other European countries/hotels	France/offices	Other European countries/hotels
36p134(d)	Gross margin[1]	20%	31%	22%	29%
36p134 (d)(i)	Growth rate[2]	1.8%	1.8%	1.8%	1.8%
36p134 (d)(v)	Discount rate[3]	10.5%	10.0%	11.5%	11.0%

36p134(d)(ii) These assumptions have been used for the analysis of each CGU within the business segment.

36p55 Management determined budgeted gross margin based on past performance and its expectations for the market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

36p130(a) No impairment charge arose as a result of the impairment test.

10. Net investment in finance leases

		2006	2005
1p75(b)	**Non-current**		
	Finance leases – gross receivables	2,253	630
	Unearned finance income	(365)	(98)
		1,888	532
	Current		
	Finance leases – gross receivables	893	316
	Unearned finance income	(157)	(98)
		736	218
	Total net investment in finance leases	2,624	750
17p47(a)	Gross receivables from finance leases:		
	– No later than 1 year	893	316
	– Later than 1 year and no later than 5 years	2,253	630
		3,146	946
17p47(b)	Unearned future finance income on finance leases	(522)	(196)
		2,624	750

11. Inventories

		2006	2005
40p57(b)	Transfer from investment property (Note 6)	15,234	-
	Redevelopment expenditures	2,509	-
		17,743	-

2p8
10p21 An office building in Switzerland, which was classified as investment property (Note 6) in 2005, was redeveloped starting July 2006 prior to its sale and was therefore reclassified as inventories. The property was sold in January 2007 (see Note 28).

[1] Budgeted gross margin.

[2] Weighted average growth rate used to extrapolate cash flows beyond the budget period.

[3] Pre-tax discount rate applied to the cash flow projections.

Notes to the consolidated financial statements (continued)

12. Trade receivables

		2006	2005
1p75(b)	Trade receivables	3,930	6,040
IFRS7p16	Less: provision for impairment of receivables	(322)	(240)
	Trade receivables – net	3,608	5,800

IFRS7p25 The estimated fair values of receivables are the discounted amount of the estimated future cash flows expected to be received and approximate their carrying amounts. Expected cash flows are discounted at current market rates to determine fair values.

IFRS7p34(c) There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of tenants, internationally dispersed.

IFRS7p13, 36p126(a) The Group has recognised a loss of €82 (2005: €113) for the impairment of its trade receivables during the year ended 31 December 2006. The loss has been included in 'other operating expenses' in the income statement.

IFRS7p37(b) As of 31 December 2006, trade receivables of €450 (2005: €333) were impaired and provided for. The amount of the provision was €322 as of 31 December 2006 (2005: € 240). The individually impaired receivables mainly relate to clients in offices segments, which are in unexpected difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered. The ageing of these receivables is as follows:

	2006	2005
3 to 6 months	367	245
Over 6 months	83	88
	450	333

IFRS7p37(a), IFRS7p36(c) Trade receivables that are less than three months past due are not considered impaired. As of 31 December 2006, trade receivables of €469 (2005: €388) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. It was assessed that a portion of the receivables is expected to be recovered. The ageing of these receivables is as follows:

	2006	2005
3 to 6 months	382	301
Over 6 months	87	86
	469	388

IFRS7p31, 34(c) The allocation of the carrying amount of the Group's trade and other receivables by foreign currency is presented in Note 3.1(c).

13. Share capital

1p76		Number of shares (thousands)	Ordinary shares	Share premium	Total
1p76(a)	At 31 December 2005 and 2006	40,000	40,000	22,720	62,720

1p76(a) The total authorised number of ordinary shares is 40 million (2005: 40 million) with a par value of €1 per share (2005: €1 per share). All issued shares are fully paid.

14. Trade and other payables

	2006	2005
Trade payables	33,381	27,608
Social security and other taxes	4,568	3,478
Other payables	6,194	3,596
	44,143	34,682

Trade payables are interest free and have settlement dates within one year.

Notes to the consolidated financial statements (continued)

15. Borrowings

IFRS7p7
IFRS7p8(f)

All the Group's borrowings are at floating rates of interest[1]. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest costs may increase or decrease as a result of such changes.

	2006	2005
Non-current		
Bank borrowings	85,764	87,654
Debentures and other loans	14,654	7,140
Finance lease liabilities	6,806	8,010
	107,224	102,804
Current		
Finance lease liabilities	2,192	2,588
Total borrowings	109,416	105,392

IFRS7p14 The borrowings include amounts secured on investment property to the value of €174,395 (2005: €155,307) (Note 6).

IFRS7B11 The maturity of non-current borrowings (excluding finance lease liabilities) is as follows:

IFRS7p39

	2006	2005
Between 1 and 2 years	2,088	2,192
Between 2 and 5 years	22,054	12,060
Over 5 years	76,276	80,542
	100,418	94,794

IFRS7p21 The effective interest rates at the balance sheet date were as follows:

	2006			2005		
	€	HK$	£	€	HK$	£
Bank borrowings	7.0%	6.3%	6.9%	6.8%	6.2%	6.6%
Debentures and other loans	7.2%	6.5%	–	7.1%	6.3%	–
Finance lease liabilities	7.4%	6.0%	–	7.2%	5.8%	–

IFRS7p29(a)
IFRS7p27(c)

The fair value of these floating-rate borrowings approximated their carrying values at the balance sheet date, as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on the latest applicable floating rates at the end of the year.

IFRS7p21 The carrying amounts of the Group's borrowings are denominated in the following currencies:

	2006	2005
Euro	77,100	76,600
HK dollar	17,316	14,292
UK pound	15,000	14,500
	109,416	105,392

DV, 7p50(a) The Group has the following undrawn borrowing facilities:

Floating rate:	2006	2005
– Expiring within one year	16,300	10,500
– Expiring beyond one year	22,600	14,500
	38,900	25,000

The facilities expiring within one year are annual facilities subject to review at various dates during 2007. The other facilities have been arranged to help finance the proposed expansion of the Group's activities in Europe.

[1] These illustrative financial statements do not include fixed-rate borrowings or derivatives. Where such arrangements exist, further disclosures are required under IFRS 7 and IAS 39. See Notes 10 and 18 of the *IFRS Illustrative corporate consolidated financial statements 2006*.

Notes to the consolidated financial statements (continued)

		2006	2005
17p31(b)	Gross finance lease liabilities – minimum lease payments:		
IFRS7B14(a)	– No later than 1 year	2,749	3,203
IFRS7p39(a)	– Later than 1 year and no later than 5 years	6,292	7,160
	– Later than 5 years	2,063	2,891
		11,104	13,254
	Future finance charges on finance leases	(2,106)	(2,656)
	Present value of finance lease liabilities	8,998	10,598
17p31(b)	The present value of finance lease liabilities is as follows:		
IFRS7p21	– No later than 1 year	2,192	2,588
	– Later than 1 year and no later than 5 years	4,900	5,287
	– Later than 5 years	1,906	2,723
		8,998	10,598

16. Deferred income tax

12p74 Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	2006	2005
Deferred tax assets		
– Deferred tax asset to be recovered after more than 12 months	(167)	(120)
– Deferred tax asset to be recovered within 12 months	(667)	(630)
	(834)	(750)
Deferred tax liabilities		
– Deferred tax liability to be recovered after more than 12 months	48,362	47,039
– Deferred tax liability to be recovered within 12 months	2,903	1,999
	51,265	49,038
	50,431	48,288

The gross movement on the deferred income tax account is as follows:		
Beginning of year	48,288	46,252
Exchange differences	202	432
Income statement charge (Note 21)	1,941	1,604
End of year	50,431	48,288

12p81(g)(i)
12p81(g)(ii)

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Deferred tax liabilities	Accelerated tax depreciation	Increases in fair value	Total
	At 1 January 2005	392	46,790	47,182
12p81(g)(ii)	Charged to the income statement statement	258	1,495	1,753
	Exchange differences	29	199	228
12p81(g)(i)	**At 31 December 2005**	679	48,484	49,163
12p81(g)(ii)	Charged to the income statement statement	288	1,765	2,053
	Exchange differences	34	239	273
12p81(g)(i)	**At 31 December 2006**	1,001	50,488	51,489

Notes to the consolidated financial statements (continued)

	Deferred tax assets	**Provisions of assets**	**Other**	**Total**
	At 1 January 2005	(422)	(245)	(667)
12p81(g)(ii)	Credited to the income statement	(48)	(101)	(149)
	Exchange differences	(10)	(49)	(59)
12p81(g)(i)	**At 31 December 2005**	(480)	(395)	(875)
12p81(g)(ii)	Credited to the income statement statement	(36)	(76)	(112)
	Exchange differences	(12)	(59)	(71)
12p81(g)(i)	**At 31 December 2006**	(528)	(530)	(1,058)

12p81(e-f) There are no significant unrecognised deferred tax assets and liabilities.

17. Provisions

37p84(a)	At 1 January 2006	1,601
	Exchange differences	59
37p84(b)	Additional provisions – charged to income statement	302
37p84(c)	Utilised during year	(1,412)
37p84(a)	At 31 December 2006	550

37p85(a) The amounts shown are for certain legal claims relating to disputes over service and maintenance charges brought against ABCIP by certain tenants in [name of country]. The balance at 31 December 2006 is expected to be utilised in the first half of 2007. In the opinion of the Directors, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the amounts provided at 31 December 2006.

18. Revenue

		2006	**2005**
40p75(f)(i)	Rental income	40,144	38,215
18p35(b)	Service and management charges	2,112	1,801
		42,256	40,016

17p56(c) The period of leases whereby the Group leases out its investment property under operating leases is three years or more.

17p56(b) Contingent rents are €1,234 in 2006 (€1,115 in 2005).

17p56(a) The future aggregate minimum rentals receivable under non-cancellable operating leases are as follows:

	2006	**2005**
No later than 1 year	32,534	30,971
Later than 1 year and no later than 5 years	45,989	43,779
Later than 5 years	3,198	3,045
	81,721	77,795

19. Employee benefit expense

		2006	**2005**
	Wages and salaries	1,064	1,008
	Social security costs	104	96
19p46	Pension costs – defined contribution plans	280	296
		1,448	1,400

Notes to the consolidated financial statements (continued)

20. Finance costs – net

		2006	2005
IFRS7p20(b)	Interest expense on bank borrowings	10,020	9,100
21p52(a)	Net foreign exchange transaction losses	412	460
		10,432	9,560

21. Income tax expense

		2006	2005
12p79	Current tax	4,115	4,548
12p79	Deferred tax (Note 16)	1,941	1,604
		6,056	6,152

12p81(c) The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate of the applicable profits of the consolidated companies as follows:

	2006	2005
Profit before tax	26,947	24,465
Tax calculated at domestic tax rates applicable to profits in the respective countries	8,893	7,340
Income not subject to tax	(3,038)	(1,438)
Expenses not deductible for tax purposes	201	250
Tax charge	6,056	6,152

12p81(d) The weighted average applicable tax rate was 33% (2005: 30%). The increase is caused by a change in the profitability of the Group's subsidiaries in the respective countries.

22. Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares outstanding during the year.

		2006	2005
33p70(a)	Net profit attributable to shareholders (Note 2.1)	20,891	18,313
33p70(b)	Weighted average number of ordinary shares in issue (thousands)	40,000	40,000
33p66	Basic earnings per share (€ per share) (Note 2.1)	0.52	0.46

The Company has no dilutive potential ordinary shares; the diluted earnings per share is the same as the basic earnings per share.

23. Dividends per share

The dividends paid in 2006 and 2005 were €16,653 (or €0.42 per share) and €11,379 (or €0.28 per share) respectively. A dividend in respect of 2006 of €0.31 per share, amounting to a total dividend of €12,400, is to be proposed at the Annual General Meeting on 31 March 2007. These financial statements do not reflect this dividend payable.

Notes to the consolidated financial statements (continued)

24. Cash generated from operations

		2006	2005
7p18(b), 7p20	Net profit	20,891	18,313
	Adjustments for:		
	– Income tax expense (Note 21)	6,056	6,152
	– Depreciation of property, plant and equipment (Note 8)	5,249	2,806
	– Amortisation of prepaid operating lease payments (Note 7)	104	104
	– Profit on sale of investment property	(2,080)	–
	– Net gain from fair value adjustment on investment property (Note 6)	(7,660)	(5,048)
	– Interest income	(560)	(1,096)
	– Interest expense (Note 20)	10,020	9,100
	– Amortisation of unearned finance income	(98)	–
	– Net movements in provisions (Note 17)	(1,110)	891
	Changes in working capital:		
	– Trade and other receivables	2,192	(6,741)
	– Inventories (Note 11)	(2,509)	–
	– Payables	9,461	9,941
	Cash generated from operations	39,956	34,422

In the cash flow statement, proceeds from sale of investment property comprise:

	2006	2005
Net book amount (Note 6)	8,472	–
Profit on sale of investment property	2,080	–
Proceeds from sale of investment property	10,552	–

Non-cash transactions

7p43 The investment property with a value of €2,092 (2005: €750) was disposed of by entering into a finance lease contract with third party (Note 6).

25. Contingencies

37p86 The Group has contingent liabilities in respect of bank and other guarantees, and other matters arising in the ordinary course of business. It is not anticipated that any material liabilities will arise from the contingent liabilities. The Group has given guarantees in the ordinary course of business amounting to €1,624 (2005: €2,629) to third parties.

26. Commitments

16p74(c) The Group has capital commitments of €460 (2005: €10,667) in respect of capital expenditures contracted for at the balance sheet date but not yet incurred, for property, plant and equipment.

27. Related-party transactions

1p126(c)
24p12 The Group is controlled by Mother Limited (incorporated in Euravia), which owns 100% of the Company's shares. The ultimate parent of the Group is Grandpa Limited (incorporated in Euravia).

24p17, 22 There are no transactions[1] carried out with related parties except the following:

	Key management compensation	2006	2005
24p16(a)	Salaries and other short-term employee benefits	106	100
24p16(d)	Termination benefits	150	–
24p16(b)	Post-employment benefits	28	30
		284	130

(24p16 applies to the Key management compensation heading.)

[1] These illustrative financial statements do not include any related-party transactions. Where such transactions exist, further disclosures are required under IAS 24. See Note 36 of the *IFRS Illustrative corporate consolidated financial statements 2006*.

Notes to the consolidated financial statements (continued)

28. Events after the balance sheet date

10p21 An office building in Switzerland, which was redeveloped for sale starting July 2006, was sold on 31 January 2007 for €29,567, yielding a gain on disposal of €4,222.

PricewaterhouseCoopers
Address
Country
Telephone:
Facsimile:

Independent auditor's report

To the shareholders of IP Group

Report on the financial statements

We have audited the accompanying consolidated financial statements of IP (the Company) and its subsidiaries (together, the Group), which comprise the consolidated balance sheet as of 31 December 2006 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view[1] of the financial position of the Group as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities, if any.]

Signature

Date
Address

The format of the audit report will need to be tailored to reflect the legal framework of particular countries. In certain countries, the audit report covers both the current year and the comparative year.

[1] The term 'give a true and fair view' can be changed to 'present fairly, in all material aspects'.

Operating and financial review

DV1p9

The financial review for any entity should follow national and/or specific stock exchange requirements and guidance. For example, the UK Accounting Standards Board has issued Reporting Statement 1 'Operating and Financial Review' (May 2005) and the US SEC has issued guidance regarding 'Management's Discussion & Analysis of Financial Condition and Results of Operations' (MD&A) to be included in companies' filing documents.

DV1p10

International Financial Reporting Standards do not address the requirements for information to be included in a directors' report or financial review. Such requirements are generally determined by local laws and regulations. IAS 1 does not require an entity to present, outside the financial statements, a financial review by management that describes and explains the main features of the entity's financial performance and financial position, and the principal uncertainties that it faces. Reports and statements presented outside financial statements are outside the scope of IFRS; however, best practice is to ensure that where a financial review is presented, its information is balanced and consistent with disclosures in the financial statements. In some limited cases, IFRSs specifically permit certain disclosures (for example IFRS7 B6 - the nature and content of risks arising from financial instruments) to be incorporated by cross-reference from financial statements to a management commentary or financial review. In such cases, the commentary or review should be available to users of financial statements on the same terms and at the same time as the financial statements.

In 1998, the International Organization of Securities Commissions (IOSCO) issued 'International Disclosure Standards for Cross-Border Offerings and Initial Listings for Foreign Issuers', comprising recommended disclosure standards, including an operating and financial review and discussion of future prospects. IOSCO standards for prospectuses are not mandatory, but they are increasingly incorporated in national stock exchange requirements for prospectuses and annual reports. The text of IOSCO's Standard on Operating and Financial Reviews and Prospects is reproduced below:

Discuss the Group's financial condition, changes in financial condition and results of operations for each year and interim period for which financial statements are required, including the causes of material changes from year to year in financial statement line items, to the extent necessary for an understanding of the Group's business as a whole. Information provided also shall relate to all separate segments of the Group. Provide the information specified below as well as such other information that is necessary for an investor's understanding of the Group's financial condition, changes in financial condition and results of operations.

1. **Operating Results.** Provide information regarding significant factors, including unusual or infrequent events or new developments, materially affecting the Group's income from operations, indicating the extent to which income was so affected. Describe any other significant component of revenue or expenses necessary to understand the Group's results of operations.

   (a) To the extent that the financial statements disclose material changes in net sales or revenues, provide a narrative discussion of the extent to which such changes are attributable to changes in prices or to changes in the volume or amount of products or services being sold or to the introduction of new products or services.

   (b) Describe the impact of inflation, if material. If the currency in which financial statements are presented is of a country that has experienced hyperinflation, the existence of such inflation, a five-year history of the annual rate of inflation and a discussion of the impact of hyperinflation on the Group's business shall be disclosed.

(c) Provide information regarding the impact of foreign currency fluctuations on the Group, if material, and the extent to which foreign currency net investments are hedged by currency borrowings and other hedging instruments.

(d) Provide information regarding any governmental economic, fiscal, monetary or political policies or factors that have materially affected, or could materially affect, directly or indirectly, the Group's operations or investments by host country shareholders.

2. **Liquidity and Capital Resources.** The following information shall be provided:

(a) Information regarding the Group's liquidity (both short and long term), including:

(i) a description of the internal and external sources of liquidity and a brief discussion of any material unused sources of liquidity. Include a statement by the Group that, in its opinion, the working capital is sufficient for the Group's present requirements, or, if not, how it proposes to provide the additional working capital needed.

(ii) an evaluation of the sources and amounts of the Group's cash flows, including the nature and extent of any legal or economic restrictions on the ability of subsidiaries to transfer funds to the parent in the form of cash dividends, loans or advances and the impact such restrictions have had or are expected to have on the ability of the Group to meet its cash obligations.

(iii) information on the level of borrowings at the end of the period under review, the seasonality of borrowing requirements and the maturity profile of borrowings and committed borrowing facilities, with a description of any restrictions on their use.

(b) Information regarding the type of financial instruments used, the maturity profile of debt, currency and interest rate structure. The discussion also should include funding and treasury policies and objectives in terms of the manner in which treasury activities are controlled, the currencies in which cash and cash equivalents are held, the extent to which borrowings are at fixed rates, and the use of financial instruments for hedging purposes.

(c) Information regarding the Group's material commitments for capital expenditures as of the end of the latest financial year and any subsequent interim period and an indication of the general purpose of such commitments and the anticipated sources of funds needed to fulfil such commitments.

3. **Trend Information.** The Group should identify the most significant recent trends in production, sales and inventory, the state of the order book and costs and selling prices since the latest financial year. The Group also should discuss, for at least the current financial year, any known trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the Group's net sales or revenues, income from continuing operations, profitability, liquidity or capital resources, or that would cause reported financial information not necessarily to be indicative of future operating results or financial condition.

Consolidated income statement – by function of expense

This appendix is an example of one alternative format that might be adopted. As an alternative to presentation of costs by nature shown in the above Illustrative Investment Property Consolidated Financial Statements, the Group is permitted to present the analysis of costs using the function of expenditure format (IAS 1, paragraph 92)[1]. The following disclosures would be made on the face of the income statement:

			Year ended 31 December	
1p81-83				
1p92, 1p104		**Note**	**2006**	**2005**
40p75(f)	Rental income[2,3]	18	42,256	40,016
40p75(f)	Rental expenses[4]		(6,680)	(6,816)
	Net rental income		35,576	33,200
40p76(d)	Net gain from fair value adjustment on investment property	6	7,660	5,048
1p92	Selling and marketing costs		(3,481)	(1,986)
1p92	Administrative expenses		(2,320)	(1,324)
	Other expenses		(616)	(2,009)
1p83	Operating profit		36,819	32,929
1p81(b)	Finance costs	20	(9,872)	(8,464)
1p83	Profit before income tax		26,947	24,465
1p81(e), 12p77	Income tax expense	21	(6,056)	(6,152)
1p81(f)	Profit for the year		20,891	18,313
1p82	Attributable to:			
1p82(b)	Equity holders of the Company		20,891	18,313
33p66	**Basic and diluted earnings per share for profit attributable to the equity holders of the Company during the year (expressed in € per share)**	22	0.52	0.46

The notes on pages x to xx are an integral part of these consolidated financial statements.

[1] Entities classifying expenses by function should also disclose information on the nature of expenses in the notes to the financial statements (1p93).

[2] The line item includes gross service charge income where the entity acts as principal rather than agent. Details are disclosed in the notes.

[3] The accounting policy on revenue recognition (Note 2.18) would need to be adjusted to reflect the different terms used in the appendix.

[4] The line item includes service charge expenses where the entity acts as principal rather than agent. Details are disclosed in the notes.

Consolidated cash flow statement – direct method

IAS 7 encourages the use of the 'direct method' for the presentation of cash flows from operating activities. The presentation of cash flows from operating activities using the direct method in accordance with IAS 7 (revised 1994), paragraph 18, is as follows:

			Year ended 31 December	
7p10, 18(b)		**Note**	**2006**	**2005**
1p107	**Cash flows from operating activities**			
	Cash receipts from customers		123,812	86,055
	Cash paid to suppliers and employees		(83,856)	(51,633)
	Cash generated from operations	24	39,956	34,422
7p31	Interest paid		(10,020)	(10,324)
7p35	Income tax paid		(3,772)	(6,425)
	Net cash generated from operating activities		26,164	17,673
7p21	**Cash flows from investing activities**			
7p16(a)	Purchases of investment property	6	(4,067)	(1,400)
7p16(a)	Capital expenditure on investment property	6	(1,500)	(370)
7p16(b)	Proceeds from sale of investment property	6	10,552	–
7p16(a)	Purchases of property, plant and equipment	8	(17,322)	(2,568)
7p16(a)	Expenditure on property under construction	8	(30,247)	(10,678)
7p16(f)	Proceeds from settlement of finance lease receivables		316	80
7p31	Interest received		560	1,075
	Net cash used in investing activities		(41,708)	(13,861)
7p21	**Cash flows from financing activities**			
7p17(c)	Proceeds from borrowings		10,763	18,234
7p17(d)	Repayments of borrowings		(6,739)	(8,966)
7p31	Dividends paid to the Company's shareholders	23	(16,653)	(11,379)
	Net cash used in financing activities		(12,629)	(2,111)
	Net (decrease)/increase in cash and bank overdrafts		(28,173)	1,701
	Cash and cash equivalents at beginning of the year		35,152	34,621
	Exchange losses on cash and cash equivalents		(782)	(1,170)
	Cash and cash equivalents at end of the year		6,197	35,152

Notes

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