Annual Report 2007

GROSVENOR

Contents

Cover
Grand Arcade, Cambridge

Type	Development
Country	England
City	Cambridge
Sector	Retail
Ownership	Held in joint venture
Area	41,800m^2

John Lewis is the largest department store retailer in the UK, with 26 stores. It has traded in Cambridge for more than 100 years and is recognised as an economic driver for the city. Our approach to the Grand Arcade project allowed them to continue trading elsewhere while we created a purpose-built store on their existing site. Concern for the environment has been a key consideration; the project provides an out-of-town 1,500-space park & ride facility and John Lewis 'pick up point', to reduce traffic congestion within the city centre.

Grosvenor is an international group of property businesses.

We have regional investment and development businesses in Britain & Ireland, the Americas, Continental Europe, Australia and Asia Pacific. Our international fund management business operates across all these markets.

Grosvenor is privately owned.

GROSVENOR

Grosvenor at a glance
Highlights 2007

Results

£73.4m
Revenue profit
2006 £107.9m loss (note 4)

£112.9m
Revenue profit excluding development provisions
2006 £62.0m (note 4)

£524.0m
Profit before tax
2006 £508.7m

£5,963m
Property assets
2006 £4,592m (note 17)

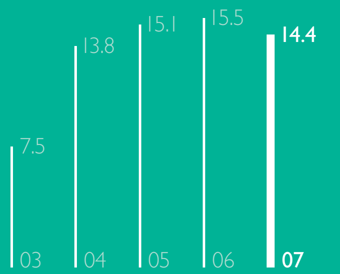
£2,888m
Shareholders' funds
2006 £2,418m

Returns

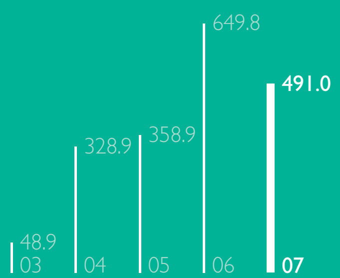
14.4%
Total return on property assets
2006 15.5%

7.7%
Weighted average cost of capital
2006 7.2%

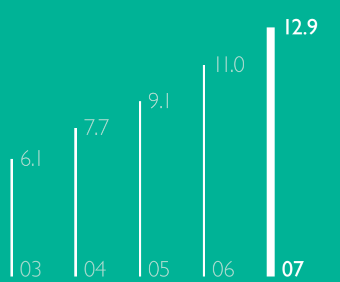
Total returns %



Revaluation movement £m



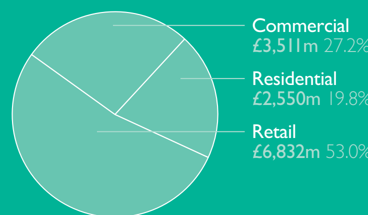
Total assets under management £bn



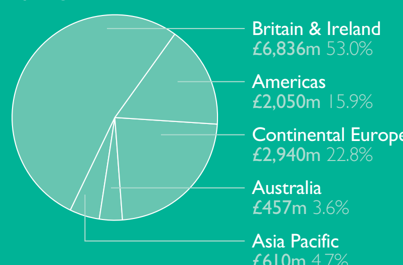
Portfolio analysis 2007

Grosvenor has total assets under management of £12.9bn (US$25.7bn, €17.6bn)

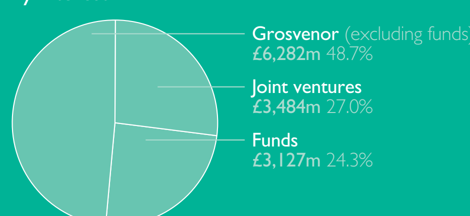
By sector



By region



By interest



Chairman's statement
The Earl of Home

We designed our ship to sail through rough water. The test is certainly upon us in 2008 with the US sub-prime crisis and its dramatic impact on global credit markets. We think the related effects will endure for at least the whole of 2008 but we are confident that our diverse business and long-term approach can thrive in these conditions.

Our returns in 2007 were good given the cyclical downturn and worsening economic conditions, as we achieved a total return of 14.4%, significantly above our cost of capital. We expect lower returns in 2008 as the effect of the turmoil in financial markets continues to move eastwards around the world and central London residential prices move down.

We have capital to invest in new projects as soon as we believe prices reflect more realistic future returns. We think equity investors will return to the fore and there will be more interest in domestic markets where risk premiums will be more realistic. We are particularly keen to reinforce our activity in the USA and to continue our growth in China and Japan.

The Board will change during 2008. At the end of the year, Bill Abelmann retires as CEO of Grosvenor Americas. Bill has worked for Grosvenor for over 30 years, becoming CEO of Grosvenor Americas in 2002. He is the very definition of professionalism and readily shares with others the wisdom gained from his long experience. He will be succeeded by Andrew Bibby.

In November, Tony Wyand retires both as a Group Board member and as Chairman of Grosvenor Continental Europe. Tony has been the source of much trenchant advice since 2000 and we will miss his insights and cogent arguments. His willingness to provoke debate has made him the ideal Non-Executive Director.

The most significant change occurs at the end of June, when Jeremy Newsum will resign as Group Chief Executive, having fulfilled this role for almost 20 years. While continuing as a Non-Executive Director, he will hand over all executive duties to Mark Preston. Jeremy's vision and influence have accelerated the growth of the business and broadened our reputation. He has maintained the high standards of leadership established by his predecessors. I have every confidence that Mark will emulate him and lead the Group to further success in the next 20 years.

The Earl of Home
Chairman
13 March 2008

Chief Executive's review
Jeremy Newsum

In 2007, our profit before tax increased to £524.0m and revenue profit jumped to £73.4m. Stripping out exceptional results, the revenue profit represents a significant increase compared to 2006. These strong results are the consequence of the individual strategies established by our five investment and development businesses around the world and by Grosvenor Fund Management. The results are more particularly due to the combined skills of the 584 Grosvenor people working out of our 17 offices in Europe, North America, Australia and Asia Pacific. Sonae Sierra, jointly controlled by Grosvenor, employs a further 789 people in Continental Europe and Brazil.

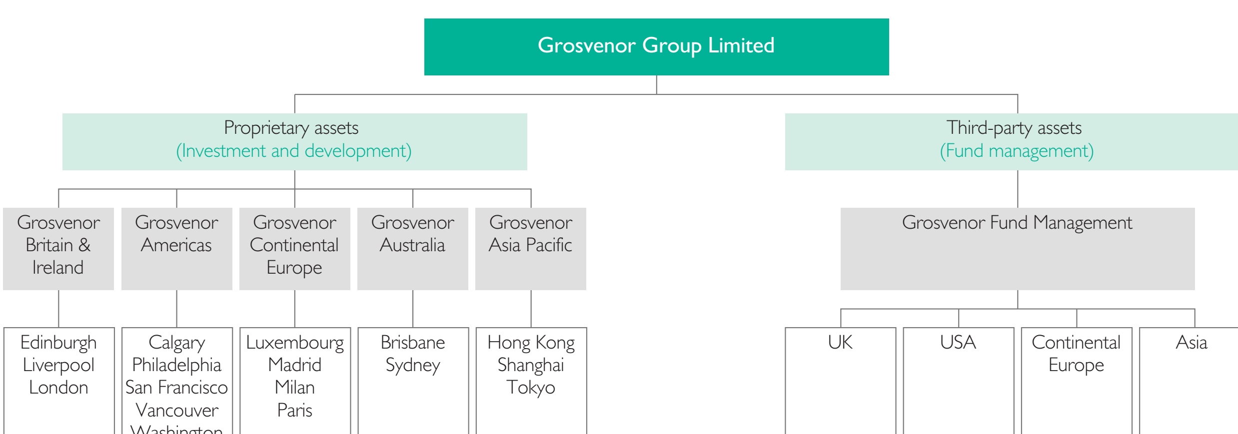
The highest total return in 2007 of 24.8% was achieved by Grosvenor Australia as the demand for office space, particularly in Brisbane, continued to exceed supply, causing a further escalation in rents. Strong markets do not endure for ever and throughout our business we are assuming lower industry returns and more challenging conditions in 2008. We expect the number of casualties in the industry to increase as genuine uncertainty creeps into investment markets. The failure of, or severe setbacks for, some companies will reinforce the loss of confidence.

Valuers in the UK have moved swiftly to reduce valuations, repeating previous patterns, whereas US appraisers are so far taking a more measured view in the absence of indicative transactions. As most direct property returns are based on an estimate of value rather than real-time market pricing, there is scope for market place inefficiencies. This might matter for two reasons. First, the fall to market clearing prices should occur much sooner in the UK than the USA, not least because many investors use book values as the benchmark selling price. Second, investors are making capital allocation decisions off inconsistent valuations. Real-time stock market pricing may often mis-price fair medium-term value but at least the system is the same throughout the world. Inconsistent valuations of property are a hindrance to international property investing and we would urge the professional bodies concerned to establish consistent guidelines.

I started in this role at the beginning of 1989, which turned out to be the high point of the 1980s property boom. There followed a severe recession, succeeded after 1993 by an astonishing continuous period of stable high returns for property. Grosvenor has a very long history – of which it is rightly proud – and an interest in a unique asset (our London Estate comprising 300 acres of the city centre). My job has been to continue to build the business off this foundation. We have been able to extend the international diversification, adding Continental Europe and Asia Pacific to the existing activity in the USA, Canada and Australia, and also to create a more international fund management business. We have sought to do this with a style and timing that reflects our independent ownership.

Mark Preston will take over as Chief Executive at a most 'interesting' time in the market. However, the conditions will presage a period when the rewards for real property skills should be greater than for some while. The last part of the long bull run in real estate investing was characterised by success appearing to flow to the 'buy anything and borrow as much as you can' strategy. This was always bound to fail eventually and, as in all markets, long-term success will accrue to the most professional and experienced, who can distinguish temporary form and fashion from permanent excellence and seminal change.

Strategic and tactical decisions are a constant feature of such a diverse Group. Our devolved structure puts decision-making into the right hands at the local level and we make sure that each Operating Company Board has a good blend of (executive) specialist and (non-executive) broad knowledge.



Many events and achievements are singled out in this report, including the acquisition of three properties in Shanghai to establish our foundation portfolio in that city. In general, 2007 can be characterised as a year of construction. A number of significant projects will complete in 2008, including Liverpool One; Grand Arcade, Cambridge; The RISE, Vancouver; Castle Peak, Hong Kong; and Islazul, Madrid. These projects alone comprise over 430,000m^2 and have a combined capital value in excess of £1.5bn. A further 15 smaller projects will also complete in 2008. Although the fall in capital values of shopping centres in the UK has necessitated a further provision against Liverpool One, all of these projects will have a noticeable and positive impact on their localities, the most important test of any project.

Understanding the impact of new buildings (sometimes alone, often collectively) on a city is at the heart of our business. Towns and cities are complicated; knowledge of how a town works as a home town, a work place, a market place, a place to study or be entertained is, in our view, vital for lasting success in property development and indeed property ownership. While we have always worked from this belief, we are placing more emphasis upon it following a review of the Grosvenor brand initiated in 2007. We want to reinforce our approach, ensuring that, throughout the business, we pursue greater depth of knowledge and understanding of particular places – from the vision of the local leaders to the local impact of international politics.

I would like to end by noting the remarkable people I have worked with since 1989, both inside and outside Grosvenor. The relationships and partnerships we have established throughout the world have been crucial to our success. The dedication and loyalty of Grosvenor staff are real and tangible to all those who work here; the genuine interest of the Board; the social awareness of the shareholders and their focus on the long term; the uniqueness of the Grosvenor story; these are the reasons why this will remain the best property company in the world – in my opinion.

Jeremy Newsum
Group Chief Executive
13 March 2008

Finance Director's report
Nicholas Scarles

For the second year running I am pleased to report record profits before tax of £524.0m (£508.7m in 2006). This is our fourth consecutive year of double-digit returns at 14.4% (15.5% in 2006), which compares favourably with our weighted average cost of capital of 7.7% (7.2% in 2006).

Earnings
Revenue profit, our measure of underlying performance, was a record £73.4m (loss of £107.9m in 2006). Excluding provisions for Liverpool One, revenue profit increased 82.1% to £112.9m (£62.0m in 2006). The provision in respect of Liverpool One was £48.8m in total (£39.5m in the income statement and £9.3m taken through reserves), arising from valuation movements reflecting rising capitalisation rates.

Revenue profit, before performance fees, has improved in each Operating Company except for Grosvenor Australia and Grosvenor Asia Pacific, where the decrease in revenue profit has been more than countered by increased disposal profits and revaluations.

Taxation
Lower rates of corporate income tax around the world have led to a £33.4m one-off reduction of our deferred tax expense, lowering our effective tax rate for the year by 7.7%, to 22.1% (34.1% in 2006).

Property activity
Assets under management have increased 17% to £12.9bn due to revaluations of £0.7bn, acquisitions of £1.2bn and sales of £0.4bn, with the balance being due to additions to the development programme and currency movements. The principal property transactions of 2007 are described in the Operating Company reports which follow.

Property markets
In 2007 Grosvenor's markets performed well. In part this is due to our international diversification strategy, with recent declines in US and UK commercial property values countered by continuing appreciation in our Australian, Canadian and Asian markets and the London West End residential market.

We saw rental growth throughout the year in all of our markets. Yields continued their downward trend for the first half of the year, but following the summer credit turmoil, this trend reversed in the UK and USA, and flattened out in Canada and Continental Europe. Australia and Asia Pacific have not been affected in the same way, with yields continuing to fall through to the end of the year.

Debt markets

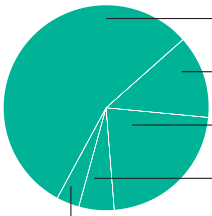
The 2007 credit crunch has affected property lending in two ways. First, the art of pricing risk, for so long undervalued, is now at the fore. This benefits us – we can now look forward to materially lower margins, compared to more highly geared competitors, on debt used to fund new projects and investments. Second, the impact of banks' balance sheet tightening will affect even low-risk projects. Our relationship banking approach, coupled with the maintenance of significant spare financial capacity, leaves us well placed to deal with tightened lending criteria, even if the current market conditions continue for some time.

Grosvenor's wholly owned unrestricted cash and undrawn committed facilities amounted to £606.6m at 31 December 2007. Over the next 12 months, £165.2m of wholly owned facilities mature. Grosvenor Group gearing covenants are robust: the extent to which property values in general can fall before our covenant limits are breached is well in excess of our internal minimum. We are consequently well placed to take advantage of opportunities as they arise.

Property derivatives

Property derivatives, for so long in gestation, have quickly achieved adolescence, with the expectation that, in the UK, the volume of derivative trades will soon exceed institutional volumes in the physical market. Innovative early market participants are reaping the significant rewards available in a developing new market. We are at the dawn of the separation of real estate returns between general market returns (beta) and asset specific returns above or below that provided by the market generally (alpha). This process will touch all players. Those who embrace it can expect early rewards; those who shy away from it not only miss out on the benefits of this new market, but also expose themselves to potential erosion of their competitive position in their core market.

Geographical distribution of Grosvenor's economic property interests 2007



Britain & Ireland	%
West End, London	32.4
Outside London	22.5
Other, London	0.8
Americas	
USA	7.2
Canada	5.8
Continental Europe*	
Portugal	8.3
Spain	6.1
France	2.3
Germany	1.9
Italy	1.7
Brazil	0.9
Greece	0.7
Romania	0.4
Australia	
Sydney	2.8
Brisbane	2.8
Asia Pacific	
Japan	1.7
Shanghai	1.0
Hong Kong	0.7

*Grosvenor's share of assets held by Sonae Sierra is included within Continental Europe regardless of their location.

We seek to make the highest absolute returns above our Weighted Average Cost of Capital over the long term at an acceptable level of risk. Grosvenor Fund Management, property-related services and skilled asset selection are areas where we can gain 'alpha'. We seek 'beta' through being focused upon, and generally fully invested in, real estate. Our approach to portfolio allocation includes an element of riding the markets which we consider will deliver better risk adjusted returns ('beta selection') as well as managing the overall balance of equity invested in each region towards our long-term optimal portfolio. 'Alpha', 'beta' or 'absolute', we need to understand each component of performance. To do this we need to be at the forefront of developments in the property derivatives market, to play a part in shaping it to meet the needs of end users like ourselves.

We have continued our property derivative test trade programme. We work with a range of banks and brokers on specific deals and to develop market standards, and with academia to assist the education of property industry leaders of the future. Our trades include 'market firsts' in Australia, Japan and Italy, as well as deals in the UK and USA. Property derivatives are now in our toolbox and we expect to deploy them this year in support of our wider business objectives.

Capital allocation

In 2007, we split our equity capital allocation to Australia Asia Pacific into its component parts (shown on page 69). These separate long-term ranges allow us to emphasise our desire to increase our capital in the Asia Pacific region over the long term, reflecting the importance of the region to the worldwide economy.

Grosvenor's economic interest in property in each region and country at 31 December 2007 is shown on the left.

Risk management

Improving the understanding of financial risk and its management is part of a continuous process of overall business improvement.

To this end, we are developing our own approach to identifying and quantifying financial risks. The approach reflects the need for decisions to be made with an understanding of the full range of potential outcomes, coupled with a positive determination of the risks we are competent and prepared to take.

Nicholas Scarles
Group Finance Director
13 March 2008

Non-Executive Directors


The Earl of Home


Robin Broadhurst


Rod Kent


Alasdair Morrison


Tony Wyand

Executive Directors


Jeremy Newsum


Nicholas Scarles


Bill Abelmann


Stuart Beevor


Neil Jones


Mark Preston

Group Board of Directors

Non-Executive Directors

The Earl of Home CVO CBE (David Home) (Chairman) is a Trustee of the Grosvenor Trusts, Chairman of Coutts & Co and is also an elected member of the House of Lords and Chairman of MAN Ltd. He was a Group Director of Morgan Grenfell & Company Ltd until 31 March 1999. He is President of the British Malaysian Society and joined the Board of the Dubai Financial Services Authority (DFSA) in February 2005. Age 64.

Robin Broadhurst CBE FRICS is a Trustee of the Grosvenor Trusts, Chairman of Grainger plc and a Non-Executive Director of Invista Real Estate Investment plc, Sableknight Ltd and Chelsfield Partners. He is also consultant to Sir Robert McAlpine, a senior adviser to Credit Suisse and a member of the Prince's Council of the Duchy of Cornwall. Age 61.

Rod Kent is Chairman of Grosvenor Britain & Ireland. He retired as Managing Director of Close Brothers Group plc in October 2002 but remained on the board and became Chairman in November 2006. He is also Chairman of Bradford and Bingley plc and of BT Pension Scheme Trustees Limited. Age 60.

Alasdair Morrison is Chairman of Kang & Company and of North Asia Investment Corporation, and a Director of Kang & Company (Hong Kong) Limited. Until April 2007 he was a Managing Director of Morgan Stanley, a member of the firm's Management Committee and Chairman of Morgan Stanley Asia. Prior to joining Morgan Stanley, he worked in Asia for 28 years for the Jardine Matheson Group, where he was the Group Managing Director from 1994 to 2000. Age 59.

Tony Wyand is Chairman of Grosvenor Continental Europe. He is a Non-Executive Director of Société Générale, UniCredito Italiano S.p.A. and Société Foncière Lyonnaise, and a member of the Lehman Brothers European Advisory Board. Age 64.

Executive Directors

Jeremy Newsum FRICS is Group Chief Executive and also Executive Trustee of the Grosvenor Trusts. He is a member of the Council of Imperial College, a Trustee of the Urban Land Institute and a Non-Executive Director of Sonae Sierra SGPS. He was a Church Commissioner from 1993 to 2000 and was President of the British Property Federation in 2001. Age 52.

Nicholas Scarles FCA CPA Attorney at Law, is Group Finance Director. He joined Grosvenor in 2004 as Finance Director, Grosvenor Fund Management. He was previously at Centrica, where he was Chief Financial Officer, North America; Price Waterhouse; and Coopers and Lybrand. He is a Governor of the Haberdashers' Elstree Schools and Chairman of the Investment Property Forum's Property Derivative Group. Age 45.

William (Bill) Abelmann is Chief Executive of Grosvenor Americas. He joined Grosvenor in 1974. He is a member of a number of real estate organisations. These include the Urban Land Institute, International Council of Shopping Centers, and the National Association of Real Estate Investment Managers. Age 57.

Stuart Beevor FRICS is Managing Director of Grosvenor Fund Management. Stuart joined Grosvenor in 2002 having been at Norwich Union, then Legal and General Property as Managing Director. He is a Non-Executive Director of the UNITE Group plc and a Trustee of the Investment Property Forum Educational Trust. Age 51.

Neil Jones MRICS is Chief Executive of Grosvenor Continental Europe. He joined Grosvenor in 1997 to develop the Continental European business. He has been based in Paris since 1998. He has also worked in London, Brussels and Hong Kong. He is a Non-Executive Director of Sonae Sierra SGPS. Age 42.

Mark Preston MRICS is Chief Executive of Grosvenor Britain & Ireland. He joined Grosvenor in the UK in 1989. In 1995, he was seconded to Hong Kong, after which he returned to lead Grosvenor's Fund Management operations from 1997 to 2002. After four years in San Francisco as President of Grosvenor USA, he returned to the UK as CEO of Grosvenor Britain & Ireland in June 2006. He is on the Board of The Association of Foreign Investors in Real Estate and a Non-Executive Director of Royal & Sun Alliance, London Board. Age 40.

Operating Company Boards and Senior Staff

Grosvenor Britain & Ireland

For Rod Kent (Non-Executive Chairman), Mark Preston (Chief Executive), Jeremy Newsum (Director) and Nicholas Scarles (Director) see page 15.

Richard Clare MRICS (Non-Executive Director) is Executive Chairman of EC Harris LLP. He is a member of the Real Estate Advisory Committee for the Rector of Imperial College, the Property Advisory Panel for the Chairman of University College London Hospitals and the Strategic Forum Olympic Task Group. Age 54.

Michael Gradon (Non-Executive Director) joined the Grosvenor Britain & Ireland Board in November 2007. He is a Senior Independent Director of Modern Water plc, a Non-Executive Director of Genesis Lease Limited and on The Committee of Management of the All England Lawn Tennis Club and the Wimbledon Championships. He spent 20 years with P&O, including eight years as a Main Board Director. Age 48.

Roger Blundell ACA (Finance Director from April 2008) joined Grosvenor in December 2007. He was previously Group Finance Director at Kensington Group Plc, Finance Director at BSkyB Interactive, and Director of Group Finance, Tax and Treasury at Kingfisher. Age 45.

Richard Handley FCA (Finance Director) joined Grosvenor in 1991. He was previously Group Chief Accountant for TBS Group plc. He is a Non-Executive Director of Plymouth City Development Company and an Independent Director of Casa Support. Age 53.

John Irvine FRICS (Executive Director) joined Grosvenor in 1989 and is responsible for development in Britain & Ireland (outside London). He is a member of the Advisory Board of Architecture and Design Scotland. Age 52.

Peter Vernon MRICS (Executive Director) is responsible for Grosvenor's UK investment portfolio in Britain & Ireland and for the development programme in London. He joined Grosvenor in 2005. He was previously a Partner at IBM Business Consulting Services and PricewaterhouseCoopers. Age 48.

Grosvenor Americas

For Bill Abelmann (Chief Executive), Jeremy Newsum (Director) and Nicholas Scarles (Director) see page 15.

Ralph Severson (Non-Executive Chairman) has been Chief Executive Officer of RF Severson Investment Management since 1998. Previously he was with Goldman Sachs, which he joined in 1971, becoming a partner in 1992, and latterly Resident Partner, San Francisco, and then Partner in Charge, Western US region. He serves on the National Advisory Council of Brigham Young University. Age 63.

Lizanne Galbreath (Non-Executive Director) is Managing Director of Galbreath & Company, a US real estate business. She has served on the LaSalle Partners Board of Directors. She is currently on the Board of Starwood Hotels & Resorts and the Urban Land Foundation, and is past Chair of the Wharton Real Estate Advisory Board and still sits on its Executive Committee. Age 50.

Martha Piper OC OBC PHD (Non-Executive Director) retired as President and Vice Chancellor of the University of British Columbia in 2006. She is a member of the British Columbia's Progress Board and the Trilateral Commission. Since receiving her PhD in Epidemiology and Biostatistics from McGill University, she has received honorary degrees from 15 international universities. Age 62.

Rekha Patel CPA (Finance Director) joined Grosvenor in 2003 following 12 years with the real estate investment arm of GIC Real Estate, a sovereign wealth fund. She is an active member of Commercial Real Estate Women. Age 43.

Grosvenor Continental Europe

For Tony Wyand (Non-Executive Chairman), Neil Jones (Chief Executive), Jeremy Newsum (Director) and Nicholas Scarles (Director) see page 15.

Philippe Citerne (Non-Executive Director) is Chief Executive Officer of Société Générale and an Administrator of Accor. He is also a member of the Supervisory Board of Sopra Group, the French consulting and service company, which is active in the field of information technologies. He is 'Chevalier de la Légion d'Honneur' in France. Age 59.

Luigi Maramotti (Non-Executive Director) is Chairman of Max Mara and Vice Chairman of the Max Mara fashion group. He has built his career inside the family company. He is also Vice Chairman and member of the executive committee of Credito Emiliano, one of the top 20 banks in Italy, and a Director of Unicredito Italiano. Age 50.

Benoît Prat-Stanford (Finance Director) joined Grosvenor in 2000. He has worked for Arthur Andersen and the American company United Technology Corporation. He has lived and worked in Paris, Boston, Rome, Brussels and London. He is a Non-Executive Director of Sonae Sierra SGPS. Age 42.

Steve Cowen MRICS (Investment Director) joined Grosvenor in 2002, having spent five years with Corio France as Asset Management Director and seven years at Cushman & Wakefield as Associate Partner in the Investment Department. In total he has 16 years of transaction-based retail property experience in France. Age 42.

Rafael Aviles (Managing Director Spain) joined Grosvenor in 2006, to open our office in Spain. He was previously a member of Lar Grosvenor's Management Board. He has 18 years' experience in the Spanish real estate market and has also worked for the developers Hammerson Spain and Procisa as General Manager and for Jones Lang LaSalle as an investment partner. Age 52.

Grosvenor Australia

For Jeremy Newsum (Chairman) and Nicholas Scarles (Director) see page 15.

John Coates AC (Non-Executive Director) is a partner of Kemp Strang Lawyers, Deputy Chairman of department store chain David Jones, a member of the Advisory Board of investment bank Grant Samuel in Australia and Chairman of thoroughbred auctioneers William Inglis & Son Ltd. He is President of the Australian Olympic Committee and a member of the International Olympic Committee and its Juridical, TV Rights and New Media and London 2012 Olympic Games Co-ordination Commissions. Age 57.

Robert Kerr (Managing Director) joined Grosvenor in 1994 and has been Managing Director of Grosvenor Australia since 2000. He is a member of the Property Council of Australia Capital Markets Roundtable, Director of the Grosvenor ISPT International Property Trust, a Fellow of the Australian Property Institute and a member of the Australian Institute of Company Directors. Age 46.

Ian Clark FCA FCIS (Finance Director) joined Grosvenor 21 years ago after 10 years' experience in the accounting profession, including five years with PriceWaterhouse. Age 55.

Graham Livingstone MRICS (Development Director) joined Grosvenor in 1996. Based in Brisbane, he has been Development Director since 2007. He is an active member of the Royal Institution of Chartered Surveyors and Property Council of Australia. Age 45.

Grosvenor Asia Pacific

For Jeremy Newsum (Chairman) and Nicholas Scarles (Director) see page 15.

Tim Freshwater (Non-Executive Director) is Vice Chairman of Goldman Sachs Asia and a Director of Goldman Sachs JBWere. From 2001 to 2004 he was Chairman of Investment Banking in Asia. From 1996 to 2001 he was Chairman of Jardine Fleming, the Asian Investment bank acquired by Chase Manhattan in 2000. Previously, he spent 29 years with Slaughter and May. Tim is a Director of Hong Kong Exchanges & Clearing Ltd and Swire Pacific Limited, and a Council Member of the Hong Kong Trade Development Council. Age 63.

Nicholas Loup (Managing Director) initially worked for Grosvenor in London and rejoined in 1994 to establish the operation in Asia Pacific. He is a Director of Asia Standard International, a Non-Executive Director of Printemps China Department Stores Ltd and serves on the advisory board for Bridge Capital in India. He is also a General Committee member of the British Chamber of Commerce in Hong Kong and a founding Director of the Asian Real Estate Association. Age 47.

William Lo FCCA CFA (Finance Director) joined Grosvenor in 2002, following six years with Coopers and Lybrand and 11 years with AIA Capital Corporation, both in Hong Kong. Age 47.

Mark Hahn (Director, Hong Kong) joined Grosvenor in 2007 and is responsible for managing the Hong Kong operation. Since 2002 he had worked at Sino Land, a major developer in Hong Kong, as Associate Director; prior to that, at DTZ Debenham Tie Leung as Head of Investments. Age 44.

John So CFA (Director, Mainland China) joined Grosvenor in 2000 from Jardine Fleming Securities (HK), where he was a Director and led the Regional Real Estate Research team. He is a Steering Committee Member of the Asian Real Estate Association. Age 42.

Fund Management

For Jeremy Newsum (Chairman), Stuart Beevor (Managing Director) and Nicholas Scarles (Director) see page 15.

Robert Davis (Finance Director) joined Grosvenor in 2006 from General Motors, where he undertook a number of roles within the group's finance function and was most recently Chief Operating Officer, European Operations, for GMAC Commercial Finance Plc. Age 40.

Douglas Callantine (Director, President of Grosvenor Investment Management) joined Grosvenor in 2006 following Grosvenor's acquisition of Legg Mason Real Estate Services, where he had been President since 1987. He is a member of a number of industry bodies. Age 56.

Mervyn Howard (Fund Management Director, Britain & Ireland) joined Grosvenor in 2001 following roles as Managing Director of GE Capital's real estate business in the UK and Scandinavia and Head of Business Development for TrizecHahn Europe. Age 48.

James Raynor (Fund Management Director, Continental Europe) joined Grosvenor in 2004 from Royal Bank of Scotland in Paris, where he was Senior Director of European Real Estate. Age 34.

Koshiro Hiroi (Chief Representative in Japan) joined Grosvenor in 2001. Previously, he worked for American private fund Lone Star Group and Tokyo Tatemono in Japan. Age 38.

Many things matter to people at Grosvenor. From smiling children to solar panels, sustainable buildings to sustainable cities, cultural studies to student scholarships, affordable housing, charitable giving, inspiring art, inspiring school children, cleaning beaches, restoring habitats, cycling a thousand miles, supporting hundreds of employees, fostering partnerships and strengthening communities.

The following pages show some of the things that express the wide sense of responsibility we have as a business.

01

"Once a week, our staff members coach a group of **local school children,** helping to improve the literacy rate of our city's residents."

Judy Wisniewski
Grosvenor Fund Management
Reading STARS, Philadelphia

02

"Cycling 1,000 miles across the British Isles was 'breath-taking'! It raised £27,800 for the Martha Trust charity – £10,000 of which was **matched funding** from Grosvenor."

Werner Bäumker
Grosvenor Holding Company
End2End Cycle Challenge 2007, UK

03

"We work with four **universities in China** to give local students the opportunity to study at Oxford and Cambridge. So far, 10 students have taken advantage of the scholarship scheme."

Yu Yang
Grosvenor Asia Pacific
Grosvenor Scholarship Programme, Shanghai

04

"After viewing the documentary, we decided to earmark 25% of our **charitable donations** for sustainable projects."

Teri Whitehair
Grosvenor Americas
An Inconvenient Truth, San Francisco

05

"We sponsored the Clean-up Day because Castle Peak sits by the waterfront. **Hong Kong's coastline** is a valuable asset and it is our responsibility to preserve the natural environment."

Ivy Chau
Grosvenor Asia Pacific
International Coastal Clean-up Day, Hong Kong

06

"The Great Fen Project aims to **restore 3,000 hectares of Fenland** habitat. It is delivering sustainability in its purest form."

Lawrence Chadwick
Grosvenor Britain & Ireland
The Great Fen Project, Cambridgeshire

07

"By giving **English lessons** to young people from difficult social backgrounds, we hope to provide our pupils with valuable skills that will help them to find jobs."

Alexander Hamilton
Grosvenor Continental Europe
English lessons initiative, Paris

08

"It is vital that we continue to educate ourselves, and the broader profession, on **sustainable buildings** and better environmental working practices."

Chris Taite
Grosvenor Fund Management
Sustainability Special Interest Group, Investment Property Forum, London

09

"The Liverpool Paradise Foundation is **making a real difference** to the lives of some of the most disadvantaged people across Merseyside. Working for the Foundation has been a truly rewarding experience."

Hilary Kinsella
Grosvenor Britain & Ireland
The Liverpool Paradise Foundation

01

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"We are incorporating many sustainable development features such as solar panels at Hamilton Marketplace."

Don Capobres
Grosvenor Americas
Hamilton Marketplace, Novato

11

"We brought a group of single-parent families to experience the urban city of Hong Kong. We had a lot of fun together; it was great to see the smiles on the children's faces."

William Lo
Grosvenor Asia Pacific
The Cheung Chau Island Rural Committee Project, Hong Kong

12

"We have given young people the opportunity to fulfil their educational and career aspirations through the Learning for Life programme."

Helen Henderson
Grosvenor Australia
The Smith Family Charity, Australia

13

"'High Street' combines Grosvenor's mixed-use strategy with what the community wants: places that have a strong sense of identity and encourage social interaction."

Michael Ward
Grosvenor Americas
'High Street', Surrey, Vancouver

14

"We have established a list of criteria for our environmental audit process, which is being integrated into our asset management plans for new and existing investments."

Sandi Tsai-Rieb
Grosvenor Continental Europe
Environmental audit initiative, Paris

15

"As we grow, it is important to develop a team which will continue to work well in Grosvenor's multi-cultural environment. The sessions have been very successful."

Koshiro Hiroi
Grosvenor Asia Pacific
After-hours discussion, Tokyo

16

"The original art deco façade and some artefacts from the site were preserved to put on public display in the lobby and café."

Lee Singleton
Grosvenor Australia
25 Smith Street, Parramatta, Sydney

17

"We have enrolled our employees on a scheme, which encourages Parisians to cycle. It has been very popular within the office."

Cécile Brochot
Grosvenor Continental Europe
Velib free bicycle scheme, Paris

18

"By working in partnership with our residents, the Foundation and the Park, we are now bringing modern British sculpture to gardens on the London Estate."

Nigel Hughes
Grosvenor Britain & Ireland
Partnership with the Cass Foundation and Goodwood Sculpture Park, London

Grosvenor Investment & Development

Total asset value
£6,834.3m

Americas
£780.8m

Britain & Ireland
£3,459.3m

Continental Europe*
£2,030.2m

Asia Pacific
£214.0m

Australia
£350.0m

Investment & Development
Portfolio analysis – Proprietary assets

	Investment properties					Development programme		Financial assets	
	Number	Value £m	Passing rent £m	ERV £m	Running yield %	Number	Completed cost £m	Carrying value £m	Total £m
Office	294	1,338.4	76.5	106.7	5.7	5	151.6	6.3	1,496.3
Retail	221	2,561.7	137.0	157.4	5.3	27	1,282.4	–	3,844.1
Residential	509	1,050.9	20.2	20.6	1.9**	12	196.9	31.0	1,278.8
Industrial	9	135.6	7.7	8.8	5.7	6	50.4	–	186.0
Car parks	1	29.1	2.6	2.6	8.9	–	–	–	29.1
Total	1,034	5,115.7	244.0	296.1	4.8	50	1,681.3	37.3	6,834.3

*Grosvenor's share of assets held by Sonae Sierra is included within Continental Europe regardless of their location.

**The majority of the residential portfolio in the UK is ground rented and because of this it has a low average yield.

Investment & Development
Overview

Cambridge to Calgary, Sydney to Shanghai. Our international investment and development activities are managed by five Operating Companies: Britain & Ireland, the Americas, Continental Europe, Australia and Asia Pacific. In each region, we aim to support the cities of which we are a part.

Over the coming years, we expect to increase our capital allocation to the Americas and Asia Pacific, while reducing the exposure to Britain & Ireland. However, in each case, we expect our activities to keep growing overall. The following pages describe the latest developments in each region.

Grosvenor Britain & Ireland

Left and above
10 Montrose Place, Belgravia

Type	Development
Country	England
City	London
Sector	Residential
Ownership	Grosvenor and the Grosvenor Trusts
Area	5,600m^2

"30% of the apartments within the Montrose Place luxury residential development are classed as affordable housing, providing homes for those in genuine need. Over 700 other properties (28% of the residential portfolio) across our London Estate are low rented and are defined in this way. These properties are either leased to housing corporations or directly managed by Grosvenor."

Mark Preston
Chief Executive

Our business is two-fold: to manage, redevelop and invest in our London holdings, continually improving the mix of uses and environment for the community, while outside London we are developing with a focus on retail and residential, including several ambitious mixed-use projects.

Grosvenor's desire is to make a lasting contribution to the future of cities around Britain and Ireland.

The Britain & Ireland business delivered total returns of 12.3% in 2007, once again a year of strong results, particularly from our London residential portfolio. However, we have since seen a weakening of investor confidence and an upward movement of yields. This has reduced the values of parts of our retail and office portfolio, though offset by strong rental growth elsewhere, notably West End London offices. As in the past, the location and quality of our portfolio has proved itself less volatile than much of the market.

Although the increase in yields and resulting value falls will create some difficulties for investors, we see it as a necessary market correction, which should create opportunities for us to make purchases in line with our investment strategy. We see this correction continuing during 2008, given constrained lending conditions and tenant demand.

Looking to the future leadership of the business, we have planned carefully for Mark Preston's move to Group Chief Executive of Grosvenor. From 1 July Peter Vernon, who is currently Executive Director for London, takes over as Chief Executive of Grosvenor Britain & Ireland. Following Richard Handley's decision to leave after 17 years at Grosvenor, Roger Blundell has been recruited as Finance Director. Prior to Richard's appointment to this role in 2000, he was instrumental in the establishment of our continental European business and the UK fund management activities. He leaves in April with our thanks and good wishes for the future. Other new appointments to the Board are Michael Gradon as Non-Executive Director and Giles Clarke, who joins the board on 1 July, as Executive Director (Investment).

Strategy

Our aim is to create lasting environments for people and businesses by investing and developing in cities in Britain and Ireland. Holdings in London's West End (the London Estate) will continue to dominate the portfolio and here we have continued a programme of reinvestment and redevelopment in retail, residential and offices. We have also put greater emphasis on improving public spaces and the mix of uses for the communities of Mayfair and Belgravia.

On the London Estate the focus is investment and development in office, residential and retail property, together with delivering a first-class service to our occupiers. Elsewhere in central London we are growing our exposure to residential developments in desirable locations. Outside London, we concentrate on developing large city-centre projects with a significant retail component, together with shorter-term, smaller developments, which are mostly urban residential in nature.

This page
London Estate

Type	Investment
Country	England
City	London
Sector	Mixed-use
Ownership	Grosvenor and the Grosvenor Trusts
Area	300 acres

Top left: Brown Hart Gardens
Brown Hart Gardens was recently opened to the public after remaining closed for 20 years. As part of our strategy for improving public spaces, we are working with architects on plans to turn it into a vibrant amenity for all to enjoy.

Top right: Mount Street
Our strategy for Mount Street is transforming the street and surrounding area into a lively day and night-time economy, and a sought-after location in Mayfair. Marc Jacobs became a tenant in 2007.

Bottom right: Eaton Square Gardens
The installation of ground source heat pumps in Eaton Square Gardens, shown underway here, illustrates our commitment to using energy from sustainable sources.

Above
Grand Arcade, Cambridge

Type	Development
Country	England
City	Cambridge
Sector	Retail
Ownership	Held in joint venture
Area	41,800m^2

Building in the heart of a historic city such as Cambridge presents a challenge. We have responded by taking particular care with design – using traditional materials and retaining classical façades to minimise the visual impact of the existing streetscape.

Above
Odeon Cinema, Liverpool One

Type	Development
Country	England
City	Liverpool
Sector	Mixed-use
Ownership	Grosvenor Liverpool Fund
Area	234,000m^2

Liverpool's complex cityscape, with modern and traditional buildings in an organic street pattern, guided the thinking behind Liverpool One. We have not compromised on design or the quality of materials in the buildings and public spaces we have created, and have remained faithful to the original masterplan, which has won us much support from the city Council and the people of Liverpool.

Looking to the future, we will progress developments in Edinburgh, Preston, Dublin, Crawley and other cities, working with joint venture partners where we see opportunities to share risk, capital and expertise.

London highlights

On the London Estate, we continue to focus on a number of key locations, aiming to improve the mix of uses in these communities. By way of example, we are transforming Mount Street and during the year secured lettings with retailers such as Balenciaga, Alfred Dunhill and Anick Goutal. Mount Street's success was recently recognised in a survey by Colliers CRE, which identified it as one of the top five 'best performing' retail streets in the UK. Motcomb Street is similarly attracting new retailers, reflecting our aspirations for that part of Belgravia.

With respect to offices, our latest London office development, 77 Grosvenor Street, is fully let, leaving us with no significant development completions for 2008, a year we believe will be less active for occupational demand. We are at early stages on several exciting office projects for the future.

As planned, we increased the number of Space Solutions properties (our short-let office portfolio) we hold on the London Estate with the addition of 67 Grosvenor Street and 52 Brook Street.

In the residential sector, we began work on 103-104 Eaton Square: six apartments totalling 20,000 sq ft which we plan to complete in May 2008. We also completed a development of large new-build apartments in Montrose Place, Belgravia, and sold all 18 units.

Demand for short-let residential properties remains strong and we expect uncertainty surrounding residential capital growth to underpin this demand in 2008. We added a further 32 high-quality properties to this portfolio, taking the total number managed to 269 and increasing annual income by 25% to £12.7m.

We gained planning permission for London Bankside, a residential scheme next to the Tate Modern, comprising 229 apartments in four towers, which we are undertaking with Native Land. This is a fast-changing part of London, now competing with the more traditionally desirable West End postcodes.

Above
Tithebarn, Preston

Type	Development
Country	England
City	Preston
Sector	Mixed-use
Ownership	Held in joint venture
Area	160,000m^2

The Tithebarn scheme will regenerate a significant part of Preston city centre, creating new places to live and work as well as improving the retail offering. This major mixed-use development will act as a catalyst, bringing new businesses, jobs and other economic benefits to one of the North West's major cities.

During the year we secured a pioneering funding agreement with Westminster City Council for public realm improvements in London, the first of its kind between the public and private sector. The model will see £10m invested in improvements in targeted public spaces within the London Estate. Investing in this way in the fabric of our streets and squares, together with enhancing the level of service to occupiers by better understanding their needs, are two key long-term objectives for the London business.

Outside London highlights

Progress on the 42-acre site of Liverpool One has been very encouraging. We plan to open in two phases in 2008, delivering over 1 million sq ft of retail space in May and the remaining retail and leisure facilities, including the multiplex cinema and five-acre park, in September. The value of the project has fallen as a consequence of the general market-wide increase in yields and the provision for a loss in our accounts has been increased accordingly.

We are making steady progress on lettings and reached the 1 million sq ft milestone in January 2008. In addition, we forward sold the Hilton Hotel and successfully launched the sales programme at its residential neighbour, One Park West. We expect 2008 to be a tougher business environment to complete sales and lettings, but remain confident that we are making a lasting contribution to the city centre for the people of Liverpool and thereby creating an excellent investment for Grosvenor and our funding partners.

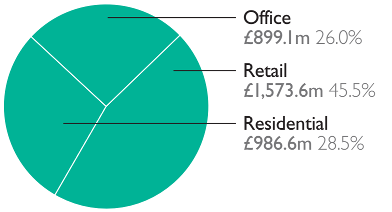
On the staffing side, we began the process of recruiting 150 staff who will be responsible for delivering behind-the-scenes and customer-facing services once the development opens.

We completed a new John Lewis store with the opening of the first phase of Grand Arcade, Cambridge, in November 2007. The remaining 170,000 sq ft of space opened this March. Early indications are that retail trading has started well, underlining the strength of consumer demand within the catchment area.

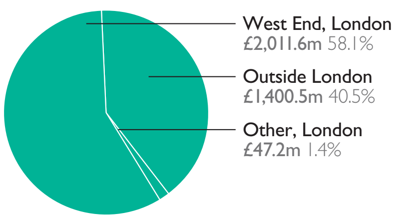
We made good progress with Tithebarn, Preston (a 28-acre mixed-use project), where we signed a joint venture agreement with Lend Lease, who now have a 50% stake in the development. We also agreed terms with John Lewis, who will take a 230,000 sq ft store.

Proprietary portfolio

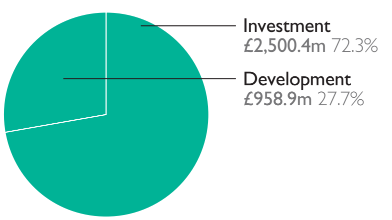
By sector



By region



By activity



We continued to work with Crawley Borough Council on the proposed master plan for Town Centre North (a 32-acre mixed-use development), and in Ireland we gained planning approval for the second phase development of Liffey Valley, Dublin (an edge-of-town, mainly retail, scheme) and are now planning for the next phase of development.

In Scotland the first phase development of the Springside site is underway (an eight-acre residential-led scheme in Edinburgh comprising 900,000 sq ft of residential, office and retail space). This site represents a further opportunity to make a lasting contribution to the fabric and environment of an important city.

Outlook for 2008

The UK property industry faces challenges this year, as turbulence in the financial markets affects other areas of the economy. The re-pricing of risk, which began with the onset of the credit crunch, will lead to further price falls. However, we expect the outcome will be a more realistic assessment of risk and a more prudent approach to financing.

Lower levels of activity in the financial and business service sectors are affecting the outlook for growth in the London economy, which in recent years has provided the backdrop for very strong rises in prime residential prices and London office rents. Although prime central London residential demand is now more diverse and therefore more sustainable than ever before, it will not be immune from this slowdown. However, two major differences from the early 1990s are likely to prevent prolonged distress, in the West End at least: low interest rates and limited supply of space.

Turning to the retail sector, this year will see the opening of several high-profile developments in a number of large regional cities. However, they will open in an uncertain climate. Weak growth in disposable incomes and much lower levels of growth in house prices will impact consumer spending.

As always, opportunities will emerge in these uncertain times and, as a long-term investor with prudent financing, we aim to seek these out.

Property portfolio

Britain & Ireland
Portfolio analysis – Proprietary assets

	Investment properties					Development programme		
	Number	Value £m	Passing rent £m	ERV £m	Running yield %	Number	Completed cost £m	Total £m
Office	272	893.6	47.0	68.5	5.3	2	5.5	**899.1**
Retail	111	714.3	36.2	45.8	5.1	6	859.3	**1,573.6**
Residential*	465	892.5	14.5	n/a	1.6	5	94.1	**986.6**
Total	848**	2,500.4	97.7	n/a	3.9	13	958.9	**3,459.3**

Geographic analysis – Proprietary assets

	Investment properties £m	Development programme £m	Total £m
West End, London	1,983.3	28.3	**2,011.6**
Outside London	502.2	898.3	**1,400.5**
Other, London	14.9	32.3	**47.2**
Total	**2,500.4**	**958.9**	**3,459.3**

*The majority of the residential portfolio is ground rented and because of this it has a low average yield. The average yield on the rack-rented portfolio is 3.5%.
**Includes interests in 22 properties which are managed by Grosvenor Fund Management.

Grosvenor Britain & Ireland has interests in and manages a portfolio of assets across 300 acres of Mayfair and Belgravia. More than 760 retail, residential and commercial properties make up the portfolio. It is not practical to list all these assets. However, the table below shows assets held outside London, large individual properties in the London portfolio and assets grouped at street level that are strategic locations on the London Estate.

Property	Description	Location	Area m^2
Investment properties – directly owned			
Office			
52 Brook Street	Flexible office space	West End, London, UK	1,100
16/20 North Audley Street	Six-floor refurbished and partly rebuilt office building	West End, London, UK	11,300
St Anselm House, 65 Davies Street	Eight-floor 1930's office building	West End, London, UK	7,800
Retail			
Liffey Valley Shopping Centre	Regional shopping centre with 94 retail units	Dublin, Republic of Ireland	36,300
Residential			
Chantry House	Residential apartment block	West End, London, UK	5,100
Eaton Square	Residential units on six floors in historic Grade 2* listed buildings	West End, London, UK	68,200
Erskine House	11 residential apartments	West End, London, UK	1,000
97/99 Park Street	Residential apartment block	West End, London, UK	1,600
Peterson House, 25 Gilbert Street	Residential apartment block	West End, London, UK	1,500

Property	Description	Location	Area m²	
Investment properties – directly owned				
Mixed-use				
Duke Street	19 offices, 20 residential and 24 retail units	West End, London, UK	25,300	
Ebury Street	25 offices, 86 residential and 48 retail units	West End, London, UK	6,400	
Elizabeth Street	Five offices, 28 residential and 58 retail units on historic Georgian street	West End, London, UK	2,000	
Grosvenor Square	19 offices and 34 residential units	West End, London, UK	71,600	
Grosvenor Street	85 office, 13 residential and 15 retail units	West End, London, UK	57,600	
4/8 Grosvenor Street & 30/32 Avery Row	Six-floor office building with five retail units	West End, London, UK	2,900	
Grosvenor Hill Court	Two-floor office building with 30 residential units and car park	West End, London, UK	7,300	
Mount Street	21 offices, 33 residential, 28 retail	West End, London, UK	70,600	
Motcomb Street	Four office, 26 residential and 41 retail units	West End, London, UK	9,600	
Pimlico Road	One office, 14 residential and 60 retail units	West End, London, UK	1,200	
Terminal House, 52 Grosvenor Gardens	Seven-floor office building with nine retail units	West End, London, UK	8,200	
Investment properties – held in joint ventures				
Office				
Viewpoint – Mayfair	Nine-floor open-plan refurbished office building with three retail units in Oxford Street	West End, London, UK	4,600	
77 Grosvenor Street	Flexible office space over seven floors	West End, London, UK	5,600	
Property	Description	Location	Area m²	Completion date
Development properties – directly owned				
Office				
Edinburgh Technopole	Science Park	Edinburgh, Scotland, UK	46,500	Phased: 2004-2028
Residential				
103/104 Eaton Square	Six residential units	West End, London, UK	1,900	2008
Development properties – held in joint ventures				
Mixed-use				
Liverpool One	Retail-led, mixed-use urban regeneration project	Liverpool, Merseyside, UK	234,000	2008
Bankside	Residential apartment block	Central London, UK	38,000	2010-2012
Tithebarn, Preston	Retail-led, mixed-use urban regeneration scheme	Preston, Lancashire, UK	160,000	2014
Springside	Mixed-use city centre scheme	Edinburgh, Scotland, UK	83,200	2015
Grand Arcade	Mixed-use city centre development	Cambridge, East Anglia, UK	41,800	2008

Grosvenor Americas

Left and above
The RISE

Type	Development
Country	Canada
City	Vancouver
Sector	Mixed-use
Ownership	Held in joint venture
Area	92 live/work units and 25,900m^2 of retail, with 600 car spaces

"The RISE shows how urban mixed-use 'densification', maximising the potential of a city block close to the rapid transit, can create a new community. An underground car park lies under a retail podium, which in turn sits beneath a variety of live/work flats, lofts and garden homes with sweeping views over rooftop greenery and towards the North Shore Mountains."

Bill Abelmann
Chief Executive

Grosvenor Americas is dedicated to pursuing profitable and sustainable development and investment opportunities in the USA and Canada.

We do this by focusing on select product types and eight North American cities, four of which have Grosvenor offices staffed with experienced teams.

Above
185 Post Street

Type	Development
Country	USA
City	San Francisco
Sector	Retail
Ownership	Held in joint venture
Area	2,400m^2

Built in 1907 but stripped of much of the original materials in the 1970s, 185 Post Street has been fully renovated inside and out. A new, ultra-modern window wall system, with semi-opaque glass, allows sight of the old façade. The building is designed to enhance and complement the surrounding Union Square District's historic look and feel.

In 2007, we leased approximately 800,000 sq ft, with occupancy averaging 97%. We completed $6m of building renovations and commenced two new developments. Additionally, we acquired more than C$124m worth of new properties in key metropolitan areas, while selling approximately C$162m worth of assets. In July, we reopened an office in Calgary, Alberta, where our focus is on multi-family residential, retail and mixed-use development.

During the summer, US credit markets tightened following the news that many financial institutions were facing massive losses on their sub-prime mortgage holdings. Asset prices began to fall or level off as buyers began seeking higher returns to mitigate increased financing costs and risk. In the US, the for-sale housing market continued to deteriorate; we believe it will take three to four years to return to normality. In western Canada, however, strong economic conditions continue to support growth in the for-sale housing market and low vacancy rates, resulting in rental rates that have increased far in excess of inflation.

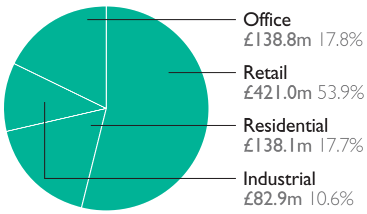
Acquisitions and sales

Recognising market changes, the majority of our 2007 acquisition efforts targeted value-added residential apartments and retail projects rather than core performing assets, which have declined in profitability as a result of the shift in the capital markets. We also created a joint venture with Rockwood Capital to expand our residential apartment portfolio, and we continue to pursue mezzanine financing investments in select markets.

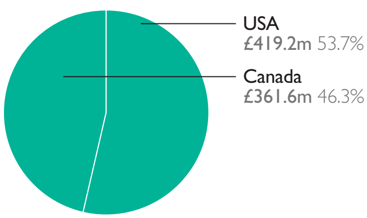
To implement our overall strategy, we sold a number of non-strategic assets and allocated the resulting capital to development and targeted residential and retail acquisitions. Sales included a multi-level parking garage in Calgary, Alberta; 1777 F Street, a Washington, DC office building; and two retail properties in San Francisco. Acquisitions included two residential apartment projects in suburban Seattle; La Colonnade, a retail/office mixed-use project in Beverly Hills; and DVC Plaza, a San Francisco Bay Area community shopping centre with redevelopment potential.

Proprietary portfolio

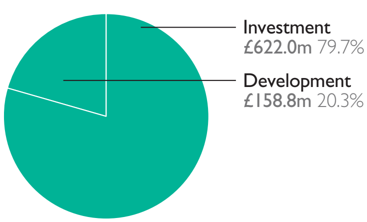
By sector



By region



By activity



Development

The year saw substantial progress on our development projects. The RISE, our C$138m retail/residential development in Vancouver, was substantially completed, as was Avondale, a C$34m, 79-unit condominium tower in North Vancouver. We commenced construction on 5955 Balsam, a C$62m condominium tower in the Kerrisdale suburb of Vancouver; several retail buildings at South Edmonton Common, a 'big box' shopping centre in Alberta, Canada; and Hamilton Marketplace, a US$52m grocery-anchored retail centre in the San Francisco Bay area.

Grosvenor Americas' development pipeline continues with the advancement of planning approvals for a two-tower, residential condominium project in Calgary, and planning approvals for High Street, a C$40m retail/residential mixed-use project in suburban Vancouver. We also advanced negotiations and design work with Marriott to re-brand and renovate an existing 220-room Holiday Inn hotel in Chevy Chase, Maryland.

Leasing

A highlight of the year was the signing of a long-term lease with De Beers to anchor our 185 Post Street project, a US$31m prime retail building in San Francisco's Union Square district, following our recently completed full-building renovation. We also substantially leased our US$23m, 42,000 sq ft restaurant/retail park in a Maryland suburb of Washington, DC.

Outlook for 2008

We expect a challenging property market throughout 2008 due to a weakening US economy, exacerbated by a struggling housing market, high energy prices, and cautious consumer spending. This may create opportunities for buyers who have the cash to acquire property on more favourable terms.

Bill Abelmann, Chief Executive, retires at the end of 2008 after a career with Grosvenor spanning 32 years. Andrew Bibby, currently Chief Development Officer, will succeed him.

Property portfolio

Americas
Portfolio analysis – Proprietary assets

	Investment properties					Development programme		Financial assets	
	Number	Value £m	Passing rent £m	ERV £m	Running yield %	Number	Completed cost £m	Carrying value £m	Total £m
Office	5	136.5	8.8	11.1	6.5	–	–	2.3	**138.8**
Retail	26	335.0	21.3	27.9	6.3	7	86.0	–	**421.0**
Residential	6	64.8	4.1	4.5	6.4	5	47.1	26.2	**138.1**
Industrial	2	82.9	3.8	4.4	4.6	–	–	–	**82.9**
Total	39*	619.2	38.0	47.9	6.1	12	133.1	28.5	**780.8**

Geographic analysis – Proprietary assets

	Investment properties £m	Development programme £m	Financial assets £m	Total £m
USA	382.5	23.7	13.0	**419.2**
Canada	236.7	109.4	15.5	**361.6**
Total	**619.2**	**133.1**	**28.5**	**780.8**

*Includes interests in two properties which are managed by Grosvenor Fund Management.

Property	Description	Location	Area m^2
Investment properties – directly owned			
Office			
The Grosvenor Building	22-storey office building with retail space and parking	Vancouver, BC, Canada	18,900
Retail			
Crowfoot Corner	Community shopping centre	Calgary, AB, Canada	5,800
Crowfoot Village	Community shopping centre	Calgary, AB, Canada	4,700
DVC Plaza	Community shopping centre	Pleasant Hill, CA, USA	17,700
La Colonnade	Three-storey mixed-use building with office and retail space	Beverly Hills, CA, USA	2,600
Los Gatos Village Square	Community shopping centre	Los Gatos, CA, USA	4,200
Venator Building	Urban retail building	Calgary, AB, Canada	2,300
Walnut Gate	Community shopping centre	Langley, BC, Canada	2,500
Westgate West	Community shopping centre	San Jose, CA, USA	21,900
Residential			
BluWater	Apartment community containing 152 units	Silver Lake, WA, USA	13,000
Peloton	Apartment community containing 150 units	Redmond, WA, USA	11,800
Viscount & Viceroy	Two low-rise apartment buildings comprising 26 units	Calgary, AB, Canada	1,600
Industrial			
Annacis Business Park	Warehouse and distribution park	Vancouver, BC, Canada	80,500

Property	Description	Location	Area m²
Investment properties – held in joint ventures			
Office			
2 North Lake	11-storey office building, three-storey historic building	Pasadena, CA, USA	20,500
1701 Pennsylvania Avenue, N.W.	12-storey office building	Washington, DC, USA	17,700
Carlyle Gateway I & II	Two six-storey office buildings with ground floor retail	Alexandria, VA, USA	23,200
Retail			
104 S. Union/Wales Alley	Two row houses with office and retail uses	Alexandria, VA, USA	1,200
251 Post Street	Urban retail/office building	San Francisco, CA, USA	3,400
308-310 North Rodeo Drive	Urban retail building	Beverly Hills, CA, USA	1,400
830 North Michigan Avenue	Six-storey urban retail building	Chicago, IL, USA	11,600
Broadmead Village	Neighbourhood shopping centre	Saanich, BC, Canada	11,800
Church Street Plaza	Community lifestyle centre	Evanston, IL, USA	16,400
Coventry Hills Shopping Centre	Community shopping centre	Calgary, AB, Canada	12,200
DC Urban Retail Portfolio	Retail portfolio comprising 17 buildings	Washington, DC, USA	42,900
Frontier Metro Center	Community shopping centre	Springfield, VA, USA	9,800
Rice Lake Square	Nine-building community shopping centre	Wheaton, IL, USA	23,400
South Edmonton Common	'Big box' retail	Edmonton, AB, Canada	223,000
South Point Exchange	Community shopping centre	Surrey, BC, Canada	23,700
Valley River Center (outparcels)	Two-building shopping centre	Eugene, OR, USA	96,000
WesTech Village Corner	In-line retail building and five restaurants	Silver Spring, MD, USA	3,900
Residential			
Ascent	Apartment community containing 90 units	Kirkland, WA, USA	7,000
Chelsea at Juanita Village	Apartment community containing 196 units	Kirkland, WA, USA	14,800
Sancerre	Apartment community containing 140 units	Kirkland, WA, USA	10,500
Industrial			
USCO Distribution Facility	Single-floor warehouse/distribution building	Calgary, AB, Canada	28,100
Mixed-use			
180 Post Street	Urban retail building	San Francisco, CA, USA	2,700
185 Post Street	Six-storey retail urban redevelopment	San Francisco, CA, USA	2,400

Property	Description	Location	Area m²	Completion date
Principal developments – directly owned				
Retail				
Hamilton Marketplace	8.93-acre site, planned for a grocery-anchored neighbourhood retail centre	Novato, CA, USA	8,400	2008
Residential				
1013-1035 5th Avenue	High-rise (20-storey) residential development site Two towers comprising 320 units	Calgary, AB, Canada	25,900	2010
5955 Balsam	Mid-rise (12-storey) luxury residential development comprising 42 units	Vancouver, BC, Canada	6,800	2008
Triangle Assembly	Low-rise (four-storey) residential development site comprising 220 units	Surrey, BC, Canada	22,100	2012
Principal developments – held in joint ventures				
Residential				
Avondale (Lions Gate Hospital Site)	Low-rise residential development comprising 79 units	North Vancouver, BC, Canada	9,000	2008
Mixed-use				
High Street at South Point Exchange	Mixed-use development comprising 88 residential units and 1,600m² of retail	Surrey, BC, Canada	9,300	2009
The RISE (2300 Cambie Street)	Mixed-use retail and residential development	Vancouver, BC, Canada	25,900	2008
South Edmonton Common	'Big box' retail	Edmonton, AB, Canada	16,800	2010
The Village at South Point Exchange	Mixed-use development comprising 92 residential rental units and 18,300m² of retail	Surrey, BC, Canada	47,900	2011


12

Grosvenor Continental Europe

Left and above
Colisée III and IV

Type	Investment
Country	France
City	Paris
Sector	Offices
Ownership	Held in joint venture
Area	23,000m^2

"Grosvenor now manages two of the Colisée buildings, which form part of a 'Grade A' office complex facing the Périphérique in Paris's 17th arrondissement. They offer high-quality amenities to ease working life, such as cafeterias and restaurant areas, a gym and a swimming pool with a lunchtime swimming instructor."

Neil Jones
Chief Executive

The main focus of our business is retail property, one of the most attractive investments in Continental Europe because of its risk-return profile: we are active in this market in nine countries.

In France and Spain we also take tactical positions in the office market, where rental values are more volatile and correlated to economic cycles.

Above
Claye-Souilly

Type	Investment
Country	France
City	Claye-Souilly
Sector	Retail
Ownership	Grosvenor Retail European Properties
Area	17,000m^2

Tenants in this retail park in the outskirts of Paris, owned by a Grosvenor fund in which we co-invest, now include the retail brand DPAM in its first venture away from the high street. Grosvenor-managed funds have acquired five additional units nearby, giving us, as asset managers, greater scope to offer the public an interesting mix of shopping in one place.

Total return for the year amounted to 12.7%, of which about a quarter can be attributed to value creation. Revenue profit increased 136% to €66.1m.

Our retail and office strategies are pursued through our local teams in Paris, Madrid, Milan and Luxembourg. Our shopping centre strategy is implemented through Sonae Sierra, a specialist European shopping centre developer and manager in which we have joint control.

Strategy

Our strategy is to grow income from the creation and improvement of rental streams and from management services.

In terms of our short-term capital allocation, we will complete our sales programme in Spain, begun in 2006, and move to position ourselves for an eventual recovery in the market. We will maintain our exposure to France and increase it in Italy where we are building our business. Sector-wise, we will reduce office exposure and maintain retail.

Milestones

While we have been investing in Continental European markets for 12 years, 2008 marks the 10-year anniversary of our regional headquarters in Paris. We have since added Madrid and Milan as operational bases. The success of our philosophy of local teams, with local knowledge and local skills, is never more evident than in this culturally diverse region.

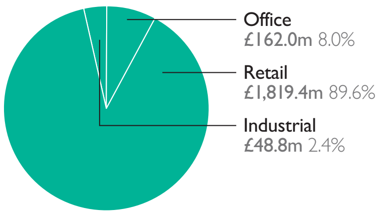
Sonae Sierra marked two significant milestones in 2007: the completion of Alexa, a 56,400m^2 shopping centre in central Berlin, and entry into the Romanian market with the acquisition of one operating shopping centre in Ramnicu Valcea and the launch of two major projects in Craiova and Ploiesti. Alexa is Sonae Sierra's first development in Germany and its popularity bears out the company's strategy of offering modern and creative shopping environments to the German consumer.

Investment

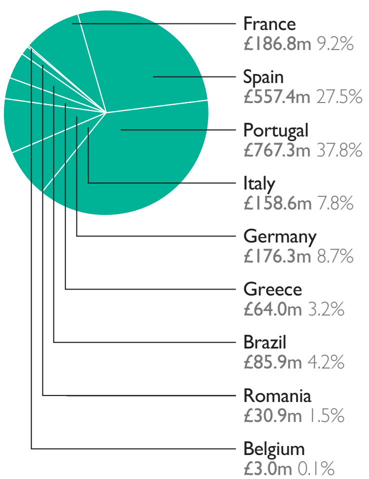
Our retail investment programmes continued satisfactorily in France and picked up pace in Italy; both focus on high street and retail warehousing. We invested €230m in French offices on behalf of our joint venture with Dutch pension fund ABP and introduced Capmark as a 50% partner in the 23,000m^2 Colisée III and IV office investment.

Proprietary portfolio

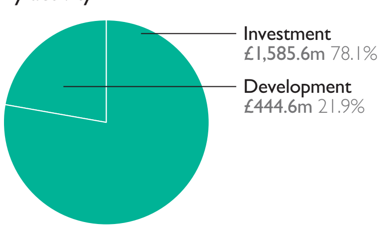
By sector



By region



By activity



Our Spanish operation continued to bear fruit with a number of disposals, including the sales of two shopping centre projects held in joint ventures, generating €47.3m of profit (100%), and several industrial properties.

Sonae Sierra invested €231m in five shopping centres in Germany, Romania and Brazil.

Development

We have nearly completed construction of the 18,000m^2 Phase I of the Omega Business Park in Madrid. The project has been pre-sold to Spanish fund Segurfondo Inversion FII. The 33,000m^2 Phase II was also launched.

Sonae Sierra completed construction of four developments, adding 137,000m^2 of gross lettable area to its portfolio in Spain, Germany and Portugal. 2008 and 2009 will see the inauguration of a further eight projects in Spain, Italy, Germany, Greece and Brazil, amounting to 272,000m^2. Refurbishment of the iconic 120,000m^2 Centro Colombo in Lisbon has begun and is due to complete in November 2008.

The shape of the portfolio

Total assets under management (including those managed on behalf of Grosvenor Fund Management) have grown 35% to €3.9bn. Our proprietary portfolio (€2.8bn) is spread across nine countries (see chart). Retail property accounts for 89.6%, with the remainder in commercial. 22% of our assets are held for development.

Sonae Sierra has total assets under management of €6.0bn in 47 shopping centres with 1.9m m^2 and 6,900 lease contracts. The company has been awarded over 40 national and international awards including, in 2007, an ICSC ReSource Award for sustainable development and a DuPont Safety Award. Twelve shopping centres and projects were accredited with ISO14001 environment certification.

Outlook for 2008

In tighter credit conditions we expect new investment opportunities to emerge and are well positioned to take advantage of them. After a long period in which capital markets have driven returns, skilful management of property assets will now be the way to achieve ‘alpha’ returns.

We are accelerating sales of assets where we see little scope for increasing operating income and recycling the capital into investments with greater potential.

Property portfolio

Continental Europe
Portfolio analysis – Proprietary assets

	Investment properties					Development programme		
	Number	Value £m	Passing rent £m	ERV £m	Running yield %	Number	Completed cost £m	Total £m
Office	3	103.4	4.6	4.9	4.4	1	58.6	162.0
Retail	81	1,482.2	77.9	82.1	5.3	14	337.2	1,819.4
Industrial	–	–	–	–	–	5	48.8	48.8
Total	84*	1,585.6	82.5	87.0	5.2	20	444.6	2,030.2

Geographic analysis – Proprietary assets

	Investment properties £m	Development programme £m	Total £m
France	185.8	1.0	186.8
Spain	343.9	213.5	557.4
Portugal	759.4	7.9	767.3
Italy	65.8	92.8	158.6
Germany	127.7	48.6	176.3
Greece	11.5	52.5	64.0
Brazil	72.8	13.1	85.9
Romania	15.7	15.2	30.9
Belgium	3.0	–	3.0
Total	1,585.6	444.6	2,030.2

*Includes interests in 31 properties which are managed by Grosvenor Fund Management.

Property	Description	Location	Area m²
Investment properties – directly owned			
Retail			
Paris Antiques market	Two galleries with 450 small retail units	Paris, France	8,300
Investment properties – held by joint ventures			
Office			
Colisée III and IV	Office building with two tenants	Paris, France	23,000
Faubourg Saint-Honoré	Office building with nine tenants	Paris, France	9,600
Lonthènes	Office building with one tenant	Paris, France	3,700
Retail			
Airone	Shopping centre with 42 retail units	Monselice, Italy	9,500
Alexa	Shopping and leisure centre with 186 retail units	Berlin, Germany	56,400
AlgarveShopping	Shopping centre with 133 retail units	Guia, Portugal	42,500
ArrábidaShopping	Shopping centre with 180 retail units	Vila Nova de Gaia, Portugal	61,000
Avenida M40	Shopping centre with 136 retail units	Leganés, Spain	48,200
Boavista Shopping	Shopping centre with 173 retail units	São Paulo, Brazil	26,000
CascaiShopping	Shopping centre with 169 retail units	Cascais, Portugal	72,200
Centro Colombo	Shopping centre with 427 retail units	Lisbon, Portugal	120,000
Centro Commercial Centro Vasco da Gama	Shopping centre with 164 retail units	Lisbon, Portugal	47,600
Modelo Albufeira	Shopping centre with 41 retail units	Albufeira, Portugal	10,500
Centro Commercial Continente Portimão	Shopping centre with 58 retail units	Portimão, Portugal	13,500
CoimbraShopping	Shopping centre with 69 retail units	Coimbra, Portugal	26,500
Dos Mares	Shopping and leisure centre with 84 retail units	San Javier, Spain	24,000
El Rosal	Shopping and leisure centre with 117 retail units	Ponferrada, Spain	49,100

Property	Description	Location	Area m^2
Investment properties – held by joint ventures (continued)			
Retail			
Estaçao Viana Shopping	Shopping centre with 106 retail units	Viana do Castelo, Portugal	18,600
Franca Shopping	Shopping centre with 95 retail units	São Paulo, Brazil	18,100
GaiaShopping	Shopping centre with 164 retail units	Vila Nova de Gaia, Portugal	59,700
Grancasa	Shopping centre with 166 retail units	Zaragoza, Spain	79,400
GuimarãeShopping	Shopping centre with 97 retail units	Guimarães, Portugal	26,900
La Farga	Shopping and leisure centre with 128 retail units	Barcelona, Spain	18,400
LoureShopping	Shopping centre with 125 retail units	Loures, Portugal	39,000
Luz del Tajo	Shopping centre with 134 retail units	Toledo, Spain	40,000
MadeiraShopping	Shopping centre with 99 retail units	Madeira, Portugal	26,700
MaiaShopping	Shopping centres with 112 retail units	Maia, Portugal	28,900
Max Centre and Max Ocio	Shopping centre with 159 retail units	Bilbao, Spain	59,400
Mediterranean Cosmos	Shopping and leisure centre with 209 retail units	Thessaloniki, Greece	46,000
Münster Arkaden	Shopping centre with 46 retail units	Münster, Germany	39,900
NorteShopping	Shopping centre with 289 retail units	Porto, Portugal	53,100
Parque Atlântico	Shopping and leisure centre with 104 retail units	Ponta Delgada, Portugal	22,300
Parque Dom Pedro	Shopping centre with 341 retail units	Campinas, Brazil	128,100
Parque Principado	Shopping centre with 159 retail units	Oviedo, Spain	56,000
Pátio Brazil	Shopping centre with 230 retail units	Brasília, Brazil	33,400
Penha Shopping	Shopping centre with 229 retail units	São Paulo, Brazil	29,900
Plaza Eboli	Shopping centre with 97 retail units	Pinto, Spain	31,500
Plaza Mayor	Shopping and leisure centre with 99 retail units	Malaga, Spain	34,500
Plaza Sul Shopping	Shopping centre with 238 retail units	Jd.Saúde, Brazil	26,800
Ribeira del Xuquer	Shopping centre with 97 retail units	Valencia, Spain	30,000
Rio Sul Shopping	Shopping and leisure centre with 137 retail units	Seixal, Portugal	43,600
River Plaza Mall	Shopping centre with 53 retail units	Ramnicu Valcea, Romania	12,300
Serra Shopping	Shopping centre with 86 retail units	Covilhã, Portugal	17,700
Shopping Campo Limpo	Shopping centre with 140 retail units	São Paulo, Brazil	20,700
Shopping Metrópole	Shopping centre with 168 retail units	São Bernado do Campo, Brazil	24,400
Tivoli Shopping	Shopping centre with 265 retail units	São Paulo, Brazil	22,000
Valecentre	Shopping centre with 91 retail units	Marcon, Italy	55,300
Valle Real	Shopping centre with 102 retail units	Santander, Spain	47,700
ViaCatarina	Shopping centre with 100 retail units	Porto, Portugal	11,700
VIII Avenida	Shopping centre with 119 retail units	São João de Madeira, Portugal	20,100
Zubiarte	Shopping and leisure centre with 79 retail units	Bilbao, Spain	20,700

Property	Description	Location	Area m^2	Completion date
Principal Development properties – held by joint ventures				
Office				
Omega I and II	Office development	Madrid, Spain	50,700	2008/2009
Retail				
Freccia Rossa	Retail and leisure development	Brescia, Italy	29,800	2008
Gli Orsi	Shopping centre development	Biella, Italy	27,000	2008
Ioannina	Shopping centre development	Ioannina, Greece	22,200	2009
Islazul	Shopping centre development	Carabanchel, Madrid	74,500	2008
Le Terraze	Shopping centre development	La Spezia, Italy	25,500	2010
Loop 5	Shopping centre development	Weiterstadt, Germany	60,000	2009
Manauara Shopping	Shopping centre development	Manaus, Brazil	43,400	2009
Orense	Shopping centre development	Orense, Spain	35,000	2009
Pantheon Plaza	Shopping centre development	Larissa, Greece	26,600	2008
Plaza Mayor Shopping	Expansion of existing shopping centre	Malaga, Spain	18,800	2008
Pulianas	Shopping centre development	Granada, Spain	45,000	2010
Star Dome	Shopping centre development	Athens, Greece	44,200	2009
Industrial				
Arganda	Industrial development	Arganda, Spain	14,900	2008
Coslada 2	Industrial development	Coslada, Spain	18,700	2008
Coslada 3	Industrial development	Coslada, Spain	11,000	2009
Pinto	Industrial development	Pinto, Spain	18,800	2008
Torrejon	Industrial development	Torrejon, Spain	44,800	2010

Grosvenor Australia

Left and above
25 Smith Street

Type	Investment
Country	Australia
City	Parramatta, Sydney
Sector	Office
Ownership	Wholly owned
Area	11,000m^2

"A key aspect of our development strategy is to incorporate environmentally sustainable initiatives through innovative building design and construction. This year the Duke of Westminster opened 25 Smith Street, Parramatta – a project including a 53,000 litre rain water tank, highly efficient air conditioning diffusers and recycled building materials."

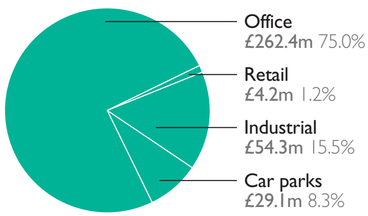
Rob Kerr
Managing Director

Our business strategy is to grow our investment and development programme to over A$2bn by 2012. We therefore increased our development activity across the commercial sector in Australia's major cities.

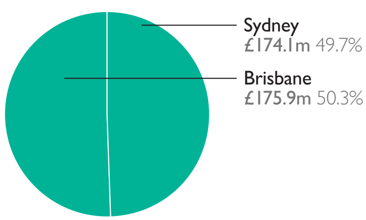
Pivotal to the strategy is the development of 'green' office buildings for a property market characterised by strong economic growth and increasing community support for sustainability initiatives.

Proprietary portfolio

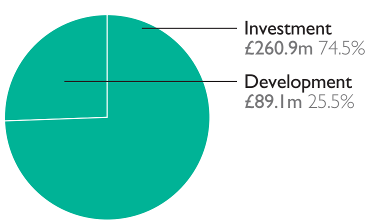
By sector



By region



By activity



In 2007, we celebrated 40 years of operation in Australia; a significant milestone. The 24.8% return on capital we achieved reflects a combination of rental income, trading profits and revaluation uplifts resulting from our selective portfolio, based on local knowledge and understanding of Australian cities.

Working towards having 45% of our total capital in development, we were particularly active in the office market. Tenant demand for office space reflected a strong economy and a growing service sector, coupled with a low supply of grade A buildings in most office markets.

Development programme

In Sydney, we completed a 11,000m^2 speculative office development – 25 Smith Street, Parramatta. Two months prior to completion, IAG, a major insurance group, committed to lease the entire office component – 97% of the building.

We commenced 400 George Street, Brisbane, a 43,000m^2 speculative office development. This will be one of the new generation of environmentally sustainable buildings in Brisbane's central business district, with a five-star Green Star rating for office design. It is already 30% pre-committed, with completion expected in mid 2009.

Plans for another Green Star-rated office building are already underway, following the purchase of a 3,225m^2 site at 60 Station Street in Parramatta, Sydney. We expect to commence construction mid 2008.

All three developments have been with our joint venture partner, Leighton Properties.

Investment portfolio

Our in-house asset managers performed well, achieving significant increases in rental income and an average occupancy level of 97%. We adjusted our investment portfolio by selling the Flinders Street car park, Melbourne, and our Nelson Bay serviced apartments, north of Sydney.

Phillip Dowling, Director of Asset Management, retired after almost 20 years with Grosvenor, and we thank Phillip for his valuable contribution to our business.

The future

Despite the weakness in key international markets at the end of 2007, the Australian economy enjoys the benefits of increasing trade links with China and India and the outlook for Australian property remains relatively positive. Consequently we will continue to develop office buildings and will move progressively into other sectors, including residential.

Property portfolio

Australia
Portfolio analysis – Proprietary assets

	Investment properties					Development programme		
	Number	Value £m	Passing rent £m	ERV £m	Running yield %	Number	Completed cost £m	Total £m
Office	3	174.9	14.4	20.5	8.2	2	87.5	262.4
Retail	1	4.2	0.3	0.3	7.3	–	–	4.2
Industrial	7	52.7	3.9	4.4	7.5	1	1.6	54.3
Car parks	1	29.1	2.6	2.6	9.0	–	–	29.1
Total	12	260.9	21.2	27.8	8.1	3	89.1	350.0

Geographic analysis – Proprietary assets

	Investment properties £m	Development programme £m	Total £m
Sydney	146.2	27.9	174.1
Brisbane	114.7	61.2	175.9
Total	260.9	89.1	350.0

Property	Description	Location	Area m^2
Investment properties – directly owned			
Office			
25 Smith Street	‘A’ grade office building	Parramatta, Australia	11,000
20 Hunter Street	‘A’ grade office building	Sydney, Australia	10,000
Bank of Queensland Centre	‘A’ grade office building	Brisbane, Australia	24,700
Retail			
42-46 Abbott Road	Trade outlet	Sydney, Australia	7,500
Industrial			
Cinema Centre Car Park	Car park with 906 spaces	Sydney, Australia	26,800
151 & 153 Glendenning Road	Two industrial distribution buildings	Sydney, Australia	12,000
2828-2840 Ipswich Road	Industrial distribution building	Brisbane, Australia	13,900
61 Plumpton Road	Industrial distribution building	Sydney, Australia	10,000
22-34 Rosebery Avenue	Industrial distribution building	Sydney, Australia	5,700
76 Depot Street	Industrial distribution building	Brisbane, Australia	4,200
Investment properties – held in joint ventures			
Industrial			
Sir Joseph Banks Corporate Park	Hi Tech business park	Sydney, Australia	31,600

Property	Description	Location	Area m^2	Completion date
Development properties – directly owned				
Industrial				
Earnshaw Road, Banyo	Industrial Land	Brisbane, Australia	19,150	2008
Development properties – held in joint ventures				
Office				
400 George Street	Office development	Brisbane, Australia	43,600	2009
60 Station Street	Office development	Parramatta, Australia	22,500	2010

Grosvenor Asia Pacific

Left and above
Grosvenor Place at Lakeville Regency

Type	Investment
Country	Mainland China
City	Shanghai
Sector	Residential
Ownership	Wholly owned
Area	8,900m^2

"This luxury residential building is our second investment in Mainland China. The property provides 28 triplex units in downtown Shanghai. Although recently completed, we have installed under-floor heating for each unit to ensure long-term energy savings and have upgraded the finishes for a long-term hold."

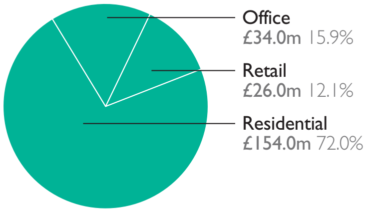
Nick Loup
Managing Director

Having established a solid platform in China and Japan with a focus on residential and retail, our business is expanding steadily.

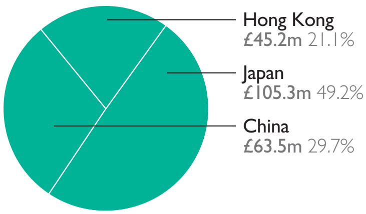
We concentrate our development activity on establishing a distinct luxury residential brand by delivering a high-quality product differentiated by innovative design and environmental features.

Proprietary portfolio

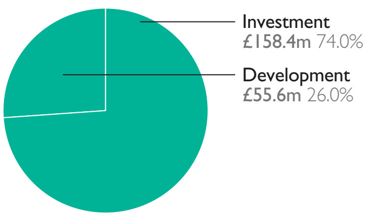
By sector



By region



By activity



In 2007, we disposed of non-core assets to re-invest in strategic core sectors, growing proprietary assets by 74%.

Strategy

China, India and Japan remain the drivers in the region, on the back of rapidly rising disposable income and consumption. The creation of new wealth underpins our focus on high-end residential and retail property.

Combining our international knowledge with local expertise, we aim to expand our residential development programme in Hong Kong, Shanghai and Tokyo and our investments in Shanghai and Tokyo. We will be adding to our investment portfolio and including retail as a second core sector.

Milestones

During the year we sold our only investment in Singapore. In Hong Kong, we disposed of our two Lippo strata office investments and our luxury residential portfolio in the Grosvenor Land Property Fund; we also sold a 20% stake in our Castle Peak development to Hotel Properties Limited, previously our partner in Singapore.

Investment activity

This was our busiest year to date: we invested, on behalf of Grosvenor Asia Pacific and Grosvenor Fund Management, £337m in 36 deals. We added three commercial investments in Japan: the largest Dotonbori, Osaka, £41m; and two residential investments in Shanghai – Chester Court at Gubei, £14m, and Grosvenor Place at Lakeville Regency, £41m, both of which we expect to hold for the medium to long term.

The portfolio at year end

Our capital is now allocated 49.2% Japan, 21.1% Hong Kong and 29.7% Mainland China. Residential remains our primary focus with 1,757 residential units under management on behalf of Grosvenor Asia Pacific and Grosvenor Fund Management.

Outlook for 2008

Even with some fallout from the credit crisis, the outlook in our property markets remains robust given the strong medium-term drivers of rising consumption and rapid urbanisation. Investors are converting tactical allocations to long-term strategic positions with significantly increased weightings to Asia. Consequently we expect another year of expansion of our portfolio and team.

Property portfolio

Asia Pacific
Portfolio analysis – Proprietary assets

	Investment properties					Development programme		Financial assets	
	Number	Value £m	Passing rent £m	ERV £m	Running yield %	Number	Completed cost £m	Carrying value £m	Total £m
Office	11	30.0	1.7	1.7	5.5	–	–	4.0	34.0
Retail	2	26.0	1.3	1.3	5.1	–	–	–	26.0
Residential	38	93.6	1.6	1.6	1.7	2	55.6	4.8	154.0
Total	51*	149.6	4.6	4.6	3.1	2	55.6	8.8	214.0

Geographic analysis – Proprietary assets

	Investment properties £m	Development programme £m	Financial assets £m	Total £m
Hong Kong	–	36.4	8.8	45.2
Japan	86.1	19.2	–	105.3
China	63.5	–	–	63.5
Total	149.6	55.6	8.8	214.0

*Includes interests in 45 properties which are managed by Grosvenor Fund Management.

Property	Description	Location	Area m²
Investment properties – directly owned			
Office			
Yoshiyasu-Kanda	Office building in Chiyoda-ku	Tokyo, Japan	3,200
Shinsen Building	Office building in Shibuya-ku	Tokyo, Japan	1,900
Residential			
Chester Court at Gubei	High-end serviced apartment building	Shanghai, China	15,100
Grosvenor Place at Lakeville Regency	Luxury residential	Shanghai, China	8,900
Investment properties – held in joint ventures			
Retail			
Kichijoji Mays One	Suburban retail property	Tokyo, Japan	1,400
Dotonbori Aruze	Retail property	Osaka, Japan	6,700

Property	Description	Location	Area m²	Completion date
Development properties – held in joint ventures				
Residential				
103 Castle Peak Road	Residential development	Castle Peak, Hong Kong	16,300	2008
Kamizonocho	Residential development	Tokyo, Japan	17,700	2008

Grosvenor Fund Management

Funds under management
£3,126.5m

USA
£814.5m

UK
£1,528.2m

Continental Europe
£472.0m

Asia
£311.8m

Grosvenor Fund Management
Overview

66 investors. 20 funds. £3.1bn under management. Alongside our five investment and development companies, we also have a dedicated international fund management business. Grosvenor Fund Management is active in many parts of the world where we have proprietary assets, ranging from Europe to Asia and the USA.

The next section provides an overview of our international fund management activities, as well as a detailed breakdown by region.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Grosvenor Fund Management

Left and above
10 Grosvenor Street

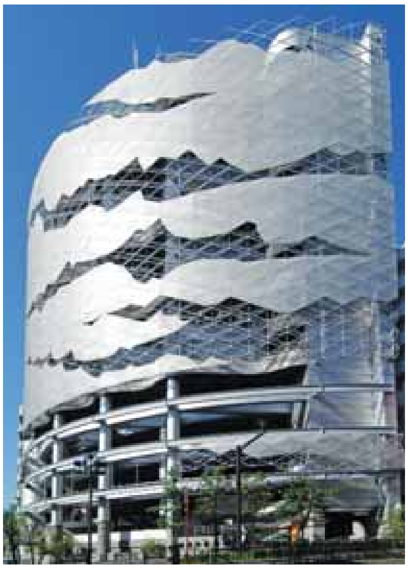
Type	Fund
Country	England
City	London
Sector	Office
Ownership	50% Grosvenor London Office Fund/50% Hammerson
Area	6,200m^2

"This Mayfair office building, developed jointly by Grosvenor and Hammerson and part sold to the London Office Fund in 2007, provides top-quality accommodation over seven floors. It was built to meet the British Council of Offices 2000 guidelines for energy efficiency and uses the latest materials and design techniques."

Stuart Beevor
Managing Director

Grosvenor Fund Management was established as a single international business three years ago, to provide investors with a unified approach to fund management around the world.

Our strategy remains to offer investors a range of regional property sector funds, in markets where Grosvenor has local expertise, that deliver attractive risk-adjusted returns.



Above
Joule A Building

Type	Fund
Country	Japan
City	Tokyo
Sector	Mixed-use
Ownership	Grosvenor Office Retail Fund
Area	9,771m^2

This mixed-use building in central Tokyo was purchased by the Grosvenor Office Retail Fund in December 2007. Grosvenor is enhancing the JPY8.7bn (£39m) asset by making a further investment to remove asbestos, in accordance with Japanese building codes.

The credit crunch is creating challenging conditions with significantly tighter lending. As a result investors are reassessing risk premiums, with lower investment volumes creating opacity in markets. Prices have already adjusted rapidly in the UK and are under pressure in North America and Continental Europe. Asia's strong economic growth and investor demand has, to date, ensured markets there remain immune to the current downturn.

Occupational markets are in good shape with supply and demand in equilibrium and rents growing gently, but these could weaken as 2008 unfolds. We always counsel investors to consider the long-term qualities of property and, for those with patience, we believe the current market represents a return to more orderly conditions and will present attractive buying opportunities.

Fund activity

Our global expansion continued in 2007 with funds under management increasing to £3.1bn. We also continue to build our investor relationships and currently have 66 investors in 20 funds and separate investor accounts.

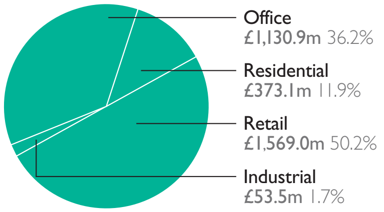
Strong investor appetite for Asia facilitated the successful launch of our third Japanese fund, the Grosvenor Office Retail Fund, with total capital of JPY100bn (£450m). We also raised a further €175m (£129m) equity for our Grosvenor French Retail Investments fund. Having consulted the market we decided to re-assess the strategy of our Australian office fund; we are considering the potential for its relaunch.

Investment activity

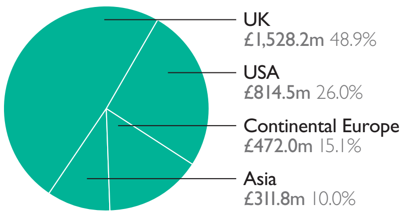
Our investment activity remained robust throughout 2007, approaching £900m across all regions. In Asia, the Japanese Grosvenor Office Retail Fund made nine acquisitions totalling JPY16.6bn (£75m) in the latter part of 2007. In Continental Europe we acquired over €132m (£97m) of property and in the UK one of our flagship funds, the Grosvenor Shopping Centre Fund, acquired a 51% stake in the Festival Place Shopping Centre in Basingstoke for £141m. In the USA, we completed a number of significant transactions, including $910m (£457m) of acquisitions. Selling to realise profits is an important discipline and one of the highlights was the disposal of a portfolio of 15 care homes in the USA, for $268m (£135m), which had been acquired in 2004.

Funds under management

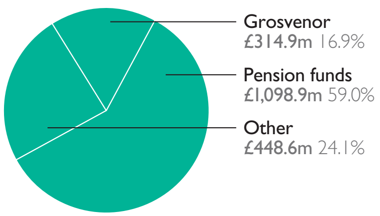
By sector



By region



Equity invested by interest



The year ahead

2008 promises to be a busy year for new fund launches. Continuing to satisfy the tremendous interest in Asia, we aim to close our first fund in China, the Grosvenor Vega China Retail Fund. It will invest a target of US$500m (£251m) in retail malls and mixed-use projects. On the other side of the world, we aim to launch the Grosvenor New York Multi-Family Fund.

In the UK our focus is to position our three flagship funds – Grosvenor London Office Fund, Grosvenor Residential Investment Fund and Grosvenor Shopping Centre Fund – to take advantage of acquisition opportunities that are likely to arise due to evolving market conditions. We have also been setting up the management structure of Liverpool One as we prepare to assume full management responsibility upon completion this year.

In Continental Europe, we plan to build on the track record of the Grosvenor Hexagone French Office joint venture to create a French office fund, and to maintain our market-leading position within the retail sector with the closing of the Grosvenor Italian Retail Fund.

Meeting the strategic needs of investors remains crucial to the success of our business and we continue to strive to have the best people in place to do this. Staff levels grew by 44% in 2007 to 124 – in Asia alone the team more than doubled to 28 people. 2008 promises to be a challenging year due to economic and market uncertainty. We relish the opportunities that we anticipate will arise as we work with investors to continue growing our fund offerings.

Fund portfolio

Funds under management

	Number of funds No.	Gross asset value Total £m	Office £m	Retail £m	Residential £m	Industrial £m
UK	4	1,528.2	484.8	995.3	48.1	–
USA	10*	814.5	565.1	101.7	94.2	53.5
Continental Europe	2	472.0	–	472.0	–	–
Asia	3	311.8	81.0	–	230.8	–
International	1	included above				
	20	3,126.5	1,130.9	1,569.0	373.1	53.5

*Includes separate account clients

Fund name	Sector	Gross asset value	Number of investors	Representative assets	Area m²
UK					
Grosvenor Festival Place Fund	Retail	£442m	4	Festival Place Shopping Centre, Basingstoke, Hampshire	96,700
Grosvenor London Office Fund	Office	£485m	5	40 Grosvenor Place, London	21,300
				Almack House, London	9,300
				10 Grosvenor Street, London	6,200
				Belgrave House, London	25,000
Grosvenor Residential Investment Fund	Residential	£48m	3	The Levels, Cambridge, East Anglia	2,100
				Belgrave House apartments, London	900
				17-19 Nevern Place, London	1,000
				Chasewood Park, Harrow	1,200
Grosvenor Shopping Centre Fund	Retail	£690m*	20	Cooper's Square, Burton-upon-Trent, Staffordshire	35,800
				Dolphin Centre, Poole, Dorset	46,100
				Eastgate shopping centre, Inverness, Scotland	38,100
				Freshney Place, Grimsby, Lincolnshire	46,500

*Includes £137m investment in Grosvenor Festival Place Fund

Fund name	Sector	Gross asset value	Number of investors	Representative assets	Area m²
USA					
Grosvenor Residential Investment Partners	Residential	US$0m (£0m)	5	No acquisitions in 2007	
Shmael US Real Estate Fund	Office	US$121m (£61m)	15	5505 Morehouse Drive, San Diego, CA	6,700
				1350 Piccard Drive, Rockville, MD	9,700
				Brookhollow Park, San Antonio, TX	9,600
				1450 Infinite Drive, Louisville, CO	14,400
Grosvenor Investment Management US Inc. – Separate Account Clients	Diverse	US$1,063m (£534m)	8*	1500 K Street, Washington, DC	22,600
				1601 Vine Street, Philadelphia, PA	139,400
				Heritage Pointe of Teaneck, Teaneck, NJ	13,700
*Number of separate accounts				Kingston at Lake Oconee, Buckhead, GA	58,300
Continental Europe					
Grosvenor French Retail Investments	Retail	€76m (£56m)	9	Avenue de l'Europe, Claye-Souilly	3,300
				Zone Commercial du Val du Loire Cosne-sur-loire	6,000
				15 rue Alsace-Lorraine, Toulouse	300
				50 rue de la Chaussée d'Antin, Paris	300
Grosvenor Retail European Properties Fund	Retail	€454m (£334m)	8	Rue Jean Monnet, Claye-Souilly, France	16,900
				Rue d'Antibes, Cannes, France	500
				Avenue Pierre Brosselette, Paris, France	5,800
				15-19 Place Gambetta, Bordeaux, France	5,500
Asia					
Grosvenor Capital Advisors Fund	Residential	JPY 24bn (£106m)	6	Chester Court Kasuga, Tokyo, Japan	3,600
				Takanawa Compound, Tokyo, Japan	1,400
				Chester Court Ochanomizu, Tokyo, Japan	3,800
				Chester House Shinagawa, Tokyo, Japan	1,200
Grosvenor Diamond Capital – Stable Residential Fund	Residential	JPY 28bn (£125m)	6	Mayfair Court Nishiazabu, Tokyo, Japan	1,300
				Mayfair Court Roppongi, Tokyo, Japan	1,900
				Vert Varie Kitasando, Tokyo, Japan	5,000
				Chester Court Nihonbashi, Tokyo, Japan	4,900
Grosvenor Office Retail Fund	Office/ Retail	JPY 18bn (£81m)	8	Nihonbashi Kitajima Building, Tokyo, Japan	1,800
				IPB Akebonobashi Building, Tokyo, Japan	1,400
				Joule A Building, Tokyo, Japan	5,000
				Riverside Shibaura Building, Tokyo, Japan	1,600
International					
ISPT Grosvenor International Property Trust	Diverse	£343m*	7	Research Tri Center, Durham, NC, USA	142,500
				The River, Rancho Mirage, CA, USA	21,200
				4501 N. Fairfax Drive, Arlington, VA, USA	18,100
*Includes £41m investment in Grosvenor Shopping Centre Fund				L'Anec Blau, Barcelona, Spain	27,800

Accounts

Corporate governance

The Combined Code
Grosvenor's business approach is based on openness and high levels of accountability, elements that are essential not only for the conduct of our own business but particularly for the operation of our third-party arrangements, whether in fund management, joint ventures or other partnerships. As a consequence, Grosvenor's approach to corporate governance follows best practice recommended by the Financial Reporting Council under the heading of the 'Combined Code', even though that code applies only to publicly quoted companies. The Board has reviewed all the provisions of the Combined Code issued by the UK Financial Reporting Council in July 2006 and has determined which of those provisions are appropriate in the context of Grosvenor's ownership structure.

Board of Directors
The Board comprises six full-time Executive Directors and five Non-Executive Directors, among whom three are also Trustees of the Grosvenor Trusts (see page 73). The composition of the Board is designed to ensure effective management and control of the Group, provide complete and timely information to the shareholders as well as proper representation of the shareholders' interests.

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

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

The Board and its committees held 13 meetings during the year, with majority attendance at all meetings.

The biographies of the members of the Board on page 15 demonstrate a range of experience and professional background to bring independent judgement on issues of strategy, performance, resources (including key appointments) and standards of conduct. A Statement of the Directors' responsibilities in respect of the accounts is set out on page 74.

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

The Board undertakes a regular evaluation of its own performance, which was last carried out in 2007.

The Board encourages the appointment of Executive Directors to appropriate external posts as this increases their breadth of knowledge and experience. Earnings from all such appointments are returned to the Group.

Audit Committee
The Board has a well established Audit Committee, which provides independent scrutiny of the Group's affairs. The Audit Committee is chaired by Robin Broadhurst. The members bring both a wide range of relevant international experience and an appreciation of the long-term interests of the shareholders.

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

The Audit Committee reviews annually the independence of the auditors. Auditor objectivity is ensured through a variety of procedures including rotation of audit partners. Any non-audit fees received by the auditors in excess of 50% of the audit fee are pre-approved by the Audit Committee.

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

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

Relations with shareholders and lenders

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

Internal control

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

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

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

In addition to local boards, each Operating Company, together with the Holding Company, is represented on the Group Finance Board, which meets at least twice each year and provides a forum for debating issues of a financial nature that are relevant to the Group as a whole, including the setting of Group policy and risk management.

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

The Board carried out its annual assessment of internal control for the year 2007 at its meeting in March 2008 by considering reports from management and the Audit Committee and taking account of events since 31 December 2007.

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

Operating and Holding Company controls

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

Treasury policies are set out in note 32 of the Accounts.

Financial information

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

Financial services activities

Grosvenor Investment Management Limited, a wholly owned subsidiary, is authorised and regulated in the UK by the Financial Services Authority for the purposes of undertaking regulated activities. All transactions with managed funds are separately accounted for under a full client accounting regime.

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

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

Remuneration report

Report on employment and remuneration matters specifically relating to Executive Directors and Senior Staff
Consistent with the delegation of management responsibility to regional management teams, the Britain & Ireland, Americas and Continental Europe regions have their own remuneration committees with appropriate responsibility for remuneration matters within those Operating Companies.

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

The Remuneration Committee comprises three Non-Executive Directors. It meets at least twice a year. The Group Chief Executive and Group Human Resources Director may be invited to attend, unless their own remuneration is being discussed. The Committee is responsible for overseeing remuneration and employment policies across the whole Group and also for administering directly the remuneration and contracts of Directors and staff in the Holding Company, Grosvenor Australia, Grosvenor Asia Pacific and Grosvenor Fund Management. The Committee has access to external independent professional advisers as necessary.

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

The remuneration of Executive Directors and Senior Staff includes a blend of short and long-term rewards and has been designed to provide an alignment of interests of both employees and shareholders. The elements are:

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

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

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

The notice period for the termination of the employment of an Executive Director is six months.

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

Transactions between the Group and Grosvenor Trusts are disclosed in note 41 of the accounts. Certain Company Directors are Trustees of Grosvenor Trusts and are also Directors of other companies with which the Group may from time to time enter into transactions on normal commercial terms. In the opinion of the Board, none of these relationships are such as to impair the independence of the Non-Executive Directors.

Robin Broadhurst
Chairman of the Remuneration Committee

13 March 2008

Directors' report

The Directors present their Annual Report and the Group's audited consolidated financial statements for the year ended 31 December 2007.

Principal activities and business review

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

The review of the business in accordance with the requirements of Section 234ZZB of the Companies Act 1985 (the 'Business Review') can be found in the review section on pages 1 to 63, which is incorporated into this report by reference.

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

Risks and uncertainties

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

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

Market risk

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

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

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

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

Asset allocation

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

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

Long-term ranges for equity allocated to Operating Companies agreed in January 2008, and actual equity allocations at 31 December 2007, were as follows:

	Percentage of Group Equity	
	Long-term range %	At 31 December 2007 %
Operating Company		
Britain & Ireland	40.0 – 65.0	56.1
Americas	12.5 – 27.5	16.4
Continental Europe	10.0 – 22.5	17.2
Australia	2.5 – 10.0	5.9
Asia Pacific	2.5 – 20.0	3.3
Fund Management	0 – 10.0	1.1

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

The current distribution of the Group's investment and development portfolio by sector and region is shown on page 24, and the distribution of total assets under management is shown on page 3.

Property risks

Investment properties

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

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

Developments

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

Capital raising

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

Acquisitions and sales

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

Financial risks

The principal financial risks faced by the Group are liquidity, credit, interest rate and foreign currency risk. Each of these risks is explained in more detail and analysed in note 32 of the Accounts.

Tax

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

Health and safety

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

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

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

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

The Group continues to review its reporting of performance information and continues to improve its health and safety information technology ('IT') system to assist the business. All accidents and cases of ill health are treated seriously. In 2007 each business had a health and safety action plan and made good progress in completing these plans.

In 2007, there were 40 (2006 – 170) incidents relating to premises and projects that Grosvenor controls that were reportable to statutory authorities.

Grosvenor did not receive any enforcement action from statutory health and safety authorities in 2007.

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

Environment

The Group takes a long-term view of its activities and responsibilities. Concern for the environment is therefore an important factor throughout the management of all Group companies. Over the past year, the Group has reviewed its policies and practices for environmental sustainability. The principal characteristics of its approach, which have been approved by the Group Board, are as follows:

Over-arching principles

– Incorporate environmental sustainability within brand values, business strategy and behaviour.

– Measure performance and set achievable but challenging targets.

– Involve all staff; share knowledge and best practice.

– Seek high standards from partners; assure customers of best practice.

– Invest in learning and training; support the wider development of knowledge; influence regulation.

– Create long-term value while demonstrating social responsibility.

Management

Implementation of these principles and their adaptation to local market circumstances is devolved to Operating Company level, but co-ordinated centrally through the newly appointed Group Director of Environment and Design.

The Group Chief Executive is the responsible and accountable officer on the Group Board. The Operating Company Chief Executives/Managing Directors are the responsible and accountable officers on Operating Company Boards.

Each Operating Company has a dedicated senior manager responsible for the delivery of its environmental objectives, supported by a team with specific areas of responsibility.

Policies and action plans

Each Operating Company has reviewed its environmental policy, both for its managed assets and for its own operational offices, and has prepared an action plan covering short and longer-term actions required to implement the policy with defined management responsibilities. In each case the policy and action plan has been approved by the Operating Company's board.

The action plans include specific objectives for assembling, over time, measurements of performance and for ensuring compliance with statutory obligations and local market benchmarks.

The approved polices and action plans will be reflected in each Operating Company's annual strategic plan and in the personal objectives and performance appraisals of those most concerned with their management or application.

In preparing and implementing the policies and action plans it is recognised that:

– there is considerable local variation in environmental regulation and market practice both between and within the Operating Companies;

– the environmental performance of a managed asset will depend at least as much on the behaviour and management of the occupier within the terms of its lease, as it does on Grosvenor's own management; and

– Grosvenor's ability to secure accurate measurement data of managed building performance will depend on the willingness of the ultimate occupier to provide it. Grosvenor may not have a contractual right to receive it, and in some cases Grosvenor is not the direct landlord of the ultimate occupier.

Research, regulation and policy formation

Among other initiatives:

The Group supports independent research into relevant aspects of sustainability and the long-term impact of climate change on the built environment.

Within its operating locations, Grosvenor is represented on a number of professional or industry bodies and other non-political interest groups. Such participations allow an exchange of best practice, as well as consultation with policy-makers and regulators.

Reputation and brand

The professional reputation of the individuals and businesses within the Group is an important intangible asset, as is the Grosvenor brand. We seek to manage these assets by investing appropriately in them, and by identifying potential reputational or brand risks and acting swiftly to mitigate those risks, whether they be real or perceived. In 2007 we initiated a Group-wide review of the brand, working with external consultants. This involved internal and external research into how the corporate brand is used and perceived. As a result of this review, during 2008 we will roll out to Operating Companies an explanation of the brand, together with guidelines for its management.

People

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

Information technology

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

Key performance indicators and measures of return

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

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

Our achievement against these indicators is set out in the Finance Director's report on pages 10 to 13. We currently employ numerous key performance indicators throughout the Group to help achieve ambitious goals and our philosophy of continuous improvement.

Results and dividends

The results for the year are set out in the consolidated income statement on page 76. Profit for the year was £427.9m (2006 – £364.2m). Dividends paid during the year amounted to £10.7m (2006 – £9.4m). Subsequent to the year end a dividend of £8.1m (2006 – £6.7m) was proposed, but in accordance with International Financial Reporting Standards (IFRS) has not been provided in these financial statements.

On 14 March 2007 the Company purchased 4 million shares from shareholders, representing 6.56% of its called up share capital, as shown in note 38. The total consideration for the purchase of the shares was £40.3m, funded from available cash. The reason for the purchase of the shares was to align better the shareholders' interests with the Group's activities.

Directors

Details of the Directors of the Company and their biographies are given on pages 14 and 15. All Directors served throughout the year with the exception of those set out below.

The Duke of Westminster (resigned 1 May 2007)

Lord George (resigned 8 November 2007)

Directors' interests in securities

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

	Ordinary shares		Non-voting ordinary shares		12% Non-cumulative irredeemable preference shares	
	At 1 January 2007	At 31 December 2007	At 1 January 2007	At 31 December 2007	At 1 January 2007	At 31 December 2007
Beneficial						
The Duke of Westminster	6,083,924	–	48,671,392	–	6,083,924	–
Non-beneficial						
The Earl of Home	1,515,529	1,515,529	12,124,233	12,124,233	1,515,529	1,515,529
Jeremy H M Newsum	4,290,433	4,290,433	34,323,463	34,323,463	4,290,433	4,290,433
Robin S Broadhurst	4,052,363	4,052,363	32,418,904	32,418,904	4,052,363	4,052,363

The non-beneficial interests above represent the shares owned by the respective Directors in their capacity as Trustees of the Grosvenor Trusts. There have been no changes in beneficial or non-beneficial interests since 31 December 2007. The interests held by The Duke of Westminster have not been disclosed in 2007 following his retirement as Director of the Group.

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

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

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

Charitable and political donations

Charitable contributions during the year amounted to £2.0m (2006 – £1.5m). £1.6m was donated to the Westminster Foundation (2006 – £1.2m), which supports a wide range of charitable causes. No political contributions were made during the year (2006 – £nil).

Policy on payment of suppliers

Payment terms are agreed with suppliers on an individual basis. It is the policy of both the Company and the Group to abide by the agreed terms, provided that the suppliers also comply with all relevant terms and conditions. In respect of the Group's activities in the UK, trade creditors at 31 December 2007 represented 5 days' purchases (2006 – 8 days). The Company has no trade creditors.

Employees

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

Auditors

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

Each of the persons who is a Director at the date of approval of this report confirms that:

a) in so far as the Directors are aware, there is no relevant audit information of which the auditors are unaware; and

b) the Directors have taken all reasonable steps that they ought to have taken to make themselves aware of any relevant information and to establish that the Company's auditors are aware of that information.

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

Judith Ball
Company Secretary
13 March 2008

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

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

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

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

– properly select and apply accounting policies;

– present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

– provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and

– make an assessment of the Company's ability to continue as a going concern.

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

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

Corporate advisers and bankers

Auditors:	Deloitte & Touche LLP
Tax advisers:	KPMG LLP
Principal valuers:	CB Richard Ellis, Cushman & Wakefield
Solicitors:	Boodle Hatfield, Slaughter and May
Lead bankers:	The Royal Bank of Scotland Group plc
Actuaries:	Lane Clark & Peacock LLP

Independent auditors' report

to the members of Grosvenor Group Limited

We have audited the Group and parent Company financial statements (the 'financial statements') of Grosvenor Group Limited for the year ended 31 December 2007, which comprise the consolidated income statement, the consolidated and parent Company balance sheets, the consolidated statement of recognised income and expense, the consolidated statement of cash flows, and the related notes 1 to 41. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the Directors' report is consistent with the financial statements. The information given in the Directors' report includes that specific information that is cross-referenced from the principal activities and business review section of the Directors' report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

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

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

– the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's and the parent Company's affairs as at 31 December 2007, and of the Group's profit for the year then ended;

– the financial statements have been properly prepared in accordance with the Companies Act 1985; and

– the information given in the Directors' report is consistent with the financial statements.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
13 March 2008

Consolidated income statement

for the year ended 31 December 2007

	Note	2007 £m	2006 £m
Total revenue	3	453.3	352.8
Gross rental income	5	106.4	106.8
Property outgoings	6	(45.0)	(41.6)
Net rental income		61.4	65.2
Other income	7	45.7	52.9
Administrative expenses	8	(81.5)	(75.8)
Net loss on trading and development properties	12	(35.4)	(176.6)
Gains on other investments and joint ventures	13	12.6	0.3
Net gains on revaluation and sale of investment property	14	413.9	518.7
Impairment of goodwill	26	–	(0.2)
Share of profit from joint ventures and associates	22	120.0	145.0
Profit from operations including share of joint ventures and associates		536.7	529.5
Dividend income	15	1.3	1.1
Financial income	15	27.6	18.3
Financial expenses	15	(43.3)	(41.2)
Fair value adjustments	15	1.7	1.0
Net financing costs	15	(12.7)	(20.8)
Profit before tax		524.0	508.7
Current tax	16	(47.1)	(20.1)
Deferred tax	16	(49.0)	(124.4)
Profit for the year	39	427.9	364.2
Attributable to:			
Equity holders of the parent	39	405.5	347.1
Minority interests	39	22.4	17.1
Profit for the year	39	427.9	364.2

Balance sheets

as at 31 December 2007

		Group		Company	
	Note	2007 £m	2006 £m	2007 £m	2006 £m
ASSETS					
Non-current assets					
Investment property	18	2,841.7	2,264.4	–	–
Investment property under development	19	79.9	85.6	–	–
Other property, plant and equipment	20	52.5	43.1	–	–
Investments in subsidiaries	21	–	–	1,358.4	1,358.4
Investments in joint ventures and associates	22	1,156.0	1,050.1	–	–
Other financial assets	25	55.4	50.0	–	–
Intangible assets	26	5.0	4.9	–	–
Employee benefits	10	3.5	–	–	–
Deferred tax assets	27	63.6	65.8	–	–
Total non-current assets		4,257.6	3,563.9	1,358.4	1,358.4
Current assets					
Trading properties	28	147.1	48.7	–	–
Trade and other receivables	29	163.2	133.1	135.5	110.5
Other financial assets	25	8.6	9.4	–	–
Income tax receivable		22.8	30.7	–	–
Cash and cash equivalents	30	323.6	455.4	–	–
Total current assets		665.3	677.3	135.5	110.5
TOTAL ASSETS		4,922.9	4,241.2	1,493.9	1,468.9
LIABILITIES					
Non-current liabilities					
Interest-bearing loans and borrowings	31	(558.5)	(565.6)	–	–
Trade and other payables	33	(167.4)	(154.6)	–	–
Employee benefits	10	(12.7)	(15.8)	–	–
Deferred tax liabilities	27	(604.4)	(555.2)	–	–
Total non-current liabilities		(1,343.0)	(1,291.2)	–	–
Current liabilities					
Overdrafts	30	(0.3)	(4.6)	–	–
Interest-bearing loans and borrowings	31	(112.6)	(89.3)	–	–
Trade and other payables	33	(194.6)	(106.9)	(25.3)	–
Income tax payable		(28.7)	(23.6)	–	–
Provisions	34	(180.2)	(158.8)	–	–
Total current liabilities		(516.4)	(383.2)	(25.3)	–
TOTAL LIABILITIES		(1,859.4)	(1,674.4)	(25.3)	–
NET ASSETS		3,063.5	2,566.8	1,468.6	1,468.9
Equity					
Share capital	38	56.8	60.8	56.8	60.8
Share premium	39	173.1	173.1	28.3	28.3
Reserves	39	314.0	210.2	1,272.7	1,268.7
Retained earnings	39	2,344.5	1,973.8	110.8	111.1
Shareholders' funds	39	2,888.4	2,417.9	1,468.6	1,468.9
Minority interests	39	175.1	148.9	–	–
TOTAL EQUITY	39	3,063.5	2,566.8	1,468.6	1,468.9

Approved by the Board on 13 March 2008 and signed on behalf of the Board

The Earl of Home CVO CBE (Chairman)

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

Consolidated statement of recognised income and expense

for the year ended 31 December 2007

		2007 £m	2006 £m
Foreign exchange translation differences		106.1	(77.5)
Revaluation of investment property under development	– Group	13.9	19.0
	– joint ventures	14.2	22.0
	– associates	(9.3)	29.9
Revaluation of other property, plant and equipment		9.8	8.7
Change in fair value of equity shares available for sale		1.8	(0.1)
Fair value adjustments on swaps		(0.3)	2.9
Fair value adjustments transferred to income statement		(3.3)	–
Deferred tax on gains recognised in reserves		(1.8)	(25.0)
Actuarial gains and losses on defined benefit pension schemes		4.4	10.6
Net gain/(loss) recognised directly in equity		135.5	(9.5)
Profit for the year		427.9	364.2
Total recognised income and expense for the year		563.4	354.7
Attributable to:			
Equity holders of the parent		521.7	335.7
Minority interest		41.7	19.0
		563.4	354.7

A consolidated statement of changes in equity is given in the reconciliation of share capital and reserves on page 117. The Company's equity increased during the year as a result of the retained profit for the year of £50.9m (2006 – £99.4m) and reduced as a result of dividends paid to shareholders of £10.7m (2006 – £9.4m) and shares redeemed of £40.5m (2006 – £nil).

Consolidated statement of cash flows

for the year ended 31 December 2007

	Note	2007 £m	2006 £m
Operating activities			
Operating profit before changes in working capital and provisions	40(a)	(6.8)	(137.5)
Decrease/(increase) in trade and other receivables		1.4	(24.4)
(Increase)/decrease in trading properties		(69.5)	10.4
Increase in trade and other payables		50.9	7.3
Decrease in employee benefits		(4.4)	(4.9)
Increase in provisions		21.4	148.8
Cash flow from operations		(7.0)	(0.3)
Interest paid		(45.1)	(47.2)
Income taxes paid		(38.4)	(30.5)
Interest received		25.7	22.4
Net cash flows from operating activities		(64.8)	(55.6)
Investing activities			
Proceeds from sale of investment property		189.3	371.9
Acquisition of investment property		(206.8)	(192.7)
Development of investment property		(31.1)	(20.3)
Proceeds from sale of other property, plant and equipment		0.8	–
Acquisition of other property, plant and equipment		(2.1)	(2.6)
Proceeds from sale of other financial assets		21.9	24.9
Acquisition of other financial assets		(14.7)	(14.5)
Net cash flow (to)/from joint ventures and associates		(27.1)	15.9
Proceeds from sale of joint ventures and associates		60.0	–
Acquisition of Group undertakings		–	(161.9)
Dividends received		1.3	1.1
Net cash flows from investing activities		(8.5)	21.8
Financing activities			
Proceeds from additional borrowings		47.9	108.0
Repayment of borrowings		(64.4)	(19.9)
Shares redeemed		(15.2)	–
Minority shares issued by subsidiaries		–	35.5
Dividends paid		(26.2)	(9.9)
Net cash flows from financing activities		(57.9)	113.7
Net increase in cash and cash equivalents		(131.2)	79.9
Cash and cash equivalents at 1 January		450.8	384.3
Effect of exchange rate fluctuation on cash held		3.7	(13.4)
Cash and cash equivalents at 31 December	30	323.3	450.8

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

Notes to the financial statements

1 ACCOUNTING POLICIES

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

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

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

(b) Basis of consolidation
The consolidated financial statements of the Group incorporate the financial statements of the Company and its subsidiary undertakings.

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

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

Where the Group has contractual relationships to share assets with other entities (jointly controlled assets) the Group's share of the individual items of assets, liabilities, income and expenses are recognised in the financial statements and classified according to their nature.

Where necessary, adjustments are made to the results of subsidiaries, joint ventures and associates to bring their accounting policies into line with those used by the Group. Intra-group transactions, balances, income and expense are eliminated on consolidation, where appropriate.

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

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

(c) Foreign currency translation
At entity level, transactions denominated in foreign currencies are translated into the relevant functional currency at the exchange rate ruling on the date the transaction is recorded. Monetary assets and liabilities denominated in foreign currencies are re-translated at the exchange rate ruling at the balance sheet date or, if hedged, at the exchange rate under the related hedging transaction and the resultant exchange differences are dealt with in the income statement. On consolidation, the results of overseas companies are translated into Sterling at the average exchange rate for the period and their assets and liabilities are translated into Sterling at the exchange rate ruling at the balance sheet date. Exchange differences arising from the translation of foreign operations, and of related hedges, are taken to the translation reserve. They are released into the income statement upon disposal.

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

1 ACCOUNTING POLICIES continued

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

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

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

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

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

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

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

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

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

(g) Other financial assets
Financial assets available for sale are stated at fair value which is determined by reference to an active market and any resultant gain or loss is recognised in the fair value reserve. Where the Group has the positive intent and ability to hold a financial asset to maturity, it is stated at amortised cost less impairment losses. Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted on an active market are classified as loans and receivables. Loans and receivables are included at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated future cash flows of the investment have been impacted.

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

(i) Trade and other receivables
Trade and other receivables are stated at cost less any impairment.

1 ACCOUNTING POLICIES continued

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

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

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

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

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

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

(l) Trade and other payables
Trade and other payables are stated at cost.

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

(n) Employee benefits
Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

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

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

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

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

1 ACCOUNTING POLICIES continued

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

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

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

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

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

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

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

(q) Borrowing costs
Borrowing costs relating to the financing of development properties, major improvements to investment properties and trading properties that require substantial periods of time to bring into saleable condition are capitalised. Borrowing costs are calculated by reference to the actual rate payable on borrowings specific to a project or, where a project is financed out of general funds, to the average rate for all borrowings. Borrowing costs are capitalised from the commencement of the project, until the date of practical completion of the project.

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

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

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

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

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

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

1 ACCOUNTING POLICIES continued

(t) Adoption of standards

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Group. They did however give rise to additional disclosures:

– IFRS 7 Financial instruments: disclosures
– IAS 1 Amendment – presentation of financial statements: capital disclosures
– IFRIC 8 Scope of IFRS 2
– IFRIC 9 Reassessment of embedded derivatives
– IFRIC 10 Interim financial reporting and impairment

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

– IFRS 8 Operating segments
– IAS 1 Presentation of financial statements (Revised)
– IAS 23 Borrowing costs (Revised)
– IFRIC 11 IFRS 2 Group and treasury share transactions
– IFRIC 12 Service concession arrangements
– IFRIC 13 Customer loyalty programmes
– IFRIC 14 IAS 19 The limit on a defined benefit asset, minimum funding requirements and their interaction

The Directors anticipate that the adoption of these standards and interpretations will have no material impact on the financial statements of the Group in the period of initial application.

(u) Significant judgements and key estimates

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

ii) Development provisions
The provision for losses on the Liverpool One project is based on a detailed review of construction and letting progress, an estimate of the remaining costs to complete the project and its investment value at completion.

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

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

2 FOREIGN CURRENCY

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

	Average rate		Year end rate	
	2007 £1	2006 £1	2007 £1	2006 £1
Euros	1.46	1.47	1.36	1.48
US Dollars	2.00	1.85	1.99	1.96
Canadian Dollars	2.15	2.09	1.96	2.28
Australian Dollars	2.39	2.44	2.27	2.48
Hong Kong Dollars	15.62	14.35	15.52	15.22
Chinese Renminbi	15.21	14.70	14.54	15.28
Japanese Yen	235.50	214.53	222.38	233.20

3 SEGMENTAL ANALYSIS

2007

Geographical segments*	Britain & Ireland £m	Americas £m	Continental Europe £m	Australia £m	Asia Pacific £m	Fund Management £m	Consolidated £m
Income statement							
Income from external customers							
Rental income	66.7	21.7	2.7	14.3	1.0	–	106.4
Income from trading and development properties	283.0	1.2	–	9.8	–	–	294.0
Service charge income	5.6	–	0.5	0.8	0.3	–	7.2
Other income	9.1	10.9	2.4	0.3	2.4	20.6	45.7
Total revenue	364.4	33.8	5.6	25.2	3.7	20.6	453.3
Net rental and other income less administrative expenses	12.4	10.1	(0.7)	6.7	(2.2)	(0.7)	25.6
(Losses)/gains from trading and development properties	(37.4)	(0.3)	–	2.3	–	–	(35.4)
Gains on other investments	1.0	–	–	–	11.6	–	12.6
Net gains on revaluation and sale of investment property	308.1	54.7	1.7	40.7	8.7	–	413.9
Share of profit from joint ventures and associates	23.5	17.8	74.3	1.5	2.9	–	120.0
Net financing costs	(13.3)	4.4	2.1	(4.6)	(2.6)	1.3	(12.7)
Profit before tax	294.3	86.7	77.4	46.6	18.4	0.6	524.0
Current tax	(34.5)	(8.2)	(1.1)	(2.3)	(0.2)	(0.8)	(47.1)
Deferred tax	(25.4)	(11.3)	(0.6)	(10.4)	(1.6)	0.3	(49.0)
Profit for the year	234.4	67.2	75.7	33.9	16.6	0.1	427.9
Balance sheet							
Segment assets – Investments in joint ventures and associates	398.7	139.8	567.6	14.2	33.1	2.6	1,156.0
– Other	2,443.2	591.2	158.8	282.1	137.1	68.1	3,680.5
	2,841.9	731.0	726.4	296.3	170.2	70.7	4,836.5
Segment liabilities	(858.0)	(154.1)	(44.0)	(89.2)	(54.6)	(26.4)	(1,226.3)
Segment net tax liabilities	(398.7)	(102.6)	(11.6)	(27.1)	(2.8)	(3.9)	(546.7)
Net assets	1,585.2	474.3	670.8	180.0	112.8	40.4	3,063.5
Capital expenditure	155.0	102.3	–	0.3	64.2	–	321.8
Depreciation and amortisation of segment assets	1.9	0.2	0.1	–	–	0.6	2.8

*The business is organised across six Operating Companies, five of which are geographical regions. Grosvenor Fund Management operates across all regions and is therefore presented separately. Holding Company activity is included in Britain & Ireland.

Business segments	Property Investment £m	Property Development £m	Fund and Joint Venture Management £m	Unallocated £m	Consolidated £m
Income from external customers	126.9	305.8	20.6	–	453.3
Profit/(loss) for the period	495.8	15.5	0.1	(83.5)	427.9
Segment assets	3,924.0	573.7	73.8	265.0	4,836.5
Capital expenditure	218.0	103.8	–	–	321.8

3 SEGMENTAL ANALYSIS continued

2006

Geographical segments*	Britain & Ireland £m	Americas £m	Continental Europe £m	Australia £m	Asia Pacific £m	Fund Management £m	Consolidated £m
Income statement							
Income from external customers							
Rental income	69.1	22.0	2.4	12.8	0.5	–	106.8
Income from trading and development properties	164.2	9.4	–	11.6	–	–	185.2
Service charge income	7.6	–	0.3	–	–	–	7.9
Other income	12.3	11.4	1.5	0.9	0.2	26.6	52.9
Total revenue	253.2	42.8	4.2	25.3	0.7	26.6	352.8
Net rental and other income less administrative expenses	18.2	11.0	(1.2)	7.6	(2.3)	9.0	42.3
(Losses)/gains from trading and development properties	(180.7)	2.9	–	1.2	–	–	(176.6)
Gains on other investments	0.1	–	–	–	0.2	–	0.3
Net gains/(losses) on revaluation and sale of investment property	440.8	51.3	(0.2)	25.0	1.8	–	518.7
Impairment of goodwill	–	–	(0.2)	–	–	–	(0.2)
Share of profit from joint ventures and associates	62.5	20.5	58.3	1.5	1.9	0.3	145.0
Net financing costs	(20.7)	1.6	(1.6)	(0.7)	–	0.6	(20.8)
Profit before tax	320.2	87.3	55.1	34.6	1.6	9.9	508.7
Current tax	(5.8)	(7.4)	(0.6)	(2.0)	(0.1)	(4.2)	(20.1)
Deferred tax	(98.2)	(20.8)	0.5	(6.8)	0.2	0.7	(124.4)
Profit for the year	216.2	59.1	55.0	25.8	1.7	6.4	364.2
Balance sheet							
Segment assets – Investments in joint ventures and associates	417.1	142.9	454.8	16.7	16.9	1.7	1,050.1
– Other	2,131.1	462.8	178.1	198.3	78.3	46.0	3,094.6
	2,548.2	605.7	632.9	215.0	95.2	47.7	4,144.7
Segment liabilities	(782.4)	(155.4)	(65.0)	(69.5)	(13.0)	(10.3)	(1,095.6)
Segment net tax liabilities	(371.3)	(83.0)	(9.7)	(13.8)	(1.0)	(3.5)	(482.3)
Net assets	1,394.5	367.3	558.2	131.7	81.2	33.9	2,566.8
Capital expenditure	103.0	139.4	–	2.8	12.0	–	257.2
Depreciation and amortisation of segment assets	2.0	0.1	–	–	0.1	0.7	2.9

*The business is organised across six Operating Companies, five of which are geographical regions. Grosvenor Fund Management operates across all regions and is therefore presented separately. Holding Company activity is included in Britain & Ireland.

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

4 REVENUE PROFIT/(LOSS)

The Group uses revenue profit as its primary measure of underlying operating performance. The calculation of revenue profit and its reconciliation to profit before tax is set out below.

	2007			2006		
	Group £m	Share of joint ventures and associates £m	Total £m	Group £m	Share of joint ventures and associates £m	Total £m
Gross rental income	106.4	123.1	229.5	106.8	113.5	220.3
Property outgoings (excluding major refurbishments)	(35.0)	(24.8)	(59.8)	(35.5)	(29.8)	(65.3)
Net rental income (before major refurbishments)	71.4	98.3	169.7	71.3	83.7	155.0
Fees and other income	45.7	13.6	59.3	52.9	17.7	70.6
(Loss)/profit on trading and development properties	(35.4)	37.9	2.5	(176.6)	(4.0)	(180.6)
Administrative expenses	(81.5)	(31.7)	(113.2)	(75.8)	(28.3)	(104.1)
Net financing costs (excluding fair value adjustments)	(10.7)	(34.2)	(44.9)	(21.8)	(27.0)	(48.8)
Revenue (loss)/profit	(10.5)	83.9	73.4	(150.0)	42.1	(107.9)
Development loss provision	39.5	–	39.5	169.9	–	169.9
Revenue profit excluding development loss provision	29.0	83.9	112.9	19.9	42.1	62.0
Revenue (loss)/profit	(10.5)	83.9	73.4	(150.0)	42.1	(107.9)
Joint ventures and associates:						
– Revenue profit	–	(83.9)	(83.9)	–	(42.1)	(42.1)
– Equity accounted profit	–	120.0	120.0	–	145.0	145.0
Net gains on revaluation and sale of investment properties	413.9	–	413.9	518.7	–	518.7
Major refurbishment costs	(10.0)	–	(10.0)	(6.1)	–	(6.1)
Gains on other investments	12.6	–	12.6	0.3	–	0.3
Impairment of goodwill	–	–	–	(0.2)	–	(0.2)
Derivative fair value adjustments	(2.0)	–	(2.0)	1.0	–	1.0
Profit before tax	404.0	120.0	524.0	363.7	145.0	508.7

5 GROSS RENTAL INCOME

	2007 £m	2006 £m
Gross lease payments receivable	104.8	104.1
Amortisation of capitalised lease incentives	(0.5)	0.8
Amortisation of deferred lease premiums	2.1	1.9
	106.4	106.8

Investment properties are leased out under operating leases. The majority of operating lease terms fall in the range between six months and 20 years. Certain investment properties on the London Estate are leased out on longer-term ground-rent based leases for periods of up to 946 years.

Total contingent rents included in gross rental income amounted to £0.2m (2006 – £0.2m).

6 PROPERTY OUTGOINGS

	2007 £m	2006 £m
Service charge income	7.2	7.9
Service charge expenses	(8.1)	(8.5)
Net service charge expenses	(0.9)	(0.6)
Other property operating expenses	(44.1)	(41.0)
Total net property outgoings	(45.0)	(41.6)

Included within property operating expenses are major refurbishment costs of £10.0m (2006 – £6.1m).

7 OTHER INCOME

	2007 £m	2006 £m
Fund management and asset management fees	26.9	32.8
Project management fees	8.1	11.3
Other income	10.7	8.8
	45.7	52.9

8 ADMINISTRATIVE EXPENSES

	2007 £m	2006 £m
Staff costs	51.7	51.1
Office costs	11.5	10.9
Auditors' remuneration – audit services	0.9	0.8
– other services	–	0.1
Other professional fees	8.5	8.1
Other administrative expenses	8.9	4.8
	81.5	75.8

All of the Group's Operating Companies were audited by Deloitte. £0.5m (2006 – £0.5m) of the total audit fee is estimated to relate to the audit of the Group and £0.4m (2006 – £0.3m) to the audit of the Group's subsidiaries. The Company's audit fees were borne by another Group company. Amounts paid to other accountancy firms in 2007 totalled £1.4m (2006 – £1.1m).

9 EMPLOYEE INFORMATION

	2007 £m	2006 £m
Staff costs		
Wages and salaries	56.3	46.7
Social security contributions	4.2	4.0
Other staff costs	5.4	9.0
Pension costs		
Contributions to defined contribution plans	1.7	1.1
Net cost of defined benefit plans	3.7	6.1
	71.3	66.9
Included in:		
Administrative expenses	51.7	51.1
Property operating expenses	9.0	6.7
Development costs	10.6	9.1
	71.3	66.9

9 EMPLOYEE INFORMATION continued

	2007	2006
Average number of employees by activity		
Property investment	155	120
Property development	116	98
Fund management	103	83
Management and administration	198	198
Shopping centre and property management	12	2
	584	501

	2007	2006
Average number of employees by geographic region		
Britain & Ireland	365	325
Continental Europe	50	28
Americas	103	97
Australia	24	23
Asia Pacific	42	28
	584	501

The Group carries out its own property management for the majority of the portfolio in Britain & Ireland. The Company employs no staff (2006 – nil).

10 RETIREMENT BENEFIT SCHEMES

Defined benefit schemes

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

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

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

Actuarial valuations were last carried out at the following dates:

Britain & Ireland	31 December 2005
Australia	1 July 2006
Canada	31 December 2007
USA	31 December 2007

All the valuations have been updated to 31 December 2007 where appropriate. The results of these valuations together with the key assumptions used are set out below.

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

Defined contribution schemes

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

The total cost of defined contribution pension schemes charged to the income statement was £1.7m (2006 – £1.1m).

10 RETIREMENT BENEFIT SCHEMES continued

The amounts recognised in the income statement in respect of defined benefit schemes are:

	2007 £m	2006 £m
Current service cost	5.3	6.2
Past service cost	–	0.3
Interest cost	5.8	5.9
Expected return on scheme assets	(6.6)	(6.3)
Curtailment	(0.8)	–
	3.7	6.1

The amounts included in the balance sheet arising from the Group's obligations in respect of defined benefit schemes are:

	2007 £m	2006 £m
Present value of unfunded obligations	(8.7)	(9.7)
Present value of funded obligations	(105.1)	(101.4)
Present value of total defined benefit obligations	(113.8)	(111.1)
Fair value of scheme assets	104.6	95.3
Defined benefit pension deficit	(9.2)	(15.8)
Included in the balance sheet under:		
Non-current assets	3.5	–
Non-current liabilities	(12.7)	(15.8)
	(9.2)	(15.8)
The net deficit arises in the following regions:		
Britain & Ireland – scheme surplus	3.5	–
Britain & Ireland – scheme deficit	(4.2)	(5.9)
Canada	(2.8)	(1.6)
USA	(4.7)	(7.3)
Australia	(1.0)	(1.0)
	(9.2)	(15.8)

Movements in the present value of defined benefit obligations are:

	2007 £m	2006 £m
At 1 January	111.1	124.1
Current service cost	5.3	6.2
Past service cost	–	0.3
Interest cost	5.8	5.9
Actuarial gains	(5.6)	(5.5)
Adjustment to the Group's share of multi-employer schemes	–	(10.3)
Benefits paid	(4.8)	(4.3)
Curtailment	(0.8)	–
Settlement	–	(1.3)
Exchange movements	2.8	(4.0)
At 31 December	113.8	111.1

10 RETIREMENT BENEFIT SCHEMES continued

Analysis of the scheme liabilities:

	2007 £m	2006 £m
Britain & Ireland	77.8	77.1
Canada	20.0	17.0
USA	12.6	14.4
Australia	3.4	2.6
At 31 December	113.8	111.1

Movements in fair value of scheme assets were:

	2007 £m	2006 £m
At 1 January	95.3	96.3
Expected return on plan assets	6.6	6.3
Actuarial (losses)/gains	(1.2)	4.9
Adjustment to the Group's share of multi-employer schemes	–	(10.1)
Contributions by the employer	6.2	5.3
Benefits paid	(4.8)	(4.3)
Exchange movements	2.5	(3.1)
At 31 December	104.6	95.3

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

2007

	Equities		Bonds		Other		Total
	%	£m	%	£m	%	£m	£m
Britain & Ireland	7.6	67.9	4.4	8.0	4.4	1.1	77.0
Canada	8.3	8.5	4.7	4.5	3.3	4.3	17.3
USA	9.7	5.3	6.0	2.3	4.2	0.3	7.9
Australia	10.6	1.3	6.6	0.5	5.7	0.6	2.4
		83.0		15.3		6.3	104.6

2006

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

10 RETIREMENT BENEFIT SCHEMES continued

The key assumptions used in each scheme were:

	2007	2006
Discount rate		
Britain & Ireland	5.8%	5.1%
Canada	5.5%	5.2%
USA	6.5%	5.7%
Australia	5.4%	5.0%
Expected return on scheme assets		
Britain & Ireland	7.2%	7.2%
Canada	5.0%	5.0%
USA	8.3%	8.3%
Australia	6.5%	6.5%
Expected rate of salary increases		
Britain & Ireland	6.6%	6.3%
Canada	4.5%	4.5%
USA	5.0%	5.0%
Australia	4.5%	4.5%
Expected rate of future pension increases		
Britain & Ireland	3.3%	2.9%
Canada	3.0%	3.0%
USA	3.0%	3.0%
Australia	1.9%	1.9%
Inflation		
Britain & Ireland	3.3%	2.9%
Canada	3.0%	3.0%
USA	3.0%	3.0%
Australia	2.5%	2.5%

	Male		Female	
	2007	2006	2007	2006
Life expectancy of a 65-year-old today				
Britain & Ireland	22.6	21.8	24.9	24.7
Canada	18.5	18.5	21.1	21.1
USA	19.4	19.4	21.6	21.6
Australia	21.3	19.1	24.1	22.2
Life expectancy of a 65-year-old in 20 years				
Britain & Ireland	23.8	23.0	25.9	25.8
Canada	18.5	18.5	21.1	21.1
USA	19.4	19.4	21.6	21.6
Australia	23.3	19.1	26.1	22.2

The sensitivity to the assumptions above of the total defined benefit obligation and approximate income statement charge is set out below.

	Total defined benefit obligation £m	Approximate charge in 2008 £m
Based on the assumptions above	113.8	4.2
Approximate impact of:		
Increase in discount rate by 0.25%	(4.8)	(0.3)
Increase in inflation rate by 0.25%	5.0	0.7
Increase in life expectancy by one year at 65	3.0	0.2
Increase in return on assets by 0.25%	–	(0.3)

10 RETIREMENT BENEFIT SCHEMES continued

The history of experience gains and losses is as follows:

	2007 £m	2006 £m	2005 £m	2004 £m	2003 £m
Present value of defined benefit obligation	(113.8)	(111.1)	(124.1)	(93.6)	(77.0)
Fair value of scheme assets	104.6	95.3	96.3	76.5	66.5
Deficit in the scheme	(9.2)	(15.8)	(27.8)	(17.1)	(10.5)
Experience adjustments on plan assets:					
Amount of gain/(loss)	(1.2)	4.9	8.0	3.3	5.6
Percentage of plan assets	1.1%	5.1%	8.3%	4.3%	8.5%
Experience adjustments on plan liabilities					
Amount of gain/(loss)	5.6	5.5	(19.3)	(6.8)	–
Percentage of the present value of scheme liabilities	4.9%	5.0%	15.6%	7.3%	–

11 DIRECTORS' REMUNERATION DETAILS

	2007 £000	2006 £000
Aggregate remuneration:		
Emoluments	2,309	2,285
Performance-related bonus	1,074	929
Long-term incentive scheme	–	1,145
Compensation to Director for loss of office	–	1,339
	3,383	5,698

The total amounts payable under long-term incentive schemes comprise all amounts to which Directors became unconditionally entitled during the year.

The amounts above include for the highest paid Director emoluments of £536,000 (2006 – £505,000), performance related bonus of £235,000 (2006 – £199,000) and long term incentive plans of £nil (2006 – £262,000).

Retirement benefits are accruing to six Directors under defined benefit schemes sponsored by Group companies, one of whom is a member of a scheme which combines defined benefit and money purchase benefits. The total annual accrued pension under the defined benefit pension schemes was £522,000 (2006 – £472,000) and for the highest paid Director was £219,000 (2006 – £201,000). Total contributions in respect of money purchase pension benefits were £68,000 (2006 – £35,000) and for the highest paid Director were £nil (2006 – £nil).

12 NET LOSS ON TRADING AND DEVELOPMENT PROPERTIES

	2007 £m	2006 £m
Development income	253.4	160.3
Development costs	(312.4)	(342.5)
Proceeds from sale of trading properties	40.6	24.8
Carrying value of trading properties sold	(17.0)	(17.8)
Provision for impairment of trading properties	–	(1.4)
	(35.4)	(176.6)

The carrying value of trading properties sold includes £nil of capitalised interest (2006 – £0.6m). The loss on trading and development properties includes £39.5m (2006 – £169.9m) in respect of the Liverpool One project, of which £39.5m (2006 – £148.8m) is non-cash additions to the development loss provision.

13 GAINS ON OTHER INVESTMENTS AND JOINT VENTURES

	2007 £m	2006 £m
Profit on disposal of trade investments	6.4	0.3
Profit on disposal of joint ventures	6.2	–
	12.6	0.3

14 NET GAINS ON REVALUATION AND SALE OF INVESTMENT PROPERTY

	2007 £m	2006 £m
Valuation gains on investment property	376.0	407.1
Valuation losses on investment property	(5.0)	(4.7)
Valuation gains on redevelopment properties	1.8	7.1
Net valuation gains on investment property	372.8	409.5
Profit on disposal of investment property	41.1	109.2
	413.9	518.7

15 NET FINANCING COSTS

	2007 £m	2006 £m
Dividend income	1.3	1.1
Interest income	22.3	12.7
Other financial income	5.3	5.6
Financial income	27.6	18.3
Gross interest expense	(45.8)	(43.2)
Interest capitalised	3.2	2.6
Commitment and other financing costs	(0.7)	(0.6)
Financial expenses	(43.3)	(41.2)
Fair value adjustments of interest rate swaps	(2.6)	1.0
Fair value adjustments of embedded derivatives	3.7	–
Fair value adjustments of other derivatives	0.2	–
Profit on property derivatives	0.4	–
Fair value adjustments	1.7	1.0
Net financing costs	(12.7)	(20.8)

The average rate of interest capitalised in the year was 6.7% (2006 – 6.3%).

The fair value adjustments above include interest rate swaps which relate to cash flow hedges that are not designated as effective. The movements in fair value of these derivatives arise from underlying market movements and changes in time to maturity.

16 INCOME TAX EXPENSE

Recognised in the income statement

	2007 £m	2006 £m
Current tax expense		
UK corporation tax at 30% (2006 – 30%)	31.1	2.0
Overseas tax	12.0	10.7
Adjustment for prior years	4.0	7.4
	47.1	20.1
Deferred tax expense		
Origination and reversal of temporary differences	80.9	105.4
Reduction in tax rate	(33.4)	(0.2)
Benefit of tax losses recognised	–	(0.7)
Adjustment for prior years	1.5	19.9
	49.0	124.4
Total income tax expense in the income statement	96.1	144.5

16 INCOME TAX EXPENSE continued

Deferred tax recognised directly in equity	Note	2007 £m	2006 £m
Recognised in equity – Group	27	(1.6)	20.2
Recognised in equity – joint ventures and associates		3.4	4.8
Total income tax expense recognised directly in equity		1.8	25.0
Reconciliation of effective tax rate			
Profit before taxation		524.0	508.7
Less: share of profit of joint ventures and associates		(120.0)	(145.0)
Add: profit of joint ventures where the tax charge is directly attributable to the Group		30.2	59.5
Adjusted Group profit before taxation		434.2	423.2
Tax on adjusted Group profit at standard UK corporation tax rate of 30% (2006 – 30%)		130.3	127.0
Higher tax rates on overseas earnings		3.8	6.0
Expenses not deductible for tax purposes		7.2	7.4
Other items attracting no tax relief or liability		(23.2)	(23.0)
Other timing differences		5.9	–
Reduction in tax rate		(33.4)	(0.2)
Adjustments in respect of prior years		5.5	27.3
Total income tax expense in the income statement		96.1	144.5
Effective tax rate based on adjusted Group profit		22.1%	34.1%

17 PROPERTY ASSETS

The table below analyses the Group's interests in property assets on a proportional basis, including the Group's share of property assets in joint ventures and associates.

		Note	2007 £m	2006 £m
Investment property	– Group	18	2,841.7	2,264.4
	– Share of joint ventures	23	2,278.4	1,658.3
Investment property under development	– Group	19	79.9	85.6
	– Share of joint ventures	23	206.1	242.9
	– Share of associates	24	161.9	115.4
Other financial assets	– Group	25	60.7	56.5
Trading properties	– Group	28	147.1	48.7
	– Share of joint ventures	23	187.5	120.6
Total property assets			5,963.3	4,592.4

18 INVESTMENT PROPERTY

	Completed property			Redevelopment projects			
	Freehold £m	Leasehold £m	Total £m	Freehold £m	Leasehold £m	Total £m	Total £m
At 1 January 2006	1,511.6	417.5	1,929.1	–	6.9	6.9	1,936.0
Acquisitions	97.4	90.1	187.5	–	–	–	187.5
Costs capitalised	0.8	4.1	4.9	1.1	–	1.1	6.0
Disposals	(80.5)	(228.9)	(309.4)	–	–	–	(309.4)
Sale of freeholds	(955.2)	950.2	(5.0)	–	–	–	(5.0)
Revaluation gains/(losses)	91.8	310.6	402.4	(1.0)	8.1	7.1	409.5
Release of deferred costs	(0.6)	3.7	3.1	–	–	–	3.1
Depreciation of short leasehold properties	–	(0.2)	(0.2)	–	–	–	(0.2)
Transfer to/(from) redevelopment projects	(11.8)	15.0	3.2	11.8	(15.0)	(3.2)	–
Transfer from investment properties under development	4.9	17.0	21.9	–	–	–	21.9
Transfer to trading properties	(3.2)	–	(3.2)	–	–	–	(3.2)
Transfer from joint ventures	65.5	–	65.5	–	–	–	65.5
Exchange movements	(45.7)	(0.7)	(46.4)	(0.9)	–	(0.9)	(47.3)
At 31 December 2006	675.0	1,578.4	2,253.4	11.0	–	11.0	2,264.4
Acquisitions	67.9	149.7	217.6	–	–	–	217.6
Costs capitalised	2.9	9.4	12.3	–	–	–	12.3
Disposals	(73.4)	(45.0)	(118.4)	(10.8)	–	(10.8)	(129.2)
Revaluation gains	95.0	276.0	371.0	–	1.8	1.8	372.8
Release of deferred costs	0.2	1.1	1.3	–	–	–	1.3
Depreciation of short leasehold properties	–	(0.3)	(0.3)	–	–	–	(0.3)
Transfer (from)/to redevelopment projects	–	(4.9)	(4.9)	–	4.9	4.9	–
Transfer from investment properties under development	28.9	4.9	33.8	–	–	–	33.8
Transfer from trading properties	5.4	–	5.4	–	–	–	5.4
Transfer from joint ventures	9.8	–	9.8	–	–	–	9.8
Exchange movements	51.2	2.8	54.0	(0.2)	–	(0.2)	53.8
At 31 December 2007	862.9	1,972.1	2,835.0	–	6.7	6.7	2,841.7

Investment properties were valued at 31 December 2007 by external valuers on the basis of open market value in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors. Valuations were performed as follows:

			£m
Britain & Ireland	Freehold	CB Richard Ellis, Chartered Surveyors	154.9
	Long Leasehold	CB Richard Ellis, Chartered Surveyors	1,904.1
Americas	Freehold	Cushman & Wakefield Le Page, Chartered Surveyors	417.7
Continental Europe	Freehold	Cushman & Wakefield, Chartered Surveyors	36.3
Australia	Freehold	Colliers International Consultancy & Valuation	241.3
Asia Pacific	Freehold	Tanizawa SOGO Appraisal Co Ltd	12.6
	Long Leasehold	Asset Research and Development Inc.	11.3
	Long Leasehold	Savills Valuation & Professional Services Limited	63.5
			2,841.7

The historical cost of the Group's investment properties was £1,252.7m (2006 – £946.5m).

At 31 December 2007, investment properties with a carrying amount of £1,388.7m were pledged as security for bank loans (2006 – £1,038.0m).

19 INVESTMENT PROPERTY UNDER DEVELOPMENT

	Freehold £m	Leasehold £m	Total £m
At 1 January 2006	64.6	6.8	71.4
Acquisitions	12.4	1.6	14.0
Costs capitalised	1.4	7.1	8.5
Revaluation gains	6.5	12.5	19.0
Transfer to investment properties	(4.9)	(17.0)	(21.9)
Exchange movements	(5.4)	–	(5.4)
At 31 December 2006	74.6	11.0	85.6
Acquisitions	27.9	9.9	37.8
Costs capitalised	5.7	–	5.7
Disposals	(24.8)	–	(24.8)
Revaluation gains/(losses)	14.5	(0.6)	13.9
Transfer to investment properties	(28.9)	(4.9)	(33.8)
Transfer from/(to) trading properties	0.8	(12.5)	(11.7)
Exchange movements	7.2	–	7.2
At 31 December 2007	77.0	2.9	79.9

Investment properties under development were valued at 31 December 2007 by external valuers on the basis of open market value in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors. Valuations were performed as follows:

			£m
Britain & Ireland	Freehold	CB Richard Ellis, Chartered Surveyors	12.8
	Long Leasehold	CB Richard Ellis, Chartered Surveyors	2.9
Americas	Freehold	Cushman & Wakefield Le Page, Chartered Surveyors	63.2
Continental Europe	Freehold	Directors' valuation	1.0
			79.9

The historical cost of the Group's investment property under development was £21.5m (2006 – £59.2m).

At 31 December 2007, investment property under development with a carrying amount of £47.6m was pledged as security for bank loans (2006 – £25.5m).

The carrying value of investment property under development includes capitalised interest of £2.8m (2006 – £1.5m).

20 OTHER PROPERTY, PLANT AND EQUIPMENT

2007

	Land and buildings £m	Leasehold improvements £m	Computer and IT equipment £m	Fixtures, fittings and motor vehicles £m	Total £m
Cost					
At 1 January 2007	37.9	5.6	5.0	4.5	53.0
Additions	–	0.2	1.5	0.6	2.3
Disposals	–	(0.1)	(0.8)	(0.2)	(1.1)
Revaluation gains	9.8	–	–	–	9.8
At 31 December 2007	47.7	5.7	5.7	4.9	64.0
Depreciation					
At 1 January 2007	(0.1)	(4.2)	(3.2)	(2.4)	(9.9)
Depreciation charge for the year	–	(0.7)	(0.7)	(0.5)	(1.9)
Disposals	–	0.1	0.1	0.1	0.3
At 31 December 2007	(0.1)	(4.8)	(3.8)	(2.8)	(11.5)
Carrying amount					
At 1 January 2007	37.8	1.4	1.8	2.1	43.1
At 31 December 2007	47.6	0.9	1.9	2.1	52.5

20 OTHER PROPERTY, PLANT AND EQUIPMENT continued

2006

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

Land and buildings are freehold and were valued at 31 December 2007 by CB Richard Ellis, Chartered Surveyors, on the basis of open market value for existing use in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors.

The historical cost of the Group's revalued land and buildings above at 31 December 2007 was £13.6m (2006 – £13.6m).

The carrying value of freehold land and buildings includes capitalised interest of £0.1m (2006 – £0.1m).

At 31 December 2007, land and buildings with a carrying value of £46.9m were pledged as security for bank loans (2006 – £37.1m).

21 INVESTMENTS IN SUBSIDIARIES

Company

	Shares at cost £m
At 1 January 2007 and 31 December 2007	1,358.4

At 31 December 2007, the Group had the following principal investments in subsidiaries:

Intermediate holding companies
Grosvenor Estate Holdings*¥
Grosvenor Limited
Grosvenor Americas Limited (Canada)
Grosvenor Americas USA Inc. (USA)
Grosvenor International SA (Luxembourg)ø
Grosvenor Continental Europe Holdings SA (Luxembourg)
Grosvenor First European Property Investments SA (Luxembourg)†
Grosvenor Australia Properties Pty Limited (Australia)
Grosvenor Australia Investments Pty Limited (Australia)
Grosvenor Asset Management Limited (Hong Kong)
Grosvenor Fund Management Limited

Property investment
Grosvenor West End Properties*
Eaton Square Properties Limited¥
Grosvenor (Basingstoke) Limited
Grosvenor Commercial Properties*
Grosvenor Properties*

Old Broad Street Properties Limited
Grosvenor Realty Investments Limited
Cambridge Retail Investments Limited
Liverpool Property Investments Limited

Property development
Grosvenor Developments Limited
Liverpool PSDA Limited

Fund management
Grosvenor Investment Management Limited
Grosvenor Investment Management US Inc. (USA)

Financing
Grosvenor Group Finance Company*
Grosvenor UK Finance Plc

*Unlimited company

¥100% of preference shares are also owned

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

†67.5% owned

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

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

22 INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

	Note	2007 £m	2006 £m
Share of profit/(loss):			
Joint ventures	23	114.2	149.6
Associates	24	5.8	(4.6)
		120.0	145.0
Share of assets and liabilities:			
Joint ventures	23	1,083.5	988.3
Associates	24	72.5	61.8
		1,156.0	1,050.1

23 INVESTMENTS IN JOINT VENTURES

2007

	Britain & Ireland £m	Americas £m	Continental Europe £m	Australia £m	Asia Pacific £m	Total £m
Share of profit from joint ventures:						
Gross rental income	25.8	12.5	80.7	1.5	2.6	123.1
Net rental and other income less administrative expenses	19.5	8.5	50.7	0.9	0.7	80.3
Income from trading and development properties	24.3	–	13.6	–	–	37.9
Net (losses)/gains on revaluation and sale of investment property	(20.1)	13.1	98.0	2.1	2.5	95.6
Net financing costs	(10.4)	(3.8)	(20.1)	(0.3)	(0.6)	(35.2)
Profit before tax	13.3	17.8	142.2	2.7	2.6	178.6
Current tax	4.4	–	(7.5)	(0.1)	–	(3.2)
Deferred tax	–	–	(31.4)	(1.0)	0.3	(32.1)
Minority interest	–	–	(29.1)	–	–	(29.1)
	17.7	17.8	74.2	1.6	2.9	114.2
Share of assets and liabilities:						
Non-current assets						
– Investment properties	446.2	201.5	1,549.0	19.5	62.2	2,278.4
– Investment properties under development	45.7	–	160.4	–	–	206.1
– Other	11.0	–	17.4	–	–	28.4
Current assets						
– Trading properties	57.5	–	90.4	2.9	36.7	187.5
– Other	33.5	3.0	214.4	0.4	17.1	268.4
Non-current liabilities	(228.0)	(61.0)	(1,258.9)	(8.3)	(61.9)	(1,618.1)
Current liabilities	(37.1)	(3.7)	(277.4)	(0.4)	(21.0)	(339.6)
Net assets	328.8	139.8	495.3	14.1	33.1	1,011.1
Goodwill	–	–	72.4	–	–	72.4
	328.8	139.8	567.7	14.1	33.1	1,083.5
Borrowings included in liabilities (non-recourse to the Group)	(228.0)	(61.0)	(845.8)	(5.2)	(60.5)	(1,200.5)

23 INVESTMENTS IN JOINT VENTURES continued

2006

	Britain & Ireland £m	Americas £m	Continental Europe £m	Australia £m	Asia Pacific £m	Total £m
Share of profit from joint ventures:						
Gross rental income	23.0	12.6	74.9	1.1	1.9	113.5
Net rental and other income less administrative expenses	17.9	9.8	59.0	1.6	0.5	88.8
Income from trading and development properties	2.8	(0.1)	(6.7)	–	–	(4.0)
Net gains on revaluation and sale of investment property	56.9	14.2	93.2	0.6	1.9	166.8
Net financing costs	(5.1)	(3.4)	(19.2)	(0.2)	(0.4)	(28.3)
Profit before tax	72.5	20.5	126.3	2.0	2.0	223.3
Current tax	(5.1)	–	(6.6)	(0.2)	0.4	(11.5)
Deferred tax	–	–	(24.1)	(0.3)	(0.5)	(24.9)
Minority interest	–	–	(37.3)	–	–	(37.3)
	67.4	20.5	58.3	1.5	1.9	149.6
Share of assets and liabilities:						
Non-current assets						
– Investment properties	425.5	186.6	1,001.5	14.3	30.4	1,658.3
– Investment properties under development	29.5	11.2	202.2	–	–	242.9
– Other	–	–	69.0	–	0.2	69.2
Current assets						
– Trading properties	75.7	0.3	2.8	9.0	32.8	120.6
– Other	33.6	4.5	178.4	2.5	5.2	224.2
Non-current liabilities	(142.8)	(55.9)	(848.6)	(8.1)	(36.4)	(1,091.8)
Current liabilities	(64.2)	(3.8)	(182.2)	(0.3)	(16.0)	(266.5)
Net assets	357.3	142.9	423.1	17.4	16.2	956.9
Goodwill	–	–	31.4	–	–	31.4
	357.3	142.9	454.5	17.4	16.2	988.3
Borrowings included in liabilities (non-recourse to the Group)	(142.8)	(55.9)	(538.0)	(6.2)	(35.0)	(777.9)

23 INVESTMENTS IN JOINT VENTURES continued

At 31 December 2007, the Group had the following principal interests in joint ventures which are accounted for on the basis explained in note 1:

	Principal activities	Country of incorporation/registration	Effective interest	Group share of net assets £m
Britain & Ireland				
Grosvenor Shopping Centre Fund	Property investment	England and Wales	23.4%	131.6
Grosvenor London Office Fund	Property investment	England and Wales	24.2%	84.3
Grosvenor Festival Place Fund	Property investment	England and Wales	40.9%	16.4
Grosvenor Residential Investment Fund	Property investment	England and Wales	29.4%	14.2
Preston Tithebarn Partnership	Property development	England and Wales	50%	15.4
Grand Arcade Partnership	Property development	England and Wales	20%	33.4
Barkhill Limited	Property development	Republic of Ireland	50%	20.1
Americas				
Joint ventures with BBCAF Inc	Property investment	United States of America	50%/25%	111.6
Joint ventures with the Getty Family Trust	Property investment	United States of America	50%	8.2
GEMOA Inc	Property investment	United States of America	20%	10.5
Art Hill Management	Property investment	United States of America	48.9%	7.1
Joint ventures with Rockwood	Property investment	United States of America	33%	2.4
Continental Europe*				
Sonae Sierra SGPS SA	Property investment and development	Portugal	50%	538.5
Joint ventures with Grupo Lar	Property investment and development	The Netherlands	50%	17.8
Australia				
Fieldglen II	Property investment	Australia	50%	11.2
Hassall Street	Property development	Australia	50%	2.9
Asia Pacific				
YK Japan Residential Fund	Property investment	Japan	33.7%/18.8%	11.4
Tokutei Mokuteki Kaisha	Property investment	Japan	50%	11.5
Grosvenor Park Partners Limited	Property development	Cayman Islands	20%	3.3

*The investments in joint ventures in Continental Europe are controlled by Grosvenor First European Property Investments SA (GFEPI), which is 67.5% owned by the Group. The effective interest above includes the interests of the minority investors in GFEPI.

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

24 ASSOCIATES

	2007 £m	2006 £m
Share of profit from associates:		
(Loss)/profit before tax	(0.1)	1.3
Deferred tax	5.9	(5.9)
Profit/(loss) after tax	5.8	(4.6)
Share of assets and liabilities:		
Investment properties under development	161.9	115.4
Other assets	1.0	1.3
Liabilities	(90.4)	(54.9)
Net assets	72.5	61.8
Borrowings included in liabilities (non-recourse to the Group)	(90.1)	(48.7)

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

25 OTHER FINANCIAL ASSETS

	2007 £m	2006 £m
Non-current assets		
Equity shares	34.4	41.9
Other financial assets	3.9	2.9
Mezzanine loans	17.1	5.2
	55.4	50.0
Current assets		
Mezzanine loans	8.6	9.4

Included in the above are property related financial assets of £60.7m (2006 – £56.5m).

Principal financial assets at 31 December 2007:

Equity shares

	Principal activities	Country of incorporation	Effective interest
Asia Standard International Group Limited (listed on the Hong Kong Stock Exchange)	Property investment and development	Hong Kong	6.2%
ISPT Grosvenor International Property Trust	Property investment vehicle	Australia	9.9%
Shmael U.S. Real Estate Fund	Property investment vehicle	USA	5.0%
Grosvenor Residential Investment Partners, LP	Property investment vehicle	USA	25.0%

Mezzanine loans

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

26 INTANGIBLE ASSETS

2007

	Goodwill £m	Other intangible assets £m	Total £m
Cost			
At 1 January 2007	7.3	1.7	9.0
Acquisitions	–	0.4	0.4
Exchange	0.3	–	0.3
At 31 December 2007	7.6	2.1	9.7
Amortisation/impairment			
At 1 January 2007	(3.5)	(0.6)	(4.1)
Amortisation	–	(0.6)	(0.6)
At 31 December 2007	(3.5)	(1.2)	(4.7)
Carrying amount			
At 1 January 2007	3.8	1.1	4.9
At 31 December 2007	4.1	0.9	5.0

2006

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

27 DEFERRED TAX ASSETS AND LIABILITIES

Recognised deferred tax assets and liabilities

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

	2007			2006		
	Assets £m	Liabilities £m	Net £m	Assets £m	Liabilities £m	Net £m
Investment property – contingent gains	1.9	(575.9)	(574.0)	2.4	(521.2)	(518.8)
Investment property – deferred gains	44.5	–	44.5	46.6	–	46.6
Other property, plant and equipment	–	(10.3)	(10.3)	–	(7.5)	(7.5)
Other financial assets	0.8	(1.6)	(0.8)	1.0	(0.4)	0.6
Interest-bearing loans and borrowings	0.5	(0.7)	(0.2)	–	(0.5)	(0.5)
Employee benefits	7.6	(1.6)	6.0	10.9	(1.7)	9.2
Provisions	1.0	(7.0)	(6.0)	0.4	(18.3)	(17.9)
Other items	2.9	(7.3)	(4.4)	2.2	(5.6)	(3.4)
Tax value and loss carry-forwards recognised	4.4	–	4.4	2.3	–	2.3
Tax assets/(liabilities)	63.6	(604.4)	(540.8)	65.8	(555.2)	(489.4)

At 31 December 2007, no deferred tax was provided in respect of investments in subsidiaries because the Group is able to control the timing of the reversal of temporary differences and is satisfied that it is probable they will not reverse in the foreseeable future.

Unrecognised deferred tax assets

	2007 £m	2006 £m
Tax losses	1.0	0.7

Movement in temporary differences during the year

	Balance at 1 January 2007 £m	Recognised in Income £m	Recognised in Equity £m	Exchange movement £m	Balance at 31 December 2007 £m
Investment property – contingent gains	(518.8)	(52.8)	2.8	(5.2)	(574.0)
Investment property – deferred gains	46.6	(2.1)	–	–	44.5
Other property, plant and equipment	(7.5)	(2.8)	–	–	(10.3)
Other financial assets	0.6	(1.4)	–	–	(0.8)
Interest-bearing loans and borrowings	(0.5)	0.1	0.1	0.1	(0.2)
Employee benefits	9.2	(1.9)	(1.3)	–	6.0
Provisions	(17.9)	11.8	–	0.1	(6.0)
Other items	(3.4)	(0.7)	–	(0.3)	(4.4)
Tax value and loss carry-forwards recognised	2.3	0.8	–	1.3	4.4
	(489.4)	(49.0)	1.6	(4.0)	(540.8)

28 TRADING PROPERTIES

	2007 £m	2006 £m
At 1 January	48.7	34.5
Additions	100.1	39.3
Capitalised interest	2.0	–
Disposals	(17.0)	(17.5)
Provision for impairment	–	(1.4)
Transfer (to)/from investment properties	(5.4)	3.2
Transfer from investment property under development	11.7	–
Transfer to joint venture	–	(6.0)
Exchange movements	7.0	(3.4)
At 31 December	147.1	48.7

At 31 December 2007, trading properties with a carrying amount of £11.1m were pledged as security for bank loans (2006 – £11.8m).

29 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2007 £m	2006 £m	2007 £m	2006 £m
Trade receivables	20.5	11.7	–	–
Receivables due from subsidiaries	–	–	135.5	110.5
Receivables due from joint ventures	91.2	58.9	–	–
Other receivables	36.4	46.4	–	–
Prepayments	15.1	16.1	–	–
	163.2	133.1	135.5	110.5

Included in the above are receivables due after more than one year totalling £33.8m (2006 – £47.4m).

30 CASH AND CASH EQUIVALENTS

	2007 £m	2006 £m
Bank balances	74.4	113.1
Cash deposits	249.2	342.3
Cash and cash equivalents	323.6	455.4
Bank overdrafts	(0.3)	(4.6)
Cash and cash equivalents in the statement of cash flows	323.3	450.8

The amount of cash and cash equivalents not available for use by the Group totals £154.3m (2006 – £125.2m), of which £133.5m (2006 – £96.1m) has been pledged as collateral, principally in respect of future development costs.

31 INTEREST-BEARING LOANS AND BORROWINGS

	2007 £m	2006 £m
Non-current liabilities		
Secured bank loans	239.7	238.5
Unsecured bank loans	54.8	70.0
Secured bond issues	202.5	202.6
Unsecured bond issues	53.2	53.1
Finance lease liabilities	1.4	1.4
Loan from joint ventures	6.9	–
	558.5	565.6
Current liabilities		
Current portion of secured bank loans	87.3	26.6
Current portion of unsecured bank loans	–	–
Current portion on unsecured bond issues	14.7	13.3
Current portion of loan from joint ventures	10.6	49.4
	112.6	89.3

The bank loans and secured bonds are secured over investment properties and investment properties under development with a carrying value of £1,436.3m (2006 – £1,063.5m), land and buildings with a carrying value of £46.9m (2006 – £37.1m) and trading properties with a carrying value of £11.1m (2006 – £11.8m). Included in secured bond issues is £2.5m (2006 – £2.5m) of net un-amortised premium.

Finance lease liabilities

Finance lease liabilities are payable as follows:

	2007			2006		
	Minimum lease payments £m	Interest £m	Principal £m	Minimum lease payments £m	Interest £m	Principal £m
Less than one year	0.3	0.3	–	0.3	0.3	–
Between one and five years	1.2	1.2	–	1.2	1.2	–
More than five years	74.4	73.0	1.4	74.8	73.4	1.4
	75.9	74.5	1.4	76.3	74.9	1.4

32 FINANCIAL INSTRUMENTS

Capital risk management

The capital structure of the Group comprises debt, which includes the borrowings disclosed in note 31; cash and cash equivalents disclosed in note 30; and equity, comprising issued share capital, reserves and retained earnings as disclosed in notes 38 and 39.

The Group manages its capital to optimise the allocation of equity between the Operating Companies and to enable them to meet their short, medium and long-term targets. Internal gearing and interest cover limits are set for the Group and each Operating Company; overall Group gearing (net debt divided by shareholders' funds) is currently limited to 50%. Group gearing at the year end is 12.0% (2006 – 8.4%).

32 FINANCIAL INSTRUMENTS continued

Categories of financial instruments and their fair values

2007

	Loans and receivables £m	Held for trading £m	Available-for-sale securities £m	Financial assets at amortised cost £m	Total carrying amount £m	Fair value £m
Financial assets:						
Equity shares	–	–	34.4	–	34.4	34.4
Other financial assets	–	–	3.9	–	3.9	3.9
Mezzanine loan investments	22.0	3.7	–	–	25.7	25.7
Trade and other receivables	91.2	–	–	56.9	148.1	148.1
Cash and cash equivalents	–	–	–	323.6	323.6	323.6
Total financial assets	113.2	3.7	38.3	380.5	535.7	535.7

	Financial liabilities at amortised cost £m	Total carrying amount £m	Fair value £m
Financial liabilities:			
Bank overdrafts	(0.3)	(0.3)	(0.3)
Fixed rate loans			
Sterling secured mortgage 2034	(50.0)	(50.0)	(80.8)
Sterling secured bond 2026	(202.5)	(202.5)	(218.8)
Sterling unsecured bond 2019	(52.5)	(52.5)	(57.9)
Other Sterling unsecured loan	(15.0)	(15.0)	(15.7)
Euros	(0.7)	(0.7)	(0.7)
US Dollars	(42.3)	(42.3)	(41.4)
Canadian Dollars	(47.8)	(47.8)	(46.9)
Japanese Yen	(8.4)	(8.4)	(8.4)
Total fixed rate loans	(419.2)	(419.2)	(470.6)
Floating rate loans			
Sterling	(55.0)	(55.0)	(55.0)
Euros	(33.4)	(33.4)	(33.4)
US Dollars	(42.1)	(42.1)	(42.1)
Canadian Dollars	(24.1)	(24.1)	(24.1)
Australian Dollars	(76.1)	(76.1)	(76.1)
Total floating rate loans	(230.7)	(230.7)	(230.7)
Finance lease liabilities	(1.4)	(1.4)	(2.5)
Loans from joint ventures	(17.5)	(17.5)	(17.5)
Trade and other payables	(131.2)	(131.2)	(131.2)
Total financial liabilities	(800.3)	(800.3)	(852.8)

	Held for trading £m	Total carrying amount £m	Fair value £m
Interest rate swaps			
Euros	0.7	0.7	0.7
US Dollars	(0.3)	(0.3)	(0.3)
Australian Dollars	0.9	0.9	0.9
Chinese Renminbi	(3.6)	(3.6)	(3.6)
Total interest rate swaps	(2.3)	(2.3)	(2.3)

32 FINANCIAL INSTRUMENTS continued

2006

	Loans and receivables £m	Available-for-sale securities £m	Financial assets at amortised cost £m	Total carrying amount £m	Fair value £m
Financial assets					
Equity shares	–	41.9	–	41.9	41.9
Other financial assets	–	2.9	–	2.9	2.9
Mezzanine loan investments	14.6	–	–	14.6	14.6
Trade and other receivables	58.9	–	58.1	117.0	117.0
Cash and cash equivalents	–	–	455.4	455.4	455.4
Total financial assets	73.5	44.8	513.5	631.8	631.8

	Financial liabilities at amortised cost £m	Total carrying amount £m	Fair value £m
Financial liabilities:			
Bank overdrafts	(4.6)	(4.6)	(4.6)
Fixed rate loans			
Sterling secured mortgage 2034	(50.0)	(50.0)	(86.6)
Sterling secured bond 2026	(202.5)	(202.5)	(231.5)
Sterling unsecured bond 2019	(52.5)	(52.5)	(65.3)
Other Sterling unsecured loan	(15.0)	(15.0)	(16.5)
US Dollars	(40.8)	(40.8)	(41.0)
Canadian Dollars	(26.8)	(26.8	(27.5)
Japanese Yen	(8.0)	(8.0)	(8.0)
Total fixed rate loans	(395.6)	(395.6)	(476.4)
Floating rate loans			
Sterling	(55.0)	(55.0)	(55.0)
Euros	(30.7)	(30.7)	(30.7)
US Dollars	(42.9)	(42.9)	(42.9)
Canadian Dollars	(21.4)	(21.4)	(21.4)
Australian Dollars	(59.0)	(59.0)	(59.0)
Total floating rate loans	(209.0)	(209.0)	(209.0)
Finance lease liabilities	(1.4)	(1.4)	(2.9)
Loans from joint ventures	(49.4)	(49.4)	(49.4)
Trade and other payables	(42.9)	(42.9)	(42.9)
Total financial liabilities	(702.9)	(702.9)	(785.2)

	Held for trading £m	Total carrying amount £m	Fair value £m
Interest rate swaps			
US Dollars	0.1	0.1	0.1
Australian Dollars	0.4	0.4	0.4
Total interest rate swaps	0.5	0.5	0.5

32 FINANCIAL INSTRUMENTS continued

The fair values of financial assets and liabilities are determined as follows:

- Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.
- The fair value of non-derivative financial assets and liabilities with standard terms and conditions and traded on active markets is determined with reference to quoted market prices.
- The fair value of other non-derivative financial assets and liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

Financial risk management

The Group has a decentralised treasury management operating structure, co-ordinated through a Group treasury function, which monitors and manages the financial risks relating to the Group's operations and seeks to maximise the efficiency of borrowings and cash deposits throughout the Group. Treasury policies, approved by the Board, are:

- to fully manage wholly owned treasury operations in a co-ordinated manner; debt for joint ventures and funds is raised at joint venture and fund level but is managed within the co-ordinated approach;
- to ensure sufficient committed loan facilities to support anticipated business requirements as they arise;
- to ensure that the Group's debt can be supported from maintainable cash flow through clear internal guidelines;
- to manage interest rate exposure with a combination of fixed rate debt and interest rate swaps so that a minimum of 60% of borrowings are at fixed interest rates for the next three years;
- not to hedge long-term net asset positions held in foreign currencies; and
- to invest short-term cash with approved institutions within limits agreed by the Board.

Transactions in financial instruments including derivatives are either governed by specific delegations to Operating Company boards or have prior Board approval. The Group does not enter into any treasury positions for purely speculative purposes. Detailed treasury reports are produced on a monthly basis with consolidated treasury risk reports presented to the shareholders and the Board. Risks include market risk (interest rates, currency and pricing), credit risk and liquidity risk.

Interest rate risk

Exposure to interest rate movements is controlled through the use of a mixture of floating and fixed rate debt and interest rate derivatives, to achieve a balanced interest rate profile to ensure that a minimum level of borrowings are at fixed interest rates for the next three years. The interest rate profile is reviewed by the Group on a monthly basis.

32 FINANCIAL INSTRUMENTS continued

The Group's exposure to interest rates on financial assets and financial liabilities is analysed below:

2007

	Effective interest rate %	Floating interest rate £m	Fixed interest rate < 1 year £m	Fixed interest rate 1-5 years £m	Fixed interest rate > 5 years £m	Non-interest bearing £m	Total £m
Financial assets:							
Equity shares	–	–	–	–	–	34.4	**34.4**
Other financial assets	–	–	0.3	0.5	0.3	2.8	**3.9**
Mezzanine loan investments	10.0	–	8.3	13.7	–	3.7	**25.7**
Trade and other receivables	5.0	35.3	–	–	–	112.8	**148.1**
Cash and cash equivalents	5.1	323.6	–	–	–	–	**323.6**
Total financial assets		358.9	8.6	14.2	0.3	153.7	**535.7**
Financial liabilities:							
Bank overdrafts	6.5	(0.3)	–	–	–	–	**(0.3)**
Fixed rate loans							
Sterling secured mortgage 2034	10.4	–	–	–	(50.0)	–	**(50.0)**
Sterling secured bond 2026	6.4	–	–	–	(202.5)	–	**(202.5)**
Sterling unsecured bond 2019	8.4	–	–	–	(52.5)	–	**(52.5)**
Other Sterling unsecured loan	11.0	–	(15.0)	–	–	–	**(15.0)**
Euros	6.0	–	–	–	(0.7)	–	**(0.7)**
US Dollars	5.9	–	–	(16.1)	(26.2)	–	**(42.3)**
Canadian Dollars	5.5	–	(9.8)	(3.2)	(34.8)	–	**(47.8)**
Japanese Yen	2.8	–	–	(8.4)	–	–	**(8.4)**
Total fixed rate loans		–	(24.8)	(27.7)	(366.7)	–	**(419.2)**
Floating rate loans fixed through interest rate swaps							
Euros	4.3	–	–	(18.0)	–	–	**(18.0)**
US Dollars	6.8	–	(37.6)	(4.8)	–	–	**(42.4)**
Australian Dollars	6.8	–	–	(40.0)	–	–	**(40.0)**
Chinese Renminbi	3.0	–	–	(3.6)	–	–	**(3.6)**
Total floating rate loans fixed through interest rate swaps		–	(37.6)	(66.4)	–	–	**(104.0)**
Floating rate loans							
Sterling	7.0	(55.0)	–	–	–	–	**(55.0)**
Euros	5.0	(14.7)	–	–	–	–	**(14.7)**
Canadian Dollars	6.1	(24.1)	–	–	–	–	**(24.1)**
Australian Dollars	8.1	(35.2)	–	–	–	–	**(35.2)**
Total floating rate loans		(129.0)	–	–	–	–	**(129.0)**
Finance lease liabilities	11.0	–	–	–	(1.4)	–	**(1.4)**
Loans from joint ventures	5.1	(1.2)	–	–	–	(16.3)	**(17.5)**
Trade and other payables	–	–	–	–	–	(131.2)	**(131.2)**
Total financial liabilities		(130.5)	(62.4)	(94.1)	(368.1)	(147.5)	**(802.6)**

32 FINANCIAL INSTRUMENTS continued

2006

	Effective interest rate %	Floating interest rate £m	Fixed interest rate < 1 year £m	Fixed interest rate 1-5 years £m	Fixed interest rate > 5 years £m	Non-interest bearing £m	Total £m
Financial assets:							
Equity shares	–	–	–	–	–	41.9	41.9
Other financial assets	–	–	–	–	–	2.9	2.9
Mezzanine loan investments	10.0	–	6.5	8.1	–	–	14.6
Trade and other receivables	3.3	52.1	–	–	–	64.9	117.0
Cash and cash equivalents	4.4	455.4	–	–	–	–	455.4
Total financial assets		507.5	6.5	8.1	–	109.7	631.8
Financial liabilities:							
Bank overdrafts	6.0	(4.6)	–	–	–	–	(4.6)
Fixed rate loans							
Sterling secured mortgage 2034	10.4	–	–	–	(50.0)	–	(50.0)
Sterling secured bond 2026	6.4	–	–	–	(202.5)	–	(202.5)
Sterling unsecured bond 2019	8.4	–	–	–	(52.5)	–	(52.5)
Other Sterling unsecured loan	11.0	–	–	(15.0)	–	–	(15.0)
US Dollars	6.0	–	–	(23.4)	(17.4)	–	(40.8)
Canadian Dollars	5.9	–	(2.9)	(11.7)	(12.2)	–	(26.8)
Japanese Yen	2.9	–	–	(8.0)	–	–	(8.0)
Total fixed rate loans		–	(2.9)	(58.1)	(334.6)	–	(395.6)
Floating rate loans fixed through interest rate swaps							
Euros	4.3	–	–	–	(17.4)	–	(17.4)
US Dollars	6.2	–	–	(38.1)	(4.8)	–	(42.9)
Canadian Dollars	6.3	–	(11.0)	–	–	–	(11.0)
Australian Dollars	6.8	–	–	(36.8)	–	–	(36.8)
Total floating rate loans fixed through interest rate swaps		–	(11.0)	(74.9)	(22.2)	–	(108.1)
Floating rate loans							
Sterling	5.5	(55.0)	–	–	–	–	(55.0)
Euros	4.3	(13.3)	–	–	–	–	(13.3)
Canadian Dollars	6.3	(10.4)	–	–	–	–	(10.4)
Australian Dollars	7.2	(21.7)	–	–	–	–	(21.7)
Total floating rate loans		(100.4)	–	–	–	–	(100.4)
Finance lease liabilities	11.0	–	–	–	(1.4)	–	(1.4)
Loans from joint ventures	3.8	(41.1)	–	–	–	(8.3)	(49.4)
Trade and other payables	–	–	–	–	–	(42.9)	(42.9)
Total financial liabilities		(146.1)	(13.9)	(133.0)	(358.2)	(51.2)	(702.4)

The total average cost of debt for the year ended 31 December 2007 was 6.8% (2006 – 6.7%).

32 FINANCIAL INSTRUMENTS continued

Interest rate sensitivity

The sensitivity analyses below are based on the exposure to interest rates at the balance sheet date. For floating rate liabilities and cash balances, it is assumed the liability or asset at the balance sheet date was outstanding for the whole year. A 50 basis points increase or decrease represents management's assessment of the possible change in interest rates across the Group

If interest rates had been 0.5% higher and all other variables were held constant, the impact on the Group's equity would be:

		2007 £m	2006 £m
Increase/decrease in profit for the year	– interest charge	0.9	1.4
	– mark to market of interest rate swaps	0.9	1.3
	– tax charge	(0.5)	(0.9)
Total increase in profit and equity		1.3	1.8

Similarly, if interest rates had been 0.5% lower, then Group profit and equity would have decreased by £1.3m (2006 – £1.8m)

The Group's sensitivity to interest rates has decreased during the year mainly due to lower levels of cash deposits.

Foreign currency risk

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

At the end of the year, other than that arising on its equity in non-UK Operating Companies, the Group has no material foreign exchange currency risk as there are no material financial instruments denominated in non-functional currencies.

Equity price risk

The Group is exposed to equity price risks arising from its equity investments disclosed in note 25. Equity investments designated as available for sale are held for strategic rather than trading purposes.

Equity price sensitivity

The sensitivity analysis below is based on the exposure to equity price risks at the balance sheet date.

If equity prices had been 10% higher/lower other equity reserves would increase/decrease by £3.4m (2006 – increase/decrease by £4.2m) as a result of changes in fair value of available for sale shares.

The Group's sensitivity to equity prices has not changed significantly from the prior year.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group is exposed to credit risk in respect of its surplus cash deposits, trade receivables, mezzanine loan investments and loans to joint ventures.

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

At the year end deposits were invested as follows:

Standard & Poor's credit rating of institution

	Total deposits at 31 December	
	2007 £m	2006 £m
AAA	14.9	103.9
AA+	15.7	34.1
AA	275.5	292.7
AA-	9.6	22.3
A+	3.4	2.3
A	–	–
Other	4.5	0.1
	323.6	455.4

32 FINANCIAL INSTRUMENTS continued

Trade receivables consist of a large number of tenants, spread across diverse industries and geographical areas. Credit checks are carried out before commencement of tenancies and before entering joint venture partnership agreements and ongoing credit evaluation seeks to ensure any receivables are provided for as required. Trade receivables are small relative to turnover and therefore do not present a significant risk to the Group. Trade receivables at the year end totalled £20.5m of which £8.5m were still outstanding at 29 February 2008.

Mezzanine loans represent loans to developers on which Grosvenor earns interest and a share of the development profit. Grosvenor makes loans to established developers with a track record of stable performance and carries out due diligence before committing funds. Grosvenor receives a second charge on the development property and in the majority of loans has a guarantee regarding the principal and interest.

The carrying amount of financial assets, excluding equity investments, recorded in the financial statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk on those financial assets without taking account of the value of any collateral obtained.

Liquidity risk

Grosvenor obtains financing from a number of sources, including secured lending at project level together with secured and unsecured borrowing at the corporate level. To ensure sufficient cash is available to meet operating plans, cash flow projections are maintained at Operating Company level and are reviewed by the Group on a monthly basis. In addition to facilities at Operating Company and project level, committed borrowing facilities are maintained in the Holding Company at levels deemed appropriate by the Group Board.

At 31 December 2007, the Group had the following drawn and undrawn committed borrowing facilities available:

	Drawn facilities		Undrawn facilities	
	2007 £m	2006 £m	2007 £m	2006 £m
Expiring less than 1 year	112.6	89.3	52.6	99.7
Expiring from 1 to 2 years	90.6	61.3	110.0	26.0
Expiring from 2 to 5 years	94.8	146.8	250.0	303.4
Expiring after more than 5 years	373.1	357.5	25.0	–
Total	671.1	654.9	437.6	429.1

Borrowing limits are set for each Operating Company to ensure that the interest costs of all projected debt can be met from 'sustainable' cash flows, excluding those that are dependent on property sales.

The Group also monitors its 'resilience' to potential falls in property market values. Resilience is defined as the extent to which the Group's property interests could fall in value before Holding Company financial covenants are breached, assuming no property sales or debt repayments.

The maturity profile of the anticipated future cash flows, including interest, relating to the Group's non-derivative financial liabilities, on an undiscounted basis (which therefore differs from both carrying value and fair value) is as follows:

2007

	Fixed rate loans £m	Floating rate loans £m	Finance lease liabilities £m	Loans from joint ventures £m	Total £m
Due within 1 year	54.1	68.3	0.3	0.5	123.2
From 1 to 2 years	38.7	71.9	0.3	10.2	121.1
From 2 to 3 years	26.9	5.6	0.3	–	32.8
From 3 to 4 years	42.7	64.5	0.3	–	107.5
From 4 to 5 years	25.9	2.5	0.3	–	28.7
After 5 years	696.9	64.4	74.4	6.9	842.6
	885.2	277.2	75.9	17.6	1,255.9
Effect of discount/financing rates	(466.0)	(46.5)	(74.5)	(0.1)	(587.1)
At 31 December 2007	419.2	230.7	1.4	17.5	668.8

32 FINANCIAL INSTRUMENTS continued

2006

	Fixed rate loans £m	Floating rate loans £m	Finance lease liabilities £m	Loans from joint ventures £m	Total £m
Due within 1 year	31.4	25.8	0.3	1.7	59.2
From 1 to 2 years	52.0	61.9	0.3	49.5	163.7
From 2 to 3 years	38.8	65.2	0.3	–	104.3
From 3 to 4 years	25.6	4.8	0.3	–	30.7
From 4 to 5 years	41.9	63.6	0.3	–	105.8
After 5 years	689.8	38.6	74.8	–	803.2
	879.5	259.9	76.3	51.2	1,266.9
Effect of discount/financing rates	(483.9)	(50.9)	(74.9)	(1.8)	(611.5)
	395.6	209.0	1.4	49.4	655.4

The maturity profile of the Group's financial derivatives, using undiscounted cash flows, is as follows:

	2007		2006	
	Payable £m	Receivable £m	Payable £m	Receivable £m
Due within 1 year	(3.8)	4.5	(5.6)	6.1
From 1 to 2 years	(2.4)	2.8	(3.6)	3.9
From 2 to 3 years	(0.9)	1.0	(2.2)	2.4
From 3 to 4 years	(0.8)	1.0	(0.9)	0.9
From 4 to 5 years	(0.7)	0.9	(0.7)	0.8
After 5 years	(0.2)	0.2	(0.8)	0.9
	(8.8)	10.4	(13.8)	15.0

33 TRADE AND OTHER PAYABLES

	Group		Company	
	2007 £m	2006 £m	2007 £m	2006 £m
Current liabilities				
Trade payables	12.2	15.5	–	–
Payables due to joint ventures	11.0	0.6	–	–
Other payables	96.4	24.4	25.3	–
Accrued expenses	74.4	64.7	–	–
Deferred income	0.6	1.7	–	–
	194.6	106.9	25.3	–
Non-current liabilities				
Deferred income	155.8	152.2	–	–
Other payables	11.6	2.4	–	–
	167.4	154.6	–	–

Deferred income includes £155.7m in respect of deferred lease premium profits (2006 – £153.7m).

34 PROVISIONS

Development loss provision

	2007 £m	2006 £m
At 1 January	158.8	10.0
Recognised in the year	39.5	148.8
Utilised in the year	(18.1)	–
At 31 December	180.2	158.8

The development loss provision is in respect of the forecast loss on the Liverpool One project. The liabilities are expected to crystallise in 2008.

35 OPERATING LEASE COMMITMENTS

Leases as lessee

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

	2007 £m	2006 £m
Land and buildings	5.1	4.4
	5.1	4.4

Non-cancellable operating lease rentals are payable as follows:

	2007 £m	2006 £m
Less than one year	5.6	4.6
Between one and five years	19.6	17.6
More than five years	8.5	10.2
	33.7	32.4

Leases as lessor

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

	2007 £m	2006 £m
Less than one year	103.7	91.2
Between one and five years	316.7	277.3
More than five years	1,445.4	1,416.1
	1,865.8	1,784.6

36 CAPITAL COMMITMENTS

	2007 £m	2006 £m
Investment properties contracted but not provided	26.9	91.0
Development properties contracted but not provided	88.3	80.8
	115.2	171.8

37 CONTINGENT LIABILITIES

In connection with the demerger of Deva Group Limited (non-core activities) in 1999 the Company has provided guarantees up to a maximum of £22m (2006 – £22m).

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

38 SHARE CAPITAL

	2007		2006	
	Number of shares	£m	Number of shares	£m
Authorised				
Ordinary shares of £1	8,000,000	8.0	8,000,000	8.0
Non-voting ordinary shares of £1	64,000,000	64.0	64,000,000	64.0
12% non-cumulative irredeemable preference shares of £1	8,000,000	8.0	8,000,000	8.0
	80,000,000	80.0	80,000,000	80.0

38 SHARE CAPITAL continued

	2007		2006	
	Number of shares	£m	Number of shares	£m
Allocated, called up and fully paid				
Ordinary shares of £1	5,684,877	5.7	6,083,924	6.1
Non-voting ordinary shares of £1	45,479,016	45.4	48,671,392	48.6
12% non-cumulative irredeemable preference shares of £1	5,684,877	5.7	6,083,924	6.1
	56,848,770	56.8	60,839,240	60.8

Rights of classes of shares

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

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

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

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

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

The total consideration for the purchase of the above shares was £40.5m including stamp duty.

39 RECONCILIATION OF SHARE CAPITAL AND RESERVES

(a) Group

	Share capital £m	Share premium £m	Translation reserve £m	Other reserve £m	Fair value reserve £m	Revaluation reserve £m	Retained earnings £m	Total £m	Minority interest £m	Total equity £m
At 1 January 2006	60.8	173.1	41.3	108.2	4.2	86.5	1,617.5	2,091.6	94.9	2,186.5
Profit for the year	–	–	–	–	–	–	347.1	347.1	17.1	364.2
Revaluation movement	–	–	–	–	–	75.9	–	75.9	3.7	79.6
Fair value adjustments	–	–	–	2.9	(0.1)	–	–	2.8	–	2.8
Deferred tax	–	–	–	–	–	(22.1)	(2.9)	(25.0)	–	(25.0)
Pension actuarial gains	–	–	–	–	–	–	10.6	10.6	–	10.6
Dividends to shareholders	–	–	–	–	–	–	(9.4)	(9.4)	(0.5)	(9.9)
Transfer between reserves	–	–	–	–	–	(10.9)	10.9	–	–	–
Minority shares issued by subsidiaries	–	–	–	–	–	–	–	–	35.5	35.5
Exchange	–	–	(75.7)	–	–	–	–	(75.7)	(1.8)	(77.5)
At 31 December 2006	60.8	173.1	(34.4)	111.1	4.1	129.4	1,973.8	2,417.9	148.9	2,566.8
Profit for the year	–	–	–	–	–	–	405.5	405.5	22.4	427.9
Revaluation movement	–	–	–	–	–	23.9	–	23.9	4.7	28.6
Fair value adjustments	–	–	–	(0.7)	1.8	–	–	1.1	0.4	1.5
Transferred to income statement	–	–	–	–	(3.3)	–	–	(3.3)	–	(3.3)
Deferred tax	–	–	–	0.3	–	0.2	(1.2)	(0.7)	(1.1)	(1.8)
Pension actuarial gains	–	–	–	–	–	–	4.4	4.4	–	4.4
Dividends to shareholders	–	–	–	–	–	–	(10.7)	(10.7)	(15.5)	(26.2)
Transfer between reserves	–	–	–	–	–	(13.2)	13.2	–	–	–
Shares redeemed	(4.0)	–	–	4.0	–	–	(40.5)	(40.5)	–	(40.5)
Exchange	–	–	90.8	–	–	–	–	90.8	15.3	106.1
At 31 December 2007	56.8	173.1	56.4	114.7	2.6	140.3	2,344.5	2,888.4	175.1	3,063.5

Other reserves primarily comprise exchange gains and losses recognised by the Group prior to the adoption of IFRS accounting standards and capital redemption reserve of £4.0m.

39 RECONCILIATION OF SHARE CAPITAL AND RESERVES

(b) Company

	Share capital £m	Share premium £m	Merger capital reserve £m	Capital redemption reserve £m	Profit and loss account £m	Total equity £m
At 1 January 2006	60.8	28.3	1,268.7	–	21.1	1,378.9
Retained profit for the year	–	–	–	–	99.4	99.4
Dividends to shareholders	–	–	–	–	(9.4)	(9.4)
At 31 December 2006	60.8	28.3	1,268.7	–	111.1	1,468.9
Retained profit for the year	–	–	–	–	50.9	50.9
Dividends to shareholders	–	–	–	–	(10.7)	(10.7)
Shares redeemed	(4.0)	–	–	4.0	(40.5)	(40.5)
At 31 December 2007	56.8	28.3	1,268.7	4.0	110.8	1,468.6

Dividends

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

	£m
Dividends on ordinary shares	7.4
Dividends on preference shares	0.7
	8.1

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

40 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of profit from operations including share of joint ventures to operating profit before changes in working capital and provisions

	2007 £m	2006 £m
Operating activities		
Profit from operations including share of joint ventures	536.7	529.5
Adjustments for		
Depreciation	2.2	2.3
Foreign exchange losses	1.8	0.3
Amortisation of capitalised lease incentives	1.1	(0.8)
Amortisation of deferred lease premiums	(2.1)	(1.9)
Recognition of income from operating lease incentives	(0.6)	(3.7)
Gain on sale on other investments	(12.6)	(0.3)
Net gains on revaluation and sale of investment property	(413.9)	(518.7)
Share of profit of joint ventures and associates	(120.0)	(145.0)
Impairment of goodwill	–	0.2
Amortisation of other intangible assets	0.6	0.6
Operating profit before changes in working capital and provisions	(6.8)	(137.5)

40 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(b) Analysis of net debt

	1 January 2007 £m	Cash flow £m	Other non-cash movements £m	Exchange movements £m	31 December 2007 £m
Cash at bank and in hand	113.1	(42.5)	–	3.8	74.4
Short term deposits and short term liquid investments	342.3	(93.3)	–	0.2	249.2
Bank overdraft	(4.6)	4.6	–	(0.3)	(0.3)
Cash and cash equivalents	450.8	(131.2)	–	3.7	323.3
Borrowings due within one year	(89.3)	(15.1)	(0.4)	(7.8)	(112.6)
Borrowings due after more than 1 year	(565.6)	31.6	(11.8)	(12.7)	(558.5)
Total borrowings	(654.9)	16.5	(12.2)	(20.5)	(671.1)
Net borrowings	(204.1)	(114.7)	(12.2)	(16.8)	(347.8)

Other non-cash movements include £9.5m transfer of debt from joint ventures and £2.3m of fair value adjustments on interest rate swaps.

41 RELATED PARTY TRANSACTIONS

Grosvenor Group Limited is wholly owned by Trusts and members of the Grosvenor Family headed by the 6th Duke of Westminster. Group companies paid £1.2m (2006 – £1.0m) in arm's length rentals to Grosvenor Trusts and received £0.3m (2006 – £1.0m) in arm's length rentals and service charges from certain Directors, members of the Grosvenor Family and Grosvenor Trusts.

In the ordinary course of its business the Group provides services to Grosvenor Trusts and some members of the Grosvenor Family. Income from these services totalled £5.7m (2006 – £6.0m). At the year end the balance due to certain members of the Grosvenor Family and Grosvenor Trusts was £0.3m (2006 – £0.2m) in relation to these services. These services mainly relate to the Group's management of the Belgravia Estate.

In 2007, the Group arranged insurance cover on normal commercial terms through a related company. Aggregate premiums paid in the year were £5.6m (2006 – £6.3m).

In 2007, the Group sold development rights of £12.3 (2006 – £nil) in arm's length agreements to joint ventures and associates.

In 2007, the Group received development management income of £0.6m (2006 – £0.9m) in arm's length arrangements from Grosvenor Trusts, and £4.0m (2006 – £5.2m) from joint ventures and associates. At year end £0.1m (2006 – £nil) was due from Grosvenor Trusts.

At 31 December 2007, the Group owed £1.2m (2006 – £41.1m) to Sonae Sierra SGPS SA and £9.0m to Barkhill Ltd (2006 – £8.3m), both joint ventures.

As explained in note 37 the Company has provided guarantees up to a maximum of £22m (2006 – £22m) to the Deva Group Limited, which is owned by Grosvenor Trusts.

Consolidated income statement presented in US Dollars

for the year ended 31 December 2007

	2007 US$m	2006 US$m
Total revenue	907.7	651.9
Gross rental income	213.1	197.3
Property outgoings	(90.1)	(76.9)
Net rental income	123.0	120.4
Net other income	91.5	97.8
Administrative expenses	(163.2)	(140.1)
Loss on trading and development properties	(70.9)	(326.3)
Gains on other investments	25.2	0.6
Net gains on revaluation and sale of investment property	828.8	958.5
Impairment of goodwill	–	(0.4)
Share of profit of joint ventures and associates	240.3	267.9
Profit from operations including share of joint ventures and associates	1,074.7	978.4
Dividend income	2.6	2.0
Financial income	55.3	33.9
Financial expenses	(86.7)	(76.1)
Fair value adjustments	3.4	1.8
Net financing costs	(25.4)	(38.4)
Profit before tax	1,049.3	940.0
Current tax	(94.3)	(37.1)
Deferred tax	(98.1)	(229.9)
Profit for the year	856.9	673.0
Attributable to:		
Equity holders of the parent	812.0	641.4
Minority interest	44.9	31.6
Profit for the year	856.9	673.0

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

Consolidated balance sheet presented in US Dollars

as at 31 December 2007

	Group	
	2007 US$m	2006 US$m
ASSETS		
Non-current assets		
Investment property	5,656.7	4,431.9
Investment property under development	159.0	167.5
Other property, plant and equipment	104.5	84.4
Investments in joint ventures and associates	2,301.1	2,055.3
Other financial assets	110.3	97.8
Intangible assets	10.0	9.6
Pension surplus	7.0	–
Deferred tax assets	126.6	128.8
Total non-current assets	8,475.2	6,975.3
Current assets		
Trading properties	292.8	95.3
Trade and other receivables	324.8	260.5
Other financial assets	17.1	18.4
Income tax receivable	45.4	60.0
Cash and cash equivalents	644.2	891.3
Total current assets	1,324.3	1,325.5
TOTAL ASSETS	9,799.5	8,300.8
LIABILITIES		
Non-current liabilities		
Interest-bearing loans and borrowings	(1,111.8)	(1,107.0)
Trade and other payables	(333.2)	(302.6)
Employee benefits	(25.3)	(30.9)
Deferred tax liabilities	(1,203.1)	(1,086.6)
Total non-current liabilities	(2,673.4)	(2,527.1)
Current liabilities		
Overdrafts	(0.6)	(9.0)
Interest-bearing loans and borrowings	(224.1)	(174.8)
Trade and other payables	(387.4)	(209.2)
Income tax payable	(57.1)	(46.2)
Provisions	(358.7)	(310.8)
Total current liabilities	(1,027.9)	(750.0)
TOTAL LIABILITIES	(3,701.3)	(3,277.1)
NET ASSETS	6,098.2	5,023.7
Equity		
Issued capital	113.1	119.0
Share premium	344.6	338.8
Reserves	625.0	411.4
Retained earnings	4,667.0	3,863.1
Shareholders' funds	5,749.7	4,732.3
Minority interest	348.5	291.4
TOTAL EQUITY	6,098.2	5,023.7

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

Consolidated income statement presented in Euros

for the year ended 31 December 2007

	2007 €m	2006 €m
Total revenue	661.2	517.6
Gross rental income	155.2	156.7
Property outgoings	(65.6)	(61.0)
Net rental income	89.6	95.7
Other income	66.7	77.6
Administrative expenses	(118.9)	(111.2)
Loss on trading and development properties	(51.6)	(259.1)
Gains on other investments	18.4	0.4
Net gains on revaluation and sale of investment property	603.7	761.0
Impairment of goodwill	–	(0.3)
Share of profit of joint ventures and associates	175.0	212.8
Profit from operations including share of joint ventures and associates	782.9	776.9
Dividend income	1.9	1.6
Financial income	40.3	26.8
Financial expenses	(63.2)	(60.4)
Fair value adjustments	2.5	1.5
Net financing costs	(18.5)	(30.5)
Profit before tax	764.4	746.4
Current tax	(68.7)	(29.5)
Deferred tax	(71.5)	(182.5)
Profit for the year	624.2	534.4
Attributable to:		
Equity holders of the parent	591.5	509.3
Minority interest	32.7	25.1
Profit for the year	624.2	534.4

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

Consolidated balance sheet presented in Euros

as at 31 December 2007

	Group 2007 €m	Group 2006 €m
ASSETS		
Non-current assets		
Investment property	3,869.0	3,360.8
Investment property under development	108.8	127.0
Other property, plant and equipment	71.4	64.0
Investments in joint ventures and associates	1,573.9	1,558.5
Other financial assets	75.4	74.2
Intangible assets	6.8	7.3
Pension surplus	4.8	–
Deferred tax assets	86.6	97.7
Total non-current assets	5,796.7	5,289.5
Current assets		
Trading properties	200.3	72.3
Trade and other receivables	222.2	197.5
Other financial assets	11.7	14.0
Income tax receivable	31.0	45.6
Cash and cash equivalents	440.6	675.9
Total current assets	905.8	1,005.3
TOTAL ASSETS	6,702.5	6,294.8
LIABILITIES		
Non-current liabilities		
Interest-bearing loans and borrowings	(760.4)	(839.5)
Trade and other payables	(227.9)	(229.5)
Employee benefits	(17.3)	(23.4)
Deferred tax liabilities	(822.9)	(824.0)
Total non-current liabilities	(1,828.5)	(1,916.4)
Current liabilities		
Overdrafts	(0.4)	(6.8)
Interest-bearing loans and borrowings	(153.3)	(132.5)
Trade and other payables	(265.0)	(158.7)
Income tax payable	(39.1)	(35.0)
Provisions	(245.3)	(235.7)
Total current liabilities	(703.1)	(568.7)
TOTAL LIABILITIES	(2,531.6)	(2,485.1)
NET ASSETS	4,170.9	3,809.7
Equity		
Issued capital	77.3	90.2
Share premium	235.7	256.9
Reserves	427.5	312.0
Retained earnings	3,192.0	2,929.5
Shareholders' funds	3,932.5	3,588.6
Minority interest	238.4	221.1
TOTAL EQUITY	4,170.9	3,809.7

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

Five-year summary

INCOME STATEMENT

	2003 £m	2004 £m	2005 £m	2006 £m	2007 £m
Net rental and other income	101.1	61.7	80.8	118.1	107.1
Administrative expenses	(41.5)	(46.7)	(53.3)	(75.8)	(81.5)
Profit/(loss) on trading and development properties	6.5	9.6	(7.3)	(176.6)	(35.4)
Gains on other investments	3.3	22.9	–	0.3	12.6
Net gains on revaluation and sale of investment properties	37.2	198.8	246.8	518.7	413.9
Impairment of goodwill	–	–	(3.3)	(0.2)	–
Share of profit from joint ventures and associates	22.3	123.8	121.6	145.0	120.0
Profit before net financing costs and tax	128.9	370.1	385.3	529.5	536.7
Net financing costs	(37.2)	(28.0)	(17.2)	(20.8)	(12.7)
Profit before tax	91.7	342.1	368.1	508.7	524.0

BALANCE SHEET

	2003 £m	2004 £m	2005 £m	2006 £m	2007 £m
Total property assets including share of joint ventures and associates	2,728.8	3,237.3	3,727.7	4,592.4	5,963.3
Investment property (including under development)	2,050.5	1,809.1	2,007.4	2,350.0	2,921.6
Investment in joint ventures and associates	222.4	694.6	819.4	1,050.1	1,156.0
Other financial assets	85.6	58.3	71.0	50.0	55.4
Other non-current assets	23.9	100.1	132.7	113.8	124.6
	2,382.4	2,662.1	3,030.5	3,563.9	4,257.6
Trading properties	94.4	44.1	34.5	48.7	147.1
Cash and cash equivalents	204.0	264.2	385.5	455.4	323.6
Other net current assets/(liabilities)	8.4	1.4	(34.2)	42.7	(28.7)
	306.8	309.7	385.8	546.8	442.0
Borrowings (including current)	(687.6)	(614.5)	(575.4)	(659.5)	(671.4)
Deferred tax	(31.5)	(317.9)	(450.6)	(555.2)	(604.4)
Other non-current liabilities	(7.9)	(130.1)	(203.8)	(329.2)	(360.3)
	(727.0)	(1,062.5)	(1,229.8)	(1,543.9)	(1,636.1)
Net assets	1,962.2	1,909.3	2,186.5	2,566.8	3,063.5
Share capital and share premium	233.9	233.9	233.9	233.9	229.9
Reserves	1,614.5	1,561.4	1,857.7	2,184.0	2,658.5
	1,848.4	1,795.3	2,091.6	2,417.9	2,888.4
Minority interest	113.8	114.0	94.9	148.9	175.1
Total equity	1,962.2	1,909.3	2,186.5	2,566.8	3,063.5

International Financial Reporting Standards were adopted with effect from 1 January 2004. Figures for 2003 are presented under UK GAAP.

Grosvenor offices

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

GROSVENOR FUND MANAGEMENT
Hong Kong
London
Paris
Philadelphia
Shanghai
Sydney
Tokyo

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

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

London
70 Grosvenor Street
London (as above)

AMERICAS
Calgary
The Watermark Tower
Suite 1920
530-8th Avenue SW
Calgary
Alberta
T2P 3S8
Canada
Tel: +1 403 699 9822

Philadelphia
Two Liberty Place
50 S. 16th Street
Suite 2600
Philadelphia PA19102
USA
Tel: +1 215 575 3700
Fax: +1 215 575 3701

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

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

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

CONTINENTAL EUROPE
Luxembourg
46a, avenue John F Kennedy
1855 Luxembourg
Luxembourg
Tel: + 352 2600 52 13
Fax: + 352 2600 58 03

Madrid
Plaza de Colon 2
Torre 2 Planta 12B
28046 Madrid
Spain
Tel: + 34 (0)91 292 08 90
Fax: + 34 (0)91 292 08 91

Milan
Corso Garibaldi 86
20121 Milano
Italy
Tel: + 39 (0)2 43 912 517
Fax: + 39 (0)2 43 912 531

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

AUSTRALIA
Brisbane
Level 24
Comalco Place
12 Creek Street
Brisbane
Queensland 4000
Australia
Tel: + 61 (0)7 3009 7799
Fax: + 61 (0)7 3220 1833

Sydney
Level 38, Citigroup Centre
2 Park Street, Sydney
New South Wales 2000
Australia
Tel: + 61 (0)2 8268 7333
Fax: + 61 (0)2 8268 7330

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

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

Tokyo
24th Floor,
ARK Mori Building
1-12-32 Akasaka
Minato-Ku
Tokyo 107-6024
Japan
Tel: + 81 (0) 3 5575 5300
Fax: + 81 (0) 3 5575 5301

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