

Good Real Estate Group (International) Limited

**International GAAP®
Illustrative financial statements for
the year ended 31 December 2011**

**Based on International Financial Reporting Standards
in issue at 30 September 2011**

Third Edition 2011
By: EYGM Limited

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Abbreviations and key

The following styles of abbreviation are used in the Good Real Estate Group (International) Illustrative Financial Statements:

IAS 33.41	International Accounting Standard No. 33, paragraph 41
IAS 1.BC.13	International Accounting Standard No. 1, Basis for Conclusions, paragraph 13
IFRS 2.44	International Financial Reporting Standard No. 2, paragraph 44
SIC 29.6	Standing Interpretations Committee Interpretation No. 29, paragraph 6
IFRIC 4.6	IFRS Interpretations Committee (formerly the International Financial Reporting Interpretations Committee) (IFRIC) Interpretation No.4, paragraph 6
IAS 39.IG.G.2	IAS 39 ' <i>Financial Instruments: Recognition and Measurement</i> '-Guidance on Implementing IAS 39 Section G: Other, paragraph G.2
IAS 39.AG.71	IAS 39 ' <i>Financial Instruments: Recognition and Measurement</i> '-Appendix A - Application Guidance, paragraph AG 71
ISA 700.25	International Standard on Auditing No.700, paragraph 25
Commentary	The commentary explains how the requirements of IFRS have been implemented in arriving at the illustrative disclosure.
GAAP	Generally Accepted Accounting Principles/Practice
IASB	International Accounting Standards Board
Interpretations Committee	IFRS Interpretations Committee
SIC	Standing Interpretations Committee

Introduction

This publication contains an illustrative set of consolidated financial statements, prepared in accordance with International Financial Reporting Standards (IFRS), for Good Real Estate Group (International) Limited (the Group), a fictitious group of real estate companies. Good Real Estate Group (International) Limited's activities include the development and leasing of investment property together with the development and sale of residential property. Good Real Estate Group (International) is located in "Estateland" (a fictitious country, with the euro as functional currency).

Objective

This set of illustrative statements is one of many prepared by Ernst & Young to assist you in preparing your own financial statements. The aim in this publication has been to illustrate common IFRS-based disclosures made by the real estate industry, rather than companies in general. Therefore, some commonly found transactions and their disclosures have either been deliberately omitted or simplified because they are illustrated in other Ernst & Young illustrative financial statement publications.

The entire series of model financial statements comprises:

- ▶ Good Group (International) Limited
- ▶ Good Group (International) Limited - *Illustrative interim condensed consolidated financial statements*
- ▶ Good First-time Adopter (International) Limited
- ▶ Good Bank (International) Limited
- ▶ Good Insurance (International) Limited
- ▶ Good Investment Fund Limited
- ▶ Good Real Estate Group (International) Limited
- ▶ Good Construction Group (International) Limited
- ▶ Good Mining (International) Limited
- ▶ Good Petroleum (International) Limited

Look for other industry-specific illustrative financial statements to be added in the future.

We strongly encourage readers of this publication to obtain these other publications to gain a greater understanding of other presentation and disclosure requirements.

IFRS prescribes minimum standards of disclosure, which means that it is important to provide additional disclosures to explain any unusual circumstances. In addition, accounting policy choices need to be disclosed in detail to aid the reader.

The challenge for any entity is to produce decision-useful financial statements through effective presentation and disclosure. This publication focuses on those areas of IFRS reporting that rely heavily on the professional judgement of management. These illustrative disclosures are not the only acceptable form of presentation, but we believe they reflect leading practices in the real estate industry.

Notations shown on the right hand side of each page are IFRS paragraphs that describe the specific disclosure requirements. In case of doubt as to the IFRS requirements, it is essential to refer to the relevant source material and, where necessary, to seek appropriate professional advice.

Please note that these illustrative financial statements do not take account of country or stock market regulations in any given jurisdiction and do not illustrate all possible IFRS accounting or disclosure requirements.

International Financial Reporting Standards

The abbreviation IFRS is defined in paragraph 5 of the Preface to International Financial Reporting Standards to include "standards and interpretations approved by the International Accounting Standards Board (IASB), and International Accounting Standards (IASs) and Standing Interpretations Committee (SIC) interpretations issued under previous Constitutions." This is also noted in paragraph 7 of IAS 1 and paragraph 5 of IAS 8. Thus, when financial statements are described as complying with IFRS, it means that they comply with the entire hierarchy of pronouncements sanctioned by the IASB. This includes the International Accounting Standards, International Financial Reporting Standards and Interpretations originated by the IFRS Interpretations Committee (formerly, the International Financial Reporting Interpretations Committee, IFRIC, or the former Standing Interpretations Committee, SIC).

International Accounting Standards Boards (IASB)

The IASB is the independent standard-setting body of the IFRS Foundation (an independent, not-for-profit private sector organisation working in the public interest). The IASB members (currently 15 full-time members) are responsible for the development and publication of IFRSs, including the IFRS for Small and Medium Entities, and for approving Interpretations of IFRS as developed by the IFRS Interpretations Committee. In fulfilling its standard-setting duties, the IASB follows a due process of which the publication of consultative documents, such as discussion papers and exposure drafts, for public comment is an important component.

The IFRS Interpretations Committee

The IFRS Interpretations Committee (Interpretations Committee) is a committee appointed by the IASC Foundation Trustees that assists the IASB in establishing and improving standards of financial accounting and reporting for the benefit of users, preparers and auditors of financial statements.

The Interpretations Committee addresses issues of reasonably widespread importance, rather than issues of concern to only a small set of entities. Its interpretations cover both:

- ▶ Newly identified financial reporting issues not specifically addressed in IFRS
- ▶ Issues where unsatisfactory or conflicting interpretations have developed, or seem likely to develop in the absence of authoritative guidance, with a view to reaching a consensus on the appropriate treatment
- ▶ Advising the IASB of issues to be considered in the annual Improvements to IFRS project

Basis of preparation and presentation

This publication is based on the requirements of IFRS standards and interpretations applicable to financial statements in issue at 31 August 2011. Details of the standards that have been adopted, and the impact of any new accounting standards not yet adopted have been included in the notes to these illustrative financial statements.

Allowed alternative accounting treatments

In some cases, IFRS permits more than one accounting treatment for the same transaction or event, or it is silent on particular issues. Preparers of financial statements should choose the treatment that is most relevant to their business.

IAS 8 requires an entity to select and apply its accounting policies consistently for similar transactions, and/or other events and conditions, unless an IFRS specifically requires or permits categorisation of items for which different policies may be appropriate. Where an IFRS requires or permits such categorisation, an appropriate accounting policy is selected and applied consistently to each category. Therefore, once a choice of one of the alternative treatments has been made, it becomes accounting policy and must be applied consistently. Changes in accounting policy should only be made if it is required by a standard or interpretation, or if the change results in the financial statements providing reliable and more relevant information.

In this publication, where a choice is permitted by IFRS, the Group has adopted one of the treatments as appropriate to the circumstances of the Group. The commentary gives further details of which policy has been selected.

Financial review by management

Many entities present a financial review by management in their annual report, which is outside the scope of the financial statements. IFRS does not require the presentation of such information; although paragraph 13 of IAS 1 gives a brief outline of what might be included in such a report. The IASB has issued an IFRS Practice Statement *Management Commentary* in a non-binding, broad framework for the preparation and presentation of a management commentary.

Given that content of a financial review by management is usually jurisdiction-specific, no financial review by management has been included in this publication.

IFRS as at 30 September 2011

The standards applied in these consolidated financial statements are those that were in issue as at 30 September 2011. The standards applied in these consolidated financial statements are:

		Good Group	Good Group Interim	Good First-time Adopter	Good Bank	Good Insurance	Good Investment	Good Real Estate	Good Mining	Good Petroleum	Good Construction
International Financial Reporting Standards (IFRS)											
IFRS 1	<i>First-time Adoption of International Financial Reporting Standards</i>			✓		✓				✓	
IFRS 2	<i>Share-based Payment</i>	✓	✓	✓	✓	✓		✓			✓
IFRS 3	<i>Business Combinations (Revised in 2008)</i>	✓		✓		✓		✓	✓	✓	✓
IFRS 4	<i>Insurance Contracts</i>					✓					✓
IFRS 5	<i>Non-current Assets Held for Sale and Discontinued Operations</i>	✓	✓	✓				✓			
IFRS 6	<i>Exploration for and Evaluation of Mineral Resources</i>								✓	✓	
IFRS 7	<i>Financial Instruments: Disclosures</i>	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
IFRS 8	<i>Operating Segments</i>	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
IFRS 9	<i>Financial Instruments</i>										
International Accounting Standards (IAS)											
IAS 1	<i>Presentation of Financial Statements</i>	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
IAS 2	<i>Inventories</i>	✓	✓	✓				✓	✓	✓	✓
IAS 7	<i>Statement of Cash Flows</i>	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
IAS 8	<i>Accounting Policies, Changes in Accounting Estimates and Errors</i>	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
IAS 10	<i>Events after the Reporting Period</i>	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
IAS 11	<i>Construction Contracts</i>							✓			
IAS 12	<i>Income Taxes</i>	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
IAS 16	<i>Property, Plant and Equipment</i>	✓		✓	✓	✓		✓	✓	✓	✓
IAS 17	<i>Leases</i>	✓	✓	✓	✓	✓		✓	✓	✓	✓
IAS 18	<i>Revenue</i>	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
IAS 19	<i>Employee Benefits</i>	✓	✓	✓	✓	✓			✓	✓	✓
IAS 20	<i>Accounting for Government Grants and Disclosure of Government Assistance</i>	✓	✓	✓							
IAS 21	<i>The Effects of Changes in Foreign Exchange Rates</i>	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
IAS 23	<i>Borrowing Costs</i>	✓	✓	✓		✓		✓	✓	✓	✓
IAS 24	<i>Related Party Disclosures</i>	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
IAS 26	<i>Accounting and Reporting by Retirement Benefit Plans</i>										
IAS 27	<i>Consolidated and Separate Financial Statements (Revised in 2008)</i>	✓	✓	✓	✓	✓		✓	✓	✓	✓
IAS 28	<i>Investments in Associates</i>	✓	✓	✓		✓		✓			✓
IAS 29	<i>Financial Reporting in Hyperinflationary Economies</i>										
IAS 31	<i>Interests in Joint Ventures</i>	✓	✓	✓				✓	✓	✓	✓
IAS 32	<i>Financial Instruments: Presentation</i>	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
IAS 33	<i>Earnings per Share</i>	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
IAS 34	<i>Interim Financial Reporting</i>		✓								
IAS 36	<i>Impairment of Assets</i>	✓	✓	✓		✓		✓	✓	✓	
IAS 37	<i>Provisions, Contingent Liabilities and Contingent Assets</i>	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
IAS 38	<i>Intangible Assets</i>	✓	✓	✓	✓	✓		✓	✓	✓	✓
IAS 39	<i>Financial Instruments: Recognition and Measurement</i>	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

		Good Group	Good Group Interim	Good First-time Adopter	Good Bank	Good Insurance	Good Investment	Good Real Estate	Good Mining	Good Petroleum	Good Construction
Interpretations											
IAS 40	<i>Investment Property</i>	✓	✓	✓		✓		✓			
IAS 41	<i>Agriculture</i>										
IFRIC 1	<i>Changes in Existing Decommissioning, Restoration and Similar Liabilities</i>	✓	✓	✓					✓	✓	
IFRIC 2	<i>Members' Shares in Co-operative Entities and Similar Instruments</i>										
IFRIC 4	<i>Determining whether an Arrangement Contains a Lease</i>	✓	✓	✓					✓	✓	
IFRIC 5	<i>Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</i>		✓						✓	✓	
IFRIC 6	<i>Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment</i>	✓	✓	✓							
IFRIC 7	<i>Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies</i>										
IFRIC 9	<i>Reassessment of Embedded Derivatives</i>	✓	✓			✓					
IFRIC 10	<i>Interim Financial Reporting and Impairment</i>	✓	✓								
IFRIC 12	<i>Service Concession Arrangements</i>										✓
IFRIC 13	<i>Customer Loyalty Programmes</i>	✓	✓	✓							
IFRIC 14	<i>IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i>	✓	✓	✓	✓						
IFRIC 15	<i>Agreements for the Construction of Real Estate</i>							✓			
IFRIC 16	<i>Hedges of a Net Investment in a Foreign Operation</i>	✓	✓	✓							
IFRIC 17	<i>Distributions of Non-cash Assets to Owners</i>										
IFRIC 18	<i>Transfers of Assets from Customers</i>										
IFRIC 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i>										
SIC 7	<i>Introduction of the Euro</i>										
SIC 10	<i>Government Assistance - No Specific Relation to Operating Activities</i>										
SIC 12	<i>Consolidation - Special Purpose Entities</i>	✓	✓	✓	✓						
SIC 13	<i>Jointly Controlled Entities - Non-Monetary Contributions by Venturers</i>	✓	✓	✓							
SIC 15	<i>Operating Leases - Incentives</i>	✓	✓	✓				✓			
SIC 21	<i>Income Taxes - Recovery of Revalued Non-Depreciable Assets</i>	✓	✓	✓				✓			
SIC 25	<i>Income Taxes - Changes in the Tax Status of an Entity or its Shareholders</i>			✓							
SIC 27	<i>Evaluating the Substance of Transactions Involving the Legal Form of a Lease</i>	✓	✓	✓							
SIC 29	<i>Service Concession Arrangements: Disclosures</i>										
SIC 31	<i>Revenue - Barter Transactions Involving Advertising Services</i>										
SIC 32	<i>Intangible Assets - Web Site Costs</i>										

✓ This standard or interpretation is reflected in the accounting policies and / or individual transactions with appropriate note disclosures

All standards and interpretations listed above incorporate all amendments effective 1 January 2011, unless otherwise stated. These amendments also include the amendments resulting from Improvements to IFRS issued in May 2010.

It is important to note that the IASB may issue new and revised standards and interpretations subsequent to 30 September 2011. Therefore, users of this publication are advised to verify that there has been no change in the IFRS requirements between 30 September 2011 and the date on which their financial statements are authorised for issue. Any standards issued, but not yet effective, need to be considered in the disclosure requirements of a reporting entity.

**Good Real Estate Group
(International) Limited**

Consolidated financial statements

31 December 2011

General information

Directors

A Buisman (Chairman)

M Williams (Chief Executive)

R Breyer

L van der Tas

Company Secretary

B Lim

Registered Office

Brick House

Covenant Square

Estateland

Solicitors

Solicitors & Co.

7 Great Scott Street

Estateland

Bankers

Good Bank Limited

10 Capital Street

Estateland

Auditors

Professional Accountants & Co.

7 Bean Street

Estateland

Independent Auditors' Report to the Shareholders of Good Real Estate Group (International) Limited

Introduction

We have audited the accompanying financial statements of Good Real Estate Group (International) Limited and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2011 together with the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2011, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Professional Accountants & Co.

28 March 2012

7 Bean Street

Estateland

Commentary

The auditors' report has been prepared in accordance with ISA 700 (Redrafted) *Forming an Opinion and Reporting on Financial Statements*. The auditors' report may differ depending on the requirements of different jurisdictions.

Consolidated income statement

for the year ended 31 December 2011

		2011	2010	
	Notes	€000	€000	
Rental income	8	22,470	24,333	IAS 18.35 (c), IAS 40.75 (f) (i)
Service charge income	8	2,584	2,197	IAS 18.35 (b)(ii)(c)
Service charge expense	10	(2,654)	(2,254)	IAS 1.85
Other property operating expense	10	(2,118)	(3,149)	IAS 40.75(f)(ii), (iii)
Net rental income		20,282	21,127	
Sales of inventory property	8	11,000	16,750	IAS 18.35(b)(i)
Cost of sales - inventory		(7,000)	(17,000)	IAS 1.99, IAS 1.103, IAS 2.36(d)
Profit/(loss) on sale of inventory		4,000	(250)	
Administration expenses		(4,876)	(2,976)	IAS 1.103
Profit on disposal of investment property	17	2,000	–	IAS 18.35(b)(i)
Valuation gains from completed investment property	17	14,980	9,480	IAS 40.76(d)
Valuation gains from investment property under construction	18	3,920	2,005	IAS 40.76(d)
Net gains on investment property		20,900	11,485	
Operating profit		40,306	29,386	IAS 1.84
Interest income	11	9,195	7,559	IAS 1.82(a)
Interest expense	12	(22,105)	(18,921)	IAS 1.82(b), IFRS 7.20
Share of profit of joint ventures	21	3,250	–	IAS 1.82 (c), IAS 28.38
Profit before tax		30,646	18,024	IAS 1.103
Income tax expense	14	(7,298)	(3,597)	IAS 1.82(d), IAS 12.77
Profit for the year		23,348	14,427	IAS 1.84
Attributable to:				
Equity holders of the parent		20,759	13,469	IAS 1.83(a)(ii), IAS 27.28
Non-controlling interests		2,589	958	IAS 1.83(a)(i), IAS 27.28
		23,348	14,427	
Earnings per share:				
Basic and diluted earnings, on profit for the year	15	0.10	0.07	IAS 33.66
Adjusted (EPRA) earnings per share	15	0.03	0.02	

Commentary

IAS 1 provides an option to continue presenting a 'traditional' income statement complemented by a second statement, the statement of comprehensive income (SOC), or, alternatively, to present a single statement, also named statement of comprehensive income, that includes both elements.

Good Real Estate Group (International) Limited has taken the option of presenting an income statement complemented by the statement of comprehensive income.

IAS 40 does not require valuation gains/losses on completed investment property to be disclosed separately from those on investment property under construction, but as they are generally subject to different sets of assumptions and accounting estimates, we consider this to be a leading practice. This approach is also consistent with the separate presentation of investment property under construction in the balance sheet, which we also consider to be a leading practice.

IAS 1.99 requires expenses to be analysed by nature or by their function within the income statement, whichever provides information that is reliable and more relevant. Good Real Estate Group (International) Limited has presented the analysis of expenses by nature.

There is no requirement in IFRS to provide adjusted earnings per share (EPS) in the financial statements. However, we have illustrated an adjusted EPS figure following the guidelines set out by the European Public Real Estate Association (EPRA) – see Note 15. The presentation of adjusted EPS per share in the financial statements may not be appropriate in all jurisdictions.

Consolidated statement of comprehensive income

for the year ended 31 December 2011

	2011	2010	<i>IAS 8.28</i>
Notes	€000	€000	<i>IAS 1.51(d),(e)</i>
Profit for the year	<u>23,348</u>	<u>14,427</u>	<i>IAS 1.82(f),(g)</i>
Net gains (losses) on cash flow hedges arising during the year	13,589	(2,632)	<i>IFRS 7.23(c)</i>
Amounts reclassified to profit and loss in respect of cash flow hedges	(1,210)	732	<i>IAS 1.92</i>
Income tax relating to net gains (losses) on cash flow hedges	14 (3,714)	570	<i>IFRS 7.23(d)</i> <i>IAS 1.90,</i> <i>IAS 12.81</i>
Foreign currency translation reserve	<u>(1,700)</u>	<u>(1,654)</u>	
Other comprehensive income, net of tax	<u>6,965</u>	<u>(2,984)</u>	
Total comprehensive income for the year, net of tax	<u>30,313</u>	<u>11,443</u>	<i>IAS 1.82 (i)</i>
Attributable to:			
Equity holders of the parent	27,724	10,485	<i>IAS 1.83(b)(ii)</i>
Non controlling interests	<u>2,589</u>	<u>958</u>	<i>IAS 1.83(b)(i),</i>
	<u>30,313</u>	<u>11,443</u>	

Commentary

Good Real Estate Group (International) Limited has chosen to present the components of comprehensive income within the statement above. Alternatively, the individual components may be presented as a note to the financial statements.

Consolidated balance sheet

as at 31 December 2011

	Notes	2011 €000	2010 €000	IAS 8.28 IAS 1.51(d)(e)
Assets				
Non-current assets				
Goodwill	7, 20	3,000	–	IAS 1.54(c)
Completed investment property	17	452,991	388,620	IAS 1.54 (b)
Investment property under construction	18	30,146	30,896	IAS 1.54 (b)
Investment in joint venture	21	103,250	–	IAS 1.54(e)
Deferred tax assets	14	–	2,992	IAS 1.54(n), IAS 1.56
		589,387	422,508	
Current assets				
Inventory property	22	6,533	9,580	IAS 1.54(g)
Trade and other receivables	23	14,560	22,860	IAS 1.54(h), IFRS 7.8(c)
Prepayments and accrued income		9,929	14,588	IAS 1.55
Cash and short-term deposits	24	78,038	34,618	IAS 1.54(i)
		109,060	81,646	
Investment property held for sale	19	10,560	–	IAS 1.54(j)
Total assets		709,007	504,154	
Equity and liabilities				
Issued share capital	25	233,700	193,700	IAS 1.78 (e)
Cash flow hedges		(302)	(8,967)	IAS 1.54
Foreign currency translation reserve		(4,398)	(2,698)	
Retained earnings		56,413	35,347	IAS 1.54, IAS 1.78(e)
Equity attributable to equity holders of the parent		285,413	217,382	IAS 1.54,
Non-controlling interests		18,202	1,803	IAS 1.54(q), IAS 27.27
Total equity		303,615	219,185	
Non-current liabilities				
Interest bearing loans and borrowings	26	379,624	255,831	IAS 1.60, IAS 1.69 IAS 1.54(m)
Deposits from tenants		3,634	2,285	IAS 1.55
Finance lease liabilities	28	1,559	1,550	IAS 1.54 (m), IAS 1.55
Deferred tax liability	14	11,314	–	IAS 1.54(n), IAS 1.56
Derivative financial instruments	32	425	12,804	IAS 1.54(m), IFRS 7.8 (e)
		396,556	272,470	IAS 1.60, IAS 1.69
Current liabilities				
Trade and other payables	27	6,536	10,019	IAS 1.54(k)
Income tax payable	14	2,146	2,275	IAS 1.54(n)
Finance lease liabilities	28	154	205	IAS 1.54(m), IAS 1.55
		8,836	12,499	
Total liabilities		405,392	284,969	
Total equity and liabilities		709,007	504,154	
Net Asset Value (NAV) per share				
Basic and diluted NAV	16	1.22	1.12	
Adjusted (EPRA) NAV	16	1.26	1.17	

Consolidated balance sheet

Commentary

The IASB refrained from making the changes in terminology introduced by IAS 1(revised) mandatory (for example, changing the name of the balance sheet to “statement of financial position”). Good Real Estate Group (International) Limited therefore continues to use the traditional term ‘balance sheet’.

IAS 1.10(f) requires entities to present a balance sheet as at the beginning of the earliest comparative period when the entity has applied an accounting policy retrospectively, makes a retrospective restatement or reclassifies items in the financial statements. Good Real Estate Group (International) Limited (for year ended 31 December 2009) illustrated a change in prior periods following the implementation of IFRIC 15. Those illustrative financial statements are available at www.ey.com/ifrs.

IAS 40 does not require completed investment property to be disclosed separately from investment property under construction, but as they are generally subject to different sets of assumptions and accounting estimates, we consider this to be a leading practice.

IAS 1 clarifies that financial instruments (including derivatives) not held for trading must be separated into current and non-current portions unless it is held primarily for trading. An entity separates such a derivative instrument based on an assessment of the facts and circumstances and classifies it accordingly.

When management holds a derivative as an economic hedge (and does not apply hedge accounting) or a derivative instrument that is a designated and effective hedging instrument for a period beyond 12 months after the end of the reporting period, the derivative shall be classified as non-current (or separated into current and non-current portions) consistent with the classification of the underlying item. However, the derivative instrument is separated into a current portion and non-current portion only if: 1) a reliable allocation can be made; and 2) it is applied to all designated and effective hedging instruments.

Entities will need to apply judgement in determining an appropriate split and that judgement should be applied consistently to like instruments.

There is no requirement in IFRS to provide Net Asset Value (NAV) per share in the financial statements. However, this is a common metric in the real estate industry. Therefore, we have illustrated how this information may be provided. We have also illustrated an adjusted NAV figure following the guidelines set out by the European Public Real Estate Association (EPRA) – see Note 16. The presentation of per share NAV in the financial statements may not be appropriate in all jurisdictions.

Consolidated statement of changes in equity

for the year ended 31 December 2011

	Attributable to equity holders of the parent						Non-controlling interests	Total equity	IAS 1.106(d) IAS 1.51(d)(e)
	Issued capital	Foreign currency translation reserve	Cash flow hedges	Retained earnings	Total				
	€000	€000	€000	€000	€000	€000	€000		
At 1 January 2010	193,700	(1,044)	(7,637)	21,580	206,599	845	207,444		
Profit for the year	-	-	-	13,469	13,469	958	14,427	IAS 1.106 (d)(i)	
Other comprehensive income	-	(1,654)	(1,330)	-	(2,984)	-	(2,984)	IAS 1.106 (d)(ii)	
Total comprehensive income	-	(1,654)	(1,330)	13,469	10,485	958	11,443		
Share based payments	-	-	-	298	298	-	298		
At 31 December 2010	193,700	(2,698)	(8,967)	35,347	217,382	1,803	219,185		
Profit for the year	-	-	-	20,759	20,759	2,589	23,348	IAS 1.106 (d)(i)	
Other comprehensive income	-	(1,700)	8,665	-	6,965	-	6,965	IAS 1.106 (d)(ii)	
Total comprehensive income	-	(1,700)	8,665	20,759	27,724	2,589	30,313		
Issue of share capital	40,000	-	-	-	40,000	-	40,000	IAS 1.106 (d)(iii)	
Share based payments	-	-	-	307	307	-	307		
Acquisition of subsidiary	-	-	-	-	-	13,810	13,810		
At 31 December 2011	233,700	(4,398)	(302)	56,413	285,413	18,202	303,615		

Consolidated cash flow statement

for the year ended 31 December 2011

		2011	2010	
	Notes	€000	€000	
Operating activities				
Profit before tax		30,646	18,024	IAS 7.10, IAS 7.18 (b)
Adjustments to reconcile profit before tax to net cash flows				
Valuation gains on investment property		(18,900)	(11,485)	IAS 7.20(b)
Gain on disposal of investment property		(2,000)	–	IAS 7.20(b)
Share of profit in joint ventures		(3,250)	–	IAS 7.20(b)
Share based payments		307	298	
Interest income		(9,195)	(7,559)	IAS 7.20 (c)
Interest expense		22,105	18,921	
		19,713	18,199	
Working capital adjustments				
(Decrease)/ (increase) in trade and other receivables		8,900	(4,007)	IAS 7.20(a)
(Decrease) / (increase) prepayments and accrued income		4,659	(800)	IAS 7.20(a)
Decrease in inventory		2,000	9,420	IAS 7.20(a)
(Decrease) / (increase) in trade, other payables and accruals		(4,900)	580	IAS 7.20(a)
Movements in tenant deposits		1,400	135	
Income tax paid		(3,185)	(1,835)	IAS 7.35
Net cash flow from operating activities		28,587	21,692	IAS 7.10
Investing activities				
Acquisition of businesses, net of cash acquired	7	(57,023)	–	IAS 7.10, IAS 7.21 IAS 7.39
Investments in joint ventures		(100,000)	–	IAS 7.16(c)
Purchase of investment property	17	–	(71,425)	IAS 7.16(a)
Capital expenditure on completed investment property	17	(504)	(5,475)	IAS 7.16(a)
Expenditure on investment property under construction	18	(5,150)	(18,141)	IAS 7.16(a)
Proceeds from disposal of investment property	17	28,670	–	IAS 7.16(b)
Net cash flow from investing activities		(134,007)	(95,041)	IAS 7.10, IAS 7.21
Financing activities				
Proceeds from borrowings		124,023	106,054	IAS 7.10, IAS 7.21 IAS 7.17(c)
Redemption of borrowings		(230)	(18,986)	IAS 7.17(c)
Proceeds from issue of share capital	25	40,000	–	IAS 7.17(a)
Repayment of finance lease liabilities		(38)	(130)	IAS 7.17(c)
Interest received		8,209	7,210	
Interest paid		(23,124)	(19,346)	IAS 7.31
Net cash flow from financing activities		148,840	74,802	IAS 7.10
Net increase in cash and cash equivalents		43,420	1,453	
Cash and cash equivalents at the beginning of the period	24	34,618	33,165	
Cash and cash equivalents at 31 December	24	78,038	34,618	IAS 7.45

Non cash transactions

In 2010, the Group acquired leasehold properties for a total consideration of €25.0m, of which €23.0m was paid immediately in cash. The residual consideration with a present value of €2.0m remained outstanding as a finance lease obligation.

IAS 7.43(a)

Consolidated cash flow statement

Commentary

IAS 7.18 allows entities to report cash flows from operating activities using either the direct method or the indirect method. Good Real Estate Group (International) Limited presents its cash flow statement using the indirect method.

IAS 7 does not specify which profit or loss figure should be used in the indirect method. Good Real Estate Group (International) Limited has reconciled from profit before tax from continuing operations to net cash flows from operating activities. However, alternative profit or loss subtotals may also be permissible.

Good Real Estate Group (International) Limited classifies interest received and paid as financing activities as they relate to the net cost of obtaining financial resources.

IAS 7.40 requires disclosure of certain cash flows for the acquisition and disposals of subsidiaries or other business units. Good Real Estate Group (International) Limited has interpreted this requirement as being relevant for those acquisitions and disposals of subsidiaries that have been accounted for as business combinations and disposals (see accounting policies for property and business combinations).

Notes to the consolidated financial statements

1. Corporate information

The consolidated financial statements of Good Real Estate Group (International) Limited and its subsidiaries (the Group) for the year ended 31 December 2011 were authorised for issue in accordance with a resolution of the directors on 28 March 2012. Good Real Estate Group (International) Limited (the Company) is a limited company incorporated and domiciled in Estateland whose shares are publicly traded. The registered office is located at Brick House, Covenant Square in Estateland.

IAS 1.138(a)
IAS 10.17

The principal activities of the Group are described in Note 13.

IAS 1.138(b)

2. Basis of preparation

The consolidated financial statements of the Company and its subsidiaries (the Group) have been prepared on a historical cost basis, except for investment property and derivative financial instruments that have been measured at fair value. The consolidated financial statements are presented in euros and all values are rounded to the nearest thousand (€000), except when otherwise indicated.

IAS 1.117(a)
IAS 1.118,
IAS 1.51
(d), (e)

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

IAS 1.16

Commentary

Companies in certain jurisdictions may be required to comply with IFRS approved by local regulations, for example, listed companies in the European Union (EU) are required to comply with IFRS approved by the EU. These financial statements only illustrate compliance with IFRS as issued by the IASB.

3. Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2011:

IAS 8.14

- ▶ IAS 24 *Related Party Disclosures* (amendment) effective 1 January 2011
- ▶ IAS 32 *Financial Instruments: Presentation* (amendment) effective 1 February 2010
- ▶ Improvements to IFRSs (May 2010)

IAS 1.139

IAS 24 *Related Party Transactions* (Amendment)

The IASB has issued an amendment to IAS 24 that clarified the definitions of a related party. The new definitions emphasise a symmetrical view on related party relationships as well as clarifying in which circumstances persons and key management personnel affect related party relationships of an entity. Secondly, the amendment introduces an exemption from the general related party disclosure requirements, for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group but the appropriate disclosures are included in Note 30.

Improvements to IFRSs

In May 2010, the Board issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but did not have any impact on the financial position or performance of the Group:

- ▶ IFRS 3 *Business Combinations*: The measurement options available for non-controlling interest (NCI) have been amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation shall be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.
- ▶ The amendments to IFRS 3 are effective for annual periods beginning on or after 1 July 2011. The Group however adopted these as of 1 January 2011 and changed its accounting policy accordingly.
- ▶ IFRS 7 *Financial Instruments - Disclosures*: The amendment was intended to simplify the disclosures provided, by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. The Group reflects the revised disclosure requirements in Note 31.

Notes to the financial statements

3. Changes in accounting policies *continued*

- ▶ IAS 1 *Presentation of Financial Statements*: The amendment provides an option to present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity (SOCIE) or in the notes to the financial statements. The Group provides this analysis in the SOCIE.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- ▶ IFRS 3 *Business Combinations* (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008))
- ▶ IFRS 3 *Business Combinations* (Un-replaced and voluntarily replaced share-based payment awards)
- ▶ IAS 27 *Consolidated and Separate Financial Statements*
- ▶ IAS 34 *Interim Financial Statements*
- ▶ IFRIC 13 *Customer Loyalty Programmes* (determining the fair value of award credits)
- ▶ IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*
- ▶ IAS 32 *Financial Instruments: Presentation* (Amendment)

4. Significant accounting judgements, estimates and assumptions

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Judgements other than estimates

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Revenue recognition

When a contract for the sale of a property upon completion of construction is judged to be a construction contract, (see revenue recognition policy for sales of property under development), revenue is recognised using the percentage of completion method as construction progresses. The percentage of completion is made by reference to the stage of completion of projects and contracts determined based on the proportion of contract costs incurred to date and the estimated costs to complete.

Business combinations

The Group acquires subsidiaries that own real estate. At the time of acquisition, the Group considers whether the acquisition represents the acquisition of a business. The Group accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property. More specifically, consideration is made of the extent to which significant processes are acquired and, in particular, the extent of ancillary services provided by the subsidiary (e.g., maintenance, cleaning, security, bookkeeping, hotel services, etc.). The significance of any process is judged with reference to the guidance in IAS 40 on ancillary services.

When the acquisition of subsidiaries does not represent a business, it is accounted for as an acquisition of a group of assets and liabilities. The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values, and no goodwill or deferred tax is recognised.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the goodwill by reference to the cash generating units to which the goodwill is allocated. Estimating the recoverable amount is by reference to the higher of fair value less costs to sell and 'value in use'. A value in use calculation requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present values of those cash flows.

Notes to the financial statements

4. Significant accounting judgements, estimates and assumptions *continued*

Classification of property

The Group determines whether a property is classified as investment property or inventory property:

- ▶ Investment property comprises land and buildings (principally offices, commercial warehouse and retail property) which are not occupied substantially for use by, or in the operations of, the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation.
- ▶ Inventory comprises property that is held for sale in the ordinary course of business. Principally, this is residential property that the Group develops and intends to sell before or on completion of construction.

Operating lease contracts – the Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these property and so accounts for the leases as operating leases.

Taxes

The Group is subject to income and capital gains taxes in numerous jurisdictions. Significant judgement is required to determine the total provision for current and deferred taxes.

There are many transactions and calculations for which the ultimate tax determination and timing of payment is uncertain. In particular, when calculating deferred taxation, the effective tax rate applicable on the temporary differences in investment property depends on the method by which the carrying amount of investment property will be realised.

The Group recognises liabilities for current taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income and deferred tax provisions in the period in which the determination is made. Deferred tax assets and liabilities are recognised on a net basis to the extent they are relating to the same fiscal unity and fall due in approximately the same period.

IAS 12.71

Estimates

Estimation of net realisable value for inventory

Inventory is stated at the lower of cost and net realisable value (NRV).

NRV for completed inventory property is assessed with reference to market conditions and prices existing at the reporting date and is determined by the Group having taken suitable external advice and in the light of recent market transactions.

NRV in respect of inventory property under construction is assessed with reference to market prices at the reporting date for similar completed property, less estimated costs to complete construction and less estimated costs to complete construction and less an estimate of the time value of money to the date of completion.

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group company's domicile.

IAS 12.88
IAS 1.125

Valuation of property

The fair value of investment property is determined by independent real estate valuation experts using recognised valuation techniques. These techniques comprise both the Yield Method and the Discounted Cash Flow Method. In some cases, the fair values are determined based on recent real estate transactions with similar characteristics and location to those of the Group assets.

IAS 1.125
IAS 40.75 (d),
(e)

Investment property under construction is also valued at fair value as determined by independent real estate valuation experts, except if such values cannot be reliably determined. In the exceptional cases when a fair value cannot be reliably determined, such properties are recorded at cost. The fair value of investment properties under construction is determined using either the Discounted Cash Flow Method or the Residual Method.

Notes to the financial statements

4. Significant accounting judgements, estimates and assumptions *continued*

The determination of the fair value of investment property requires the use of estimates such as future cash flows from assets (such as lettings, tenants' profiles, future revenue streams, capital values of fixtures and fittings, plant and machinery, any environmental matters and the overall repair and condition of the property) and discount rates applicable to those assets. In addition, development risks (such as construction and letting risks) are also taken into consideration when determining the fair value of investment properties under construction. Future revenue streams, *inter alia*, comprises contracted rent (passing rent) and estimated rental income (ERV) after the contract period. In estimating ERV, the potential impact of future lease incentives to be granted to secure new contracts is taken into consideration. All these estimates are based on local market conditions existing at the reporting date.

Volatility in the global financial system is reflected in commercial real estate markets. There was a significant reduction in transaction volumes in 2010 and, to a lesser extent, into 2011. Therefore, in arriving at their estimates of market values as at 31 December 2010 and 31 December 2011, the valuers used their market knowledge and professional judgement and did not rely solely on historical transactional comparables. In these circumstances, there was a greater degree of uncertainty than which exists in a more active market in estimating the market values of investment property.

The significant methods and assumptions used by the valuers in estimating the fair value of investment property are set out in Notes 17 and 18.

Techniques used for valuing investment property

The Yield Method converts anticipated future cash flow benefits in the form of rental income into present value. This approach requires careful estimation of future benefits and the application of investor yield or return requirements. One approach to value the property on this basis is to capitalise net rental income on the basis of an Initial Yield, generally referred to as the 'All Risks Yield' approach or 'Net Initial Yield' approach, adjusting for any factors not included in net rental income, such as vacancy, lease incentives, refurbishment, etc.

The Discounted Cash Flow Method involves the projection of a series of periodic cash flows either to an operating property or a development property. To this projected cash flow series, an appropriate, market-derived discount rate is applied to establish an indication of the present value of the income stream associated with the property. The calculated periodic cash flow is typically estimated as gross rental income less vacancy and collection losses and less operating expenses/outgoings. A series of periodic net operating incomes, along with an estimate of the reversion/terminal/exit value (which uses the traditional valuation approach) anticipated at the end of the projection period, are discounted to present value. The aggregate of the net present values equals the market value of the property.

The Residual Method (or Hypothetical Development Approach) to estimating fair value is a combination of the Capitalisation (income) and a cost approach (Summation). The Residual Method is defined according to "Approved European Property Valuation Standards" of TEGoVA (The European Group of Valuers' Associations), as: "A method of determining the value of a property which has potential for development, redevelopment or refurbishment. The estimated total cost of the work, including fees and other associated expenditures, plus allowance for interest, developer's risk and profit, is deducted from the gross value of the completed project. The resultant figure is then adjusted back to the date of valuation to give the residual value."

Commentary

Detailed explanations of valuation techniques used are not specifically required by IFRS, but such explanations may be useful to the reader and some regulators have requested disclosure of such information. Good Real Estate Group (International) Limited therefore provides an explanation of just some of the common techniques.

Share-based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 29.

Notes to the financial statements

5. Summary of significant accounting policies

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December each year. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. IAS 27.12
IAS 27.22
IAS 27.24, 26

All intra-group balances, transactions and unrealised gains and losses resulting from intra-group transactions are eliminated in full. IAS 27.20

Non-controlling interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the income statement and within equity in the consolidated balance sheet, separately from parent shareholders' equity. IAS 27.27

Property acquisitions and business combinations

Where property is acquired, via corporate acquisitions or otherwise, management considers the substance of the assets and activities of the acquired entity in determining whether the acquisition represents the acquisition of a business. The basis of the judgement is set out in Note 4.

Where such acquisitions are not judged to be an acquisition of a business, they are not treated as business combinations. Rather, the cost to acquire the corporate entity is allocated between the identifiable assets and liabilities of the entity based on their relative fair values at the acquisition date. Accordingly, no goodwill or additional deferred taxation arises. Otherwise, acquisitions are accounted for as business combinations.

Commentary

The revised business combination standard, commonly referred to as IFRS 3R, must be used in financial statements starting on or after 1 July 2009. One of the changes in that standard is the definition of a business.

This revised definition refers to "... an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs, or other economic benefits...". However, the standard goes on to say that a business need not include all of the inputs or processes that the seller used in operating that business if market participants are 'capable of' acquiring the business and continuing to produce outputs, for example, by integrating the business with their own. The definition of a business is applied regardless of whether the entity purchases a property directly or via the shares in a single-asset entity. In the real estate industry, IAS 40 *Investment Property* may help in making this assessment. IAS 40 notes that where ancillary processes exist in connection with an investment property, and they are insignificant to the overall arrangement, this will not detract from the classification of the asset as investment property, rather than an asset with processes. Therefore, where only some processes are transferred, IAS 40 would lead to an assessment as to how significant the processes are relative to the processes needed for the set of assets and activities to be a real estate business.

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The acquisition is recognised at the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed. IFRS 3.4
IFRS 3.18
IFRS 3.19

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. IFRS 3.15
IFRS 3.16

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss. IFRS 3.42

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of any contingent consideration classified as a liability will be recognised in profit or loss. IFRS 3.58

Notes to the financial statements

5. Summary of significant accounting policies *continued*

Business combinations prior to 1 January 2010

In comparison with the above policy, the following principal differences applied:

- ▶ Transaction costs directly attributable to the acquisition formed part of the acquisition costs
- ▶ The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets

Contingent consideration was recognised if, and only if, the Group had a present obligation, an economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

Goodwill

Goodwill only arises upon a business combination and is initially measured as the residual cost of the business combination after recognising the acquiree's identifiable assets, liabilities and contingent liabilities. Subsequently, goodwill is not amortised, but is tested for impairment at least annually.

IFRS 3.32(b)
IAS 36.80

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill is generated by the recognition, on the acquisition of a business, of deferred tax liabilities in excess of the fair value of such liabilities, the post-tax discount rate is adjusted in order to determine the appropriate pre-tax discount rate used to determine the value in use for impairment testing purposes (see Note 20). Therefore, the deferred tax liability in excess of its fair value, as determined at acquisition, is offset against the goodwill and the net amount tested to determine whether that goodwill is impaired.

To the extent that the deferred tax provision in excess of the fair value of that liability is subsequently reduced or eliminated, for example, through a change in the tax circumstances of the Group, the goodwill arising from the initial recognition of the deferred tax provision may become impaired.

Interests in jointly controlled entities

The Group has contractual arrangements with other parties which represent joint ventures. These take the form of agreements to share control over other entities.

IAS 1.117, IAS
31.57, IAS
31.30

Where the joint venture is established through an interest in a company (a jointly controlled entity), the Group recognises its interest in the entity's assets and liabilities using the equity method of accounting. Under the equity method, the interest in the joint venture is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of its net assets, less distributions received and less any impairment in value of individual investments. The Group's income statement reflects the share of the jointly controlled entity's results after tax.

Commentary

Good Real Estate Group (International) Limited accounts for its interest in the jointly controlled entity (JCE) using the equity method. IAS 31.30 also permits jointly controlled entities to be recognised using proportionate consolidation, but this option might soon be removed by the IASB. The IASB Exposure Draft (ED) 9 is intended to replace the existing requirements of IAS 31.

Foreign currency translation

The consolidated financial statements are presented in euros. Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to profit or loss.

IAS 1.51(d)
IAS 1.117(b)
IAS 21.23(a)
IAS 21.28

Notes to the financial statements

5. Summary of significant accounting policies *continued*

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

IAS 21.23(b),(c)
IAS 21.59

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

The assets and liabilities of foreign operations are translated into euros at the rate of exchange prevailing at the reporting date and their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the deferred cumulative amount recognised in other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

IAS 21.48

Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

The interest capitalised is calculated using the Group's weighted average cost of borrowings after adjusting for borrowings associated with specific developments. Where borrowings are associated with specific developments, the amounts capitalised is the gross interest incurred on those borrowings less any investment income arising on their temporary investment. Interest is capitalised as from the commencement of the development work until the date of practical completion. The capitalisation of finance costs is suspended if there are prolonged periods when development activity is interrupted. Interest is also capitalised on the purchase cost of a site of property acquired specifically for redevelopment, but only where activities necessary to prepare the asset for redevelopment are in progress.

Commentary

IAS 23 does not require companies to capitalise interest in respect of assets that are measured at fair value (this includes assets measured at fair value through equity). Consequently, entities holding investment property under construction that is carried at fair value have a policy choice, which primarily impacts the presentation of borrowing costs in the income statement.

Investment property

Investment property comprises completed property and property under construction or re-development held to earn rentals or for capital appreciation or both. Property held under a lease is classified as investment property when the definition of an investment property is met. The lease obligation is recognised under IAS 17 at fair value of the interest in the leasehold property.

IAS 40.7
IAS 40.75 (b)

Investment property is measured initially at cost including transaction costs. Transaction costs include transfer taxes, professional fees for legal services and initial leasing commissions to bring the property to the condition necessary for it to be capable of operating. The carrying amount also includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met.

IAS 40.75.
IAS 40.20

Subsequent to initial recognition, investment property is stated at fair value. Gains or losses arising from changes in the fair values are included in the income statement in the year in which they arise. For the purposes of these financial statements, in order to avoid 'double accounting', the assessed fair value is:

IAS 40.33,
IAS 40.35

- ▶ Reduced by the carrying amount of any accrued income resulting from the spreading of lease incentives and/or minimum lease payments
- ▶ Increased by the carrying amount of any liability to the superior leaseholder or freeholder that has been recognised in the balance sheet as a finance lease obligation.

Investment property is derecognised when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment property are recognised in the income statement in the year of retirement or disposal.

IAS 40.66, 69

Gains or losses on the disposal of investment property are determined as the difference between net disposal proceeds and the carrying value of the asset in the previous full period financial statements.

IAS 40.69

Notes to the financial statements

5. Summary of significant accounting policies *continued*

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation or commencement of an operating lease. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale. *IAS 40.57*

Commentary

Good Real Estate Group (International) Limited has elected to measure investment property at fair value. IAS 40 also permits investment property to be measured using a cost model. These financial statements do not illustrate the latter approach.

The Group's policy for calculating gains or losses on disposal is to use the carrying value of the asset in the previous full financial statements. This policy choice is primarily a matter of income statement presentation to the extent that an entity presents gains and losses on disposal separately from gains and losses on revaluation.

Non-current assets held for sale

Investment property is transferred to non-current assets held for sale when it is expected that the carrying amount will be recovered principally through sale rather than from continuing use. For this to be the case, the property must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such property and its sale must be highly probable. *IFRS 5.7*

For the sale to be highly probable:

- ▶ The Board must be committed to a plan to sell the property and an active programme to locate a buyer and complete the plan must have been initiated *IFRS 5.8*
- ▶ The property must be actively marketed for sale at a price that is reasonable in relation to its current fair value
- ▶ The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification *IFRS 5.5(d)*

On re-classification, investment property that is measured at fair value continues to be so measured.

Rent and other receivables

Rent and other receivables are recognised at the lower of their original invoiced value. Where the time value of money is material, receivables are carried at amortised cost. Provision is made when there is objective evidence that the Group will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote. *IAS 40.57*

Inventory property

Property acquired or being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, is held as inventory and is measured at the lower of cost and net realisable value. *IAS 2.6, 9, 21*

Cost includes:

- ▶ Freehold and leasehold rights for land
- ▶ Amounts paid to contractors for construction
- ▶ Borrowing costs, planning and design costs, costs of site preparation, professional fees for legal services, property transfer taxes, construction overheads and other related costs

Non refundable commissions paid to sales or marketing agents on the sale of real estate units are expensed when paid.

Net realisable value is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date and discounted for the time value of money if material, less costs to completion and the estimated costs of sale.

The cost of inventory recognised in profit or loss on disposal is determined with reference to the specific costs incurred on the property sold and an allocation of any non-specific costs based on the relative size of the property sold.

Cash and short term-deposits

Cash and short-term deposits in the balance sheet comprise cash at bank and short-term deposits with an original maturity of three months or less. *IAS 7.6*
IAS 7.46

Notes to the financial statements

5. Summary of significant accounting policies *continued*

Interest bearing loans and borrowings

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

IAS 39.43,
IAS 39.47

Tenant deposits

Tenant deposits liabilities are initially recognised at fair value and subsequently measured at amortised cost where material. Any difference between the initial fair value and the nominal amount is included as a component of operating lease income and recognised on a straight-line basis over the lease term.

IAS 39.43,
IAS 39.47

Leases - Group as lessee

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

IAS 17.8, IAS
17.20,

Lease payments are apportioned between the finance charges and the reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the income statement as they arise.

IAS 17.25

Other leases are classified as operating leases, unless they are leases of investment property (see investment property above). Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term, except for contingent rental payments which are expensed when they arise.

Revenue recognition

Rental income

Rental income receivable from operating leases, less the Group's initial direct costs of entering into the leases, is recognised on a straight-line basis over the term of the lease, except for contingent rental income which is recognised when it arises.

IAS 17.50, 52
SIC 15.4

Incentives for lessees to enter into lease agreements are spread evenly over the lease term, even if the payments are not made on such a basis. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease, where, at the inception of the lease, the directors are reasonably certain that the tenant will exercise that option.

Amounts received from tenants to terminate leases or to compensate for dilapidations are recognised in the income statement when they arise.

Interest income

Interest income is recognised as it accrues using the effective interest rate method.

IAS 18.30(a)

Service charges and expenses recoverable from tenants

Income arising from expenses recharged to tenants is recognised in the period in which the expense can be contractually recovered. Service charges and other such receipts are included gross of the related costs in revenue, as the directors consider that the Group acts as principal in this respect.

IAS 18.20

Commentary

Arrangements where the lessor charges tenants for expenses such as utilities are commonplace. It is necessary to assess whether the entity is acting as a principal by reference to the indicators in IAS 18 Appendix paragraph 21. Determining whether an entity is acting as a principal or as an agent requires judgement and consideration of all relevant facts and circumstances. Credit risk on its own is not a decisive factor in determining whether service charges should be recognised gross or net.

Notes to the financial statements

5. Summary of significant accounting policies *continued*

Sale of completed property

IAS 18.14

A property is regarded as sold when the significant risks and returns have been transferred to the buyer, which is normally on unconditional exchange of contracts. For conditional exchanges, sales are recognised only when all the significant conditions are satisfied.

Sales of property under development

IAS 18.14

Where property is under development and agreement has been reached to sell such property when construction is complete, the directors consider whether the contract comprises:

- ▶ A contract to construct a property
- Or
- ▶ A contract for the sale of a completed property

Where a contract is judged to be for the construction of a property, revenue is recognised using the percentage of completion method as construction progresses.

Where the contract is judged to be for the sale of a completed property, revenue is recognised when the significant risks and rewards of ownership of the real estate have been transferred to the buyer. If, however, the legal terms of the contract are such that the construction represents the continuous transfer of work in progress to the purchaser, the percentage of completion method of revenue recognition is applied and revenue is recognised as work progresses. Continuous transfer of work in progress is applied when:

- ▶ The buyer controls the work in progress, typically when the land on which the development is taking place is owned by the final customer
- And
- ▶ All significant risks and rewards of ownership of the work in progress in its present state are transferred to the buyer as construction progresses, typically when buyer cannot put the incomplete property back to the Group

IFRIC 15.20

In such situations, the percentage of work completed is measured based on the costs incurred up until the end of the reporting period as a proportion of total costs expected to be incurred.

Commentary

IFRIC 15 *Agreements for the Construction of Real Estate* is relevant to real estate developers. It is common practice for them to market their developments well before the start of any construction and this activity then continues throughout the construction period. A typical "off-plan" arrangement will involve a buyer entering into a sales agreement with a developer to acquire a specific unit upon completion of construction.

IFRIC 15 provides guidance on how to determine whether the agreement is within the scope of IAS 11 or IAS 18. A key point of the interpretation is how real estate agreements that involve construction activities should be treated for revenue recognition.

The interpretation clarifies that the terms and conditions and the surrounding facts and circumstances of each agreement should be analysed very carefully and the agreements may have to be split into separate components, e.g. a sale of land and a construction component. The land component will typically be treated as a sale under IAS 18. The construction component is less straight forward; the key question being whether the arrangement meets the definition of a construction contract in accordance with IAS 11 or, if IAS 11 does not apply, the arrangement is for the rendering of services under IAS 18 or it is considered a sale of goods, whether, in the latter case, a continuous transfer of work in progress takes place under IAS 18.

Taxes

Current income tax

IAS 12.46

IAS 1.117

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date. Current income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and it establishes provisions where appropriate.

Notes to the financial statements

5. Summary of significant accounting policies *continued*

Deferred income tax

IAS 12.39
IAS 12.44

Deferred income tax is provided using the liability method on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, 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 that, 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, joint ventures and associates where the timing of the reversal of the temporary differences can be controlled by the parent, venturer or investor, respectively, and it is probable that the temporary differences will not reverse in the foreseeable future

IAS 12.24

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 amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities. In determining the expected manner of realisation of an asset the directors consider that the Group will recover the residual value of an asset through sale and the depreciable amount through use. Consequently, deferred tax relating to that portion of the carrying amount of the investment property that would be considered depreciable under IAS 16 is measured on an 'in use' basis, not an 'on sale' basis. The tax rate applicable to income profit is applied to the 'in use' portion whilst the tax rate applicable to capital profit is applied to the 'on sale' part.

IAS 12.56
IAS 12.37

The element of the total carrying amount of the investment property represented by the land is considered non-depreciable. The directors estimate the depreciable amount and residual value of the building element on a property by property basis.

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 reporting date.

IAS 12.47

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss.

IAS 12.61 A

Commentary

Deferred tax should be measured by reference to the tax consequences that would follow from the manner in which the entity expects, at the reporting date, to recover or settle the asset or liability to which it relates.

In determining the expected manner of recovery of an asset for the purposes of IAS 12, an entity should assume that, in the case of an asset accounted for under IAS 16, it will recover the residual value of the asset through sale and the depreciable amount through use. The practical effect of this is that deferred tax relating to that portion of the carrying amount of an investment property that would have been depreciated had it been accounted for under IAS 16 - taking into account appropriate management intent - should be measured on an 'in use' basis rather than an 'on sale' basis.

This also means that the element of the total carrying amount represented by the land would be considered non-depreciable under IAS 16 and any deferred tax relating to the land element of the property should be measured at the tax rate applicable on sale.

Derivatives and hedging

The Group uses interest rate swaps to hedge its risks associated with interest rates. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

IAS 39.43

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Notes to the financial statements

5. Summary of significant accounting policies *continued*

For the purpose of cash flow hedge accounting, hedges are classified as cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction. IFRS 7.22(a)
IFRS 7.22(b)
IAS 39.88

The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while any ineffective portion is recognised immediately in profit or loss. Amounts taken to equity are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs. IAS 39.95
IAS 39.97

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognised in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs. IAS 39.101

When a derivative is held as an economic hedge for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistent with the classification of the underlying item. A derivative instrument that is a designated and effective hedging instrument is classified consistent with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and non-current portion only if: 1) a reliable allocation can be made; and 2) it is applied to all designated and effective hedging instruments.

Share-based payments

Employees (including senior executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity-settled transactions). Employees working in the business development group are granted share appreciation rights, which can only be settled in cash (cash-settled transactions).

Equity-settled transactions

The cost of equity-settled transactions is recognised, together with a corresponding increase in other capital reserves in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in administrative costs.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognised is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (further details are given in Note 29).

Cash-settled transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date using a binomial model, further details of which are given in Note 29. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to and including the settlement date, with changes in fair value recognised in administrative expenses.

Notes to the financial statements

6. Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective.

IAS 1 *Financial Statement Presentation – Presentation of Items of Other Comprehensive Income*

IAS 8.30,
IAS 8.31

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 12 *Income Taxes – Recovery of Underlying Assets*

The amendment clarified the determination of deferred tax in investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in IAS 16 should always be measured on the sale basis of the asset. The amendment becomes effective for annual periods beginning on or after 1 January 2012.

IAS 19 *Employee Benefits (Amendment)*

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes like removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 27 (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 9 *Financial Instruments: Classification and Measurement*

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2011. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 *Consolidated Financial Statements*

IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 *Consolidation – Special Purpose Entities*.

IFRS 10 establishes a single control model that applies to all entities including 'special purpose entities'. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2013.

Notes to the financial statements

6. Standards issued but not yet effective

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities – Non-monetary Contributions by Venturers*.

IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28 *Investment in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required.

This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance of how to measure fair value under IFRS when fair value is required or permitted.

This standard becomes effective for annual periods beginning on or after 1 January 2013.

Commentary

IAS 8.30 requires disclosure of when an entity has not applied a new standard or interpretation that has been issued but is not yet effective. In particular, the entity must disclose known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the entity's financial statements in the period of initial application.

Good Real Estate Group (International) Limited has provided details of the impact of such standards and interpretations to the extent they are expected to have a material impact on the Group. Detail of other standards and interpretations would be immaterial information.

7. Business combinations

On 1 April 2011, the Group acquired 80 % of the shares of Property Business Ltd, an unlisted company based in Estateland. Property Business Ltd holds a portfolio of retail and office buildings let under operating leases. The existing strategic management function and associated processes were acquired with the property, and as such, the Directors consider this transaction the acquisition of a business, rather than an asset acquisition. *IFRS 3.59,*
IFRS 3.B64(a)
IFRS 3.B64(b)
IFRS 3.B64(c)
IFRS 3.B64(d)

The fair value of the identifiable assets and liabilities of Property Business Ltd as at the date of acquisition were:

	Fair value recognised on acquisition	<i>IFRS 3.B64(i)</i> <i>IAS 7.40 (d)</i>
	€000	
Investment property	75,000	
Trade receivables	600	
Cash and cash equivalents	375	<i>IAS 7.40 (c)</i>
	75,975	
Trade payables	575	
Deferred tax liabilities	6,350	
	6,925	
Total identifiable net assets at fair value	69,050	
Non-controlling interest	(13,810)	<i>IFRS 3.B64(o)</i>
Goodwill arising on acquisition	3,000	<i>IFRS 3.32</i>
Total consideration	58,240	

Notes to the financial statements

7. Business combinations continued

The total consideration of €58,240,000 for the 80% interest acquired consists of €57,398,000 cash and €842,000 contingent consideration. IFRS 3.B64(f)(i)
IFRS 3.B64(f)(iii)

The incidental costs of €1,750,000 incurred in connection with the acquisition have been expensed and are included in administrative expenses. IFRS 3.B64(m)

The Group has elected to measure the non-controlling interest in Property Business Ltd at the proportionate share of the acquiree's net identifiable assets. IFRS 3.19
IFRS 3.B64(o)

From the date of acquisition, Property Business Ltd has contributed €1,889,000 to the net profit of the Group. If the combination had taken place at the beginning of the year, the profit for the Group would have been €28,314,000 and revenue would have been €31,279,000. IFRS 3.B64(q)(i)
IFRS 3.B64(q)(ii)

The goodwill of €3,000,000 comprises €2,600,000 created by the existence of a deferred taxation liability that the Group considered to be in excess of its fair value and a portfolio premium arising from the acquisition of €400,000. None of the goodwill is expected to be deductible for tax purposes. IFRS 3.B64(e)
IFRS 3.B64(k)

Contingent consideration

As part of the sale and purchase agreement, an amount of contingent consideration has been agreed. There will be additional cash payments due to the previous owners of Property Business Ltd of: IFRS 3.B64(g)(ii)
IFRS
3.B64(g)(iii)

- ▶ €500,000, if the entity generates more than €5,000,000 net rental income from acquisition date to 31 December 2011
- Or
- ▶ €1,000,000, if the entity generates more than €10,000,000 net rental income from acquisition date to 31 December 2011

As at the acquisition date, the fair value of the contingent consideration was estimated at €842,000. There were no measurement period adjustments and the contingent consideration remains unpaid as at 31 December 2011. IFRS 3.B64(g)(i)

Commentary

The classification of a contingent consideration requires an analysis of the individual facts and circumstances. It may be classified either as equity or as a liability, each resulting in different initial recognition and subsequent measurement. The Group has assessed the nature of the contingent consideration and determined it as being a financial liability, as the Group incurred a contractual obligation to deliver cash to the seller (IAS 32.11). Consequently, the Group is required to remeasure that liability to fair value at the reporting date (IFRS 3.58(b) (i)).

8. Revenue

	2011	2010	
	€000	€000	
Rental income (excluding straight-lining of lease incentives)	22,750	24,688	IAS 18.35 (c)(ii)
Straight-lining of lease incentives	(280)	(355)	
Rental income	22,470	24,333	
Service charge income	2,584	2,197	IAS 18.35(b)(ii)
Proceeds from the sale of inventory property (recognised on completion)	5,000	13,750	IAS 18.35(b)(ii)
Proceeds from sale of inventory (recognised on a percentage of completion basis – see Note 22)	6,000	3,000	IAS 18.35 (b)(i) IFRIC 15.20
Interest income (Note 11)	9,195	7,559	IFRS 7.20 (b)
Total revenue	45,249	50,839	

Rental income includes contingent rental of €1,654,000 (2010: €1,375,000). IAS 17.56(b)

Notes to the financial statements

8. Revenue continued

The Group has granted incentives such as rent-free periods to new tenants. The average number of months of rent-free periods granted is 9 months. The total unamortised portion of rent-free periods is detailed as follows:

	<u>2011</u>	<u>2010</u>
	<u>€000</u>	<u>€000</u>
Gross amount of lease incentives not fully amortised	4,108	3,908
Recognised in profit or loss	<u>(1,868)</u>	<u>(1,388)</u>
Net amount of lease incentives not fully amortised	2,240	2,520

Commentary

Regulators in certain jurisdictions require entities holding investment property to disclose more detail about lease incentives, in particular rent-free periods, than is strictly required under IFRS. We have included illustrative disclosures of lease incentives and their impact on profit or loss in the period.

9. Operating leases - Group as lessor

The Group has entered into leases on its property portfolio. The commercial property leases typically have lease terms between five and 15 years and include clauses to enable periodic upward revision of the rental charge according to prevailing market conditions. Some leases contain options to break before the end of the lease term. IAS 17.56(c)

Future minimum rentals receivable under non-cancellable operating leases as at 31 December are as follows:

	<u>2011</u>	<u>2010</u>
	<u>€000</u>	<u>€000</u>
Within 1 year	24,321	23,430
After 1 year, but not more than 5 years	74,080	72,320
More than 5 years	<u>115,200</u>	<u>112,500</u>
	<u>213,601</u>	<u>208,250</u>

IAS 17.56(a)

10. Service charge and other property operating expenses

	<u>2011</u>	<u>2010</u>
	<u>€000</u>	<u>€000</u>
Service charge expenses		
Repairs, maintenance and utilities	1,453	1,256
Property insurance costs	546	538
Other expenses	<u>655</u>	<u>460</u>
	<u>2,654</u>	<u>2,254</u>
Other property operating expenses		
Repairs, maintenance and utilities	900	1,310
Bad debt allowance	319	364
Property management expenses	443	911
Other	<u>456</u>	<u>564</u>
	<u>2,118</u>	<u>3,149</u>
Total property operating expenses	<u>4,772</u>	<u>5,403</u>
	<u>2011</u>	<u>2010</u>
	<u>€000</u>	<u>€000</u>
Property expenses arising from investment property that generate rental income	4,105	4,510
Property expenses arising from investment property that did not generate rental income	<u>667</u>	<u>893</u>
Total property operating expenses	<u>4,772</u>	<u>5,403</u>

IAS 40.75(f)(ii)
IAS 40.75(f)(iii)

Notes to the financial statements

11. Interest income

	2011	2010	
	€000	€000	
Bank interest	8,765	7,457	
Net foreign exchange gain	195	102	
Other interest	235	–	
Total interest income	9,195	7,559	<i>IFRS 7.20(b)</i>

12. Interest expense

	2011	2010	
	€000	€000	
Interest on bank loans	21,984	19,866	
Less: amounts capitalised	(360)	(1,730)	
Total interest expense for financial liabilities not at fair value through profit or loss	21,624	18,136	
Finance lease interest	55	107	
Net foreign exchange loss	426	678	
Total interest expense	22,105	18,921	<i>IFRS 7.20(b)</i>

The capitalisation rate used to determine the borrowings eligible for capitalisation is 5.5% (2010: 5.5%). *IAS 23.26(b)*

13. Segmental information

For investment property, discrete financial information is provided on a property-by-property basis to the Board of Directors, which is the chief operating decision maker. The information provided is net of rentals (including gross rent and property expenses), valuations gains/losses, profit/loss on disposal of investment property and share of profit from the joint venture. The individual properties are aggregated into segments with similar economic characteristics. The Directors consider that this is best achieved by aggregating into retail, office and industrial segments. *IFRS 8.22*

Information on the residential development property segment provided to the Board is aggregated and is represented by revenue and profit from the sale of inventory.

Consequently, the Group is considered to have four reportable operating segments, as follows:

- ▶ Retail segment – acquires, develops and leases shopping malls
- ▶ Office segment – acquires, develops and leases offices
- ▶ Industrial segment – acquires, develops and leases warehouses and factories
- ▶ Residential development segment – builds and sells residential property

IFRS 8.23(b)

Group administrative costs, profit/loss on disposal of investment property, finance revenue, finance costs and income taxes are not reported to the Board on a segment basis. There are no sales between segments.

Segment assets for the investment property segments represent investment property (including those under construction) and the investment in the joint venture. Segment assets for the residential development segment represents unsold inventory. *IFRS 8.28 (c)*

Segment liabilities represent loans and borrowing, as these are the only liabilities reported to the Board on a segmental basis. *IFRS 8.28 (d)*

Whilst segment liabilities include loans and borrowings, segment profit does not include related finance costs. If such finance costs were included in segment profit, the aggregate segment profit would be reduced by €22,105 (2010: €18,921).

Notes to the financial statements

13. Segmental information *continued*

Year ended 31 December 2011	Retail	Office	Industrial	Residential development	Adjustments*	Total	
	€000	€000	€000	€000	€000	€000	€000
Segment profit							
Rent and service charge income	5,264	2,151	19,441	–	(1,802)	25,054	<i>IFRS 8.23(a)</i>
Property sales – inventory	–	–	–	11,000	–	11,000	<i>IFRS 8.23(e)</i>
Property operating expenses	(1,011)	(520)	(3,241)	–	–	(4,772)	<i>IFRS 8.23(e)</i>
Costs of sales – inventory	–	–	–	(7,000)	–	(7,000)	<i>IFRS 8.23(e)</i>
Net valuation gain/(loss) on investment property	5,600	3,100	10,200	–	–	18,900	<i>IFRS 8.23(i)</i>
Share of profit of a joint venture	3,250	–	–	–	–	3,250	<i>IFRS 8.23(g)</i>
Profit on disposal of investment property	–	–	2,000	–	–	2,000	<i>IFRS 8.23(e)</i>
Segment profit	13,103	4,731	28,400	4,000	(1,802)	48,432	<i>IFRS 8.23</i>
Administrative expenses	(2,369)	(1,325)	(2,229)	(365)	1,412	(4,876)	
Finance costs	(2,304)	(3,412)	(15,557)	(832)	–	(22,105)	
Finance revenue	–	3,756	5,439	–	–	9,195	
Profit before tax	8,430	3,750	16,053	2,803	(390)	30,646	<i>IFRS 8.21(c)</i>

* The rental income information presented to the Board is in the form of the rent passing in the period rather than being spread on a straight-line basis over the lease term in the way prescribed by IAS 17. Consequently, the rent passing information presented to the Board is adjusted here to agree with rental income in the income statement.

Year ended 31 December 2011	Retail	Office	Industrial	Residential development	Total	
	€000	€000	€000	€000	€000	
Assets						
Completed investment property	73,646	47,940	331,405	–	452,991	
Investment property under construction	–	30,146	–	–	30,146	
Investment property held for sale	10,560	–	–	–	10,560	
Inventory	–	–	–	6,533	6,533	
Investment in joint venture	103,250	–	–	–	103,250	<i>IFRS 8.24(a)</i>
Segment assets	187,456	78,086	331,405	6,533	603,480	<i>IFRS 8.23</i>
Goodwill					3,000	
Current assets (excluding inventory)					102,527	
Total assets					709,007	
Segment liabilities						
Loans and borrowings	129,414	65,200	185,010	–	379,624	<i>IFRS 8.23</i>
Non-current liabilities					16,932	
Current liabilities					8,836	<i>IFRS 8.24(b)</i>
Total liabilities					405,392	<i>IFRS 8.21(d)</i>
Additions to noncurrent assets	31,808	28,521	31,442	–	91,771	

Additions to noncurrent assets consist of additions of investment property including assets from the acquisition of subsidiaries and investment property under construction.

Notes to the financial statements

13. Segmental information *continued*

Year ended 31 December 2010	Retail	Office	Industrial	Residential development	Adjustments*	Total	
	€000	€000	€000	€000	€000	€000	€000
Segment profit							
Rent and service charge income	5,305	2,807	20,028	–	(1,610)	26,530	<i>IFRS 8.23(a)</i>
Property sales – inventory	–	–	–	16,750	–	16,750	
Property operating expenses	(1,150)	(475)	(3,778)	–	–	(5,403)	<i>IFRS 8.23(e)</i>
Costs of sales – inventory	–	–	–	(17,000)	–	(17,000)	<i>IFRS 8.23(e)</i>
Net valuation gain/(loss) on investment property	2,510	3,225	5,750	–	–	11,485	<i>IFRS 8.23(i)</i>
Segment profit	6,665	5,557	22,000	(250)	(1,610)	32,362	<i>IFRS 8.23</i>
Administrative expenses	(635)	(567)	(2,754)	(367)	1,347	(2,976)	
Finance costs	(23)	(3,365)	(14,701)	(832)	–	(18,921)	
Finance revenue	–	2,092	5,467	–	–	7,559	
Profit before tax	6,007	3,717	10,012	(1,449)	(263)	18,024	

* The rental income information presented to the Board is in the form of the rent passing in the period rather than being spread on a straight-line basis over the lease term in the way prescribed by IAS 17. Consequently, the rent passing information presented to the Board is adjusted here to agree with rental income in the income statement.

Year ended 31 December 2010	Retail	Office	Industrial	Residential development	Total	
	€000	€000	€000	€000	€000	
Assets						
Completed investment property	51,156	25,014	312,450	–	388,620	
Investment property under construction	–	30,896	–	–	30,896	
Inventory	–	–	–	9,580	9,580	
Segment assets	51,156	55,910	312,450	9,580	429,096	<i>IFRS 8.23</i>
Deferred tax					2,992	
Current assets (excl. inventory)					72,066	
Total assets					504,154	
Segment liabilities						
Loans and borrowings	<u>22,132</u>	<u>44,721</u>	<u>188,978</u>	<u>–</u>	<u>255,831</u>	<i>IFRS 8.23</i>
Non-current liabilities					16,639	
Current liabilities					<u>12,499</u>	<i>IFRS 8.24(b)</i>
Total liabilities					<u>284,969</u>	<i>IFRS 8.21(d)</i>
Additions to noncurrent assets	<u>10,102</u>	<u>26,832</u>	<u>58,107</u>	<u>–</u>	<u>95,041</u>	

Additions to noncurrent assets consist of additions of investment property including assets from the acquisition of subsidiaries and investment property under construction.

Notes to the financial statements

13. Segmental information *continued*

Geographical information	2011	2010	
Revenues from external customers	€000	€000	<i>IFRS 8.33(a)</i>
Estateland (including revenue from sales of inventory)	15,331	12,739	
Germany	4,651	–	
Luxembourg	3,306	15,623	
France	12,766	14,918	
Total	36,054	43,280	

Carrying amount of investment property (including under construction and held for sale), goodwill and investment in joint ventures	2011	2010	
	€000	€000	<i>IFRS 8.33(b)</i>
Estateland	89,211	74,909	
The Netherlands	103,250	–	
Germany	91,450	72,211	
Luxembourg	65,020	70,286	
France	251,016	202,110	
Total	599,947	419,516	

There are no transactions with a single external customer that account for 10% or more of the Group's total revenues. *IFRS 8.34*

14. Taxation

The major components of income tax expense for the years ended 31 December 2011 and 2010 are:

	2011	2010	
	€000	€000	<i>IAS 12.79</i>
Consolidated income statement			
Current income tax			
Current income tax charge	3,056	2,267	<i>IAS 12.80(a)</i>
Deferred income tax			
Relating to origination and reversal of temporary differences	4,242	1,330	<i>IAS 12.80(c)</i>
Income tax expense reported in the income statement	7,298	3,597	
Consolidated statement of comprehensive income			
Deferred income tax related to items charged or credited directly to equity			<i>IAS 12.81(a)</i>
Net gains (losses) on revaluation of cash flow hedges	3,714	(570)	
Income tax expense reported in other comprehensive income	3,714	(570)	

A reconciliation between tax expense and the product of accounting profit multiplied by Estateland's tax rate for the years ended 31 December 2011 and 2010, is as follows:

	2011	2010	
	€000	€000	<i>IAS 12.81(c)(i)</i>
Profit before tax	30,646	18,024	
At Estateland's statutory tax rate of 30% (2010: 30%)	9,193	5,407	
Non-deductible expenses	1,194	519	
Non-taxable income	(156)	(781)	
Effect of lower tax rates in other countries	(2,933)	(1,548)	
Total tax expense reported in the income statement	7,298	3,597	

Notes to the financial statements

14. Taxation *continued*

Commentary

IAS 12 requires an explanation of the relationship between tax expense (income) and accounting profit in either or both of the following forms:

- ▶ A numerical reconciliation between tax expense (income) and the product of accounting profit multiplied by the applicable tax rate(s), disclosing also the basis on which the applicable tax rate(s) is (are) computed
- ▶ A numerical reconciliation between the average effective tax rate and the applicable tax rate, disclosing also the basis on which the applicable tax rate is computed

Good Real Estate Group (International) Limited has presented the former.

	Consolidated balance sheet		Consolidated income statement		IAS 12.81(gXi) IAS 12.81(gXii)
	2011	2010	2011	2010	
	€000	€000	€000	€000	
Deferred tax liability					
Revaluations of investment property to fair value	14,794	4,286	4,158	2,086	
Adjustments relating to straight lining of lease incentives	672	756	(84)	(106)	
	<u>15,466</u>	<u>5,042</u>			
Deferred income tax assets					
Revaluation of an interest rate swap (cash flow hedge) to fair value	123	3,837	–	–	
Losses available for offset against future taxable income	4,029	4,197	168	(650)	
	<u>4,152</u>	<u>8,034</u>			
Deferred income tax expense			<u>4,242</u>	<u>1,330</u>	
Deferred tax liabilities/(assets) net	<u>11,314</u>	<u>(2,992)</u>			
Reflected in the balance sheet as follows					
Deferred tax assets	–	(2,992)			
Deferred tax liabilities	<u>11,314</u>	<u>–</u>			
Deferred tax liabilities/(assets) net	<u>11,314</u>	<u>(2,992)</u>			

The temporary difference resulting from revaluation of investment property to fair value includes an amount of € 6,350,000 related to the purchase price allocation of Property Business Ltd (Note 7).

The Group has tax losses which arose in Estateland of €12,204,000 (2010: €12,204,000) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they may only be used to offset the taxable profits of certain companies in the Group, and there is uncertainty whether these companies will generate taxable profit in the future.

IAS 12.81(e)

A temporary difference of €35.1m (2010: €35.8m) exists between the carrying amount of investment property and their tax base for which no deferred taxation has been provided because of the initial recognition exemption in IAS 12.

Commentary

IAS 12 does not require disclosure of temporary differences for which no deferred taxation has been provided because of the initial recognition exemption in IAS 12. However, we regard such disclosure as a leading practice.

Notes to the financial statements

15. Earnings per share

Basic earnings per share amounts are calculated by dividing profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year. As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	<u>2011</u>	<u>2010</u>	
	<u>€000</u>	<u>€000</u>	
Net profit attributable to ordinary equity holders of the parent for basic earnings	20,759	13,469	<i>IAS 33.70(a)</i>
	<u>2011</u>	<u>2010</u>	
	<u>Thousands</u>	<u>Thousands</u>	
Weighted average number of ordinary shares	213,700	193,700	<i>IAS 33.70(b)</i>

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements. *IAS 33.70(d)*

EPRA publishes guidelines for calculating adjusted earnings that represent earnings from the core operational activities. Therefore, it excludes the effect of movements in the fair value of, and results from sales of, investment property together with related deferred taxation.

For Good Real Estate Group (International) Limited, the EPRA EPS may be calculated as:

	<u>2011</u>	<u>2010</u>
	<u>€000</u>	<u>€000</u>
Earning for basic EPS	20,759	13,469
Revaluation movements on investment property	(18,900)	(11,485)
Related deferred tax	4,158	2,086
Profit on disposal of investment property	(2,000)	–
Current tax on disposal of investment property	510	–
Non controlling interest in respect of the above	1,623	665
Earnings for EPRA EPS	<u><u>6,150</u></u>	<u><u>4,735</u></u>
	<u>€ per share</u>	<u>€ per share</u>
EPRA EPS	<u>0.03</u>	<u>0.02</u>

Commentary

EPRA is neither an accounting body nor a valuation body, but it publishes Best Practice Policy Recommendations (BPPR) which aim to achieve uniform accounting and valuation principles amongst its members. Other industry organisations, such as the European Association for Investors in Non-Listed Real Estate Vehicles (INREV), have their own net asset value per share (NAV) metrics. We have no preference for any of the alternatives, but highlight that EPRA NAV is principally followed by public companies, whereas INREV is focused on private entities.

We illustrate here the effect of the recommendation in the BPPR dated October 2010 for calculating adjusted earnings per share (EPS) and NAV. The BPPR contains other recommendations, but Good Group Real Estate (International) Limited does not necessarily illustrate all of these.

There is no requirement in IFRS to provide an adjusted EPS (following the EPRA principles or otherwise) in the financial statements. However, this is a common metric in the real estate industry, so we have illustrated how this information might be provided.

Notes to the financial statements

16. Net asset value per share (NAV)

Basic NAV per share amounts are calculated by dividing net assets in the balance sheet attributable to ordinary equity holders of the parent by the number of ordinary shares outstanding during the year. As there are no dilutive instruments outstanding, basic and diluted NAV per share are identical.

The following reflects the net asset and share data used in the basic and diluted NAV per share computations:

	<u>2011</u>	<u>2010</u>
	<u>€000</u>	<u>€000</u>
NAV attributable to ordinary equity holders of the parent	285,413	217,382
	<u>2011</u>	<u>2010</u>
	<u>Thousands</u>	<u>Thousands</u>
Number of ordinary shares at the reporting date	<u>233,700</u>	<u>193,700</u>

The EPRA publishes guidelines for calculating adjusted NAV. EPRA NAV represents the fair value of an entity's equity on a long-term basis. Items that EPRA considers will have no impact on the long term, such as fair value of derivatives and deferred taxes on property fair values, are therefore excluded.

For Good Real Estate Group (International) Limited, the EPRA NAV per share takes into account the following adjustments:

- ▶ The fair value of derivatives is excluded as these are effective hedges
- ▶ Deferred taxation arising on revaluation of property to fair value is excluded
- ▶ Goodwill which results from the provision of deferred taxation upon a business combination is excluded
- ▶ Inventory, which under IFRS is measured at the lower of cost and net realisable value, is increased to market value

	<u>2011</u>	<u>2010</u>
	<u>€000</u>	<u>€000</u>
Basic NAV	285,413	217,382
Fair value of derivatives	425	12,804
Deferred taxation	11,314	(2,992)
Goodwill caused by deferred taxation on a business combination	(2,600)	–
Adjustment to measure inventory at fair value, otherwise held at cost	850	1,100
Non controlling interest in respect of the above	(899)	(873)
EPRA NAV	<u>294,503</u>	<u>227,421</u>
	<u>€ per share</u>	<u>€ per share</u>
EPRA NAV	<u>1.26</u>	<u>1.17</u>

Commentary

There is no requirement in IFRS to provide a NAV in the financial statements. However, this is a common metric in the real estate industry so we have illustrated how this information may be provided. Other industry organisations also make recommendations for the calculation of NAV.

The presentation of NAV in the financial statements may not be appropriate in all jurisdictions.

Notes to the financial statements

17. Completed investment property

	2011	2010	
	€000	€000	
At 1 January	388,620	302,240	
Acquisitions arising from business combinations	75,000	–	IAS 40.76(b)
Other acquisitions of property	–	71,425	IAS 40.76(a)
Capital expenditure on owned property	504	5,475	IAS 40.76(a)
Transfer from inventory	1,047	–	
Transfer from property under construction	10,070	–	
Disposals	(26,670)	–	IAS 40.76(c)
Fair value adjustment	14,980	9,480	IAS 40.50
Total completed investment property	463,551	388,620	
Less: classified as held for sale	(10,560)	–	IAS 40.76(c)
At 31 December	452,991	388,620	
	2011	2010	
	€000	€000	
Market value as estimated by external valuer	453,518	389,385	IAS 40.77
Add: finance lease obligation recognised separately	1,713	1,755	
Less: lease incentive balance included in prepayments	(2,240)	(2,520)	
Fair value for financial reporting purposes	452,991	388,620	

The fair value of completed investment property has been determined on a market value basis in accordance with International Valuation Standards (IVS), as set out by the IVSC. The valuation is prepared on an aggregated ungeared basis. As set out in Note 4, in arriving at their estimates of market values, the valuers have used their market knowledge and professional judgement and not only relied on historical transactional comparables.

IAS 40.75 (a)

The valuations were performed by Chartered Surveyors & Company, an accredited independent valuer with a recognised and relevant professional qualification and with recent experience in the location and category of the investment property being valued.

IAS 40.75 (d)(e)

IAS 40.33, 36, 75 (a), 38

Notes to the financial statements

17. Completed investment property continued

The significant assumptions made relating to valuations are set out below:

	<u>Luxembourg</u>	<u>Estateland</u>	<u>Germany</u>	<u>France</u>	
2011					
Passing rent per sqm	€200	€150	€300	€360	
Estimated rental value (market rent) per sqm	€200	€155	€295	€365	
Average net initial yield	7.0%	7.5%	8.0%	8.0%	IAS 40.75(d)
Reversionary yield	6.5%	7.2%	7.5%	7.8%	
Inflation rate	3.5%	4.0%	3.0%	3.5%	
Long-term vacancy rate	2.0%	3.0%	3.0%	2.0%	
Long-term growth in real rental rates	3.5%	4.0%	4.0%	3.5%	
2010					
Passing rent per sqm	€195	€145	€295	€345	
Estimated rental value (market rent) per sqm	€198	€150	€290	€355	
Average net initial yield	6.5%	6.5%	7.0%	7.0%	IAS 40.75(d)
Reversionary yield	6.3%	6.2%	6.5%	6.5%	
Inflation rate	4.0%	4.2%	3.2%	3.8%	
Long-term vacancy rate	2.0%	4.0%	4.0%	3.0%	
Long-term growth in real rental rates	4.0%	4.5%	4.5%	3.5%	

Commentary

IAS 40 requires disclosure of the significant assumptions made in the valuation of investment property. The above provides illustrative disclosures.

As at 31 December, property with an aggregate value of € 75m (2010: € 70m) are held under lease agreements. Future lease payments are presented in Note 28.

IAS 17.31,
IAS 40.75

As at 31 December, the portfolio had the following vacancy rates, calculated based on Estimated Rental Values; along with the following estimates of when actual vacancy will equal the long term rate:

	<u>Luxembourg</u>	<u>Estateland</u>	<u>Germany</u>	<u>France</u>
2011				
Vacancy rate	3%	4%	3%	6%
Duration (months)	6	7	–	9
2010				
Vacancy rate	4%	5%	4%	7%
Duration (months)	9	8	–	9

Commentary

Regulators in some jurisdictions require disclosure of the vacancy rates of the entities' property portfolio. EPRA recommends that entities disclose vacancy rates calculated as the Estimated Rental Value of vacant space divided by Estimated Rental Value of the whole portfolio. Vacancy Rate generally includes all completed properties (whether classified investment or trading) including their share of joint ventures' vacancy, but excluding those properties which are under development.

Sensitivity analysis

The table below presents the sensitivity of the valuation to changes in the most significant assumptions underlying the valuation of completed investment property.

IAS 1.129(b)

	<u>2011</u>	<u>2010</u>
	<u>€000</u>	<u>€000</u>
Increase in yield of 25bps	(24,300)	(14,600)
Decrease in rental rates of 5%	(22,100)	(919,400)

Notes to the financial statements

18. Investment property under construction

	<u>2011</u>	<u>2010</u>	
	<u>€000</u>	<u>€000</u>	
At 1 January	30,896	9,540	IAS 40.76
Capital expenditure	5,150	18,141	IAS 40.76(a)
Interest capitalised	250	1,210	
Transfer to completed investment property	(10,070)	–	
Fair value adjustment during the year (including effect of re-measuring investment property under construction from cost to fair value as at 1 January 2010)	3,920	2,005	IAS 40.76(c)
At 31 December	30,146	30,896	IAS 40.76

Unless stated at cost, the fair value of investment property under construction has been determined on a market value basis in accordance with International Valuation Standards, as set out by the IVSC. The valuation is prepared on an aggregated ungeared basis. As set out in Note 4, in arriving at their estimates of market values in 2010 and 2011, the valuers used their market knowledge and professional judgement and did not only rely on historical transactional comparables. The valuers made reference to Guidance Note 17 'The Valuation of Investment Property under Construction' issued by the IVSC in February 2010.

IAS
40.75(d),(e)
IAS 40.33, 36,
75 (a), 38

The valuations were performed by Chartered Surveyors & Company, an accredited independent valuer with a recognised and relevant professional qualification and recent experience of the location and category of the investment property being valued.

As at 31 December 2011, one property development is carried at cost of €10m (2010: €8.5m) because its fair value could not be reliably measured due to the unique nature of the property and an absolute lack of transaction activity in that market. The directors estimate its fair value to be in the range of €10m and €12.5m (€8.5m to €9.5m) and on that basis no impairment is considered to have occurred.

IAS 40.53,78

The developments are all in Germany and the significant assumptions made relating to valuations are set out below:

	<u>2011</u>	<u>2010</u>
Average initial yield on completion	9.5%	9.0%
Discount to completion in case of application of residual method	5.0%	5.0%
Inflation rate	3.5%	4.5%
Long-term vacancy rate	3.0%	4.0%
Long-term growth in real rental rates	3.5%	3.5%
Estimated average development profit on completion	15%	14%
Estimated average development profit recognised year to date	18%	18%
Estimated average percentage of completion	80%	50%
Estimated average percentage pre-let	70%	65%
Construction costs (€ per sq m)	<u>€1,700</u>	<u>€1,500</u>

Commentary

IAS 40 requires disclosure of the significant assumptions made in the valuation of investment property. The above provides illustrative disclosures.

Sensitivity analysis

The table below presents the sensitivity of the valuation to changes in the most significant assumptions underlying the valuation of investment property under construction.

IAS 1.129(b)

	<u>2011</u>	<u>2010</u>
	<u>€000</u>	<u>€000</u>
Increase in yield of 25bps	(830)	(800)
Increase in construction costs of 10%	(2,120)	(2,120)
Decrease in rental rates of 5%	(1,500)	(1,365)
Decrease in development profit of 1%	<u>(315)</u>	<u>(287)</u>

Notes to the financial statements

19. Investment property held for sale

As at 31 December 2011 the Group held two investment properties that were under offer from a third party. The assessed fair value of these properties as at 31 December 2011 was €10,560,000.

IFRS 5.6
IFRS 5.41

As set out in Note 33, these properties were disposed of in January 2011, realising, after taking into account attributable expenses, a loss on book value of €0.2m.

20. Goodwill

	<u>2011</u>	<u>2010</u>	
	<u>€000</u>	<u>€000</u>	
Opening balance at 1 January	–	–	
Arising on a business combination (Note 7)	3,000	–	
Closing balance at 31 December	<u>3,000</u>	<u>–</u>	IAS 38.118(e)

Goodwill was recognised on the acquisition of Property Business Ltd (see Note 7).

Goodwill is tested for impairment at least annually.

IAS 38.108

Goodwill may be created by the recognition of deferred taxation in excess of its fair value. Therefore, in undertaking an impairment test, the amount of such deferred tax is offset against the goodwill and the net amount tested to determine whether that goodwill is impaired.

Goodwill is therefore tested as follows:

	<u>2011</u>	<u>2010</u>
	<u>€000</u>	<u>€000</u>
Total goodwill	3,000	–
Residual balance of deferred tax liability, in excess of the fair value, initially provided on acquisition	(2,600)	–
Goodwill tested for impairment	<u>400</u>	<u>–</u>

The goodwill tested for impairment is allocated to the group of cash-generating units that constitute Property Business Ltd and represents the portfolio premium paid on acquisition (that is, the amount paid in excess of the aggregate of the individual fair values of the portfolio). This reflects the cost saved by the Group were it to assemble such a portfolio itself.

IAS 36.134(a)

Impairment of the goodwill is tested using a value in use method. The key assumption used in testing the goodwill for impairment is that, on a disposal, a portfolio premium would be achieved over the aggregate of the individual fair values. The directors base this assumption on their observations of premium achieved in recent market transactions.

IAS 36.134(c)

IAS 36.134(f)

Should the present value of the premium achieved be anticipated to be less than €400,000 then the recoverable amount would be less than the carrying amount of the goodwill assessed for impairment and an impairment charge would be necessary.

Notes to the financial statements

20. Goodwill continued

Commentary

It is sometimes argued that investment property entities that measure their property at fair value cannot have goodwill on their balance sheets since goodwill needs to be justified by future cash flows - and a property investor's future cash flows are already built into the fair value of the investment property.

Under IFRS, this issue has become much more acute. On a business combination, deferred tax is provided in accordance with IAS 12 *Income Taxes* and this is usually far in excess of the fair value of the expected tax liability. As it is the fair value of the expected actual tax payment that is generally considered in setting the price for the business acquired, the requirements of IAS 12 tend to increase the amount of goodwill arising.

Whilst IAS 36 explicitly requires tax to be excluded from the estimate of future cash flows used to calculate any impairment, it is our view that it cannot have been the intention of IAS 36 to require an immediate impairment of such goodwill generated by the recognition of deferred tax liabilities in excess of their fair value. Rather, the post-tax discount rate needs to be adjusted in order to determine the appropriate pre-tax discount rate. In effect, this means that, on acquisition, the deferred tax liability in excess of its fair value may be offset against the goodwill and the net amount tested to determine whether that goodwill is impaired.

This is consistent with a view that goodwill can result from a measurement mismatch between two standards. The IASB acknowledged this can happen when, as noted above, it observed that goodwill could include "errors in measuring and recognising the fair value of either the cost of the business combination or the acquiree's identifiable assets, liabilities or contingent liabilities, or a requirement in an accounting standard to measure those identifiable items at an amount that is not fair value".

However, this approach can be used only when it is clear that the deferred tax provision arising from an acquisition of a business is in excess of the fair value of that liability.

It should be possible to continue to apply the above approach when testing the goodwill for impairment in subsequent years, but the entity will need to be able to track the deferred tax liability. Consequently, to the extent that the deferred tax provision in excess of the fair value of that liability is reduced or eliminated, perhaps through a change in the tax circumstances of the entity, the goodwill arising from the initial recognition of the provision may become impaired.

21. Joint ventures

During 2011, Good Real Estate Group (International) Limited acquired a 50% interest in Eastmeadow NV, a jointly controlled entity which owns shopping malls in The Netherlands. The following items represent the Group's interest in the assets and liabilities, revenues and expenses of the joint venture: IAS 31.56

	2011	2010	
	€000	€000	IAS 31.56
Share of the joint venture's balance sheet			
Current assets	2,600	–	
Non-current assets	105,000	–	
	<u>107,600</u>	<u>–</u>	
Current liabilities	(1,350)	–	
Non-current liabilities	(3,000)	–	
	<u>(4,350)</u>	<u>–</u>	
Net assets	<u>103,250</u>	<u>–</u>	
Rental income	7,178	–	
Property expenses	(1,914)	–	
Loss on valuation of investment property	(750)	–	
Profit before income tax	4,514	–	
Taxation	(1,264)	–	
Profit for the period	<u>3,250</u>	<u>–</u>	

The Group has not incurred any contingent liabilities in relation to its interest in the joint venture, nor does the joint venture itself have any contingent liabilities for which the Group is contingently liable. IAS 31.54

The Group has not entered into any capital commitments in relation to its interest in the joint venture. The Group's share in the capital commitments of the joint venture itself is €5.2m. IAS 31.55

Notes to the financial statements

22. Inventory property

The Group includes a division that develops residential property, which it sells in the ordinary course of business and has entered into contracts to sell certain of these properties on completion of construction.

The Group has considered the application of IFRIC 15 to these contracts and concluded that these 'pre-completion' contracts were not, in substance, construction contracts. However, where the legal terms were such that the construction represented the continuous transfer of work in progress to the purchaser, the percentage of completion method of revenue recognition has been applied and revenue recognised as work progressed. Development expenditure incurred in respect of inventory dealt with under the percentage of completion method is recognised in profit or loss in the period incurred.

IFRIC 15.20

Revenue from sales of residential property where the contracts are not in substance construction contracts and do not lead to a continuous transfer of work in progress, is recognised when both: (i) construction is complete; and (ii) either legal title to the property has been transferred or there has been an unconditional exchange of contracts. Construction and other expenditure attributable to such property is included in inventory until disposal. During the year, the group transferred the remaining unsold units of a residential property to investment property, in conjunction with the commencement of operating lease of these units to a third party.

The amount recognised in costs of sales for the year in respect of inventory is:

IAS 2.36(d)

	2011	2010	
	€000	€000	
In respect of sales recognised on a percentage of completion basis	4,000	2,000	IFRIC 15.21
In respect of other inventory sales	3,000	15,000	
	7,000	17,000	

A summary of movement in inventory is set out below.

	2011	2010	
	€000	€000	
Opening balance at 1 January	9,580	25,000	
Change of accounting policy	–	(6,000)	
Opening balance at 1 January	9,580	19,000	
Construction costs incurred	890	5,060	IAS 11.40(a)
Interest capitalised	110	520	IAS 23.26(a)
Transfer to completed investment property	(1,047)	–	IAS 40.57(d)
Disposals (recognised in cost of sales)	(3,000)	(15,000)	
Closing balance at 31 December	6,533	9,580	

Commentary

It is common practice for real estate developers to market their developments well before the start of any construction and this activity then continues throughout the construction period. A typical 'off plan' arrangement will involve a buyer entering into a sales agreement with a developer to acquire a specific unit upon completion of construction. The issue dealt with in IFRIC 15 is whether the developer is selling a product (goods), e.g. the completed apartment or house, or is selling a service, e.g. a construction service as a contractor engaged by the buyer. Revenue from selling products is normally recognised at delivery. Revenue from selling services is normally recognised on a percentage-of-completion basis as construction progresses.

Moreover, the interpretation introduces the concept of 'continuous transfer'. When an agreement is for the sale of goods, it is possible for a developer to recognise revenue by reference to the stage of completion if the risks and rewards of ownership are transferred to the buyer and control over work-in-progress is transferred on a continuous basis. For example, if the agreement is terminated before construction is complete, but the buyer retains the work in progress and the entity has the right to be paid for the work performed, this might indicate that control over work in progress is transferred during construction. This would mean that the stage of completion principles in IAS 11 would apply.

IAS 2 does not require a table of movements in inventory. However, such a table is provided here to illustrate how this approach can be applied.

Notes to the financial statements

22. Inventory property continued

The following table provides information about such continuous transfer agreements that are in progress at the reporting date:

	2011	2010	
	€000	€000	<i>IFRIC 15.21</i>
Aggregate costs incurred and expensed to date	12,000	8,000	
Profit (before tax) recognised to date	6,000	4,000	
Advances received	<u>750</u>	<u>500</u>	

23. Trade and other receivables

	2011	2010	
	€000	€000	
Rent and service charge receivables	7,010	7,640	
Amounts due in respect of inventory sales recognised on a percentage of completion basis	–	12,000	
Receivables from related parties	4,630	1,810	
Accrued income	<u>2,920</u>	<u>1,410</u>	
	<u>14,560</u>	<u>22,860</u>	<i>IFRS 7.6</i>

Rent and service charge receivables are non-interest bearing and are typically due within 30 days. For further information on related party receivables, refer to Note 29. *IFRS 7.34(a)*

As at 31 December 2011, receivables with nominal value of € 2,105,000 (2010: € 1,800,000) were impaired and fully provided for due to tenant defaults. Movements in the provision for impairment of receivables were as follows: *IFRS 7.37*

	Provision for impairment of receivables
	€000
At 1 January 2010	1,461
Charge for the year	364
Utilised	(25)
At 31 December 2010	1,800
Charge for the year	319
Utilised	(14)
At 31 December 2011	<u>2,105</u>

The table below provides information regarding the credit risk exposure of the Group according to the Group's categorisation of counterparties by nature of tenant and by the Estateland Credit Agency's credit rating. *IFRS 7.37(c)*

	2011	2010	
	€000	€000	<i>IFRS 7.36(a)</i>
Government and quasi-government tenants	640	510	
Private tenants with a credit rating of A or above	3,514	4,100	
Private tenants with a credit rating less than A	1,505	2,054	
Tenants with no credit rating	<u>1,351</u>	<u>976</u>	
	<u>7,010</u>	<u>7,640</u>	<i>IFRS 7.6</i>

Notes to the financial statements

23. Trade and other receivables *continued*

As at 31 December, the analysis of trade receivables that were past due but not impaired is set out below. IFRS 7.37

	Total €000	Neither past due nor impaired €000	Past due but not impaired					IFRS 7.37
			< 30 days €000	30-60 days €000	60-90 days €000	90-120 days €000	> 120 days €000	
2011	7,010	4,410	600	800	560	400	240	
2010	7,640	5,550	940	460	320	230	140	

The Group holds no collateral in respect of these receivables. IFRS 7.37(c)

24. Cash and short-term deposits

	2011 €000	2010 €000	
Cash at bank and on hand	35,135	23,576	
Short-term deposits	42,903	11,042	
	78,038	34,618	IAS 7.45

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. IAS 7.50

The Group has pledged a part of its short-term deposits in order to fulfil collateral requirements. Refer to Note 34 for further details.

25. Share capital

	2011 Thousands	2010 Thousands	
Authorised			IAS 1.79(aXi)
Ordinary share of €1 each (issued and fully paid)	233,700	193,700	IAS 1.79(aXiii)
	2011 €000	2010 €000	
Ordinary shares issued and fully paid			IAS 1.79(aXiv)
At 1 January	193,700	193,700	
Issued in the year	40,000	–	
At 31 December	233,700	193,700	

26. Interest-bearing loans and borrowings

	Effective interest rate	Maturity	2011 €000	2010 €000	
	%				
Non-current					IFRS 7.7
€150,500,000 bank loan	EURIBOR +0.45	1 November 2015	149,547	149,777	
€85,500,000 bank loan	EURIBOR +0.55	1 April 2017	84,340	84,274	
€147,500,000 bank loan	EURIBOR +0.55	1 March 2018	145,737	21,780	
			379,624	255,831	

The bank loans are secured by fixed and floating charges over the Group's property portfolio.

Notes to the financial statements

27. Trade and other payables

	2011	2010	
	€000	€000	
Trade payables	5,152	9,483	
Cash settled share based payments (Note 35)	299	104	
Unpaid contingent consideration (Note 7)	842	–	
Accruals	243	432	
	6,536	10,019	IAS 7.45

Trade payables are non-interest bearing and are normally settled on 30-day terms.

IFRS 7.39

28. Finance lease liabilities

The Group acquired certain leasehold property that it classifies as investment property. The leases are accounted for as finance leases. These leases typically have lease terms between 20 and 100 years. Most are at a fixed rental, but a minority contain an obligation to pay a contingent rental calculated by reference to a retail price index.

IFRS 7.31

	2011		2010		
	Present value	Minimum lease payments	Present value	Minimum lease payments	
	€000	€000	€000	€000	
Within 1 year	154	164	205	215	IFRS 7.39(a)
After 1 year but not more than 5 years	510	655	465	670	
More than 5 years	1,049	1,156	1,085	1,110	
	<u>1,713</u>	<u>1,975</u>	<u>1,755</u>	<u>1,995</u>	
Less: future interest costs	–	(262)	–	(240)	
	<u>1,713</u>	<u>1,713</u>	<u>1,755</u>	<u>1,755</u>	

The amount recognised as an expense in the year in respect of contingent rental is €45,000 (2010: €42,000).

IAS 17.31(c)

29. Share-based payments

Senior Executive Plan

IFRS 2.45(a)

Under the Senior Executive Plan (SEP), share options of the parent are granted to senior executives of the parent with more than 12 months of service. The exercise price of the share options is equal to the market price of the underlying shares on the date of grant. The share options vest if and when the Group's earnings per share amount increases by 10% three years from the date of grant and the senior executive is employed on such date. If this increase is not met, the share options do not vest.

The fair value of the share options is estimated at the grant date using a binomial option pricing model, taking into account the terms and conditions upon which the share options were granted.

IFRS 2.46

The contractual term of each option granted is five years. There are no cash settlement alternatives. The Group does not have a past practice of cash settlement for these share options.

General Employee Share-option Plan

IFRS 2.45(a)

At its discretion, the Group may grant share options of the parent to other employees of the parent under the General Employee Share-option Plan (GESP), once they have been in service for two years. The vesting of the share options is dependent on the total shareholder return (TSR) of the Group as compared with a group of principal competitors. Employees must remain in service for a period of three years from the date of the grant. The fair value of share options granted is estimated at the date of the grant using a Monte-Carlo simulation model, taking into account the terms and conditions upon which the share options were granted. The model simulates the TSR and compares it against a group of principal competitors. It takes into account historical and expected dividends, and share price fluctuation covariance of the Group and its competitors to predict the distribution of relative share performance.

IFRS 2.47(a)(iii)

The exercise price of the share options is equal to the market price of the underlying shares on the date of grant. The contractual term of the share options is five years and there are no cash settlement alternatives for the employees. The Group does not have a past practice of cash settlement for these awards.

IFRS 2.46

Notes to the financial statements

29. Share based payments *continued*

Share Appreciation Rights

Employees in the business development group are granted share appreciation rights (SARs), which can only be settled in cash. These SARs vest when a specified target number of new sales contracts are closed and the employee is employed at the vesting date. The contractual term of the SARs is six years. The fair value of the SARs is measured at each reporting date using a binomial option pricing model taking into account the terms and conditions upon which the instruments were granted and the current likelihood of achieving the specified target.

IFRS 2.45(a)
IFRS 2.46

The carrying amount of the liability relating to the SARs at 31 December 2011 is €299,000 (2010: €194,000). No SARs had vested at 31 December 2011 and 31 December 2010.

IFRS 2.51(b)

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

	2011	2010	
	€000	€000	
Expense arising from equity-settled share-based payment transactions	307	298	
Expense arising from cash-settled share-based payment transactions	105	194	
Total expense arising from share-based payment transactions	412	492	IFRS 2.51(a)

There have been no cancellations or modifications to any of the plans during 2011 or 2010.

Movements in the year

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of, and movements in, share options during the year (excluding SARs):

	2011	2011	2010	2010	
	No.	WAEP	No.	WAEP	
Outstanding at 1 January	575,000	€2.85	525,000	€2.75	
Granted during the year	250,000	€3.85	155,000	€3.03	
Forfeited during the year	–	–	(25,000)	€2.33	
Exercised during the year	(75,000) ²	€2.33	(65,000) ¹	€3.08	IFRS 2.45(c)
Expired during the year	(25,000)	€3.02	(15,000)	€2.13	
Outstanding at 31 December	725,000	€3.24	575,000	€2.85	IFRS 2.45(d)
Exercisable at 31 December	110,000	€2.98	100,000	€2.51	IFRS 2.45(b)

¹ The weighted average share price at the date of exercise of these options was €4.09.

IFRS 2.45(c)

² The weighted average share price at the date of exercise of these options was €3.13.

The weighted average remaining contractual life for the share options outstanding as at 31 December 2011 is 2.94 years (2010: 2.60 years).

The weighted average fair value of options granted during the year was €1.32 (2010: €1.18).

IFRS 2.47(a)

The range of exercise prices for options outstanding at the end of the year was €2.33 to €3.85 (2010: €2.13 to €3.13).

IFRS 2.45(d)

Notes to the financial statements

29. Share based payments *continued*

The following tables list the inputs to the models used for the three plans for the years ended 31 December 2011 and 31 December 2010:

IFRS 2.47(aXi)

	2011 SEP	2011 GESP	2011 SAR
Dividend yield (%)	3.13	3.13	3.13
Expected volatility (%)	15.00	16.00	18.00
Risk-free interest rate (%)	5.10	5.10	5.10
Expected life of share options/SARs (years)	6.50	4.25	6.00
Weighted average share price (€)	3.10	3.10	3.12
Model used	Binomial	Monte Carlo	Binomial

	2010 SEP	2010 GESP	2010 SAR
Dividend yield (%)	3.01	3.01	3.01
Expected volatility (%)	16.30	17.50	18.10
Risk-free interest rate (%)	5.00	5.00	5.00
Expected life of options/SARs (years)	3.00	4.25	6.00
Weighted average share price (€)	2.86	2.86	2.88
Model used	Binomial	Monte Carlo	Binomial

The expected life of the share options and SARs is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may also not necessarily be the actual outcome.

IFRS 2.47(aXii)

30. Transactions with related parties

The financial statements include the financial statements of Good Real Estate Group (International) Limited and the subsidiaries and joint ventures. The Group's significant investment in subsidiaries and joint ventures are listed in the following table:

IAS 24.12

	Country of incorporation	% equity interest	
		2011	2010
Subsidiary			
Office portfolio 1 Sarl	Luxembourg	100%	100%
Office portfolio 2 Sarl	Luxembourg	100%	100%
Property Business Limited	Estateland	80%	–
Residential Trading Limited	Estateland	100%	100%
Single Asset Entity 1 GmbH	Germany	94.9%	94.9%
Single Asset Entity 2 GmbH	Germany	94.9%	94.9%
Single Asset Entity 3 GmbH	Germany	94.9%	94.9%
Single Asset Entity 4 GmbH	Germany	94.9%	94.9%
Single Asset Entity 5 GmbH	Germany	94.9%	94.9%
Single Asset Entity 6 GmbH	Germany	94.9%	94.9%
Single Asset Entity 7 GmbH	Germany	94.9%	94.9%
Une Property 1 SA	France	100%	100%
Une Property 2 SA	France	100%	100%
Une Property 3 SA	France	100%	100%
Une Property 4 SA	France	100%	100%
Une Property 5 SA	France	100%	100%
Joint venture			
Eastmeadow NV	The Netherlands	50%	50%

IAS 24.14

Good Real Estate Group (International) is the controlling party of the Group.

IAS 1.138(c)

Notes to the financial statements

30. Transactions with related parties *continued*

The following table provides the details of transactions that have been entered into with related parties for the relevant financial year. IAS 24.17
IAS 24.22

Fees recharged to joint venture	Amount of transaction	Amounts due from related parties at year end	Amounts due to related parties at year end
	€000	€000	€000
2011	750	50	–
2010	750	50	–

Terms and conditions of transactions with related parties

Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. The Group did not record any impairment of receivables relating to amounts owed by related parties in either year. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates. IAS 24.21
IAS 24.17(b)

Compensation of key management personnel of the Group

	2011	2010
	€000	€000
Short-term employee benefits	810	775
Other long-term benefits	98	65
Termination benefits	32	–
Share-based payment transactions	10	10
	950	850

IAS 24.16(a)
IAS 24.16(c)
IAS 24.16(d)
IAS 24.16(e)

Directors' interests in the Senior Executive Plan

Share options held by executive members of the Board of Directors under the senior executive plan to purchase ordinary shares have the following expiry dates and exercise prices:

Issue date	Expiry date	Exercise price	2011	2010
			Number outstanding	Number outstanding
2010	2012	€2.33	10,000	10,000
2010	2014	€3.13	83,000	83,000
2011	2014	€3.85	27,000	–
Total			120,000	93,000

IAS 24.16(e)

No share options have been granted to the non-executive members of the Board of Directors under this scheme. Refer to Note 29 for further details on the scheme.

Commentary

Certain jurisdictions may require additional and more extensive disclosures e.g., on remuneration and benefits of key management personnel and members of the Board of Directors.

Notes to the financial statements

31. Financial risk management objectives and policies

The Group's principal financial liabilities, other than derivatives, are loans and borrowings. The main purpose of the Group's loans and borrowings is to finance the acquisition and development of the Group's property portfolio. The Group has trade and other receivables, trade and other payables and cash and short-term deposits that arise directly from its operations. IFRS 7.33

The Group is exposed to market risk, credit risk and liquidity risk.

The Group's senior management oversees the management of these risks. As such, the Group's senior management is supported by a financial risk committee that advises on financial risks and the appropriate financial risk governance framework for the Group. The financial risk committee provides assurance to the Group's senior management that the Group's financial risk-taking activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with group policies for risk. All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills, experience and supervision.

The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

Market risk

IFRS 7.33

Market risk is the risk that the fair values of financial instruments will fluctuate because of changes in market prices. The financial instruments held by the Group that are affected by market risk are principally the derivative financial instruments.

Sensitivity analyses

The following sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed-to-floating interest rates of the debt and derivatives are all constant and using the hedge designations in place at the reporting date:

- ▶ The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate financial liabilities held at the reporting date, including the effect of hedging instruments.
- ▶ The sensitivity of equity is calculated by revaluing swaps designated as cash flow hedges, for the effects of the assumed changes in interest rates.

Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

To manage its interest rate risk, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt obligations. At 31 December 2011, after taking into account the effect of interest rate swaps, 100% of the Group's borrowings are hedged (2010: 100%).

The analysis below describes reasonably possible movements in interest rates with all other variables held constant, showing the impact on profit before tax and equity. It should be noted that the impact of movement in the variable is not necessarily linear.

	Increase/(decrease) in basis points	Effect on equity	Effect on profit before tax
	€000	€000	€000
2011			
Euribor	+15	(786)	-
Euribor	-15	875	-
2010			
Euribor	+10	(510)	-
Euribor	-10	602	-

IFRS 7.40 (a)

There is no impact on profit before tax because the floating rate financial liabilities are 100% hedged with floating to fixed interest rate swaps.

The effect on equity is the aggregate effect of the impact of the fair value of the hedging derivatives.

Notes to the financial statements

31. Financial risk management objectives and policies *continued*

Real estate risk

The Group has identified the following risks associated with the real estate portfolio:

- ▶ The cost of the development schemes may increase if there are delays in the planning process. The Group uses advisers who are experts in the specific planning requirements in the scheme's location in order to reduce the risks that may arise in the planning process.
- ▶ A major tenant may become insolvent causing a significant loss of rental income and a reduction in the value of the associated property (see also credit risk below). To reduce this risk, the Group reviews the financial status of all prospective tenants and decides on the appropriate level of security required via rental deposits or guarantees.
- ▶ The exposure of the fair values of the portfolio to market and occupier fundamentals.

Commentary

Although investment properties are not financial instruments, some entities have included real estate valuation in their financial risk disclosures. Therefore, we include an example of how such a voluntary disclosure may be provided.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its leasing activities and its financing activities, including deposits with banks and financial institutions and derivatives.

IFRS 7.33

IFRS 7.33

IFRS 7.36

Credit risk is managed by requiring tenants to pay rentals in advance. The credit quality of the tenant is assessed based on an extensive credit rating scorecard at the time of entering into a lease agreement. Outstanding tenants' receivables are regularly monitored. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial asset.

Tenant receivables

Tenants are assessed according to Group criteria prior to entering into lease arrangements.

Credit risks related to receivables resulting from the sale of inventory

Customer credit risk is managed by requiring customers to pay advances before transfer of ownership, therefore, substantially eliminating the Group's credit risk in this respect.

Credit risk related to financial instruments and cash deposit

Credit risk from balances with banks and financial institutions is managed by Group Treasury in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the Group's Board of Directors on an annual basis, and may be updated throughout the year subject to approval of the Group's Finance Committee. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty failure.

Notes to the financial statements

31. Financial risk management objectives and policies *continued*

Liquidity risk

IFRS 7.33

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank deposits and loans.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

IFRS 7.39(b)

Year ended 31 December 2011	On	Less	3 to 12	1 to 5	> 5 years	Total
	demand	than 3	months	months		
	€000	€000	€000	€000	€000	€000
Interest-bearing loans and borrowings	-	3,250	9,751	52,008	408,790	473,799
Deposits from tenants	-	-	-	4,036	-	4,036
Finance leases	-	40	124	1,811	-	1,975
Financial derivatives	23	269	22	141	-	455
Trade and other payables	771	5,598	167	-	-	6,536
	794	9,157	10,064	57,996	408,790	486,801

IFRS 7.39(a)

Year ended 31 December 2010	On	Less	3 to 12	1 to 5	> 5 years	Total
	demand	than 3	months	months		
	€000	€000	€000	€000	€000	€000
Interest-bearing loans and borrowings	-	2,183	6,550	34,931	280,003	323,667
Deposits from tenants	-	-	-	2,392	-	2,392
Finance leases	-	51	164	1,780	-	1,995
Financial derivatives	697	7,781	348	3,978	-	12,804
Trade and other payables	1,265	7,998	756	-	-	10,019
	1,962	18,013	7,818	43,081	280,003	350,877

IFRS 7.39(a)

The disclosed amounts for financial derivatives in the above table are the net undiscounted cash flows.

Fair values

Set out below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments that are carried in the financial statements.

IFRS 7.25,
IFRS 7.26

	Carrying amount		Fair value	
	2011	2010	2011	2010
	€000	€000	€000	€000
Financial assets				
Trade and other receivables	14,560	22,860	14,560	22,860
Cash and short-term deposits	78,038	34,618	78,038	34,618
Financial liabilities				
Interest-bearing loans and borrowings	379,624	255,831	377,876	258,761
Deposits from tenants	3,634	2,285	3,634	2,285
Finance leases	1,713	1,755	1,713	1,755
Derivatives	425	12,804	425	12,804
Trade and other payables	6,536	10,019	6,536	10,019

Notes to the financial statements

31. Financial risk management objectives and policies *continued*

The fair values of the financial assets and liabilities are included as an estimate of the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

IFRS 7.27

- ▶ Cash and short-term deposits, trade receivables, trade payables, and other current liabilities approximate their carrying amounts due to the short-term maturities of these instruments
- ▶ The fair value of floating rate borrowings is estimated by discounting future cash flows using rates currently available for debt or similar terms and remaining maturities. The fair value approximates their carrying values gross of unamortised transaction costs
- ▶ The fair values of the derivative interest rate swap contracts are estimated by discounting expected future cash flows using current market interest rates and yield curve over the remaining term of the instrument
- ▶ The fair value of tenant deposits is estimated by discounting the nominal amount received to the expected date of repayment based on prevailing market interest rates

Fair value hierarchy

The following table shows an analysis of the fair values of financial instruments recognised in the balance sheet by level of the fair value hierarchy*:

IAS 39.AG71
IAS 39.AG74
IFRS 7.27A

31 December 2011	Level 1	Level 2	Level 3	Total fair value
	€000	€000	€000	€000
Derivatives	–	425	–	425

IFRS 7.27A
IFRS 7.27B(a)

31 December 2010	Level 1	Level 2	Level 3	Total fair value
	€000	€000	€000	€000
Derivatives	–	12,804	–	12,804

IFRS 7.27A
IFRS 7.27B(a)

* Explanation of the fair value hierarchy:

- ▶ Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date
- ▶ Level 2 – use of a model with inputs (other than quoted prices included in level 1) that are directly or indirectly observable market data
- ▶ Level 3 – use of a model with inputs that are not based on observable market data

Commentary

IFRS 7 requires an entity to provide a quantitative analysis of fair values based on a three-level hierarchy in tabular format. This information must be given by 'class' of financial instrument, which is a level lower than categories such as 'held for trading' or 'available for sale'. The level within which the fair value measurement is categorised must be based on the lowest level of input to the instrument's valuation that is significant to the fair value measurement in its entirety. For instance, if the credit valuation adjustment made to a derivative value is based on non-observable inputs and the effect of this is significant to the instrument's value, then the whole instrument is to be shown in level 3.

32. Hedging activities and derivatives

IFRS 7.23(b)

Cash flow hedges

The Group has entered into interest rate swap contracts with notional amounts of €380m (2010: €256m) whereby it pays a fixed rate of interest of between 5.25% and 5.75% and receives a variable rate based on EURIBOR on the notional amount. The swap is used to hedge the exposure to the variable interest rate payments on the variable rate secured loans (Note 26).

The loans and interest rate swaps have the same critical terms and are fully effective.

The aggregate fair value of the interest rate swaps at the end of the reporting period was a liability of €425,000 (2010: €12,804,000).

Notes to the financial statements

33. Capital management

The primary objective of the Group's capital management is to ensure that it remains within its quantitative banking covenants and maintain a strong credit rating. No changes were made in the objectives, policies or processes during the years ending 31 December 2011 and 31 December 2010. IAS 1.134

The Group monitors capital primarily using a loan to value ratio, which is calculated as the amount of outstanding debt divided by the valuation of the investment property portfolio. The Group's policy is to keep the average loan to value ratio of the Group lower than 80%. IAS 1.135

Banking covenants vary according to each loan agreement, but typically require that the loan to value ratio does not exceed 80% to 85%.

During the period, the Group did not breach any of its loan covenants, nor did it default on any other of its obligations under its loan agreements. IFRS 7.18

	2011	2010	
	€000	€000	IAS 1.135(b)
Carrying amount of interest-bearing loans and borrowings	379,624	255,831	
Unamortised borrowing costs	2,376	949	
Principal amount of interest-bearing loans and borrowings	382,000	256,780	
External valuation of completed investment property	452,991	388,620	
External valuation of investment property under construction	30,146	30,896	
Total external valuation of investment property	483,137	419,516	
Loan to value ratio	79%	61%	

Commentary

IAS 1 requires entities to make qualitative and quantitative disclosures regarding their objectives, policies and processes for managing capital.

The IASB believes that the level of an entity's capital and how it manages it are important factors for users to consider in assessing the risk profile of an entity and its ability to withstand unexpected adverse events. Furthermore, the level of capital might also affect the entity's ability to pay dividends. For these reasons, IAS 1 requires disclosure of information that enables users of financial statements to evaluate an entity's objectives, policies and processes for managing capital.

The original proposals were likely focused on financial institutions with regulated capital and, consequently, often have little meaning for other companies. However, the IASB did not feel able to restrict them to an industry sector and, therefore, imposed them universally.

Good Real Estate Group (International) Limited has disclosed a loan to property value ratio as the measure the Group uses to monitor capital. Nevertheless, other measures may be more suitable for other entities.

34. Subsequent events

As at 31 December 2011, the Group held two retail investment properties that were under offer from a third party. The assessed fair value of these properties as at 31 December 2011 was €10.56m. These properties were disposed of in January 2012 for €10.36m, after taking into account attributable expenses, realising a loss on book value of €0.2m. IAS 10.21

Notes to the financial statements

35. Contingencies and commitments

As at 31 December 2011, the Group had agreed construction contracts with third parties and is consequently committed to future capital expenditure in respect of investment property under construction of €8.6m (2010: €15.2m). There are no contractual commitments in respect of completed investment property. *IAS 40.75(h)*

A previous tenant of the Group has commenced an action against the Group in respect of alterations to the leased property made during its tenancy. It has been estimated that the liability, should the action be successful, is €1.2m. A trial date has not yet been set. Therefore, it is not practicable to state the timing of any payment. The Group has been advised by legal counsel that it is possible, but not probable, the action will succeed and accordingly no provision for any liability has been made in these financial statements. *IAS 37.86*

The Group has pledged a part of its short-term deposits as a requirement for the €147,500,000 bank loan. At 31 December 2011 and 2010, the fair values of the short-term deposit pledged were €5 million and €2 million, respectively.

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