



Develica Deutschland Limited
ANNUAL REPORT AND ACCOUNTS 2007





Develica Deutschland Limited is a London Stock Exchange AIM listed property company, focusing on German commercial real estate opportunities, adding value through active management.

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Focused on delivering
income and capital returns
from property investment



Bonn



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- › Over €1 billion committed
- › High quality commercial portfolio acquired
- › Annual rent roll rising to over €63 million
- › NAV 97.82 cents

It gives me great pleasure to present the Report and Financial Statements for the Company for the period from launch and Admission to listing on AIM in May last year to 31 March 2007.

This has been a successful period for the Company in which we have built a substantial German property portfolio of high quality commercial properties in good locations with strong covenants.

As at 31 March 2007 we had acquired a portfolio of €483,060,786 and were committed to further investments taking us to in excess of €700 million invested. We have continued to make acquisitions since the year end in accordance with our stringent investment criteria. At the time of writing we have acquired further properties which have brought our expenditure to over €1 billion or approximately 80.0% invested. Our total income on the portfolio at the year end was €29 million per annum. This figure will rise on completion of our currently agreed acquisitions to over €63 million per annum which will produce a current net yield on the portfolio of 6.1%.

Operating profit, excluding the revaluation surplus of €2,999,214, for the period was €1,999,195. Profit before tax for the period was €7,036,505, and adjusted profit before tax excluding the revaluation surplus was €4,037,291.

Basic and diluted EPS for the period was 2.1 cents.

Richard Thirkell gives details of the Company's acquisitions in his Investment Manager's Review. Richard and his team remain confident of their ability to continue to source and deliver attractive acquisitions at suitable prices and currently have a further €230 million of potential acquisitions on which they are undertaking due diligence prior to commitment. We are confident, therefore, of achieving full investment shortly.

The portfolio of properties acquired or notarised as at 31 March 2007 has been valued by CBRE at €734,850,000 giving an unaudited net revaluation surplus of €23,477,636, after taking into account the costs of acquisitions.



Bonn



Bonn

The net asset value per share of the Company has risen to 97.82 cents from 95.65 cents at Admission.

As at 31 March 2007 the Company's borrowings totalled €355 million, all of which were secured on the portfolio. The majority of loans will mature in 2011 and are all on a fixed rate basis with a weighted average interest rate of 5% per annum.

I have been delighted with the support shown by our investors and with their confidence in our ability to generate shareholder value. The Board is pleased with the substantial progress made to date and I therefore thank shareholders, my fellow Directors and our advisors and managers for helping to achieve an excellent performance.

At the half year, I stated that in accordance with the Admission Document, it was envisaged the Company would pay a dividend once it is fully invested. We therefore anticipate that this will occur during the current financial year.

The German Government has recently enacted its proposed tax reforms. Ernst & Young, our tax advisors, will be assessing the effect of the proposed changes, which are expected to apply from 1 January 2008, and advising us in due course.

In conclusion we believe the outlook for the German market remains favourable and we are confident of our ability to take advantage of further opportunities and continue to generate value for shareholders.

DEREK BUTLER
Chairman
23 July 2007

- › Energetic but prudent investment
- › First class covenant strength
- › Balanced spread of assets
- › Pipeline of acquisitions

The team and I are delighted at the progress Develica Deutschland Limited has made in achieving its investment objectives in the period to 31 March 2007.

Up to 31 March 2007 the Company had acquired and committed itself to the acquisition of over €700 million of commercial property investments throughout Germany. The high quality assets acquired reflect the energetic, experienced and meticulous approach we have adopted in our property investment strategy.

The portfolio acquired reflects quality of building, covenant strength, comparatively long lease length and the opportunity to grow the income and asset value through innovative and efficient active property management. We have sought and achieved geographic spread for the portfolio, tenant diversity and a balance of office, retail and logistics assets.

Particularly notable investments include the Blue Star portfolio of three prestige office buildings let to Hewlett Packard (Munich),

Deutsche Telekom (Bonn) and Daimler Chrysler Bank (Stuttgart), bought for €266 million, the Alchemy retail and logistics portfolio of twelve properties spread across Germany acquired at a price of €108 million, and the newly constructed 'Atrium Bonn' acquired for €52 million and let to Deutsche Telekom on a ten year lease.

We have also continued to make substantial progress in identifying and acquiring further sound property investments since the year end and I shall be reporting on these in more detail in my next review.

All in all, I believe we are on course to meet our strategic objectives.

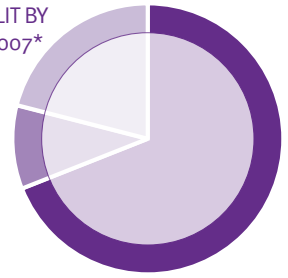
This has all been set against a strong economic performance across the European Union, and especially in Germany itself. The assumptions which were made for these trends in the run up to flotation have been exceeded, with GDP growth, industrial output, exports, fall of unemployment, rise in consumer spending and both consumer and business confidence all rising to recent historical highs.

LARGEST TENANTS OF DEVELICA DEUTSCHLAND LTD BY RENT AT 31 MARCH 2007

	Order
Deutsche Telekom	1
Daimler Chrysler	2
Hewlett Packard	3
ESM Ertl Systemlogistik (for Mars Inc)	4
Fegro-Selgros	5
Praktiker	6
Aldi	7

PORTFOLIO SECTOR SPLIT BY RENT AT 31 MARCH 2007*

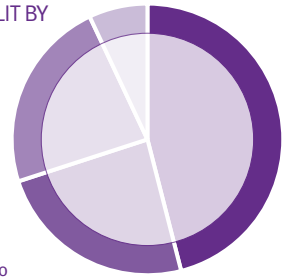
- Office 69%
- Retail 10%
- Logistics 21%



*completed properties only

PORTFOLIO SECTOR SPLIT BY RENT AT 11 JULY 2007*

- Office 46%
- Retail 24%
- Logistics 23%
- Hotel/Leisure 7%



*inc. notarised properties also



Offenbach



Minden

The enthusiasm for investment grade German commercial property has also remained strong and we believe will continue to grow but, that said, the depth of market is such that we still feel confident in continuing to acquire property representing good value and generating the returns of income and capital growth. The positive macro indicators mentioned above will help us, over time, to grow rental income and net asset value.

Looking ahead we have a considerable pipeline of potential acquisitions. This reflects both the reputation that Develica Deutschland has earned as well as our clear and prompt style and philosophy when transacting acquisitions, together with the excellent and valuable network of private contacts we have established.

We also have some very exciting management opportunities, where we are creating and realising added value and income from the portfolio through active management. A number of new leases are under negotiation to fill up elements of vacancy, and lease extensions where expiries are on the horizon.

There are also areas of undeveloped land within the portfolio where planning can be sought, and land use optimised. The most significant projects underway include the refurbishment and lease re-gearing of our shopping centre in Cologne, and a 57,000 sq m extension (approximately 600,000 sq ft) of the logistics unit in Offenbach for our tenant, Daimler Chrysler.



Stuttgart



Munich



Bonn

The majority of the leases are indexed through the German Consumer Price Index, and with the strong and expanding German economic trends, we are ensuring that all the rents are increased as the triggers are reached. We continue to deliver the very best in efficient and optimum local property management across the portfolio.

We look forward to continuing to grow the portfolio, and driving the value of the assets under management.

RICHARD THIRKELL
Develica Deutschland
Management Limited
Investment Manager
23 July 2007

Directors and Advisors

DEREK BUTLER

NON-EXECUTIVE CHAIRMAN (64)

Derek Butler is Senior Advisor to Curzon Global Partners, where he served as Chairman from 1999 to 2003. Prior to assuming his role with Curzon in 1999, he spent most of his career, over 30 years, as a Senior Officer of the DTZ Group. His tenure with DTZ, which started in 1967, included the role of Chairman of the company's Investment Division for almost a decade. During the 1990's, he was responsible for the development of DTZ's international practice and affiliate network. Immediately prior to assuming the role of Chairman of Curzon, he managed the DTZ Group's financial services. He is a graduate of the University of London (B.Sc.) and a Fellow of the Royal Institution of Chartered Surveyors.

LORD SANDERSON OF BOWDEN

NON-EXECUTIVE DIRECTOR (74)

Russell Sanderson retired as Chairman of Clydesdale Bank PLC in June 2004 having served as its Chairman for six years and as a board member for twelve years. Until recently, he was also a member of the boards of Yorkshire Bank PLC and National Australia Bank (Europe). He served for ten years as Chairman of Scottish Mortgage Investment Trust and was a member of the boards of Morrison Construction (1995 to 2000), United Auctions and Shires Investment Trust. Lord Sanderson served as Minister of State at the Scottish Office from 1987 to 1990 and as Chairman of The Scottish Conservative Party from 1990 to 1993. Lord Sanderson started his business career in the Wool Industry and was a Director of both Johnston of Elgin and Illingworth Morris PLC. He is currently Chairman of The Hawick Cashmere Co. Lord Sanderson has received Honorary Degrees from both Glasgow University and Napier University.

PETER LE CHEMINANT

NON-EXECUTIVE DIRECTOR (53)

Peter Le Cheminant is a Guernsey resident. He qualified as a chartered surveyor in 1979 and has been an Executive Director of Martel Maides Limited, estate agents, valuers, auctioneers and property consultants since 1988. He has extensive experience, initially in London and the provinces, and over 20 years in Guernsey, specialising in commercial property. In 1992 he was elected Fellow of the Royal Institution of Chartered Surveyors and in 1999 he was admitted as a member of the Chartered Institute of Arbitrators. He is a Non-executive Director of the UK Balanced Property Trust Limited and The Accelerated Return Fund and has been a member of the Juvenile Court Panel of the Royal Court of Guernsey since August 1990.

ALAN GRAVETT

NON-EXECUTIVE DIRECTOR (59)

Alan Gravett worked for Barclaytrust (formerly Barclays Bank Limited, Executor and Trustee Department) from 1965 to 1988, reaching the highest level in Gibraltar administering offshore companies and trusts. Between 1988 and 1993 Alan was trust and company manager at Finsbury Management Limited (later Valmet Group) Gibraltar, being responsible for the management of some 5,000 offshore entities. From 1993 to date he has been a Director of Prime Trust Corporation Limited, a Gibraltar based trust corporation managing offshore trusts and companies for a world-wide client base. Alan is licensed by the Financial Services Commission Gibraltar to act personally as a Director and Trustee, and is an Associate of the Institute of Bankers.

JOHN HALLAM

NON-EXECUTIVE DIRECTOR (58)

John Hallam is a Guernsey resident, a fellow of the Institute of Chartered Accountants in England and Wales and qualified as an accountant in 1971. He is a former partner of PricewaterhouseCoopers having retired in 1999 after 27 years with the firm both in Guernsey and in other countries. John is currently Chairman of Cazenove Absolute Equity Limited, EFG Private Bank (Channel Islands) Limited, M&G Recovery Investment Co Limited, Partners Group Global Opportunities Limited and Prodesse Investment Limited as well as being a Director of a number of other financial service companies, some of which are listed on the London Stock Exchange. He has also served as the Chairman of Guernsey Financial Services Commission.

QUENTIN SPICER

NON-EXECUTIVE DIRECTOR (62)

Quentin Spicer qualified as a solicitor at Wedlake Bell in 1968 and became a partner in 1970. He was head of the Property Department before moving to Guernsey in 1996 to take over as Senior Partner of Wedlake Bell Guernsey. Quentin specialises in UK commercial property transactions for offshore funds and for persons and entities not tax resident in the UK. He is Chairman of the Guernsey Housing Association LBG, Mercator Group Holdings Limited, ISIS Property Trust 2 Limited, RAB Special Situations Company Limited, European Value and Income Fund Limited and is a Non-executive Director of several other property funds. He is a member of the Institute of Directors.

GRANT TROMANS

NON-EXECUTIVE DIRECTOR (40)

Grant Tromans is a co-founder of Develica and focuses on identifying, evaluating and managing all Fund Investments. He continues to develop opportunities for Develica both in Germany and the UK in addition to evaluating other markets. Grant is also a Director of Develica Deutschland Management Limited.

DIRECTORS

DEREK BUTLER
LORD SANDERSON
OF BOWDEN
PETER LE CHEMINANT
ALAN GRAVETT
JOHN HALLAM
QUENTIN SPICER
GRANT TROMANS

**COMPANY SECRETARY,
ADMINISTRATOR**

AND REGISTERED OFFICE
KLEINWORT BENSON
(CHANNEL ISLANDS)
FUND SERVICES LIMITED
Dorey Court
Admiral Park
St Peter Port
Guernsey GY1 3BG

REGISTERED NUMBER

44810

REGISTRAR

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No.1 Le Truchot
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Guernsey GY1 4AE

INVESTMENT MANAGER

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MANAGEMENT LIMITED
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K&L GATES
Friedrichstraße 79
10117 Berlin

GUERNSEY LEGAL ADVISORS

OZANNES
1 Le Marchant Street
St Peter Port
Guernsey GY1 4HP

Directors' Report

The Directors submit their Annual Report covering the period ended 31 March 2007 in respect of Develica Deutschland Limited ("the Company") and its subsidiaries (together "the Group").

The Company was incorporated in Guernsey on the 18 May 2006.

INVESTMENT POLICY

The primary investment objective of the Group is to achieve income and capital growth primarily from a diversified portfolio of commercial properties situated in Germany.

LISTING

The ordinary shares of the Company were admitted to the Alternative Investment Market ("AIM") of the London Stock Exchange on 31 May 2006.

SHARE ISSUES

Following a share placing and open offer, 250,000,000 ordinary shares were issued on 31 May 2006 for €1 per share. €250,000,000 was raised from the shares issued less share issue costs amounting to €10,853,570.

RESULTS FOR THE PERIOD

The results for the period are shown in the Consolidated Income Statement on page 14.

DIVIDENDS

No dividends were declared or paid during the period.

DIRECTORS' AND OTHER INTERESTS

The current Directors of the Company are detailed on page 8 and 9. The following Directors including connected persons, held the following number of shares at 31 March 2007:

	Number of ordinary shares	% of ordinary shares
Grant Tromans	3,250,000	1.3
Lord Sanderson of Bowden	100,000	0.04
Peter Le Cheminant	20,000	0.008
John Hallam	25,000	0.01
Derek Butler	60,000	0.024

All of the Directors are independent, with the exception of Grant Tromans.

GOING CONCERN

The Directors consider the Company has adequate resources to continue in operational existence for the foreseeable future.

SECRETARY

The Secretary of the Company at 31 March 2007 was Kleinwort Benson (Channel Islands) Fund Services Limited who were appointed 18 May 2006.

DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing financial statements for each financial period which give a true and fair view of the state of affairs of the Company and the total returns of the Company for that period and are in accordance with applicable laws. In preparing those financial statements the Directors are required to:

- › select suitable accounting policies and then apply them consistently;
- › make judgements and estimates that are reasonable and prudent; and
- › prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies (Guernsey) Law, 1994. They are also responsible for the system of internal controls for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

CORPORATE GOVERNANCE

Although not required, the Directors have decided to provide limited corporate governance disclosures based on certain of the disclosures required of a listed company. As an AIM listed company, there is no requirement to comply with the Combined Code, issued by the Financial Reporting Council in June 2006. However, the Directors support high standards of corporate governance and the Board intends to comply with the corporate governance guidelines for AIM companies, devised by the Quoted Companies Alliance, so far as is reasonably practicable and appropriate taking into account the Company's size.

THE BOARD

The Company is led and controlled by a Board comprising of seven Non-executive Directors, all of whom have wide experience. Details of the Directors are set out on pages 8 and 9.

The Company does not have any employees. The Board has appointed the Chairman to be the point of contact for all matters relating to the governance of the Company. The Board has agreed to establish a Nomination and Management Engagement Committee which will review Director's nominations and the Manager's contract.

The Articles of Association stipulate that all Directors shall retire at the first Annual General Meeting and offer themselves for re-appointment. One third, or the nearest number thereto but not exceeding one third, of the Directors shall retire and offer themselves for re-appointment at each subsequent Annual General meeting.

Although no formal training in corporate governance is given to Directors, the Directors are kept up to date on corporate governance issues through bulletins and training materials provided from time to time by the Company Secretary and the Manager.

The Board meets on a regular basis throughout the year to review the overall business of the Company and to consider matters specifically reserved for its review. At these meetings the Board monitors the performance of the Investment Manager.

Additional reports are requested and received as required and the Directors have access at all times to the Company Secretary, who assists the Board in ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

The Board has established an Audit Committee under the Chairmanship of John Hallam to meet and review the interim and final accounts. The Company's external auditors attend these meetings. In addition the Board reviews the independence and objectivity of the auditors.

INTERNAL CONTROL

The Board is responsible for establishing and maintaining the Company's system of internal control and reviewing its effectiveness. The Manager is responsible for all operational aspects of the Company's business and therefore the Board is reliant upon the Manager's internal control systems including the financial, operational and compliance controls and risk management. The Audit Committee has reviewed the Manager's own internal control report and is satisfied that the Manager has appropriate controls and procedures and that they were in force throughout the year under review. The Manager's procedures are designed to manage rather than eliminate risk and by their nature can only provide reasonable but not absolute insurance against material misstatement or loss.

The Board has reviewed the need for an internal audit function. The Board has decided that the systems and procedures employed by the Manager and the review of its financial report by a firm of external auditors, provide sufficient assurance that a sound system of internal control, which safeguards the Company's assets, is maintained. An internal audit function specific to the Company is therefore considered unnecessary.

Directors' Report *continued*

CORPORATE GOVERNANCE *continued*

THE MANAGER

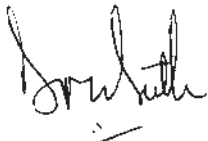
Develica Deutschland Management Limited was appointed Investment Manager under an agreement with the Company dated 25 May 2006. Either party, giving not less than twelve months notice in writing may terminate the agreement, such notice to expire on or at any time after the fourth anniversary of the operative date. The agreement may also be terminated by either party if the other has gone into liquidation or receivership or has committed a material breach of the agreement. The Investment Management Agreement contains provisions limiting the liability of the Investment Manager for any damages and claims suffered by the Company for any damages and claims suffered by the Fund unless such damages and claims arise from the fraud, wilful default or negligence of the Investment Manager.

The Investment Manager receives a fee payable by the Company quarterly in advance of 0.5% per annum of the Net Asset Value of the Company plus borrowings of the Group less uncommitted cash.

The Nomination and Management Engagement Committee will review the performance and the terms of appointment of the Investment Manager on a regular basis.

AUDITORS

Ernst & Young LLP have expressed their willingness to continue in office as auditors and a resolution proposing their re-appointment will be submitted at the Annual General Meeting.



DEREK BUTLER
Chairman
23 July 2007

Independent Auditor's Report

To the Members of Develica Deutschland Limited

We have audited the Group's financial statements for the period ended 31 March 2007, which comprise the Consolidated Income Statement, the Consolidated Statement of Changes in Equity, the Statement of Changes in Equity for the Company, the Consolidated Balance Sheet, the Consolidated Statement of Cash Flows and the related notes 1 to 23. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 64 of the Companies (Guernsey) Law, 1994. 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 Auditor's 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 are responsible for the preparation of the financial statements in accordance with applicable Guernsey Law and International Financial Reporting Standards adopted for use in the European Union as described 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 are properly prepared in accordance with the Companies (Guernsey) Law, 1994. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements. This other information comprises the Investor Information, Chairman's Statement, the Investment Manager's Review, the Directors' Profiles, and the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatement 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 judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group'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 are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion, the financial statements give a true and fair view, in accordance with International Financial Reporting Standards adopted for use in the European Union, of the state of affairs of the Group as at 31 March 2007 and of its profit for the period then ended and have been properly prepared in accordance with the Companies (Guernsey) Law, 1994.

ERNST & YOUNG LLP

Guernsey, Channel Islands
23 July 2007

Consolidated Income Statement

For the period 18 May 2006 to 31 March 2007

	Note	18 May 2006 to 31 March 2007 €
Rental income		5,682,420
Property operating expenses		(138,600)
GROSS PROFIT		5,543,820
Fair value adjustment on investment property	9	2,999,214
Administrative and other expenses	5	(3,337,996)
Formation expenses		(191,584)
Foreign exchange loss		(15,045)
OPERATING PROFIT		4,998,409
Finance costs	6	(3,209,581)
Fair value adjustment on interest rate swap		(206,992)
Finance income	6	5,454,669
NET PROFIT BEFORE TAXATION		7,036,505
Taxation	7	(1,724,973)
PROFIT FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS		5,311,532
BASIC AND DILUTED EARNINGS PER ORDINARY SHARE	8	2.1 cents

All items in the above statement are derived from continuing operations.

The notes on pages 18 to 28 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the period 18 May 2006 to 31 March 2007

	Share capital €	Share premium €	Distributable reserve €	Retained earnings €	Total €
AT 18 MAY 2006	—	—	—	—	—
Issue of ordinary shares	2,500,000	247,500,000	—	—	250,000,000
Share issue costs	—	(10,853,570)	—	—	(10,853,570)
Transfer to distributable reserve	—	(236,646,430)	236,646,430	—	—
Profit attributable to equity holders	—	—	—	5,311,532	5,311,532
Share-based payment	—	—	—	100,000	100,000
BALANCE AT 31 MARCH 2007	2,500,000	—	236,646,430	5,411,532	244,557,962

Company Statement of Changes in Equity

For the period 18 May 2006 to 31 March 2007

	Share capital €	Share premium €	Distributable reserve €	Retained earnings €	Total €
AT 18 MAY 2006	—	—	—	—	—
Issue of ordinary shares	2,500,000	247,500,000	—	—	250,000,000
Share issue costs	—	(10,853,570)	—	—	(10,853,570)
Transfer to distributable reserve	—	(236,646,430)	236,646,430	—	—
Profit attributable to equity holders	—	—	—	3,372,222	3,372,222
Share-based payment	—	—	—	100,000	100,000
BALANCE AT 31 MARCH 2007	2,500,000	—	236,646,430	3,472,222	242,618,652

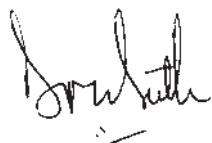
The notes on pages 18 to 28 form part of these financial statements.

Consolidated Balance Sheet

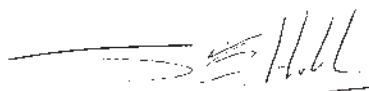
As at 31 March 2007

	Note	31 March 2007 €
ASSETS		
NON-CURRENT ASSETS		
Investment Property	9	486,060,000
TOTAL NON-CURRENT ASSETS		486,060,000
CURRENT ASSETS		
Property purchase deposits		48,317,763
Trade and other receivables	11	10,457,482
Cash and cash equivalents	10	62,965,108
TOTAL CURRENT ASSETS		121,740,353
TOTAL ASSETS		607,800,353
EQUITY AND LIABILITIES		
EQUITY		
Issued capital	13	2,500,000
Distributable reserve	13	236,646,430
Retained profit		5,411,532
TOTAL EQUITY		244,557,962
NON-CURRENT LIABILITIES		
Secured loans	16	351,758,542
Deferred tax liability	7	1,583,888
TOTAL NON-CURRENT LIABILITIES		353,342,430
CURRENT LIABILITIES		
Secured loans	16	3,574,377
Derivative financial instrument – interest rate swap	16	206,992
Trade and other payables	12	5,977,507
Income tax	7	141,085
TOTAL CURRENT LIABILITIES		9,899,961
TOTAL LIABILITIES		363,242,391
TOTAL EQUITY AND LIABILITIES		607,800,353
NET ASSET VALUE PER ORDINARY SHARE	14	97.82 cents

Approved by the Board of Directors on 23 July 2007 and signed on its behalf by:



DEREK BUTLER
Chairman



JOHN HALLAM
Director

The notes on pages 18 to 28 form part of these financial statements.

Consolidated Cash Flow Statement

For the period 18 May 2006 to 31 March 2007

	18 May 2006 to 31 March 2007 €
CASH FLOWS FROM OPERATING ACTIVITIES	
Operating profit	4,998,409
ADJUSTMENT FOR:	
Net valuation surplus on investment property	(2,999,214)
OPERATING PROFIT BEFORE CHANGES IN WORKING CAPITAL	
(Increase) in trade and other receivables	(10,257,482)
Increase in trade and other payables	1,279,024
NET CASH FLOWS FROM OPERATING ACTIVITIES	(6,979,263)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investment property	(478,616,198)
Property prepayments	(48,317,763)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(526,933,961)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from issue of ordinary shares	250,000,000
Costs related to issue of ordinary shares	(10,753,570)
Interest received	5,454,669
Interest paid	(946,479)
Swap payments	(64,426)
Costs of raising finance	(3,103,628)
Receipt of new bank loans	356,876,750
Bank loan repayments	(584,984)
NET CASH FLOWS FROM FINANCING ACTIVITIES	596,878,332
Net increase in cash and short term deposits	62,965,108
CASH AND CASH EQUIVALENTS AT 31 MARCH 2007	62,965,108

The notes on pages 18 to 28 form part of these financial statements.

Notes to the Consolidated Financial Statements

For the period 18 May 2006 to 31 March 2007

1. GENERAL INFORMATION

Develica Deutschland Limited is a closed ended investment Company incorporated in Guernsey on 18 May 2006 under the provisions of the Companies (Guernsey) Law, 1994. The investment objective of the Company and its subsidiaries (together “the Group”) is to achieve income and capital growth primarily from a diversified portfolio of commercial properties situated in Germany.

2. PRINCIPAL ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION AND ACCOUNTING CONVENTION

The consolidated Financial Statements of the Group have been prepared in accordance with International Financial Reporting Standards adopted for use in the European Union (IFRS) and the Companies (Guernsey) Law, 1994 on the historical cost basis, except for investment property and financial instruments that have been measured at fair value through profit and loss. The consolidated financial statements are presented in Euros. The functional currency of the parent is Euros.

Basis of consolidation

The Group Financial Statements consolidate the financial statements of Develica Deutschland Limited and its subsidiary undertakings drawn up to 31 March 2007.

Intra-group balances and any unrealised gains and losses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

Statement of compliance

The consolidated financial statements of Develica Deutschland Limited have been prepared in accordance with IFRS as adopted for use in the EU as it applies to the financial statements of the Group for the period ended 31 March 2007. In preparing the financial statements, the accounting policies applied reflect the amendments to IFRS and the adoption of those new IFRS which were in effect at 1 January 2006.

IFRS issued but not yet effective

The Group has not adopted the following standards, interpretations and amendments in the preparation of financial statements as they were either not effective at 31 March 2007 or not applicable to the Group’s business:

	Standard	Effective date
IAS 1 (para 124A–124C)	Presentation of Financial Statements	Periods commencing on or after 1 January 2007
IFRS 7	Financial Instruments: Disclosures	Periods commencing on or after 1 January 2007
IFRS 8	Operating Segments	Periods commencing on or after 1 January 2009
IFRIC 9	Reassessment of embedded derivatives	Periods commencing on or after 1 June 2006
IFRIC 10	Interim Financial Reporting and Impairment	Periods commencing on or after 1 November 2006
IFRIC 11	IFRS 2 – Group and Treasury Shares	Periods commencing on or after 1 March 2007
IFRIC 12	Service Concession Arrangements	Periods commencing on or after 1 January 2008

The Group is still evaluating the impact that these standards will have on the Group’s financial statements, if any, but expect that there will be no material impact when implemented.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies is set out below. These have been applied consistently in the current financial year.

Revenue

Revenue recognised in the income statement represents amounts receivable in respect of contractual income, property rental income, other property and trading activity and interest income earned in the normal course of business, net of VAT and other sales-related taxes, as follows:

Interest income

Interest income is the interest earned on cash held in bank accounts and is recognised in the accounts on the accruals basis.

Rental income receivable under operating leases

Rental income receivable under operating leases is recognised on a straight line basis over the term of the lease, except for contingent income which is recognised when it arises.

Incentives for lessees to enter into lease agreements, whether in the form of payment, rent free or reduced rent periods, are spread evenly over the non-cancellable period of the lease, even if the payments are not made on such a basis. Premiums received to amend or terminate leases are recognised in the income statement when they arise.

Expenses

Expenses are accounted for on an accruals basis.

Trade and other receivables

Trade and other receivables are stated at their cost less impairment losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short term deposits which are short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2. PRINCIPAL ACCOUNTING POLICIES *continued*

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

Investment property

Freehold property held to earn rent or for capital appreciation or both is classified as investment property in accordance with IAS 40 Investment Property. Property held under finance leases for similar purposes is also classified as investment property.

Investment property is measured initially at cost, including transaction costs, and thereafter is measured at fair value. Valuations are carried out by CBRE, external independent valuers, in accordance with the RICS Appraisal and Valuation Standards. The properties have been valued at market value, which is the estimated amount a property would be exchanged for in an arm's-length transaction on the date of the valuation, using the assumptions outlined in note 9. Gains or losses arising from changes in the fair value of investment property are included in the income statement as a "fair value adjustment".

Investment properties are initially recognised as assets when the group is entitled to all risks and rewards of ownership, it is probable that the future economic benefits that are associated with the investment property will flow to the entity and the cost of the investment property can be measured reliably.

Any acquisition costs incurred on exchanged but not completed contracts are recognised as property purchase deposits on the Balance Sheet.

Share issue costs

Costs related to the issue of ordinary shares are recognised in the Statement of Changes in Equity and offset against the Share Premium Account.

Loans and financing costs

Loans are carried on the Balance Sheet net of unamortised discount and financing fees incurred to acquire the debt. Discounts and financing fees are amortised over the life of the related debt through interest expense.

Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred regardless of how the borrowings are applied and no borrowing costs are capitalised as part of the cost of an asset.

Derivative financial instruments

The Group uses derivative financial instruments to hedge its risks associated with interest rate fluctuations. In accordance with its treasury policy, the Group does not hold or issue derivatives for trading purposes. Such derivative financial instruments are initially recognised at fair value on the date at which the derivative contract is entered into and are subsequently remeasured at fair value.

Fair value for a swap is market value, as determined by a break cost quote prepared by an experienced, independent broker, which is estimated by applying current yields to anticipated future cash flows. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Current taxation

Current tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the Balance Sheet date.

The Company is a limited company registered in Guernsey, Channel Islands and is not subject to local taxation. Certain Group undertakings are subject to foreign taxes in respect of foreign source income, including German income tax on rental income.

Deferred taxation

Deferred income tax is provided using the liability method on all temporary differences at the Balance Sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax is recognised for all temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- › Where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination at the time of the transaction affects neither accounting nor taxable profit or loss.
- › In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.
- › Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which deductible temporary differences, carried forward tax credits or tax losses can be utilised.
- › The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.
- › The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities. It is expected that each property asset will be sold as part of a Special Purpose Vehicle. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Notes to the Consolidated Financial Statements *continued*

2. PRINCIPAL ACCOUNTING POLICIES *continued*

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements in accordance with IFRS requires estimates and assumptions to be made that affect the value at which certain assets and liabilities are held at the balance sheet date and also the amounts of revenue and expenditure recorded in the period. The Directors believe the accounting policies chosen are appropriate to the circumstances and that the estimates, judgements and assumptions involved in its financial reporting are reasonable. Accounting estimates made by the Company's Directors are based on historical experience and on information available to them at the time each estimate is made. Accordingly, actual outcomes may differ materially from current expectations under different assumptions and conditions. The accounting policies that are subject to significant estimates and assumptions are set out below.

Property valuations

Investment properties are accounted for in accordance with IAS 40 Investment Property and are held at fair value. Any surplus or deficit on revaluation is recognised in the Income Statement. For the investment properties the annual valuations are based upon estimates and subjective judgements that may vary from the actual values and sales prices that may be realised by the Group upon ultimate disposal. The critical assumptions made relating to valuations have been disclosed in note 9 to the financial statements.

Rental income

Rental income receivable under operating leases is recognised on a straight line basis over the term of the lease, except where income is contingent in which case it is recognised as it arises.

Segmental reporting

The Directors are of the opinion that the group is at present engaged in a single segment of business being the commercial property investment business and that it operates in a single geographical segment (Germany).

Foreign currency

The functional and presentation currency is the Euro. Transactions in currencies other than the functional currency are revalued using exchange rates at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated at the rate at the balance sheet date with gains and losses being reported in the Consolidated Income Statement. Foreign currency gains and losses attributable to investment properties and investments designated as at fair value through profit or loss are included in the unrealised gains and losses recognised in the Consolidated Income Statement on measurement at fair value.

3. MATERIAL AGREEMENTS

Under the terms of an appointment made by the Board on 25 May 2006 Develica Deutschland Management Limited was appointed as investment manager to the Company. With effect from 25 May 2006, the investment manager is paid a fee of 0.5% of the Net Asset Value of the Company plus borrowing of the Group (to the extent that and with effect from the date that the same have been invested or committed for investment directly or indirectly in property), payable quarterly in advance. In addition the Manager is entitled to receive a performance fee of 20% of the extent to which the Net Asset Value per ordinary share (with dividends and other distributions added back and ignoring any accrued performance fee) as at the end of each third financial year of the Company or at such other date where in the reasonable opinion of the Board, a significant disposal of assets and return of capital or distribution to shareholders has occurred, exceeds the benchmark multiplied by the time weighted average number of ordinary shares in issue during that period. The benchmark is equal to the placing price increased at a compound rate of 10% per annum or, where a performance fee has been paid, the Net Asset Value per ordinary share which gave rise to the payment of the most recent performance fee increased at a rate of 10% per annum compound.

Under the terms of an Administration Agreement dated 25 May 2006, the Company appointed Kleinwort Benson (Channel Islands) Fund Services Limited as Administrator and Secretary. The Administrator is entitled to receive an annual fee of 0.0275% of the gross asset value of the Company payable quarterly in advance, subject to a minimum fee of €100,000 per annum.

The Company has appointed DTZ International as Property Manager for which it is entitled to receive remuneration on a property by property basis, based on 0.075% of the purchase price or subsequent valuation.

4. DIRECTORS' REMUNERATION

The Chairman is entitled to receive a fee of €50,000 per annum. Each of the other Directors of the Company is entitled to receive a fee of €25,000 per annum. During the period each of the Directors was entitled to the following fees:

Derek Butler (Chairman)	€41,336
Lord Sanderson of Bowden	€20,669
Grant Tromans	€20,669
Alan Gravett	€20,669
John Hallam	€20,669
Peter Le Cheminant	€20,669
Quentin Spicer	€20,669

Directors' shareholdings as at 31 March 2007 were as disclosed in the Directors' Report.

5. ADMINISTRATION AND OTHER EXPENSES

	18 May 2006 to 31 March 2007 €
Legal and professional fees	324,527
Management fees	1,659,026
Audit fees	146,465
Non-audit fees	25,050
Administration fees	82,728
Directors' fees	165,350
Other expenses	934,850
	3,337,996

6. FINANCE COSTS AND FINANCE INCOME

	18 May 2006 to 31 March 2007 €
FINANCE COSTS	
Bank loans and overdrafts	3,030,760
Payments under interest rate swap	118,321
Loan application costs	60,500
	3,209,581
FINANCE INCOME	
Increase in value of cash equivalents	3,096,750
Bank interest receivable	2,357,919
	5,454,669

7. INCOME TAX EXPENSE

The Company is subject to taxation under the laws of Guernsey. The Company qualifies for exempt status which will result in no Guernsey taxation on income it receives, or capital gains from the disposal of investments.

The Company's subsidiaries are subject to foreign tax on foreign source income arising on investment properties.

The fair value adjustments of the investment properties result in a temporary difference between the carrying value of the properties and their tax basis. Since the Group's structure is designed in a way that future disposal of property will be achieved through the sale of the corporate entity which owns such investment property rather than the sale of the underlying property, deferred taxes would be recorded based on the expected tax rate on the future disposal of the shares.

The major components of income tax for the period ended 31 March 2007 are:

A) TAX ON PROFIT ON ORDINARY ACTIVITIES

	2007 €
Tax charged in the income statement	
Current income tax	
Guernsey income tax	—
German income tax	141,085
Current income tax charge	141,085
Deferred tax	
Origination and reversal of temporary differences	1,583,888
Total deferred tax	1,583,888
Tax charge in the income statement	1,724,973

B) RECONCILIATION OF INCOME TAX CHARGE

	2007	
	%	€
Profit/(loss) before income tax	100.0	7,036,505
At the weighted average income tax rate for the Group	14.8	1,039,872
Revaluation gains on interest swaps not taxable	(0.5)	(31,348)
Unutilised current year tax losses	10.2	716,449
At effective income tax rate of 24.5%	24.5	1,724,973

The weighted average income tax rate for the year of 14.8% is based on the weighted average tax rate applicable across the Group's operations. This has been calculated by dividing (1) Group companies' profits before tax multiplied by the tax rate applicable for each Group company by (2) the Group's profit before tax.

Notes to the Consolidated Financial Statements *continued*

7. INCOME TAX EXPENSE *continued*

B) RECONCILIATION OF INCOME TAX CHARGE *continued*

During the year the Group recognised the following deferred tax liabilities:

	18 May 2006 €	Recognised in income €
Deferred tax liabilities		
Accelerated allowance on loan setup costs	—	439,895
Deferred tax asset recoverable in the event of sale of revalued properties at market value	—	1,143,993
	—	1,583,888

The Group has additional tax losses and deductions that will be available indefinitely for offset against future taxable profits of the companies in which the losses and deductions arose. The Group has not recognised deferred income tax assets in respect of some of these losses (as stated above). In addition, the Group has the following unrecognised deferred tax assets. The assets have not been recognised due to the degree of uncertainty over both the amount and the timing of utilisation.

The unrecognised deferred tax asset balances are as follows:

	2007 €
Losses not utilised	599,902
Total unrecognised deferred tax asset balance	599,902

8. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share figures is based on the profit after tax for the period of €5,311,532 and the 250,000,000 ordinary shares in issue over the course of the period.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of the financial statements.

9. INVESTMENT PROPERTY

	18 May 2006 to 31 March 2007 Group €
Additions during the period at cost:	
Purchase price paid	458,136,778
Transaction costs	24,924,008
COST OF INVESTMENT PROPERTY AT 31 MARCH 2007	483,060,786
Fair Value adjustment	2,999,214
FAIR VALUE OF INVESTMENT PROPERTY AT 31 MARCH 2007	486,060,000

It is the Group's policy to carry investment property in accordance with IAS 40 'Investment Property'. Investment property was valued at 31 March 2007 by CB Richard Ellis Limited (CBRE), valuers external to the group. CBRE have consented to the use of their name in these financial statements. These valuations have been incorporated into the financial statements and have been carried out in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Standards.

The valuations have been prepared on the basis of Market Value which is defined as:

'The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion'.

Market values have been primarily derived using comparable recent market transactions.

The following assumptions were used in determining the valuations:

- › No allowances have been made for any expenses of realisation nor for taxation which might arise in the event of a disposal. Acquisition costs have not been included in the valuation.
- › No account has been taken of any inter-company leases or arrangements, nor of any mortgages, debentures or other charges.
- › No account has been taken of the availability or otherwise of capital based Government or European Community grants.
- › Each property asset is to be transferred as part of a Special Purpose Vehicle (SPV) which is neutral in respect of any other liabilities. As such, the transfer is not subject to transfer tax within the current market.

10. CASH AND CASH EQUIVALENTS

	31 March 2007 Group €
Cash at bank	21,144,424
Short term deposits	41,820,684
Total cash and short term deposits	62,965,108

Included in cash at bank are bank accounts over which there is a legal charge.

11. TRADE AND OTHER RECEIVABLES

	31 March 2007 Group €
CURRENT	
Rental and related receivables	26,651
Funds on escrow	10,323,907
Sundry debtors and prepayments	106,924
	10,457,482

Trade receivables are non-interest bearing. Funds on escrow consists of monies transferred for the purpose of purchasing investment property but which have not yet been utilised.

12. TRADE AND OTHER PAYABLES

	31 March 2007 Group €
CURRENT	
Trade payables	5,928,439
VAT payable	49,068
	5,977,507

Trade payables are non-interest bearing.

13. ISSUED CAPITAL AND RESERVES

	31 March 2007	
	Number of shares	Company €
Authorised		
Ordinary shares of €0.01	500,000,000	5,000,000
Issued and fully paid		
Ordinary shares of €0.01	250,000,000	2,500,000

Ordinary shares have the following rights in respect of the assets of the Company:

- › entitlement to receive, and participate in, any dividends or other distributions out of the profits of the Company;
- › entitlement to participate in the distributions of capital on a winding up; and
- › entitlement, on a poll, to one vote per share at all general meetings of the Company.

Under the terms of an option agreement dated 25 May 2006, the Company has granted an option which entitles the holder to subscribe to five million ordinary shares at a price of €1 per share during the Option Period, being the period commencing 25 May 2006 and expiring on the fifth anniversary of Admission. The option has not been exercised as at 31 March 2007.

DISTRIBUTABLE RESERVE

Share premium represents the excess of proceeds raised on the issue of shares over the nominal value of those shares. Costs incurred in issuing shares have been deducted from share premium during the period from both the Company and the Group.

With confirmation of the Royal Court in Guernsey on 16 March 2007 the amount standing to the credit of the Share Premium Account was transferred to a Distributable Reserve and the Share Premium Account was cancelled.

	31 March 2007 Group €
Share premium on ordinary shares issued	247,500,000
Issue costs paid on ordinary shares issued	(10,853,570)
BALANCE AS AT 31 MARCH 2007	236,646,430

Notes to the Consolidated Financial Statements *continued*

14. NET ASSET VALUE PER ORDINARY SHARE

The net asset value per ordinary share is based on the net assets attributable to ordinary shareholders of €244,457,962 and on 250,000,000 ordinary shares in issue at the Balance Sheet date.

15. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

	31 March 2007	
	Floating rate €	Total €
FINANCIAL ASSETS		
Cash and cash equivalents	62,965,108	62,965,108
FINANCIAL LIABILITIES		
Secured loans	355,332,919	355,332,919
Interest rate swap	206,992	206,992
	355,539,911	355,539,911

The fair values of the financial assets and liabilities are not materially different to the carrying values as detailed above.

16. SECURED LOANS AND INTEREST RATE SWAPS

The table below sets out the Group's interest and non-interest bearing loans and borrowings as at 31 March 2007:

	31 March 2007	
	Maturity	€
NON-CURRENT		
Bank loans:		
Term loan under the Atrium Bonn facility	October 2011	40,300,389
Term loan under the Gutperle portfolio facility	January 2012	73,536,856
Term loan under the Project Blue Star portfolio facility	April 2012	210,526,502
Term loan under the Darmstadt portfolio facility	April 2012	27,394,795
		351,758,542
		31 March 2007
CURRENT		
Bank loans:		
Term loan under the Atrium Bonn facility		738,699
Term loan under the Gutperle portfolio facility		2,115,935
Term loan under the Project Blue Star portfolio facility		477,469
Term loan under the Darmstadt portfolio facility		242,274
		3,574,377
TOTAL		355,332,919

BANK LOANS

The table below sets out the Group's bank loans (excluding overdrafts) net of financing costs and accrued interest as at 31 March 2007:

	Principal amount €	Finance costs €	Net loan €	Accrued interest €	Total €
At 18 May 2006	—	—	—	—	—
Receipt of bank loans	356,876,750	(3,043,128)	353,833,622	—	353,833,622
Repayment of bank loans	(584,984)	100,392	(484,592)	—	(484,592)
Finance costs	—	—	—	1,983,889	1,983,889
AT 31 MARCH 2007	356,291,766	(2,942,736)	353,349,030	1,983,889	355,332,919

16. SECURED LOANS AND INTEREST RATE SWAPS *continued*

All of the Group's properties, as valued by CBRE (see note 9) have been secured against the Group's loan facilities. The loan balances above represent the amounts outstanding at 31 March 2007 on the following facilities:

TERM LOAN UNDER THE ATRIUM BONN FACILITY

During the period the Group entered into a new five year, €41.1 million floating rate loan secured on the office building known as Atrium in Bonn. Interest on the loan is paid quarterly at a rate of EURIBOR plus a margin of 0.8%, plus mandatory costs (if any). Amortisation of 1% per annum of the initial loan amount is paid quarterly (€102,825 per quarter) with the balance of the loan repayable in October 2011.

TERM LOAN UNDER THE GUTPERLE PORTFOLIO FACILITY

During the period the Group entered into a new five year, €75.8 million floating rate loan which is secured against all investment property held in the Gutperle portfolio. Interest on the loan is paid quarterly at a rate of EURIBOR plus a margin of 0.85%, plus mandatory costs (if any). Amortisation of 2% per annum of the initial loan amount is payable quarterly (€379,334 per quarter) with the balance of the loan repayable in January 2012.

TERM LOAN UNDER THE PROJECT BLUE STAR PORTFOLIO FACILITY

During the period the Group entered into a new five year, €212 million floating rate loan which is secured against all investment property held in the Project Blue Star portfolio. Interest on the loan is paid quarterly at a rate of EURIBOR plus a margin of 0.95%, plus mandatory costs (if any). The loan is repayable in April 2012.

TERM LOAN UNDER THE DARMSTADT PORTFOLIO FACILITY

During the period the Group entered into a new five year, €27.8 million floating rate loan which is secured against all investment property held in the Darmstadt portfolio. Interest on the loan is paid quarterly at a rate of EURIBOR plus a margin of 0.85%, plus mandatory costs (if any). Amortisation of 1% per annum of the initial loan amount is paid quarterly (€69,700 per quarter) with the balance of the loan repayable in April 2012.

The following subsidiaries have hedged their variable interest rate exposure using fixed rate interest swaps. Interest rate swaps were entered into for the notional amounts disclosed below with a term of five years and fixed rates below and a variable rate of three month Euribor. In accordance with IAS 39 Financial Instruments: Recognition and Measurement, the swap agreements are recognised in the financial statements at its fair value. As at 31 March 2007, the fair value gains/(losses) of the swap were as follows:

Subsidiary	Maturity	Amount €	Fixed rate %	Fair value €
Develica (Atrium Bonn) Limited	October 2011	40,924,350	3.8200	449,644
DDE 20 Limited	January 2012	50,707,596	3.8130	584,694
DDE 21 Limited	January 2012	24,779,820	3.8130	285,740
DDE 22 Limited	April 2012	85,121,854	4.2405	(586,311)
DDE 23 Limited	April 2012	52,089,493	4.2405	(358,787)
DDE 24 Limited	April 2012	74,788,654	4.2405	(515,137)
DDE 29 Limited	April 2012	16,412,956	4.1470	(39,346)
DDE 30 Limited	April 2012	11,467,044	4.1470	(27,489)
				(206,992)

17. FINANCIAL INSTRUMENTS, PROPERTY AND ASSOCIATED RISKS

The Group's principal financial instruments comprise bank loans, finance leases and cash. The main purpose of these financial instruments is to finance the Group's Property Portfolio.

The Group has also entered into interest rate swap agreements in accordance with the terms of the loan agreements with its principal providers of finance. The purpose is to manage the interest rate risks arising from the Group's sources of finance.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are market price risk, interest rate risk, liquidity risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.2. The Group also monitors the market price risk arising from all financial instruments.

Notes to the Consolidated Financial Statements *continued*

17. FINANCIAL INSTRUMENTS, PROPERTY AND ASSOCIATED RISKS *continued*

MARKET PRICE RISK

The Group's exposure to market price risk is comprised mainly of movements in the value of the Group's investment in property. Properties are inherently difficult to value due to the individual nature of each property. As a result valuations are subject to uncertainty. There is no assurance that the estimates resulting from the valuation process will reflect the actual sales price even where a sale occurs shortly after the valuation date.

Rental income and the market value for properties are generally affected by overall conditions in the local economy, such as growth in gross domestic product, employment trends, inflation and changes in interest rates. Changes in gross domestic product may also impact employment levels, which in turn may impact the demand for premises. Furthermore, movements in interest rates may also affect the cost of financing for real estate companies.

Both rental income and property values may also be affected by other factors specific to the real estate market, such as competition from other property owners, the perceptions of prospective tenants of the attractiveness, convenience and safety of the properties, the inability to collect rents because of the bankruptcy or the insolvency of tenants or otherwise, the periodic need to renovate, repair and release space and the cost thereof, the costs of maintenance and insurance, and increased operating costs.

The Directors monitor market value by having independent valuations carried out annually.

INTEREST RATE RISK

The Group's exposure to cash flow interest rate risk for changes in interest rates relates primarily to the Group's intentions to use floating rate, long term debt to finance the property purchases. The Group has entered into interest rate swap agreements to mitigate this risk by swapping variable interest rates against a fixed interest rate. However, this exposes the Group to market rate risk on changes in fair value of the swap.

CREDIT RISK

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debt is not significant.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, available-for-sale financial assets and certain derivative instruments, the Group's exposure to credit risk arises from any default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

LIQUIDITY RISK

Liquidity risk is the risk that the Group will encounter in realising assets or otherwise raising funds to meet financial commitments. Investments in property are relatively illiquid, however, the Group has tried to mitigate this risk by investing in desirable properties in good locations. The Group's objective is to maintain a balance between continuity of funding and flexibility through use of long term borrowing to finance the acquisition of properties.

18. OPERATING LEASES

Lease income from operating leases is recognised in income on a straight line basis over the lease term. Costs, including depreciation, incurred in earning the lease income are recognised as an expense.

The future minimum lease payments under non-cancellable operating leases in the aggregate are as follows for each of the following periods:

	€
Less than one year	29,122,865
One to five years	112,443,519
More than five years	78,060,386

The Group's portfolio of receivable operating leases comprises some 22 lease contracts. Contract periods range between 2.59 and 11.59 years (as at 31 March 2007).

19. GROUP ENTITIES

The subsidiaries of the Group are as follows:

Germany	Principal activity	Date of incorporation	Country of incorporation	Holding %
Develica (Atrium Bonn) Limited	Property investment	30 May 2006	Guernsey	100%
DDE 20 Limited	Property investment	18 August 2006	Guernsey	100%
DDE 21 Limited	Property investment	18 August 2006	Guernsey	100%
DDE 22 Limited	Property investment	15 June 2006	Guernsey	100%
DDE 23 Limited	Property investment	15 June 2006	Guernsey	100%
DDE 24 Limited	Property investment	15 June 2006	Guernsey	100%
DDE 25 Limited	Property investment	15 June 2006	Guernsey	100%
DDE 26 Limited	Property investment	15 June 2006	Guernsey	100%
DDE 27 Limited	Property investment	15 June 2006	Guernsey	100%
DDE 28 Limited	Property investment	15 June 2006	Guernsey	100%
DDE 29 Limited	Property investment	15 June 2006	Guernsey	100%
DDE 30 Limited	Property investment	15 June 2006	Guernsey	100%
DDE 31 Limited	Property investment	15 June 2006	Guernsey	100%
DDE 32 Limited	Property investment	15 June 2006	Guernsey	100%
DDE 33 Limited	Property investment	15 June 2006	Guernsey	100%
DDE 34 Limited	Property investment	15 June 2006	Guernsey	100%
DDE 35 Limited	Property investment	15 June 2006	Guernsey	100%
DDE 36 Limited	Property investment	15 June 2006	Guernsey	100%
DDE 37 Limited	Property investment	15 June 2006	Guernsey	100%
DDE 38 Limited	Property investment	15 June 2006	Guernsey	100%
DDE 39 Limited	Property investment	15 June 2006	Guernsey	100%
DDE 40 Limited	Property investment	15 June 2006	Guernsey	100%
DDE 41 Limited	Property investment	15 June 2006	Guernsey	100%
DDE 42 Limited	Property investment	15 June 2006	Guernsey	100%
DDE 43 Limited	Property investment	15 June 2006	Guernsey	100%
DDE 44 Limited	Property investment	15 June 2006	Guernsey	100%
DDE 45 Limited	Property investment	15 June 2006	Guernsey	100%
DDE 46 Limited	Property investment	15 June 2006	Guernsey	100%
DDE 47 Limited	Property investment	15 June 2006	Guernsey	100%
DDE 48 Limited	Property investment	15 June 2006	Guernsey	100%
DDE 49 Limited	Property investment	15 June 2006	Guernsey	100%
DDE 50 Limited	Property investment	15 June 2006	Guernsey	100%
DDE 51 Limited	Property investment	15 June 2006	Guernsey	100%
DDE 52 Limited	Property investment	31 January 2007	Guernsey	100%
DDE 53 Limited	Property investment	31 January 2007	Guernsey	100%
DDE 54 Limited	Property investment	31 January 2007	Guernsey	100%
DDE 55 Limited	Property investment	31 January 2007	Guernsey	100%
DDE 56 Limited	Property investment	31 January 2007	Guernsey	100%
DDE 57 Limited	Property investment	31 January 2007	Guernsey	100%
DDE 58 Limited	Property investment	31 January 2007	Guernsey	100%
DDE 59 Limited	Property investment	31 January 2007	Guernsey	100%
DDE 60 Limited	Property investment	31 January 2007	Guernsey	100%
DDE 61 Limited	Property investment	31 January 2007	Guernsey	100%
DDE 62 Limited	Property investment	31 January 2007	Guernsey	100%

Internal loans between Develica Deutschland Limited and the group subsidiaries bear interest at 10% per annum. Interest accrues daily and is payable quarterly or may be added to and form part of the loan.

Notes to the Consolidated Financial Statements *continued*

20. RELATED PARTY DISCLOSURES

The Group was charged investment management fees of €1,659,026 by Develica Deutschland Management Limited of which €750,000 was outstanding at the period end. Grant Tromans, who is a Director of the Company is also a Director and a shareholder of Develica Deutschland Management Limited.

Kleinwort Benson (Channel Islands) Funds Services Limited charged administration fees of €82,728 during the period of which €nil was outstanding at the period end. Kleinwort Benson (Channel Islands) Funds Services Limited share the same Ultimate Controlling Party as Kleinwort Benson (Guernsey) Trustees Limited, of which Ian Hancock and Trevor Pinchemain are Directors, and who are also Directors of Develica Deutschland Limited's subsidiary companies.

21. ULTIMATE CONTROLLING PARTIES

In the opinion of the board there is no ultimate controlling party.

22. COMMITMENTS

At 31 March 2007, the Group was committed to purchasing the following property portfolios, details of which are shown in note 23:

Alchemy
Liberty Land
Wachovia

It is the firm intention of the Directors that any disposal of property will be conducted through the sale of specific special purpose vehicle in line with current practice in Germany. In the unlikely event of the Group considering a sale of a property other than by way of a sale of the relevant SPV which holds the property, then a buyer might be required to pay transfer taxes at the rate then prevailing. This may marginally affect the price which the Group would consider for such a disposal. In addition the Group could be liable for any German capital gains taxes which may then be applicable on the sale of the property out of the SPV in which it was held.

23. SUBSEQUENT EVENTS

Purchases of the following property portfolios have completed since 31 March 2007. All purchases were financed by internal loans, external loans, and equity subscriptions. The details of the purchases are as follows:

Property portfolio	Subsidiaries	Purchase price €	Estimated costs €
Alchemy	DDE 33 to DDE 43	91,807,000	4,269,025
Liberty Land	DDE 25, DDE 26, DDE 46, DDE 49, DDE 54 to DDE 56	43,418,000	5,252,000
Wachovia	DDE 27, DDE 28, DDE 31	62,732,000	6,832,220
Hanover	DDE 62 to DDE 72, DDE 74, DDE 75	229,309,000	10,845,000

In addition, the following property portfolios have been notarised since 31 March 2007, but have not yet completed:

Property portfolio	Subsidiaries	Purchase price €	Estimated costs €
Liberty Land	DDE 47, DDE 48, DDE 50 to DDE 53	14,955,000	1,257,000
North German	DDE 58, DDE 59	6,809,325	384,727
Mannheim	DDE 60	17,040,407	1,125,719
Hanover	DDE 57, DDE 61, DDE 73	28,691,000	1,357,000

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