

**Westcity PLC**  
**Interim Report 2007**



**WESTCITY PLC**

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## Chairman's statement

The focus of the Company's activities during the period under review was on completion of pipeline transactions and the generation of additional potential transactions.

The Company achieved a profit after tax of £214,000 (2006: £1,454,000 after including the release of £1,585,000 from provisions for onerous leases).

Westcity's major asset is its investment in the Stonehage Westcity Property Fund ("Fund"). At 30 June 2007, the carrying value of the investment was £19.733 million after accounting for costs, exchange rate fluctuations and Westcity's share of the funds net asset value at 30 June 2007. In June 2007 the Company hedged this investment by locking in the €/\$ rate for 1 year, thereby eliminating the impact of fluctuations due to currency movements.

### Operations

In August 2006 the Fund raised a total of approximately €85 million, including approximately €29 million invested by the Company. The Fund is managed by Stonehage Westcity Management Company Limited of which Westcity plc owns 50%, the balance being owned by the Stonehage Group.

During the period since the launch of the Fund Westcity, under its acquisition mandate, has enabled the Fund to invest €53.9 million. With a further €24 million currently in final due diligence and legal completion, these transactions represent approximately 90% of the Fund's available equity. In addition, a further number of pipeline transactions are actively being assessed by Westcity.

In line with the Fund manager's objectives, the Fund's portfolio is becoming well

balanced across a spread of investment and development assets over the commercial and residential segments in a number of diverse jurisdictions.

Further information on the Company and the Fund can be found on the Company's new website at [www.westcityplc.co.uk](http://www.westcityplc.co.uk)

### Outlook

There can be no certainty that the transactions already in process will complete. However, given the progress made to date, I continue to be hopeful that the Fund will be fully invested during the latter part of the year and that, going forward, the Company will benefit from this strong acquisition performance in 2007. Management is in the preparatory stages of structuring a second fund, which it intends will focus on mixed use residential development. Shareholders will be appraised of this new fund once further progress has been made.

### Dividend

No dividend will be paid on the ordinary shares in respect of the period under review (2006: NIL).



Rex Wood-Ward  
Chairman  
18 September 2007

## Chief Executive's review

The six months to June has been a period of intense, yet rewarding, activity during which we completed a number of transactions and further developed our transaction pipeline.

Under an agreement with 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.

### Stonehage Westcity Property Fund Fund Overview

- Total equity raised (net of origination fees) €83.7 million
- Completed transactions – total equity invested or committed €53.9 million
- Transaction in final legal completion – equity value €24 million
- Pipeline transactions in due diligence / legal process – equity value €25 million

### Completed transactions

As at 30th June 2007, the Fund had completed seven investments or commitments totalling approximately €53.9 million of equity, with a gross asset value of approximately €170 million.

### Concordia Building, Hannover

The Fund invested €4.4 million in a commercial property in Hannover, Germany, at an initial yield on purchase price of 7.1%. The property consists of approximately 15,700 square metres over 9 floors and is 100% let to a large German insurance company on a lease which terminates in 2020 with annual CPI rent reviews. The gross cost to the fund was €21.35m, of which 78% was funded by non-recourse senior debt.

### Berlin Residential Properties

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 29 properties which comprise 750 residential units and 60 retail units with a gross value of €56 million at an average entry yield of 7.2%. To date the portfolio has been funded by equity and 70% of senior non-recourse debt. The Berlin fund is approximately 90% invested and has a strong deal pipeline. Under an agreement with 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.

### Russia

As part of a portfolio the Russian real estate market offers superior opportunity for capital appreciation through rental uplift and yield compression compared to many European markets. The Fund has 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 Rutley fund has a transaction pipeline of six deals worth approximately US\$250 million. 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 has representation on the investment board of the Russia fund.

#### **Mustang Portfolio**

In partnership with the European Added Value Fund, which is managed by AXA Investment Management, the Stonehage Westcity Property Fund acquired a portfolio of 10 commercial properties in secondary/tertiary German towns and cities for €85 million, at an initial yield on purchase price of 7.2%. The Fund's equity investment amounted to approximately €13.6 million for its 50% share. The 10 properties comprise of approximately 60,000 square metres of primarily commercial space, including a nominal element of retail and the portfolio is 95% let.

#### **Greenwich**

The Fund has entered into a joint venture with Capital & Counties for a mixed-use development in the centre of Greenwich, London. Subject to planning approvals, the development will comprise 129 residential units and 2,500 square metres of prime retail space. The Fund's 50% share of the equity requirement is €10.6 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.

#### **UK Care Homes**

The Fund has committed an initial €7.5 million to provide mezzanine funding to a well

established UK company for the acquisition of development land and the subsequent development of Care Homes throughout the UK. The Fund, which has a deal by deal veto, will be entitled to a fixed return on their investment, in addition to a 30% share in the profits.

Demand for care beds in the United Kingdom has increased over recent years, with demand expected to significantly increase over the next few decades. At the same time, supply of care beds is falling, due to increased regulation and the subsequent closure of care homes.

Initial deals include the purchase of a site in Cheltenham, with a projected Gross Development Value of €9.5m, and the exchange of contracts for the purchase of a freehold property in Camberwell, with a projected Gross Development Value of €21.8m. Total mezzanine funding for these two deals will amount to c.€1.25m.

#### **Portland Fund**

In June 2007 the Fund invested €5 million into the Portland Global Real Estate Securities Fund as part of its indirect property instrument portfolio allocation. The Portland Fund seeks superior absolute returns by investing in publicly traded real estate securities, primarily in Europe. The Fund, managed by Portland Capital LLP, is targeting net returns above 15%. Capitalising on the principal's expertise in investments, real estate private equity, debt and derivative markets, the Fund will have the opportunity to benefit from attractive returns in both positive and negative market environments by applying Portman's investment skills to the real estate market.

#### **Final due diligence and legal completion**

The Fund has three transactions in which final due diligence is currently in process. These transactions, with an aggregate invested equity capital requirement of approximately €24 million, include:

- The acquisition of 4 properties comprising a total of 20,000 square metres in Frankfurt and Maintal at an initial yield on purchase price of 8.6%, which will be added to the Mustang Portfolio.
- A joint venture partnership for a mixed use development over 235,000 square metres in an exclusive site in Kuala Lumpur, Malaysia.
- The acquisition of a number of properties for a 12,500 square metre residential development in Kent.

The development opportunities will draw on Westcity plc development expertise, and should provide enhanced portfolio returns through strong profitability.

#### **Early Stage investment pipeline**

In addition to the opportunities described above, Westcity has a number of potential transactions currently undergoing appraisal in its pipeline, with a total equity requirement of approximately €25 million.

#### **Development activities**

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 is the development manager for this scheme. Westcity has recently entered into an agreement with Capital & Counties Ltd to provide

residential development consultancy services, including development management together with the right to co-invest in all residential mixed-use schemes within the M25 area of London.

Having sourced and then produced the relevant plans and appraisals, Westcity will also be responsible for the development management of the mixed-use residential/retail site in Kent and will co-manage the Kuala Lumpur development in the event that the Fund invests in these two projects.

During the past six months we have assessed many potential opportunities and completed equity investments and/or commitments worth €45 million. Our objective during the remainder of the year will be to complete those transactions in final due diligence, which would bring the fund to a 90% invested position. Furthermore, given the strong remaining pipeline, there is a strong possibility that the Fund will be fully invested by year-end.



**Ira Rapp**  
Chief Executive Officer  
18 September 2007

## Condensed consolidated income statement

Unaudited results for the half year ended 30 June 2007

	Unaudited results for the 6 months to 30 June 2007 £'000	Unaudited results for the 6 months to 30 June 2006 £'000	Audited results for the year ended 31 December 2006 £'000
<b>Revenue</b>	<b>816</b>	<b>–</b>	<b>568</b>
Finance revenue	179	392	676
Employee benefits expense	(1,015)	(246)	(936)
Depreciation and amortisation expense	(17)	(6)	(18)
Other expenses	(337)	(271)	(725)
Release of provision for onerous leases	–	1,585	2,141
Change in value of investments	166	–	(432)
Share of profits of equity accounted investments	15	–	76
Finance costs	–	–	(125)
Profits from hedging instruments	407	–	–
<b>Profit before tax</b>	<b>214</b>	<b>1,454</b>	<b>1,225</b>
Income tax credit	–	–	92
<b>Profit for the period attributable to equity holders of the parent</b>	<b>214</b>	<b>1,454</b>	<b>1,317</b>
Basic earnings per share	0.29p	2.55p	2.05p
Diluted earnings per share	0.27p	2.55p	2.04p

## Condensed consolidated balance sheet

As at 30 June 2007

	Unaudited 30 June 2007 £'000	Unaudited 30 June 2006 £'000	Audited 31 December 2006 £'000
<b>Non-current assets</b>			
Property, plant and equipment	79	27	31
Equity accounted investments	69	–	89
Other financial assets	24,234	4,500	24,068
	<b>24,382</b>	<b>4,527</b>	<b>24,188</b>
<b>Current assets</b>			
Trade and other receivables	1,148	43	119
Prepayments	77	–	56
Cash and cash equivalents	1,048	18,612	2,231
	<b>2,273</b>	<b>18,655</b>	<b>2,406</b>
<b>Total assets</b>	<b>26,655</b>	<b>23,182</b>	<b>26,594</b>
<b>Current liabilities</b>			
Trade and other payables	289	4,567	514
Provisions	6	–	55
	<b>344</b>	<b>4,567</b>	<b>569</b>
<b>Non-current liabilities</b>			
Provisions	6	430	459
	<b>430</b>	<b>462</b>	<b>459</b>
<b>Total liabilities</b>	<b>774</b>	<b>5,029</b>	<b>1,028</b>
<b>Net assets</b>	<b>25,881</b>	<b>18,153</b>	<b>25,566</b>
<b>Shareholders' equity</b>			
Called up share capital	7	2,846	743
Share premium account	–	16,841	–
Share based payments reserve	8	38	131
Other capital reserves	8	3,976	25,488
Retained earnings	8	(5,548)	(796)
	<b>25,881</b>	<b>18,153</b>	<b>25,566</b>

## Condensed consolidated cash flow statement

### For the half year ended 30 June 2007

	Notes	Unaudited 6 months to 30 June 2007 £'000	Unaudited 6 months to 30 June 2006 £'000	Audited year to 31 December 2006 £'000
<b>Net cash flows from operating activities</b>	9	(1,297)	(644)	(4767)
<b>Investing activities</b>				
Interest received		179	518	676
Purchase of property, plant and equipment		(65)	-	(16)
Proceeds from the sale of investment property		-	295	450
Payments to acquire equity accounted investments		-	-	(13)
Payments to acquire other financial assets		-	-	(20,000)
<b>Net cash flows used in investing activities</b>		114	813	(18,903)
<b>Financing activities</b>				
Net proceeds from the issue of share capital		-	-	7,457
Interest paid		-	(126)	(125)
Repayment of borrowings		-	(5,904)	(5,904)
<b>Net cash flows used in financing activities</b>		-	(6,030)	1,428
<b>Net increase/(decrease) in cash and cash equivalents</b>		(1,183)	(5,861)	(22,242)
<b>Cash and cash equivalents at 1 January</b>		2,231	24,473	24,473
<b>Cash and cash equivalents at 30 June/31 December</b>		1,048	18,612	2,231

## Condensed consolidated statement of changes in equity

### For the half year ended 30 June 2007

	Issued Capital £'000	Share premium £'000	Share based payment reserve £'000	Other capital reserves £'000	Retained earnings £'000	Total equity £'000
At 1 January 2007	743	-	131	25,488	(796)	25,566
Total income and expense for the period	-	-	-	-	214	214
Other movements	-	-	-	-	-	-
Share based payment	-	-	101	-	-	101
<b>At 30 June 2007</b>	<b>743</b>	<b>-</b>	<b>232</b>	<b>25,488</b>	<b>(582)</b>	<b>25,881</b>

	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
Total income and expense for the period	-	-	-	-	1,454	1,454
Share based payment	-	-	-	-	-	-
<b>At 30 June 2006</b>	<b>2,846</b>	<b>16,841</b>	<b>38</b>	<b>3,976</b>	<b>(5,548)</b>	<b>18,153</b>

	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
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
<b>At 31 December 2006</b>	<b>743</b>	<b>-</b>	<b>131</b>	<b>25,488</b>	<b>(796)</b>	<b>25,566</b>

## Notes to the condensed consolidated financial statements

### For the year ended 30 June 2007

#### 1. Basis of preparation

The condensed financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards and in accordance with International Accounting Standards (IAS) 34 Interim Financial Reporting and have not been audited for the period under review.

The financial information contained in this document does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985.

The financial information for the year ended 31st December 2006 is extracted from the audited financial statements for that year on which the auditors gave an unqualified report and which did not give a statement under Section 237 (2) or 237 (3) of the Companies Act 1985.

A copy of these 2006 financial statements has been filed with the Registrar of Companies.

The Group prepares its consolidated financial statements in accordance with IFRS, and the statements have been prepared using the accounting policies set out in the Group's 2006 statutory accounts.

#### 2. Significant accounting policies

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

The same accounting policies, presentation and methods of computation are followed in these condensed financial statements as were applied in the preparation of the Group's financial statements for the year ended 31 December 2006.

#### 3. 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.

#### 4. Dividends

No dividends were paid or declared in the period (June 2006: Nil, December 2006: Nil).

#### 5. Earnings per ordinary share

Basic earnings per ordinary share has been calculated on the Group's profit attributable to shareholders of £214,000 (June 2006: £1,454,000, December 2006: £1,317,000) and on the weighted average number of ordinary shares in issue during the period which was 74,299,301 (June 2006: 56,916,300, December 2006: 64,393,594).

Diluted earnings per ordinary share has been calculated on the Group's profit attributable to shareholders of £214,000 (June 2006: £145,400, December 2006: £1,317,000) and on the diluted weighted average ordinary shares in issue during the period which was 78,925,497 (June 2006: 64,551,689, December 2006: 64,551,689).

The number of ordinary shares used to calculate June 2006 earnings per share have been adjusted as if the reorganisation that took place on 27 July 2006 had already taken place as of 1 January 2006, to present the results on a comparable basis. Details of this reorganisation can be found in the Group's financial statements for the year ended 31 December 2006.

#### 6. Provisions

	Pension scheme deficit £'000	Onerous property leases £'000	Total £'000
Provision at 1 January 2007	250	264	514
Provision utilised	–	(29)	(29)
Provision at 30 June 2007	250	235	485
Current	–	55	55
Non-current	250	180	430
	250	235	485

#### Provisions for liabilities

Provision is made in these financial statements for all material liabilities including any legal claims which are expected to materialise and a lease liability which has 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.

#### 7. Share capital

There were no changes to the issued share capital of the Company during the period.

#### 8. Reserves

	Share based payments reserve £	Other capital reserves £	Retained earnings £
<b>Group</b>			
At 1 January 2007	131	25,488	(796)
Share based payment	101	–	–
Other movements	–	–	–
Retained profit for the period	–	–	214
<b>At 30 June 2007</b>	<b>232</b>	<b>25,488</b>	<b>(582)</b>

## Notes to the condensed consolidated financial statements

### For the year ended 30 June 2007

#### **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.

##### *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 are 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.

#### **9. Net cash outflow from operating activities**

	Unaudited 6 months to 30 June 2007 £'000	Unaudited 6 months to 30 June 2006 £'000	Audited year to 31 December 2006 £'000
Operating Profit before tax	214	1,454	1,225
Provision for onerous leases	–	(1,585)	–
Depreciation	17	6	18
Share based payments expense	101	–	93
Share of profits of equity accounted investment	(15)	–	(76)
Dividend from equity accounted investment	35	–	–
(Increase)/decrease in the fair value of investments	(166)	–	32
Finance income	(179)	(392)	(676)
Finance expense	–	–	125
Costs of acquiring other financial assets	–	–	400
(Increase)/decrease in receivables	(1,029)	48	(69)
(Increase)/decrease in prepayments	(21)	–	(15)
(Decrease)/increase in payables	(225)	(136)	(369)
Increase/(decrease) in provisions	(29)	(39)	(5,455)
	<b>(1,297)</b>	<b>(644)</b>	<b>(4,767)</b>

#### **10. Group financial commitments**

The group had no commitments under non-cancellable operating leases at the period end.

#### **11. 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 annual 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.

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