

Westcity PLC
Annual Report 2006

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WESTCITY PLC

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Chairman's report



The year under review saw significant corporate activity as your Company embarked in new directions. Activity in the first half was consumed with preparations for the transformation of the Company, whilst the second six months saw the metamorphosis of Westcity PLC into an established property and property-related investment, development and management company.

Financial review

The Group achieved a profit after tax of £1,317,000 (2005: loss £5,662,000) after including the release of £2,141,000 (2005: charge of £4,812,000) from provisions for onerous leases. This release followed the successful negotiation for settlement of a liability on a property lease which did not expire until 2023 and had been provided for at £5,500,000 at 31 December 2005.

In recent years, the only source of income has been from net interest received on the Group's cash resources. Whilst net interest received in 2006 declined to £550,000 (2005: £791,000) reflecting the reduction in cash during the year following the property investment, the second half of the year saw the group generate fee income of £568,000 from its new activities.

In August 2006 the group invested £20 million into the Stonehage Westcity Property Fund (the "Fund"). At December 2006, the carrying value of the investment was £19.568 million after accounting for costs, exchange rate fluctuations and Westcity's share of the Fund's net asset value at 31 December 2006. This £432,000 net

reduction in value is included in the consolidated income statement.

Share issue and capital reorganisation

In July 2006 shareholders approved a number of initiatives, including the capital raising by the Company of £7.4 million (net of expenses) through a placing and fully underwritten open offer. The Company's share capital was then consolidated so that every 5 ordinary shares in issue were converted into 1 ordinary share, resulting in the Company having the lower 74,299,301 ordinary shares in issue. Finally, the Company completed a capital reorganisation, sanctioned by the High Court in October 2006, which eliminated most of the deficit on the Company's profit and loss account at that date so that any future profits of the Company should be available for distribution to shareholders.

Operations

I am pleased to report that the phased introduction of the Company's infrastructure is now complete. Commencing with the employment of Ira Rapp and Mike Tannenbaum in August, the Company has seamlessly integrated a strong financial and administration team reporting to Mike.

In addition, Ira has now assembled his experienced property development team within Westcity. On behalf of the board I welcome the new Westcity team and look forward to much success.

The Fund's investment guideline strategy envisaged a fully invested asset allocation balanced in the main between property developments and standing investment assets, with a smaller equity deployment into strategic and indirect investments and with no more than 25% in any single property and a maximum of 40% in any specific sector.

The Fund raised a total of approximately €85 million, including approximately €29 million invested by the Company. The Stonehage Group was successful in raising substantially more than the amount that was originally targeted. This increased equity base, together with debt financing, will provide the Fund with an asset base of up to approximately €350 million once fully invested. The Fund is managed by Stonehage Westcity Management Company Limited of which Westcity PLC owns 50%, the balance being owned by the Stonehage Group. This has been treated as a jointly controlled entity in the group accounts.

At the year end, under its acquisition mandate, Westcity had introduced four transactions to the Fund. Two of the transactions were completed prior to the year end, one has subsequently been completed since December 2006 and the other is with solicitors pending final completion. These initial four transactions represent approximately 30% of the Fund's equity available for investment and are more fully described in the Chief Executive's Review.

We have built a strong potential investment pipeline, with another four proposed investments approved by the Fund and currently in final stage due diligence and/or legal process. These four proposed investments represent an aggregate additional equity commitment of approximately €40 million (45%) of the Fund's available equity. If all of these proposed transactions were to complete, the Fund's portfolio would be well balanced across a diversified spread of standing and development assets over the commercial and residential segments in a number of regions.

In addition, the Company has several early stage investments and projects under investigation. The acquisition

process involves the assessment of many opportunities of which only a small number may proceed to formal expressions of intent, with still fewer proceeding to formal due diligence and onto legal completion.

Outlook

There can be no certainty that the transactions already in process will complete. However, given the successes enjoyed to date, I am optimistic that the Fund will be fully invested during 2007. As a result of the relatively small value of acquisitions actually completed by the Fund before December 2006, the Company will benefit from the strong acquisition pipeline in 2007 as fees are earned from the various activities.

Dividend

No dividend will be paid on the ordinary shares in respect of the period under review (2005: NIL).

The board

During 2006 Geoff Gahan retired from the board and at the end of the year we said farewell to Jerome Fester who had served the Company diligently for many years as Financial Controller and Company Secretary. On behalf of the board I would like to thank both Geoff

and Jerome for their valuable service and contributions to the Company.

Once again I would like to record our welcome to Ira Rapp and Sir Harry Solomon, both of whom joined the board in the latter half of 2006, and to Mike Tannenbaum our CFO and Company Secretary.



Rex Wood-Ward
Chairman
3 April 2007

Chief Executive's review



Since August 2006 our activities have been focused on two fronts – establishment of the Company's infrastructure and generating acquisition opportunities for the Stonehage Westcity Property Fund (the "Fund"). Pleasingly, we have met with satisfactory progress on both counts.

The complete staffing resource and infrastructure has now been in place since 1 January 2007, which has enabled us to source and process a much higher level of potential investment and development opportunities.

In August 2006 the Company invested approximately €29 million (£20 million) into the Fund. After origination fees and exchange rate adjustments, Westcity's net carrying value of this investment at 31 December 2006 is £19.6 million. In addition to this direct investment in the Fund, Westcity is a 50% shareholder in Stonehage Westcity Management Company Ltd, the manager of the Fund. The Fund is denominated in Euros and as a consequence my review is reported thus.

Property advisory activities

Under an agreement with Stonehage Westcity Management Company Limited and the Stonehage Westcity Property Fund, the Company is the exclusive property advisor to the Fund for an initial period of three years for which the Company will receive a fee on all properties acquired by the Fund that are sourced by it.

The Fund has now invested in three of four transactions introduced by Westcity prior to December 2006 under its acquisition mandate. Two of these transactions were completed prior to 31 December 2006, generating direct fee income for Westcity. Of the remaining two investments, one was completed in February 2007 and the other is pending final legal completion, with the relevant fee income for both accruing in 2007. These initial four transactions represent approximately 30% of the Fund's equity available for investment and are more fully described in the Fund Overview. The Fund has approximately €56 million of equity funds remaining for investment and, once fully deployed, should reach a gross asset value after debt funding of approximately €350 million.

In addition to the four transactions above, Westcity has introduced numerous investment proposals to the Fund. Four of these have been approved by the Fund for investment and are currently in final stage due diligence and/or legal process. It can be reasonably expected that some of these transactions will complete by July 2007. If all of these proposed transactions

proceed to legal completion, over 75% of the Fund's available equity will have been deployed at that point.

In addition, Westcity has sourced and developed a strong pipeline of investments and projects which are at varying stages of assessment and negotiation. The acquisition process involves the assessment of many opportunities of which only a small number may proceed to formal expressions of intent. With still fewer proceeding to formal due diligence and onto legal completion, it is not possible to speculate as to the quantum and timing of opportunities within this pipeline that may eventually represent investments made by the Fund.

Stonehage Westcity Property Fund Fund Overview

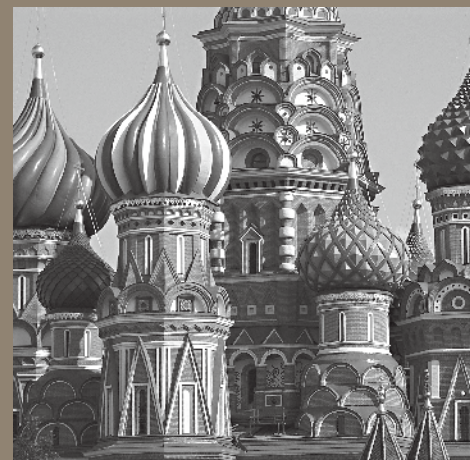
- > Total equity raised (net of origination fees) €83.7 million
- > Completed transactions – total equity invested or committed €17.2 million
- > Transaction in final legal completion – equity value €10 million
- > Pipeline transactions in final due diligence / legal process – equity value is €40 million against a background of:



Hannover



Berlin



Russia fund

- > Continued strong yield compression across the Euro zone as well as central and eastern Europe during 2006
- > Rising Sterling and Euro interest rates

The Fund's investment guideline strategy envisaged a fully invested asset allocation balanced in the main between property developments and standing investment assets, with a smaller equity deployment into strategic and indirect investments and with no more than 25% in any single property and a maximum of 40% in any specific sector.

Completed transactions

As at 15 March 2007, the Fund had completed equity investments or commitments totalling approximately €17.2 million.

In October 2006 the Fund invested €4.4 million of equity capital to purchase the shares in a German limited partnership with an underlying commercial property in Hannover, Germany, at an initial yield on purchase price of 7.1%. The property consists of 15,678 sqm over 9 floors and is 100% let to a large German insurance

company on a lease which terminates in 2020 with an annual CPI rent review. The gross cost to the Fund was €21.35m, of which 78% was funded by non-recourse senior debt, producing a cash yield before debt amortization of over 11% p.a

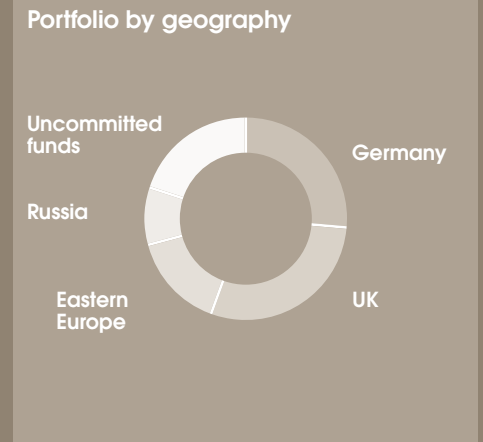
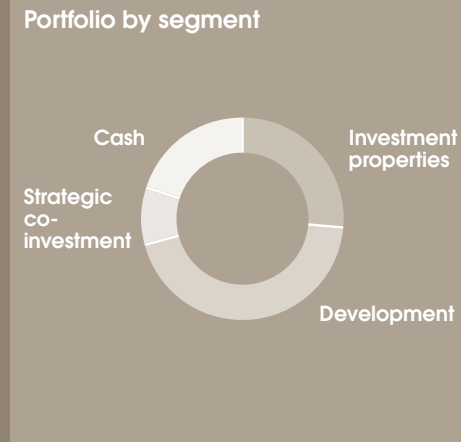
German residential property and particularly in Berlin, with the ability to generate good rental returns, is viewed as a strategic opportunity for potential capital appreciation in the longer term. In order to benefit from the potential offered, investors need to have a presence in the market, thus enabling the investor to build a portfolio of residential properties prior to exit. In December 2006, the Fund invested €5.1 million of equity capital into a specialist residential fund in Berlin, Germany. With approximately 30% share of the Berlin fund's equity base, the fund is represented on the advisory board, and benefits from a significant reduction in management and ongoing fees. The Berlin fund has acquired 14 properties with a gross value of €27 million at an average entry yield of 7.1%. To date the portfolio has been funded by equity and 85% of senior non-recourse debt. The Berlin fund is

approximately 25% invested and has a strong deal pipeline of approximately €50million. The fund has been able to participate in the Berlin residential property market, something the fund could not achieve with its own resources and within a reasonable timeframe, by partnering with the Berlin fund.

As part of a portfolio the Russian real estate market currently offers superior opportunity for capital appreciation through rental uplift and yield compression compared to many European markets. In order to invest in this market the Fund requires a local Russian presence. During February 2007 the Fund committed to invest €7.7 million (US\$10 million) into the Rutley Russia Property fund, which will invest in commercial, industrial and retail standing properties and developments in St Petersburg, Moscow and larger regional Russian cities. The Fund also has the right of first refusal as the preferred co-investment partner of up to €150 million in the Russian retail sector with our partners and will have representation on the investment board of the Russia fund. By actively participating in the Russia fund, the Fund will benefit from that fund's infrastructure, which includes access to some 200

Chief Executive's review continued

If the eight transactions described, including those completed and those at various stages of final due diligence and legal completion, were all completed the Fund's portfolio would break down by segment as follows:



people on the ground in Russia.

Final legal completion

The Fund is entering into a joint venture with a subsidiary of a major London listed property company for a mixed-use (residential and retail) development in Greenwich, London. The Fund's 50% share of the equity requirement is €10 million. The project has a gross development cost of €75 million. Westcity will undertake the management of the development, utilizing its core in-house development competencies. Combining the residential development skills of Westcity with the retail property skills of the Fund's JV partner this project should enhance the portfolio's overall returns. This transaction is currently in the final stages of legal completion.

Pipeline – due diligence / legal completion

The Fund has four transactions in which final due diligence is currently in process. These transactions, with an aggregate invested equity capital requirement of approximately €40 million, include a joint venture partnership with a large European fund to acquire a portfolio of 11 commercial properties in non-primary German towns and cities, a mixed-use

residential/retail site in Kent, a partnership with an experienced property group to develop care homes across the UK and three residential developments in Eastern Europe. If the Kent and Eastern European opportunities complete, Westcity will undertake the development management of these schemes.

Early investment pipeline

In addition to the opportunities described above, Westcity has a range of potential development and investment transactions in its pipeline, with a total equity requirement in excess of €100 million. There is no certainty that any of these opportunities will proceed to completion.

Investment Environment

As expected, 2006 saw increased investment activity across Europe. Strong demand for property assets and the weight of money combined with higher availability of financing had a direct impact on yields, which continued to fall during 2006. However, rising £ and Euro interest rates reduced the margin between property yields and borrowing costs and as a result we anticipate that this will limit the potential for further significant falls in yields in

many of the European markets. With the outlook for further yield compression limited, property investments will increasingly depend on active asset management and a combination of falling vacancy rates and/or rising rental rates to deliver future uplifts in value.

One of the strong trends to emerge during the year has been the growth of investment in niche segments with more attractive yields outside of the traditional office, retail and industrial sectors. These niche markets include leisure, health care and mixed-use properties. Simultaneously, the more attractive returns which may be achieved in new developments have seen a positive shift in sentiment towards that area of activity. Additionally, the rate of yield compression outstripped many western European cities in central and eastern European capitals as investors were increasingly prepared to accept higher risks in order to achieve higher entry yields.

Against this background Westcity has assembled a diverse yet balanced pipeline of completed and potential transactions for the Fund. In particular, our core development competency



Phillimore Square



The Phillimores QEC

should provide opportunity to improve the overall performance of the Fund.

Development activities

Westcity's infrastructure now includes an experienced residential and mixed-use property development team who are situated within 100% owned subsidiary Westcity Developers Limited which commenced from 1 January 2007. The core competencies of the team cover all aspects of the property development process from site identification and acquisition through planning, design and specification, construction management, financing and financial reporting to sales and marketing. This team has successfully delivered four London development projects over the past six years with a gross development value of approximately £600 million.

Our development division has been responsible for the due diligence and appraisal of the Greenwich mixed-use development project for the Fund and Westcity Developers will be appointed development manager for this scheme. Having sourced and then produced the relevant plans and appraisals, this team will also be responsible for

the development management of a mixed-use residential/retail site in Kent and three residential developments in Eastern Europe in the event that the Fund invests in these projects.

Over the past years our team has developed a strong network of real estate professionals, advisors and finance providers, many of whom are pan-European organisations, both as partners and associates. The last six months has seen us expand this network into many parts of Europe and beyond. We believe that by joining forces with strong local partners we can introduce many of our skills to joint ventures, bringing mutual benefits. In the transactions completed by the Fund to date and in the deal pipeline, we are partnering with local expertise to maximize our potential returns and reduce risk. Examples of this are the investments already completed in Berlin, and Russia, as well as the Greenwich development project. This accumulation of partners and expanding network coverage on the ground will stand us in good stead in the years to come.

Prospects

With our structure well implemented

and a strong diverse transactional pipeline I am optimistic that the end of 2007 will find the Fund fully invested and Westcity's development team deployed across a number of projects. At the same time, the Company's €29 million investment in the Fund will benefit in the longer term as the Fund completes the deployment of its cash resources and maximises its returns from these investments through active management of the portfolio in the years ahead.

Ira Rapp
Chief Executive Officer
3 April 2007

Board of Directors and officers



Rex Wood-Ward



Ira Rapp



Michael Tannenbaum



Michael Rapp



Sir Harry Solomon



Raymond Davies

Rex Wood-Ward
Chairman

Mr Rex Wood-Ward, 58, was appointed an executive Director and Chief Executive with effect from 1 May 2003 and became Chairman on 26 September 2003. During his 35 years of general management, mergers, acquisition and finance experience he has served on the boards of listed companies in South Africa, England and Australia. He is currently a non-executive director of Coats plc.

Ira Rapp
Chief Executive Officer

Mr Ira Rapp, 48, was appointed an executive Director and Chief Executive on 27 July 2006. Since 1988 he has built the Westcity Property Group into one of the leading niche developers of upmarket residential developments. He has over 16 years experience of the UK's property development sector and one of his strengths is his ability to create and manage successful joint venture opportunities.

Raymond Davies
Non-executive Director

Mr Raymond Davies, 64, was appointed to the Board in February 2000 and served as Chairman between November 2000 and April 2002. He was a part-time executive director becoming a non-executive Director with effect from 1 May 2003. He has served on the boards of listed companies in South Africa and the UK.

He is Chairman of the Remuneration Committee and a member of the Audit Committee.

Michael Rapp
Non-executive Director

Mr Michael Rapp, 71, was appointed to the Board on 2 October 2002. His career has been focused on real estate. He was responsible for the real estate development of the Liberty Life Group in South Africa until 1985. Michael remains a non-executive director of Liberty International plc. He is Chairman of the Audit Committee.

Sir Harry Solomon
Non-executive Director

Sir Harry Solomon, 70, qualified as a solicitor in 1960 and remained in practice until 1977. In 1976 he was a co-founder of Hillside Holdings plc, which became one of the largest food groups in Europe.

He currently has interests in a number of companies both public and private in the UK and in the US. He was awarded a Knighthood in 1991 for services to the food industry and is also an Honorary Fellow of the Royal College of Physicians.

Sir Harry is a member of the Audit and Remuneration Committees.

Geoff Gahan

Mr Geoff Gahan, who was a non-executive director since October 2002, retired from the board on 26 July 2006.

Michael Tannenbaum
Chief Financial Officer

Mr Michael Tannenbaum, 47, was appointed Company Secretary and Chief Financial Officer on 27 July 2006. A Chartered Accountant, he joined the Westcity Property Group in 1990 from Capital & Counties. He moved to London in 1985 as Group Manager at Touche Ross & Co where he was responsible for audit, consultancy and investigatory work. Michael has fostered strong relationships with fund providers and the finance sector.

Executive team

Lester Bennett **Design Director**

Lester Bennett, 56, is a Chartered Designer and was appointed Design Director of Westcity Developers Limited in January 2007. Prior to this he was Director of Design for Westcity Wates Property Development Limited, appointed in April 2000, having been a consultant to Westcity since 1991.

Lester has been involved in all of Westcity's property development schemes to date, and his responsibilities include all aspects of design development, specification and detailing.

Simon Isdell-Carpenter **Sales & Marketing Director**

Simon Isdell-Carpenter, 39, was appointed Sales & Marketing Director of Westcity Developers Limited in January 2007. Prior to this, Simon had been Director of Sales & Marketing for Westcity Wates Property Development Limited since 2001, and was involved in all schemes from that time.

His responsibilities include developing and managing marketing strategies, phasing and sales strategies, legal conveyance and purchaser liaison.

Anthony Rosenthal **Investment Director**

Anthony Rosenthal, 37, is a Chartered Accountant and MBA. Anthony joined Westcity at the beginning of 2007 as Investment Director having had previous experience in building and selling a number of retail and commercial property portfolios in continental Europe. He also has experience in Private Equity and Corporate Finance transactions, having been employed by a number of well known financial institutions.

Simon Rosenberg **Development Director**

Simon Rosenberg, 38, is a Chartered Surveyor and was appointed Development Director in January 2007 having joined Westcity Wates Property Development Limited from EC Harris as Project Manager in 2004.

He was responsible for the delivery of the Sir Giles Gilbert Scott scheme, a Grade II listed building refurbished by Westcity to contain 100 residential apartments.

His responsibilities are project management and providing advice to the board on all stages of a development.

Rob Darrow **Development Director**

Rob Darrow, 33, was appointed Development Director in January 2007. As consultant to Westcity, firstly as project manager working for MACE, from October 2002 until June 2005, and then for his own consultancy from June 2005 to the present day, Rob has been responsible for the delivery of Phillimore Square in Kensington, a scheme of 8 townhouses and 36 apartments.

His responsibilities are project management and providing advice to the board on all stages of a development.



Lester Bennett



Simon Isdell-Carpenter



Rob Darrow



Anthony Rosenthal



Simon Rosenberg

Advisers

Nominated Adviser and Broker

KBC Peel Hunt Limited
111 Old Broad Street
London
EC2N 1PH

Legal Advisers

Jones Day
21 Tudor Street
London
EC4Y 0DJ

Auditors

Horwath Clark Whitehill LLP
St Bride's House
10 Salisbury Square
London
EC4Y 8EH

Tax Advisers

Chiltern plc
3 Sheldon Square
Paddington
London.
W2 6PS

Company Registrars

Computershare Investor Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol
BS99 7NH

Registered Office

3 Prince Albert Road
London
NW1 7SN
Company No. 0164213

Tel: 020 7424 6700

Fax: 020 7267 4771

Website: www.westcityplc.co.uk

Company Secretary

Michael Tannenbaum
Chartered Accountant

Corporate governance

As an AIM traded company, compliance with the combined code is not mandatory. However, the Board is committed to maintaining appropriate standards of Corporate Governance as summarised below.

Directors

At 31 December 2006, the Board consisted of two executive and three non-executive Directors.

The Board meets at least 4 times a year and comprehensive papers are prepared and issued prior to each meeting. These include regular business and financial progress reports and discussion documents regarding specific matters. Certain matters are reserved for the Board.

There is a facility for Directors to take independent professional advice, if necessary, at the Company's expense. This is in addition to the access which every Director has to the Company Secretary. The Secretary is charged by the Board with ensuring that Board procedures are followed.

The Company has only a small Board and has established no formal Nominations Committee. All appointments to the Board of both executive and non-executive Directors are considered by the Board as a whole.

Any Director appointed during the year is required, under the provisions of the Company's Articles of Association, to retire and seek election by shareholders at the next Annual General Meeting. All Directors are subject to retirement by rotation at least every three years.

Internal Control

The Board considers risk management and internal control matters at their regular Board meetings.

The Directors have overall responsibility for the Group's system of internal financial controls. The Group maintains a control framework comprising clear structures and accountabilities, policies and procedures as well as budgeting and review processes adequate for the size of the business. Although no system of internal financial control can provide absolute assurance against material misstatement or loss, the Group's systems are designed to provide the Directors with reasonable assurance that problems are identified on a timely basis and dealt with appropriately.

The key procedures that have been established to provide effective internal financial control include a comprehensive system of reporting to the Board of the monthly financial results and cash management.

Given the size and relative lack of complexity of the Group, the Board believes that an internal audit function is not required. The Audit Committee, having considered the matter, is satisfied that an internal audit department is not required at this stage of the Group's development.

The Audit Committee

The Audit Committee comprises the Company's three non-executive Directors, Michael Rapp, Chairman of the Committee, Raymond Davies and Sir Harry Solomon. The Audit Committee keeps the scope and cost-effectiveness of the external audit under

review. The independence and objectivity of the external auditors is considered on a regular basis, with particular regard to the level and nature of non-audit fees.

The Remuneration Committee

The Remuneration Committee meets at least once a year. The Remuneration Policy set by the Committee is described below.

Composition of the Remuneration Committee

The Company's Remuneration Committee comprises two non-executive Directors, namely Raymond Davies (Chairman of the Committee), and Sir Harry Solomon. The Company Secretary acts as Secretary to the Committee. Geoff Gahan resigned from the Committee during the year.

The Committee establishes the Remuneration Policy within the Group.

Remuneration Policy

Executive Directors' remuneration is determined on behalf of the Board by the Remuneration Committee (after reviewing publicly available information concerning the remuneration scales of other similar companies). The remuneration of the non-executive Directors is determined by the Board as a whole.

None of the Directors participates in any discussion or votes on any proposal relating to his own remuneration.

The Company's policy is to remunerate the Group's senior executives fairly in such manner as to facilitate the recruitment, retention and motivation of suitably qualified personnel.

Communication

The Company recognises the importance of communication with its shareholders. The Group's website is kept up to date covering all corporate activity. The full report and accounts are sent to all shareholders and, upon request, to other parties who have an interest in the Group's performance.

The Company welcomes all shareholders to its Annual General Meeting with the opportunity to ask questions at the meeting.

Going Concern

Having carefully reviewed the Group's budgets for 2007 and its business plans, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the accounts.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Financial Statements. The Directors have chosen to prepare accounts for the Company and the Group in accordance with International Financial Reporting Standards (IFRS). Company law requires the Directors to prepare such financial statements in accordance with International Financial Reporting Standards, the Companies Act 1985 and Article 4 of the IAS Regulation from 1 January 2007. The Board/Company has elected to adopt IFRS from the financial year ended 31 December 2006.

The directors are required to prepare financial statements for each financial year which give a true and fair of the state of affairs of the Company and of the Group and the financial performance and cash flows of the group and company for that year. In preparing these financial statements, the directors are required to:

- > properly select suitable accounting policies and then apply them consistently;
- > 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 International Financial Reporting Standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance
- > state that the company and the group have complied with International Financial Reporting Standards, subject to and material departures disclosed and explained in the financial statements; and

- > prepare the financial statements on the going concern basis unless, having assessed the ability of the company to continue to trade as a going concern, management either intends to liquidate the entity or to cease trading, or have no realistic alternative but to do so.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud or other irregularities and for the preparation of a Directors' Report which complies with the requirements of the Companies Act 1985.

They are further responsible for ensuring that the Report of the Directors and other information included in the Annual Report and Financial Statements is prepared in accordance with applicable law in the United Kingdom and ensuring that the Annual Report includes the information required by the rules of the Alternative Investment Market.

The Directors are responsible for the maintenance and integrity of the company website.

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

Directors' report for the year ended 31 December 2006

Principal activities

Westcity is a property and property related investment, development and management company.

Review of operations

A review of the consolidated entity's operations during the year and the results of those operations are set out in the Chairman's report and the Chief Executive's review.

Dividends

No dividend is proposed for ordinary shareholders.

Supplier payment policy

Payments to suppliers are made in accordance with negotiated arrangements other than in the event of a dispute. As at 31 December 2006 trade payables of the Group represented 28 days (2005: 28 days) of amounts invoiced by suppliers during the year.

Significant interests

The Company has been notified of the following interests amounting to 3% or more of the Company's ordinary share capital at the date of this report:

	Number of ordinary shares	%
Chapman International Investment Limited	24,808,657	33.4
Colmar Investment Holdings Limited	5,951,000	8.0
Westcity Properties Ltd	4,000,000	5.4
Boma Global Investment L.P.	2,400,000	3.2

Westcity Properties Limited is a company in which Ira Rapp has a beneficial interest. Ira Rapp also has an indirect interest in Westcity PLC by virtue of him being a beneficiary under a trust which has an interest in Chapman International Investment Limited, a substantial shareholder.

Directors

The names and brief biographical details of the Directors are shown on pages 10 to 11.

No contract subsisted during or at the end of the year in which a Director of the Company was materially interested, other than his service agreement and other than disclosed in note 22. The Directors' interests in the share capital of the Company and other companies within the Group during the period under review appear on page 19.

Directors' Remuneration policy

The remuneration policy are given in the corporate governance report and details of Directors' remuneration and their interests in the companies are set out below.

Remuneration of Executive Directors:

During the year Mr Wood-Ward was Chairman and also Chief Executive until 27 July 2006 and received a salary of £185,000 (2005: £185,000) plus benefits of £73,000 (2005: £70,000).

Mr Ira Rapp was appointed Director and Chief Executive on 28 July 2006 and received a salary of £125,000 for the period to 31 December 2006 plus benefits of £3,570.

Directors' report continued for the year ended 31 December 2006

Non-Executive Directors' Fees

The Board decides the remuneration arrangements for the non-executive Directors. The basic annual fee for non-executive Directors is £24,000, which has not changed since 1 January 2000.

Directors' Service Contracts

Mr Wood-Ward's appointment letter was dated 13 October 2003. The initial term of his service contract was 2 years from 1 September 2003 with a six month rolling notice period.

Mr Ira Rapp's date of appointment was 1 August 2006. The initial term of his service contract was 2 years from 1 August 2006 with a 12 month rolling notice period.

Mr Davies and Mr M Rapp's service contracts expire on 30 April 2007 and have been extended on the same terms for a further 12 months until 30 April 2008.

Sir Harry Solomon was appointed on 19 September 2006. The initial term of his service contract was 2 years from 19 September 2006.

In the event that a Director's appointment as a non-executive Director is terminated as a result of a change of control before his term of office ceases, he will be entitled to a payment on termination equivalent to 18 months' Directors' fees.

Corporate Governance

Statements of the Company's policy on Corporate Governance are set out on pages 14 and 15.

Annual General Meeting

Details of the Annual General Meeting will be contained in a separate notice to shareholders.

Charitable donations

The Group made no charitable or political donations during the year.

Information to Auditors

So far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware and the Directors have taken all steps that ought to be taken as Directors, in order to make themselves aware, of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

Horwath Clark Whitehill LLP have expressed their willingness to continue in office and a resolution to reappoint them and authorise the Directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting.

Share holdings

The number of shares in the company held during the financial year and at the date of this report by each director of Westcity PLC and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

2006		Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors					
R Wood-Ward		73,000	–	14,600	87,600
I Rapp		–	–	4,000,000	4,000,000
Sir H Solomon		–	–	2,000,000	2,000,000

Ira Rapp's shares are held through Westcity Properties Limited, a company in which he has a beneficial interest. Ira Rapp also has an indirect interest in Westcity PLC by virtue of him being a beneficiary under a trust which has an interest in Chapman International Investment Limited, a substantial shareholder.

2005		Balance at the start of the year	Other changes during the year	Balance at the end of the year
R Wood-Ward		73,000	–	73,000

None of the other directors or key management personnel had any interest in the shares of the Company or other Group undertakings.

There have been no changes to directors shareholdings since the year end to the date of this report.

Option holdings

The numbers of options over ordinary shares in the company held during the financial year by each director of Westcity PLC and other key management personnel of the Group are set out below.

2006		Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Directors							
R Wood-Ward		206,190	900,000	–	–	1,106,190	–
I Rapp		–	2,800,000	–	–	2,800,000	–
Other key management personnel							
M Tannenbaum		–	300,000	–	–	300,000	–
2005							
R Wood-Ward		206,190	–	–	–	206,190	–

Mr Wood-Ward holds 146,190 options under the Westcity Equity Partnership Plan and options over 60,000 ordinary shares under the 1995 Approved Scheme.

All other options were issued under the 2006 Scheme. Further details on all three schemes are included in note 23 to the accounts.

Approved by order of the Board and signed on its behalf

Michael Tannenbaum, Secretary
3 April 2007

Auditor's report

Independent Auditors' report to the members of Westcity PLC

We have audited the group and parent company financial statements (the "financial statements") of Westcity PLC for the year ended 31 December 2006 which comprise the Group Income Statement, the Group and Parent Company Statement of Changes in Equity, the Group and Parent Company Balance Sheets, the Group and Parent Company Statements of Cash Flow, and the related notes. 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 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 whether the financial statements have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial

statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements

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 other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the Chairman's Statement, the Chief Executive's Review and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements

to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- > the group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union applied in accordance with the provisions of the Companies Act 1985, of the state of the Group's and Company's affairs as at 31 December 2006 and of the Group's profit for the year then ended; and
- > the financial statements have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation; and
- > the information given in the Directors' Report is consistent with the financial statements.

As explained in Note 1 to the group financial statements, the group in addition to complying with its legal obligation to comply with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board.

In our opinion the group financial statements give a true and fair view, in accordance with IFRSs, of the state of the group's affairs as at 31 December 2006 and of its profit loss for the year then ended 31 December 2006.

HORWATH CLARK WHITEHILL LLP
Chartered Accountants
and Registered Auditors
St Bride's House
10 Salisbury Square
London EC4Y 8EH
3 April 2007

Financial statements



Consolidated income statement for the year ended 31 December 2006

	Notes	2006 £'000	2005 £'000
Revenue		568	-
Other income		-	318
Finance revenue	2	676	1,157
Employee benefits expense	3	(936)	(524)
Depreciation and amortisation expense	2,8	(18)	(9)
Other expenses		(725)	(776)
Release/(charge) of provision for onerous leases		2,141	(4,812)
Impairment write-down of investment property	2	-	(650)
Impairment loss on investment in property fund	2	(432)	-
Finance costs	2	(125)	(366)
Share of profits of equity accounted investments	7	76	-
Profit/(loss) before tax		1,225	(5,662)
Income tax credit		92	-
Profit/(loss) for the year attributable to equity holders of the parent		1,317	(5,662)
Basic earnings/(loss) per share	6	2.05p	(9.95)p
Diluted earnings/(loss) per share	6	2.04p	(9.95)p

Balance sheets as at 31 December 2006

	Notes	Group 2006 £'000	Group 2005 £'000	Company 2006 £'000	Company 2005 £'000
Non-current assets					
Property, plant and equipment	8	31	33	31	33
Investment property	9	–	4,950	–	–
Equity accounted investments	7	89	–	13	–
Other financial assets	10	24,068	–	47,623	22,261
		24,188	4,983	47,667	22,294
Current assets					
Trade and other receivables	12	119	50	119	50
Prepayments		56	41	56	234
Cash and cash equivalents		2,231	24,473	2,231	24,451
		2,406	24,564	2,406	24,735
Total assets		26,594	29,547	50,073	47,029
Current liabilities					
Trade and other payables	13	514	883	511	811
Interest bearing loans and borrowings	14	–	79	–	–
Income tax payable		–	93	–	93
Provisions	15	55	623	55	623
		569	1,678	566	1,527
Non-current liabilities					
Interest bearing loans and borrowings	14	–	5,825	–	–
Amounts owed to subsidiary undertakings		–	–	23,808	23,708
Provisions	15	459	5,345	209	5,095
		459	11,170	24,017	28,803
Total liabilities		1,028	12,848	24,583	30,330
Net assets		25,566	16,699	25,490	16,699
Capital and reserves					
Issued share capital	17	743	2,846	743	2,846
Share premium account	18	–	16,841	–	16,841
Share based payments reserve	18	131	38	131	38
Other capital reserves	18	25,488	3,976	25,488	3,976
Retained earnings	18	(796)	(7,002)	(872)	(7,002)
Shareholders' equity		25,566	16,699	25,490	16,699

These financial statements were approved and authorised for issue by the Board on 3 April 2007

Director
R Wood-Ward

Statement of cash flows for the year ended 31 December 2006

	Notes	Group 2006 £'000	Group 2005 £'000	Company 2006 £'000	Company 2005 £'000
Net cash flows from operating activities	19	(4,767)	(512)	(10,549)	(588)
Investing activities					
Interest received		676	1,157	676	1,157
Purchase of property, plant and equipment		(16)	(24)	(16)	(24)
Proceeds from the sale of property, plant and equipment		-	6	-	6
Proceeds from the sale of investment property		450	-	450	-
Payments to acquire equity accounted investments		(13)	-	(13)	-
Payments to acquire other financial assets		(20,000)	-	(20,000)	-
Net cash flows used in investing activities		(18,903)	1,139	(18,903)	1,139
Financing activities					
Net proceeds from the issue of share capital		7,457	-	7,457	-
Interest paid		(125)	(366)	(125)	(366)
Repayment of borrowings		(5,904)	(79)	-	-
Amounts received from subsidiaries		-	-	(100)	140
Net cash flows used in financing activities		1,428	(445)	7,232	(226)
Net (decrease)/increase in cash and cash equivalents					
		(22,242)	182	(22,220)	325
Cash and cash equivalents at 1 January		24,473	24,291	24,451	24,126
Cash and cash equivalents at 31 December		2,231	24,473	2,231	24,451

Statements of changes in equity for the year ended 31 December 2006

Group	Issued capital £'000	Share premium £'000	Share based payment reserve £'000	Other capital reserves £'000	Retained earnings £'000	Total equity £'000
At 1 January 2006	2,846	16,841	38	3,976	(7,002)	16,699
Profit for the year	-	-	-	-	1,317	1,317
Total income and expense for the year	-	-	-	-	1,317	1,317
Issue of share capital (net of issue costs)	869	6,588	-	-	-	7,457
Capital reduction	(2,972)	(23,429)	-	21,512	4,889	-
Share based payment	-	-	93	-	-	93
At 31 December 2006	743	-	131	25,488	(796)	25,566

Group	Issued capital £'000	Share premium £'000	Share based payment reserve £'000	Re-valuation reserve £'000	Other capital reserves £'000	Retained earnings £'000	Total equity £'000
At 1 January 2005 (restated)	2,846	16,841	13	600	3,976	(1,340)	22,936
Revaluation deficit	-	-	-	(600)	-	-	(600)
Total income and expense for the year recognised directly in equity	-	-	-	(600)	-	-	(600)
Profit for the year	-	-	-	-	-	(5,662)	(5,662)
Total income and expense for the year	-	-	-	(600)	-	(5,662)	(6,262)
Share based payment	-	-	25	-	-	-	25
At 31 December 2005	2,846	16,841	38	-	3,976	(7,002)	16,699

Statements of changes in equity for the year ended 31 December 2006

Company	Issued capital £'000	Share premium £'000	Share based payment reserve £'000	Other capital reserves £'000	Retained earnings £'000	Total equity £'000
At 1 January 2006	2,846	16,841	38	3,976	(7,002)	16,699
Profit for the year	-	-	-	-	1,241	1,241
Total income and expense for the year	-	-	-	-	1,241	1,241
Issue of share capital (net of issue costs)	869	6,588	-	-	-	7,457
Capital reduction	(2,972)	(23,429)	-	21,512	4,889	-
Share based payment	-	-	93	-	-	93
At 31 December 2006	743	-	131	25,488	(872)	25,490

Company	Issued capital £'000	Share premium £'000	Share based payment reserve £'000	Other capital reserves £'000	Retained earnings £'000	Total equity £'000
At 1 January 2005 (restated)	2,846	16,841	13	3,976	(740)	22,936
Loss for the year	-	-	-	-	(6,262)	(6,262)
Total income and expense for the year	-	-	-	-	(6,262)	(6,262)
Share based payment	-	-	25	-	-	25
At 31 December 2005	2,846	16,841	38	3,976	(7,002)	16,699

Notes to the financial statements for the year ended 31 December 2006

1. Accounting policies

Basis of Preparation

These financial statements have been prepared on a historical cost or fair value basis as appropriate.

Statement of compliance

The consolidated financial statements of Westcity PLC and all its subsidiaries (the 'Group') have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted in the EU.

These are the first financial statements of Westcity PLC to be prepared in accordance with IFRS.

Reconciliations and descriptions of the effect of the transition from previous UK GAAP (generally accepted accounting principles) to IFRS have been included in note 24 to this report.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Westcity PLC and its subsidiaries as at 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company and have been adjusted to ensure that there are consistent accounting policies between all group companies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised in assets, are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

The Group has an interest in a joint venture which is a jointly controlled entity. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest. The Group recognises its interest in the joint venture using the equity accounting method. The financial statements of the joint venture are prepared for the same reporting year as the parent company, using consistent accounting policies.

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year.

Significant accounting judgements, estimates and assumptions

Judgements, estimates and assumptions

In the process of applying the Group's accounting policies, management has made the following judgements, estimates and assumptions.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Notes to the financial statements continued for the year ended 31 December 2006

1. Accounting policies continued

Deferred Tax Assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised.

Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits together with future tax planning strategies.

Provision for onerous contracts

Amounts have been provided to account for future losses on the continuation of onerous contracts.

Estimating the provision requires management to make an estimate of the expected future cash flows to satisfy the contract and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Revenue Recognition

Fee income represents the invoiced value of services provided, less value added tax.

Property, plant and equipment

Property, plant and equipment is stated at cost, excluding the costs of day to day servicing, less accumulated depreciation and impairment. Where indications of impairment arise, a review is carried out and the carrying value of the asset is adjusted through an impairment charge. Where a subsequent change in conditions leads to an increase in the recoverable amount, a reversal of the impairment is recognised.

Cost includes the cost of replacing part of the plant and equipment when that cost is incurred, if the recognition criteria are met.

Depreciation is calculated on a straight line basis over the useful life of the assets as follows:

Equipment and motor vehicles – 20% to 33 $\frac{1}{3}$ %.

Assets are derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the income statement in the year the asset is derecognised.

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

Impairment

At each reporting date, the Group reviews the carrying values of its assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value.

Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash generating unit is increased to the revised recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised in prior years. A reversal of the impairment loss is recognised as income in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal is recognised as a revaluation reserve.

Financial Instruments

Financial assets and liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Investments

Financial assets at fair value through profit or loss are financial assets held for trading which are acquired principally for the purpose of selling in the short term with the intention of making a profit. Gains and losses arising from changes in fair value are recognised in the income statement.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Bank borrowings

Interest-bearing bank loans and overdrafts are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost, using the effective interest rate method. Any differences between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs.

Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost.

Notes to the financial statements continued for the year ended 31 December 2006

1. Accounting policies continued

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

The Group does not trade in derivative financial instruments.

Foreign currency translation

The consolidated financial statements are presented in pounds sterling which is the Company's functional and presentation currency. Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to profit and loss.

Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of foreign operations is the same as the functional currency of the parent entity.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of, or right to use specific assets. A reassessment is made after inception of the lease only if:

- > there is a change in contractual terms, other than a renewal or extension of the arrangement
- > a renewal option is exercised or extension granted, unless initially included in the lease term
- > there is a change in the determination of whether fulfilment is dependent on a specified asset
- > there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment.

For arrangements entered into prior to 1 January 2005, the date of inception is deemed to be 1 January 2005 in accordance with the transitional requirements of IFRIC 4.

Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property, or, if lower, at the present value of the minimum lease payments.

The interest elements of the rental obligations are charged in the income statement over the periods of the leases and represent a constant proportion of the balances of capital repayments outstanding.

Rentals payable under operating leases are charged on a straight line basis over the lease term.

Corporation tax

Corporation and overseas tax payable is provided on taxable profits using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the balance sheet differs to its tax base. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax result nor the accounting result.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except where it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Other financial assets

Investments in group entities have been measured at amortised cost. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Investment property

Investment properties are measured initially at cost. Subsequent to initial recognition, investment properties are stated at fair value which reflects market conditions at the balance sheet date. Changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Investment properties are derecognised when disposed of. Any gains or losses on the disposal of an investment property are recognised in the income statement in the year of disposal.

Pension costs

Contributions to the employees' personal pension schemes are charged to the income statement in the year in which they arise.

When defined benefit schemes are closed to new members and benefits but not fully wound up, the statutory debt is recognised based on the latest actuarial advice available.

Share based payments

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date. Fair values at grant date are independently determined using a Black-Scholes option pricing model that takes into account the exercise price, term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share and the risk-free interest rate for the term of the option.

Notes to the financial statements continued for the year ended 31 December 2006

1. Accounting policies continued

Provisions

General

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Onerous leases

Provision is made for all future rental liabilities less any anticipated rental income on leased properties not being utilised by Group companies discounted at the estimated cost of funds.

Borrowing costs

Borrowing costs are recognised as an expense when incurred.

First time adoption of International Financial Reporting Standards (IFRS)

For all periods up to and including the year ended 31 December 2005, the Group prepared its financial statements in accordance with generally accepted accounting practice (UK GAAP). These financial statements, for the year ended 31 December 2006, are the first the Group has prepared in accordance with International Financial Reporting Standards (IFRS).

Accordingly, the Group has prepared financial statements which comply with IFRS applicable for periods beginning on or after 1 January 2006 as described in the accounting policies. In preparing these financial statements, the Group opening balance sheet was prepared as at 1 January 2005, the Group's transition to IFRS. Further details of the principal adjustments made by the Group are given in note 24.

Standards not yet effective

The Group is evaluating the effect of IFRIC interpretations not yet effective and expect that adoption of these interpretations will have no material impact on the Group's financial statements when implemented.

IFRS 8 Operating segments was issued in November 2006. This standard will replace IAS 14 Operating segments and is effective for accounting periods commencing on or after 1 January 2009, although earlier adoption is permitted. IFRS 8 changes reporting of segments to require information on segments to be presented in a form consistent with internal reporting to the chief operating decision maker for the purposes of allocating resources to the segment and assessing its performance.

This standard has a presentational impact on disclosures presented in the notes to the financial statements. The group will monitor whether or not to adopt this standard earlier.

2. Other revenue and expenses

	2006 £'000	2005 £'000
Other income		
Net gains on disposal of investments	–	318
Finance costs		
Other interest paid	(125)	(366)
Finance revenue		
Bank interest receivable	676	1,157
Depreciation, amortisation, impairment and foreign exchange differences		
Depreciation	(18)	(9)
Impairment loss on investment property	–	(650)
Impairment loss of fund investment *	(432)	–
* The impairment loss on the fund investment is made up of:		
Issue Costs	(400)	–
Increase in value of investment from profits	232	–
Loss on foreign exchange	(264)	–
	(432)	–
Auditor's remuneration		
Fees for audit services	25	20
Fees for non-audit services:		
Advice on fundraising and reorganisation	32	–
Company secretarial	1	–
Accounting advice	–	10
Advice on acquisitions and disposals	–	5
	58	35

3. Staff costs

	2006 £'000	2005 £'000
Employee benefits expense		
Wages and salaries	(837)	(432)
Social security costs	(77)	(80)
Other pension costs	(22)	(12)
Total	936	524
The average number of employees during the period	6	5

Notes to the financial statements continued for the year ended 31 December 2006

3. Staff costs continued

Key Management Personnel Remuneration

Directors

					2006	2005
	Salary and fees £'000	Non-executive fees £'000	Share based payments £'000	Benefits in kind £'000	Total £'000	Salary and fees £'000
Rex Wood-Ward	185	–	38	73	296	278
Ira Rapp	125	–	47	3	175	–
Raymond Davies	–	24	–	–	24	24
Michael Rapp	–	24	–	–	24	24
Sir Harry Solomon	–	7	–	–	7	–
Geoff Gahan (resigned 27 July 2006)	–	14	–	–	14	24
Total	310	69	85	76	540	350

Other Key Management Personnel

					2006	2005
	Salary and fees £'000	Non-executive fees £'000	Share based payments £'000	Benefits in kind £'000	Total £'000	Salary and fees £'000
Michael Tannenbaum	70	–	5	3	78	–
Total	70	–	5	3	78	–

There were no other key management personnel during the year.

Directors' pensions

The Company did not make any contributions to pension schemes in respect of the Directors or other key management personnel for either year.

Equity Instrument disclosures relating to directors and other key management personnel *Options issued during the year*

Further information on the options is set out in note 23 to the financial statements.

4. Segment information

The Group operates from one geographical segment being the UK and Channel Islands. The Group has one business segment being that of property related investment, development and management in respect of properties and opportunities within the UK and Europe.

5. Income tax

	2006 Year ended 31 Dec £'000	2005 Year ended 31 Dec £'000
Current tax:		
Domestic – over provision in prior years	(92)	–
Foreign	–	–
	(92)	–
Taxation credit attributable to the company and its subsidiaries	(92)	–

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The credit for the year can be reconciled to the profit per the income statement as follows.

	Year ended 31 Dec		Year ended 31 Dec	
	£'000	%	£'000	%
Profit/(loss) before tax	1,225		(5,662)	
Tax on the domestic income tax rate of 30% (2005: 30%)	368	30	(1,699)	30
Tax effect of expenses that are not deductible in determining taxable profit	(480)	(39)	(28)	–
Tax effect of losses not recognised	164	13	1,727	30
Overprovision of tax in prior years	92	8	–	–
Tax effect of income from equity accounted investments	(23)	(2)	–	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	(29)	(2)	–	–
Tax credit and effective tax rate for the year	92	8	–	–

The deferred tax asset for the Group of £2,090,000 (2005: £1,923,000) has not been recognised.

In addition, the Company has surplus ACT carried forward of £3.7m (2005: £3.7m) and UK Capital Tax losses of £44m (2005: £44m) which can be used against any future capital gains. The total potential capital tax losses amounts to £76m (2005: £76m).

6. Earnings/(loss) per ordinary share

Basic earnings per ordinary share has been calculated on the Group's profit attributable to shareholders of £1,317,000 (2005: loss of £5,662,000) and on the weighted average number of ordinary shares in issue during the year which was 64,393,594 (2005: 56,916,300).

Diluted earnings per ordinary share has been calculated on the Group's profit attributable to shareholders of £1,317,000 (2005: loss of £5,662,000) and on the diluted weighted average ordinary shares in issue during the year which was 64,551,689 (2005: 56,916,300)

The number of ordinary shares used to calculate 2005 earnings per share have been adjusted, as if the 1 for 5 consolidation that took place on 27 July 2006 had already taken place as of 1 January 2005, to present the results on a comparable basis.

Notes to the financial statements continued for the year ended 31 December 2006

7. Equity accounted investments

Investments in joint venture arrangements are accounted for in the consolidated financial statements using the equity method of accounting and are carried at cost by the parent entity. Information relating to the joint ventures is set out below.

(a) Carrying amounts

Name	Principal Activity	Ownership interest		Consolidated entity carrying amount	
		2006 %	2005 %	2006 £'000	2005 £'000
Stonehage Westcity Management Company Ltd	Fund management	50	–	89	–

Stonehage Westcity Management Company Ltd is incorporated in the Channel Islands.

(b) Movements in carrying amounts

	Consolidated 2006 £'000
Carrying amounts at the beginning of the financial year	–
Additional investments in the year	13
Share of profits after tax	76
Carrying amounts at the end of the financial year	89

(c) Share of joint venture profits

	Consolidated 2006 £'000
Profit before tax	95
Tax expense	(19)
Profit after tax	76

(d) Summarised financial information of joint ventures

Group's share of:

2006	Assets	Liabilities	Revenues	Profits
Stonehage Westcity Management Company Ltd	165	(76)	607	76

(e) Share of joint ventures' capital commitments

The joint venture had no capital commitments as at 31 December 2006.

(f) Contingent liabilities of the joint ventures

The joint venture had no contingent liabilities as at 31 December 2006.

8. Property, plant and equipment

Group and company	Motor vehicles & office equipment £'000
Cost	
At 1 January 2005	71
Additions	24
Disposals	(32)
At 31 December 2005	63
Additions	16
At 31 December 2006	79
Accumulated depreciation	
At 1 January 2005	53
Charge for the period	9
Disposals	(32)
At 31 December 2005	30
Charge for the period	18
At 31 December 2006	48
Net book value	
At 31 December 2006	31
At 31 December 2005	33
At 31 December 2004	18

9. Investment property

	£'000
Freehold at valuation	
At 1 January 2006	4,950
Disposals	(4,950)
At 31 December 2006	-

On 12 May 2006 the Company completed the sale of its wholly owned subsidiary Victoria Heights Corporation Limited (which owns the Hixon property formerly occupied by a Group subsidiary) for £4,950,000. £450,000 of the purchase consideration was received in cash at completion and the deferred balance of £4,500,000 was represented by a loan to Victoria Heights Corporation Limited (note 10).

As part of the transaction and immediately prior to completion of the sale, Victoria Heights Corporation Limited redeemed a long-term loan of £5.9 million secured on the property.

Notes to the financial statements continued for the year ended 31 December 2006

10. Other financial assets

	Group 2006 £'000	Group 2005 £'000	Company 2006 £'000	Company 2005 £'000
Non current				
Loan to Victoria Heights Corporation	4,500	–	4,500	–
Investments held at fair value through profit and loss	19,568	–	19,568	–
Investment in controlled entities	–	–	23,555	22,261
	24,068	–	47,623	22,261

The loan to Victoria Heights Corporation is carrying interest at 1% p.a over base rate and is secured by a first charge over the Hixon property. The loan is repayable no later than 12 May 2011.

Investments held at fair value through profit and loss represent the investment into the Stonehage Westcity Property Fund.

11. Investment in group entities

	Company total £'000
Investments in subsidiaries	
Cost	
At 1 January and 31 December 2006	140,900
Provisions	
At 1 January 2006	118,639
Provision write-back on sale of Victoria Heights Corporation	(1,294)
At 31 December 2006	117,345
Cost less provisions for impairment in value	
At 31 December 2006	23,555
At 31 December 2005	22,261

Details of the principal subsidiary undertakings are as follows:

	Country of incorporation and residence	% owned at year end	Activity
Westcity Developers Limited	United Kingdom	100	Development Management (from 1 January 2007)

There are an additional 17 subsidiary undertakings, all of which were and continue to be dormant.

12. Trade and other receivables

	Group 2006 £'000	Group 2005 £'000	Company 2006 £'000	Company 2005 £'000
Other receivables	119	50	119	50
	119	50	119	50

13. Trade and other payables

	Group 2006 £'000	Group 2005 £'000	Company 2006 £'000	Company 2005 £'000
Other taxes and social security costs	63	78	63	44
Trade payables	16	–	16	–
Other payables	226	400	223	410
Accruals and deferred income	209	405	209	169
Amount owed to subsidiary undertaking	–	–	–	188
	514	883	511	811

14. Interest bearing loans and borrowings

Group	2006 £'000	2005 £'000
Analysis of borrowings:		
Bank loans and overdrafts repayable:		
In less than 1 year	–	79
In more than 1 year but not more than 2 years – secured	–	88
In more than 2 years but not more than 5 years – secured	–	308
In more than 5 years – secured	–	5,429
	–	5,904
Current	–	79
Non-current	–	5,825
Total borrowings	–	5,904

The Bank Loan of £5.9m was secured on the Group's freehold investment property. The loan was repayable by October 2025 but was redeemed in full on 12 May 2006 on the sale of Victoria Heights Corporation Limited.

Notes to the financial statements continued for the year ended 31 December 2006

15. Provisions

	Group pension scheme deficit £'000	Group onerous property leases £'000	Group Total £'000	Company onerous property leases £'000
Provision at 1 January 2005	250	5,718	5,968	5,718
Provision utilised	–	(3,313)	(3,313)	(3,313)
Unused amounts reversed in the period	–	(2,141)	(2,141)	(2,141)
Provision at 31 December 2006	250	264	514	264
Current	–	55	55	55
Non-current	250	209	459	209
	250	264	514	264

Provision is made in these financial statements for all material liabilities including any legal claims which are expected to materialise and lease liabilities which had materialised on premises formerly occupied by a Group company.

The Directors have considered the adequacy of provisions for product liability, property lease liabilities which have materialised, trade disputes and environmental issues relating to disposed businesses and consider that adequate provision has been made, or sufficient funds held in escrow, to meet any contingent costs.

16. Financial instruments

Treasury Policy

Interest rate, foreign exchange risk and financing is managed centrally and reviewed by the Board. The Group's financial instruments comprise borrowings, cash and liquid resources, and various items such as debtors, creditors and listed investments. The main purpose of these financial instruments is to manage the interest rate risk of the Group.

Interest rate profile of financial liabilities

The interest rate risk profile of the group's financial liabilities as at 31 December 2006 was:

Currency	Floating rate financial liabilities £'000	Fixed rate financial liabilities £'000	Total £'000
2006			
Sterling	–	–	–
2005			
Sterling	5,904	–	5,904

There were no floating rate liabilities at the balance sheet date (2005 floating rate liabilities comprised a mortgage loan of £5.9m bearing interest at a rate of LIBOR plus 1.2%).

Interest rate risk of financial assets

Interest bearing financial assets comprise cash at bank, in hand and short term deposits. Cash on short term deposit yields interest based on the prevailing base rate.

Currency	Cash at bank and in hand (Interest free) £'000	Short term deposits (floating rate) £'000	Loans (floating rate) £'000	Total £'000
2006				
Sterling	262	1,969	4,500	6,731
2005				
Sterling	201	24,272	-	24,473

The loan bears interest at a rate of base rate plus 1%.

Borrowing facilities

The group had no undrawn committed borrowing facilities available at 31 December 2006.

Fair values of financial assets and liabilities

There is no material difference between the fair value and book value of the Group's financial instruments.

Currency exposures

As a result of significant investments in operations denominated in Euros, the Group's balance sheet can be affected significantly by movements in the £/Euro exchange rates.

As at 31 December 2006 the Group had not entered into any forward contracts.

The Board are in the process of establishing policies for managing the foreign currency exposure from the investment in the property fund.

The Group also has transactional currency exposures. Such exposure arises from revenue denominated in currencies other than the Company's functional currency. The majority of the costs to 31 December 2006 are denominated in the Company's functional currency.

Notes to the financial statements continued for the year ended 31 December 2006

17. Share capital

	31 Dec 2006 No.	31 Dec 2005 No.	31 Dec 2006 £'000	31 Dec 2005 £'000
Authorised				
Ordinary shares of 1p each	141,793,724	438,991,964	1,418	4,390
Issued and fully paid				
Ordinary shares of 1p each	74,299,301	284,581,499	743	2,846
			No.	£'000
1 January 2006	Opening balance		284,581,499	2,846
27 July 2006	5 to 1 consolidation		(227,665,717)	–
27 July 2006	Issue of new shares		17,383,519	869
11 October 2006	Capital reduction		–	(2,972)
31 December 2006	Closing balance		74,299,301	743

On 27 July 2006 shareholders approved resolutions to raise £7.4m after expenses by way of a placing of 30 million ordinary shares and a fully underwritten Open offer of 56,916,300 ordinary shares at a price of 8.875p per ordinary share.

The Company's share capital was then consolidated so that every 5 ordinary shares in issue was converted into 1 ordinary share of 5p each which was immediately subdivided into 1 ordinary share of 1p and 1 deferred share of 4p.

Pursuant to a resolution passed by shareholders on 27 July 2006 and following an order of the High Court of Justice passed on 11 October 2006 the share capital of the Company was reduced from £4,389,919.64 divided into 141,793,466 Ordinary Shares of 1p each, 74,299,599 Deferred shares of 4p each to £1,417,937 divided into 141,793,724 Ordinary shares of 1p each.

On the same day, the Court approved the resolution to cancel the amounts of £3,784,343 standing to the credit of the capital redemption reserve and £23,428,395 standing to the credit of the share premium account and in accordance with an undertaking given by the Company to the Court the sum of £24,649,598 was transferred to a special reserve. The special reserve is not to be treated as representing realised profits of the Company and will be treated as an un-distributable reserve of the Company for the purposes of section 264 of the Companies Act 1985, as it may apply to the Company, for so long as any debts of or claims against the Company as at 11 October 2006 shall remain outstanding.

Subsequent to the capital reduction, £555,625 relating to an onerous lease provision was recovered and a tax provision of £92,725 was reversed as no longer required. These amounts have been adjusted against the Special Reserve.

18. Reserves

Group	Share Premium account £	Share based payments reserve £	Other capital reserves £	Retained income £
At 1 January 2005	16,841	13	3,976	(1,340)
Share based payment	-	25	-	-
Retained profit for the year	-	-	-	(5,662)
At 1 January 2006	16,841	38	3,976	(7,002)
Share based payment	-	93	-	-
Issue of share capital	-	6,588	-	-
Capital reduction	(23,429)	-	21,512	4,889
Retained profit for the year	-	-	-	1,317
At 31 December 2006	-	131	25,488	(796)

As permitted by Section 230 of the Companies Act 1985, the income statement of the company is not presented as part of these accounts.

The consolidated profit for the financial year of £1,317,000 (2005:£5,662,000 loss) includes a profit of £1,241,000 (2005: £6,237,000 loss) which is dealt with in the accounts of the company.

Nature and purpose of other reserves***Share based payments reserve***

The share based payments reserve is used to recognise the fair value of options expensed but not exercised (refer to note 23).

Other capital reserves

The other capital reserves arose following the cancellation of amounts included in the capital redemption reserve and share premium account. The other capital reserves is not to be treated as representing realised profits of the Company and will be treated as an undistributable reserve for the purposes of section 264 of the Companies Act 1985, as it may apply to the Company, for so long as any debts of or claims against the Company as at 11 October 2006 shall remain outstanding.

Notes to the financial statements continued for the year ended 31 December 2006

19. Net cash outflow from operating activities

	Group 2006 £'000	Group 2005 £'000	Company 2006 £'000	Company 2005 £'000
Operating Profit/(Loss) before tax	1,225	(5,662)	1,334	(6,262)
Revaluation deficit on property	-	872	-	-
Profit on sale of property, plant and equipment	-	(6)	-	(6)
Depreciation	18	9	18	9
Share based payments expense	93	25	93	25
Share of profits of equity accounted investment	(76)	-	-	-
(Increase)/decrease in the fair value of investments	32	-	32	-
Finance income	(676)	(1,157)	(676)	(1,157)
Finance expense	125	366	125	366
Costs of acquiring other financial assets	400	-	400	-
(Increase)/decrease in receivables	(69)	30	(69)	13
(Decrease)/increase in trade investments	-	1,000	-	1,000
(Increase)/decrease in prepayments	(15)	-	178	(21)
(Decrease)/increase in payables	(369)	(689)	(285)	(322)
Impairment of investment property	-	(650)	-	-
Impairment of subsidiaries	-	-	(1,294)	319
(Decrease)/increase in provisions	(5,455)	5,350	(5,455)	5,448
Non cash movements on advances to related entities	(4,950)	-	(4,950)	-
Non cash consideration on sale of investment property	4,950	-	-	-
	(4,767)	(512)	(10,549)	(588)

20. Group financial commitments

The group had no commitments under non-cancellable operating leases at the year end (2005 Nil).

21. Contingent liabilities

Contingent liabilities

Indemnities and warranties

The Group continues to have contingent liabilities in connection with indemnities and warranties given to the purchasers of its former businesses. As no claims have been made under these indemnities and warranties, the Directors are unable to quantify these potential liabilities.

Property lease liabilities

The Group continues to have contingent liabilities in connection with the property leases of its former businesses, for which it is exposed to lease obligations in the event of an assignee's default. The remaining lengths of these leases range from 2 to 7 years. Whilst all assignees continue to meet their obligations under these leases, the current rent obligations (which may be subject to periodic reviews), before allowing for any mitigating activities, for all such leases are approximately £352,000 per annum.

No provision has been made in respect of these contingent matters.

22. Related party transactions

Trading transactions

During the year group companies entered into the following transactions with related parties who are not members of the Group.

	2006 £'000	2005 £'000
Rent paid to Floral Holdings Limited, a company in which Michael Rapp is a director	18	19
Development work recharges and other fees paid to Westcity Properties Limited, a company in which Ira Rapp is a director	185	–
Development work recharges paid to Phillimore Hill (SJA) Limited, a company in which Ira Rapp is a director	15	–
Advisory and acquisition fees received from SW1 Limited, a company related to the Stonehage Westcity Property Fund	252	–
Advisory fees and trailer fees received from Stonehage Westcity Management Company Limited	316	–

£50,788 was still outstanding from SW1 Limited as at 31 December 2006. No other amounts were outstanding.

Group balances

Amounts owed by the Company to subsidiary companies are as disclosed in the balance sheets.

Key management remuneration

Key management and their remuneration are as identified in note 3 of the accounts.

Notes to the financial statements continued for the year ended 31 December 2006

23. Share based payment plans

The expense recognised for employee services received during the year is shown in the following table:

	Year ended 31 Dec 2006 £'000	Year ended 31 Dec 2005 £'000
Expense arising from equity settled share-based payment transactions	93	25
Total expense arising from share-based payment transactions	93	25

The share-based payment plans are described below

The 1995 Scheme

Under the 1995 Approved Scheme, options are subject to performance conditions linked to the growth in earnings per share over a total period of three consecutive financial years being such to place the company within the comparable top quartile of FTSE 100 companies ranked by reference to growth in earnings per share over the same period. Options under this scheme were issued to one director and one employee.

The Equity Partnership Plan

Options issued under the Westcity Equity Partnership Plan are subject to performance conditions linked to average total shareholder return exceeding a specified market index of average shareholder return over a specified period. Options under this scheme have only been issued to one director, Mr Wood-Ward.

The 2006 Scheme

All other options issued under the 2006 Schemes are subject to performance conditions linked to the "Base EPS" (EPS for the financial year ending 31 December 2006). The condition is that the EPS for the Assessment Period must not be less than the amount found by compounding the Base EPS annually at the rate of 12.5%. If the Base EPS are less than 1.0p, the condition is that the EPS for the Assessment Period must not be less than 1.265p (for options exercisable no earlier than two years from the Date of Grant) or 1.425p (if the Option is exercisable no earlier than three years from the Date of Grant). This scheme covers directors and employees of Westcity PLC.

Movements in the year

The following table illustrates the number and weighted average exercise prices of, and movements in, share options during the year.

	2006 No.	2006 Price	2005 No.	2005 Price
Outstanding at 1 January	266,190	42.50p	266,190	42.5p
Granted during the year	4,000,000	44.44p	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at 31 December	4,266,190	44.32p	266,190	42.5p
Exercisable at 31 December	-	-	-	-

The weighted average remaining contractual life for the share options outstanding as at 31 December 2006 is 9.273 years (2005 5.612).

The weighted average fair value of options granted during the year was £0.0956 (2005: Nil – No shares granted).

The range of exercise prices for options outstanding at the year end was £0.425 – £0.4625 (2005 £0.425 – £0.425).

The following table lists the inputs to the models used for the share based payment plans.

	1995 Scheme	Equity Partnership Plan	2006 Scheme
Expected volatility (%)	20%	20%	20%
Risk-free interest rate (%)	5%	5%	5%
Expected life of option (years)	4.5	4	2 – 3
Weighted average exercise price (£)	0.425	0.425	0.4625
Valuation model used	Black Scholes	Black Scholes	Black Scholes

Notes to the financial statements continued for the year ended 31 December 2006

24. Impact of transition from previous UK GAAP to IFRS

The consolidated entity changed its accounting policies on 1 January 2005 to comply with the International Financial Reporting Standards (IFRS). The transition to IFRS is accounted for in accordance with IFRS 1 First-time Adoption of International Financial Reporting Standards with 1 January 2005 as the date of transition.

An explanation of how the transition from superseded policies to IFRS has affected the Group's equity, profit and cash flows is set out in the following tables and the notes that accompany the tables.

(a) Reconciliation of total equity as presented under UK GAAP to that under IFRS

	31 Dec 2005 £'000	1 Jan 2005 £'000
Total equity under UK GAAP and IFRS	16,699	22,936

(b) Reconciliation of net loss under UK GAAP to that under IFRS

	31 Dec 2005 £'000
Net loss as reported under UK GAAP	(5,637)
Share based payments (i)	(25)
Net loss under IFRS	(5,662)

- (i) Options issued to employees after 7 November 2002 but that had not vested by 1 January 2005 are charged to the income statement over their vesting period. No such expense was recognised under GAAP. The corresponding entry is to a share based payments reserve. This restatement would have been required even if IFRS had not been adopted in the current year.

(c) Restated IFRS Statement of Cashflows

No adjustments have been made to the cash flow statement on adoption of IFRS.

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