

Westcity PLC
Interim Report 2008



WESTCITY PLC

Contents

2	Chairman's statement
6	Condensed consolidated income statement
7	Condensed consolidated balance sheet
8	Condensed consolidated cash flow statement
9	Condensed consolidated statement of changes in equity
10-13	Notes to the condensed consolidated financial statements

Chairman's statement

Against an increasingly uncertain economic outlook, the focus of the Company's activities during the period under review was to efficiently manage its asset in the Stonehage Westcity Property Fund ("Fund"), the re-alignment of the Company's overheads and the generation of additional income for the Company.

It has been a very challenging and difficult six months. Market conditions remain extremely uncertain and volatile which is reflected in our financial performance. It is a time of uncharted territories with massive write downs of real estate values worldwide. There is a mood of increased caution amongst investors in all asset classes. Financial liquidity is at an all time low and there is a softening of prime yields throughout European markets.

As a result, the Company incurred a loss after tax for the period under review of £4,843,000 (2007: profit £214,000) principally due to the Company's share of an impairment provision of £4,066,000 as determined by the Board of Directors of The Stonehage Westcity Property Fund ("Fund") as set out below.

The Company's major asset is its investment in the Fund which is carried at fair value. The assets of the Fund were professionally valued at December 2007 and professional valuations will again be undertaken at December 2008. In the light of prevailing market conditions and the uncertain outlook, the Fund's Directors have reassessed the fair value of the Fund's investments as at 30 June 2008 resulting in a decrease of approximately 22% of the portfolio's real estate values. This impacted negatively on the Company's profit and loss account in an amount of £4,066,000

The Company's loss after tax can be summarised as follows:

- Due to the reassessment by the Fund's Directors of the fair value of the Fund's real estate assets at 30 June 2008, the Company's fair value of its investment in the Fund was reduced by £4,066,000 less an amount of £1,586,000 in respect of a foreign exchange gain in respect of the Company's investment in the Fund, and by £183,000 being the Company's share of other net revenues of the Fund, all resulting in a net write down of £2,297,000 in the carrying value of the Fund.

- In addition a foreign exchange loss of £1,441,000 was incurred as a result of a forward exchange contract used to hedge the Fund investment against the Euro. As previously reported this hedging contract has now been settled and closed.

- Finally, overheads exceeded revenue by £1,105,000.

Review of Operations

The above factors have resulted in the Fund aborting numerous transactions, which has led the Fund to be cash positive, with 43% of its net equity held in cash. As a result, the Fund is placed in a very strong position to take advantage of opportunities when market conditions stabilise.

External market conditions have resulted in much lower levels of investment by the Fund so that the Company's fee revenues have failed to meet expectations. In order to counter this shortfall, the Company has taken decisive actions to reduce its cost base going forward without compromising its ability to service its existing contractual obligations.

The Company owns 34% of the Fund and is property adviser to the Fund. An update of the Fund's investments is set out as follows.

German Commercial Portfolio

Against a background of economic slowdown and heightened uncertainty, the Fund's German portfolio presents many challenges. Our priorities are focused on maximising and safeguarding income, minimising voids and achieving rental growth where possible in a softening market. New property and asset managers have been appointed with a far more proactive and reliable approach. This has already resulted in cost savings, better tenant communications and a number of new leases. Whilst active asset management initiatives will continue to be the focus of our attention, we are constantly reviewing the overall business strategy and are monitoring our banking covenants and relationships very closely.

German Residential Portfolio

This Signature specialist residential fund in Berlin is also experiencing a softening of yields and is being very closely monitored as operating expenses need to be reduced in line with original forecasts. Again, management activity is centred on cost containment and revenue maximisation through vacancy minimisation and rental increases wherever achievable.

Russia Rutley

The Russia Rutley Fund currently holds approximately 70% of its available investment funds in cash and is reviewing a number of interesting opportunities.

Greenwich

Planning permission was granted in June 2008 for the development of 129 residential units and approximately 2,500 square meters of prime retail space. Whilst the short/medium term outlook for residential property remains negative, the site is of the highest quality and until normal market conditions return we will continue to review our options. The site is currently rent producing with very little expenditure being incurred.

Queens Wharf

The Queen's Wharf site, located on the River Thames adjacent to the Hammersmith Bridge, is a prime development site enjoying

excellent river views. The Company, together with our joint venture partners, Byrne Estates Limited, continue to progress with our planning application and are hopeful of a successful outcome in the New Year.

Care Homes

The Fund has a small investment in two properties which are awaiting planning permission. Once this has been received, we will seek to trade out of these investments and take advantage of opportunities as they arise.

Portland

This is a real estate securities fund. It invests mainly in public equity securities, debt securities, derivatives and exchange traded funds in the real estate sector. Since its launch in June 2007, the Fund's investment in Portland has produced a negative net performance of 3.42%. This investment is part of the Fund's liquid portfolio and we are currently assessing our options with respect to this investment.

Outlook

Although the Fund's portfolio is well balanced the uncertainties plaguing global markets dictate extreme caution. To this end, our priority has shifted from portfolio expansion to intensive asset management. With its high level of liquidity the Fund remains extremely well placed to benefit once markets show

clear signs of stabilising and high quality opportunities present themselves.

This change in focus and outlook due to external market forces will result in reduced income to the Company from levels originally anticipated and the second half has seen management continuing to reduce its cost base accordingly. As a result, the Company is expecting to produce a loss for the second half of the year. However, excluding any further impact of changes in the valuation of the Fund, this loss is anticipated to be below that recorded in the second half of 2007, and lower than the loss reported for the six months to 30 June 2008. Management is hopeful that its cost reduction initiatives undertaken this year will enable the Company to face 2009 with greater confidence.

Dividend

No dividend will be paid on the ordinary shares in respect of the period under review (2007: NIL).



Ira Rapp
Executive Chairman
23 September 2008

developing+
delivering

initiating+
investing

Condensed consolidated income statement

Unaudited results for the half year ended 30 June 2008

	Unaudited results for the 6 months to 30 June 2008 £'000	Unaudited results for the 6 months to 30 June 2007 £'000	Audited results for the year ended 31 December 2007 £'000
Revenue	432	816	1,132
Finance revenue	90	179	335
Employee benefits expense	(1,250)	(1,015)	(2,312)
Depreciation and amortisation expense	(19)	(17)	(36)
Other expenses	(407)	(337)	(912)
Profit/(loss) on Investment held at fair value through profit and loss	(2,297)	166	1,570
Share of profits of equity accounted investments	49	15	69
(Loss)/profit on forward exchange contract	(1,441)	407	(1,550)
Profit on sale of Hixon land	–	–	100
Loss/profit before tax	(4,843)	214	(1,604)
Income taxes	–	–	–
Loss/profit for the period attributable to equity holders of the parent	(4,843)	214	(1,604)
Basic earnings per share	(0.65)p	0.29p	(2.12)p
Diluted earnings per share	(0.59)p	0.27p	(2.12)p

Condensed consolidated balance sheet

As at 30 June 2008

	Notes	Unaudited 30 June 2008 £'000	Unaudited 30 June 2007 £'000	Audited 31 December 2007 £'000
Non-current assets				
Property, plant and equipment		50	79	70
Equity accounted investments		171	69	123
Other financial assets		18,840	24,234	21,138
		19,061	24,382	21,331
Current assets				
Trade and other receivables		526	1,148	413
Prepayments		58	77	34
Cash and cash equivalents		512	1,048	4,787
		1,096	2,273	5,234
Total assets		20,157	26,655	26,565
Current liabilities				
Trade and other payables		350	289	403
Financial liability on forward exchange contract		–	–	1,550
Provisions	6	55	55	55
		405	344	2,008
Non-current liabilities				
Provisions	6	374	430	405
		374	430	405
Total liabilities		779	774	2,413
Net assets		19,378	25,881	24,152
Shareholders' equity				
Called up share capital	7	743	743	743
Share premium account		–	–	–
Share based payments reserve	8	390	232	321
Other capital reserves	8	25,589	25,589	25,589
Retained earnings	8	(7,344)	(683)	(2,501)
		19,378	25,881	24,152

Condensed consolidated cash flow statement

For the half year ended 30 June 2008

	Notes	Unaudited 6 months to 30 June 2008 £'000	Unaudited 6 months to 30 June 2007 £'000	Audited year to 31 December 2007 £'000
Net cash flows from operating activities	9	(4,365)	(1,297)	(2,190)
Investing activities				
Interest received		90	179	334
Purchase of property, plant and equipment		–	(65)	(88)
Net cash flows used in investing activities		90	114	246
Financing activities				
Amounts repaid by related entities		–	–	4,500
Net cash flows used in financing activities		–	–	4,500
Net increase/(decrease) in cash and cash equivalents		(4,275)	(1,183)	2,556
Cash and cash equivalents at 1 January		4,787	2,231	2,231
Cash and cash equivalents at 30 June/31 December		512	1,048	4,787

Condensed consolidated statement of changes in equity

For the half year ended 30 June 2008

	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
Share based payment	-	-	101	-	-	101
Adjustment relating to previous capital reduction	-	-	-	101	(101)	-
At 30 June 2007/ 1st July 2007	743	-	232	25,589	(683)	25,881
Total income and expense for the period	-	-	-	-	(1,818)	(1,818)
Share based payment	-	-	89	-	-	89
At 31 December 2007/ 1st January 2008	743	-	321	25,589	(2,501)	24,152
Total income and expense for the year	-	-	-	-	(4,843)	(4,843)
Share based payment	-	-	69	-	-	69
At 30 June 2008	743	-	390	25,589	(7,344)	19,378

Notes to the condensed consolidated financial statements

For the year ended 30 June 2008

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 2007 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 2007 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 2007 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 2007.

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 2007: Nil, December 2007: Nil).

5. Earnings per ordinary share

Basic earnings per ordinary share has been calculated on the Group's loss attributable to shareholders of £4,843,000 (June 2007 profit: £214,000, December 2007 loss: £1,604,000) and on the weighted average number of ordinary shares in issue during the period which was 74,299,301 (June 2007: 74,299,301, December 2007: 74,299,301).

Diluted earnings per ordinary share has been calculated on the Group's loss attributable to shareholders of £4,843,000 (June 2007 profit: £214,000, December 2007 loss: £1,604,000) and on the weighted average number of ordinary shares in issue during the period which was 81,784,478 (June 2007: 78,925,497, December 2007: 78,955,491).

6. Provisions

	Pension scheme deficit £'000	Onerous property leases £'000	Total £'000
Provision at 1 January 2008	250	210	460
Provision utilised	–	31	31
Provision at 30 June 2008	250	179	429
Current	–	55	55
Non-current	250	124	374
	250	179	429

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

Group	Share based payments reserve £'000	Other capital reserves £'000	Retained earnings £'000
At 1 January 2008	321	25,589	(2,501)
Share based payment	69	–	–
Other movements	–	–	–
Retained (loss) profit for the period	–	–	(4,843)
At 30 June 2008	390	25,589	(7,344)

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.

Notes to the condensed consolidated financial statements

For the year ended 30 June 2008

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 2008 £'000	Unaudited 6 months to 30 June 2007 £'000	Audited year to 31 December 2007 £'000
Operating (loss)/profit before tax	(4,843)	214	(1,604)
Loss on sale of property, plant and equipment	–	–	13
Depreciation	20	17	37
Share based payments expense	–	101	190
Share of profits of equity accounted investment	(49)	(15)	(34)
Dividend from equity accounted investment	69	35	–
(Increase)/decrease in the fair value of investments	2,297	(166)	(1,570)
Finance income	(90)	(179)	(335)
(Increase)/decrease in receivables	(111)	(1,029)	(296)
(Increase)/decrease in prepayments	(24)	(21)	22
(Decrease)/increase in payables	(1,602)	(225)	1,440
Increase/(decrease) in provisions	(32)	(29)	(53)
	(4,365)	(1,297)	(2,190)

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.

Loan facility

The Company secured a two year loan facility from Chapman International Investment Ltd, the Company's largest shareholder on 4th June 2008. The Company has granted Chapman a charge over 5 million units in the Fund, as security for the loan. The loan is repayable at the end of the 2 year period.

The facility will only be drawn down to the extent that the Company's remaining cash resources for working capital are insufficient.

Westcity PLC
3 Prince Albert Road
London
NW1 7SN

T: +44 (0)20 7424 6700
F: +44 (0)20 7267 4771
www.westcityplc.co.uk

Registered Company No. 0164213