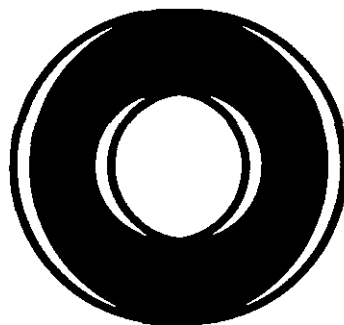


Company Registration Number : 3704031

MACQUARIE EUROPE LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
31 MARCH 2006**



MACQUARIE



MACQUARIE EUROPE LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

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MACQUARIE EUROPE LIMITED

GENERAL INFORMATION**Directors**

C Nelson	
B Preston	
J Craig	
S Grenfell	
A Hunter	(appointed 04/08/2005)
G Austen	(appointed 04/08/2005)
R Tallentire	(appointed 26/10/2005)

Secretary

R Tallentire	
D Tan	(appointed 26/10/2005)

Registered Office

Level 30
CityPoint
1 Ropemaker Street
London EC2Y 9HD

Auditors

PricewaterhouseCoopers LLP
Southwark Towers
32 London Bridge St
London
SE1 9SY

Company number: 3704031

MACQUARIE EUROPE LIMITED

DIRECTORS' REPORT

The directors present their report and financial statements for Macquarie Europe Limited ("the Company") for the year ended 31 March 2006.

PRINCIPAL ACTIVITIES

The Company is regulated by the Financial Services Authority and is a member of Euwax. The Company undertakes various business activities including the following:

Institutional Stockbroking: The Company operates an institutional stockbroking business, soliciting clients and introducing them to Macquarie Securities (Australia) Limited, formerly Macquarie Equities (Australia) Limited, an Australian subsidiary of Macquarie Bank Limited, being the institutional stockbroking entity of the Macquarie Bank Limited group. In August 2004, the Company acquired the Asian sales team from ING which commenced the institutional stockbroking business of soliciting and introducing clients to Macquarie Securities Limited, a Hong Kong subsidiary of Macquarie Bank Limited. These operations commenced in London, Paris and Frankfurt.

Treasury & Commodities: The Company acts as agent for the ultimate parent undertaking, by receiving metals and mining, agricultural commodities and energy market client introductions from a United States company within the Macquarie Bank Limited group and introducing these clients to the ultimate parent undertaking, Macquarie Bank Limited. The agricultural commodity and energy divisions of the Company also undertook marketing activities for the ultimate parent undertaking. The Company is registered with the National Futures Association and commenced marketing to US investors.

Equities Research: The Company provides equity research services to various divisions within the Macquarie Bank Limited group.

Equity Markets: The Company operates as a developer and distributor of structured products throughout Western Europe, in particular Germany and Austria. Products are generally targeted to high net worth individuals through distribution agreements the Company has with private banking networks in these countries.

Corporate Advisory: The Company undertakes advisory activities in the United Kingdom and Europe.

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

During the year the Company opened a Representative Office in Geneva. The institutional stockbroking business previously carried on by Macquarie Bank Limited in Geneva was transferred to this new Representative Office.

During the year, the Company commenced a Corporate Advisory business in Paris and closed its institutional stockbroking business in Munich.

In March 2006, the Company opened a Representative Office in New York to provide Introducing Broker futures services for US resident clients for US products. The New York Representative Office commenced operation post balance sheet date.

The Company does not envisage any other changes in activities for the foreseeable future.

RESULTS AND DIVIDENDS

The Company's profit after tax for the year amounts to £6,367,728 (Restated 2005: £2,031,787). A dividend of £2,500,000 was paid during the year (2005: Nil).

MACQUARIE EUROPE LIMITED

DIRECTORS' REPORT (CONTINUED)**FINANCIAL RISK MANAGEMENT**

The Company is exposed to a variety of financial risks that include the effects of changes in derivative market prices, credit risk, liquidity risk and interest rate risk. The Company has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Company. The Company does not use derivative financial instruments to manage interest rate costs and as such, no hedge accounting is applied.

Price risk

The Company is exposed to derivative market price risk as a result of its operations. The directors have adopted the risk model used by the Macquarie Bank Limited group, as approved by the Risk Management Division. This model is incorporated into the Macquarie Bank Limited group's risk management systems to enable the Company to manage this risk effectively.

Credit risk

Credit exposures, approvals and limits are controlled within Macquarie Bank Limited Groups' credit risk framework, as established by the Risk Management Division.

Liquidity risk

The Company actively maintains a mixture of long-term and short-term debt finance that is designed to ensure the Company has sufficient available funds for operations and planned expansion.

Interest rate risk

The Company has both interest bearing assets and interest bearing liabilities. Interest bearing assets include cash balances and receivables from other Macquarie Bank Limited group undertakings, all of which earn a variable rate of interest. Interest bearing liabilities include payables to Macquarie Bank Limited and its subsidiaries, which also incur a variable rate of interest. The directors will revisit the appropriateness of the Company's interest rate policy should the Company's operations change in size or nature.

DIRECTORS AND THEIR INTERESTS

The directors holding office during the year were as follows:

C Nelson	
B Preston	
J Craig	
S Grenfell	
A Hunter	(appointed 04/08/2005)
G Austen	(appointed 04/08/2005)
R Tallentire	(appointed 26/10/2005)

None of the directors had an interest in any material contract with the Company during the year. None of the directors held interests in shares of the Company during the year.

MACQUARIE EUROPE LIMITED

DIRECTORS' REPORT (CONTINUED)**CREDITORS PAYMENT POLICY**

It is the Company's policy to agree the terms of payment to creditors at the start of business with that supplier, ensure that suppliers are aware of the terms of payment and to pay in accordance with its contractual and other legal obligations.

ANNUAL GENERAL MEETING

The Company has dispensed with the obligation to hold an Annual General Meeting, as permitted under Section 366A of the Companies Act 1985.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

The directors confirm that they have complied with the above requirements in preparing the financial statements. The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS

Pursuant to Section 386 of the Companies Act 1985, an elective resolution was passed resolving that the Company dispense with the requirement to appoint auditors annually.

By order of the board



C Nelson
Director
28 June 2006

MACQUARIE EUROPE LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MACQUARIE EUROPE LIMITED

We have audited the financial statements of Macquarie Europe Limited for the year ended 31 March 2006 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We report to you whether, in our opinion, the information in the Directors' Report is consistent with the financial statements. We also report to you if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

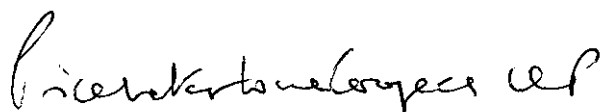
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2006 and of its profit for the year then ended;
- have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the Company's financial statements.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
29 June 2006

MACQUARIE EUROPE LIMITED**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2006**

	Notes	2006 £	Restated 2005 £
Turnover		33,271,034	19,746,186
Administrative expenses		<u>(23,636,125)</u>	<u>(17,296,686)</u>
		9,634,909	2,449,500
Other operating income/(charges)		<u>104,541</u>	<u>(48,597)</u>
OPERATING PROFIT		9,739,450	2,400,903
Other interest receivable and similar income	3	750,706	661,034
Interest payable and similar charges	4	<u>(394,385)</u>	<u>(617,542)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	5	10,095,771	2,444,395
Tax on profit on ordinary activities	7	<u>(3,728,043)</u>	<u>(412,608)</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		6,367,728	2,031,787
Dividend paid		<u>(2,500,000)</u>	-
RETAINED PROFIT FOR THE FINANCIAL YEAR		3,867,728	2,031,787
RETAINED PROFIT BROUGHT FORWARD		<u>2,682,488</u>	<u>650,701</u>
RETAINED PROFIT CARRIED FORWARD		<u><u>6,550,216</u></u>	<u><u>2,682,488</u></u>

Turnover and profit on ordinary activities before taxation relate wholly to continuing operations.

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historical cost equivalents.

The notes on pages 9 to 20 form part of these financial statements.

MACQUARIE EUROPE LIMITED

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 MARCH 2006**

	2006	Restated 2005
	£	£
Profit for the financial year – excluding FRS 20 adjustment	6,322,537	2,007,381
FRS 20 adjustment	45,191	24,406
Profit for the financial year	6,367,728	2,031,787
Exchange adjustments (note 19)	9,015	-
Total recognised gains for the financial year	6,376,743	2,031,787

The notes on pages 9 to 20 form part of these financial statements.

MACQUARIE EUROPE LIMITED**BALANCE SHEET AS AT 31 MARCH 2006**

	Notes	2006 £	Restated 2005 £
FIXED ASSETS			
Tangible assets	10	549,668	297,221
Intangible assets	11	-	217,284
		<u>549,668</u>	<u>514,505</u>
CURRENT ASSETS			
Debtors	12	17,692,084	9,422,564
Deferred tax asset	8	87,760	635,931
Cash at bank and in hand	13	20,871,097	15,373,071
		<u>38,650,941</u>	<u>25,431,566</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	14	(9,970,174)	(6,069,927)
NET CURRENT ASSETS		<u>28,680,767</u>	<u>19,361,639</u>
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	15	(6,500,000)	(4,000,000)
PROVISION FOR LIABILITIES AND CHARGES	16	(8,992,924)	(6,060,567)
TOTAL NET ASSETS		<u>13,737,511</u>	<u>9,815,577</u>
CAPITAL AND RESERVES			
Called up share capital	17	2,101,000	2,101,000
Share premium reserve	17	4,999,000	4,999,000
Option reserve	18	78,280	33,089
Foreign currency revaluation reserve	19	9,015	-
Profit and loss account		<u>6,550,216</u>	<u>2,682,488</u>
SHAREHOLDERS' FUNDS	20	<u>13,737,511</u>	<u>9,815,577</u>

The notes on pages 9 to 20 form part of these financial statements.

The financial statements on pages 6 to 20 were approved by the board of directors on 28 June 2006 and were signed on its behalf by:

C Nelson
Director



MACQUARIE EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

1. ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention in accordance with Schedule 4 to the Companies Act 1985, as modified by the revaluation of financial derivative instruments to market value as disclosed below, and with applicable accounting standards.

During the financial year the Company adopted the requirements of FRS 20, which are explained in (1) below.

The particular policies adopted are described below as follows:

a) TURNOVER

Turnover includes:

- (i) Realised and unrealised profits and losses arising on securities held for resale less, where appropriate, direct charges are brought to account by reference to securities traded during the period (realised profits and losses) and the market prices of securities held at period end (unrealised profits and losses);
- (ii) Research income is derived by charging divisions within the Macquarie Bank Limited group in accordance with inter-divisional recovery policies in place;
- (iii) *Amounts relating to the facilitation of staff secondments to overseas companies within the Macquarie Bank Limited group* are brought to account in accordance with agreements in place;
- (iv) Brokerage commission income from trades introduced to Macquarie Securities (Australia) Limited and Macquarie Securities Limited is calculated at cost plus a markup and is brought to account in accordance with service agreements in place;
- (v) Fee income for work done on transactions for entities within the Macquarie Bank Limited group of companies is calculated at cost plus a markup and brought to account on an accruals basis;
- (vi) Fees for the Treasury & Commodities division client introductory activities are calculated on the basis of cost plus a markup and are brought to account in accordance with service agreements in place;
- (vii) Underwriting fee income earned is subject to a fee sharing arrangement with Macquarie Bank Limited; and
- (viii) Advisory fees which are brought to account on an accruals basis.

b) OTHER OPERATING INCOME/(CHARGES)

Gains and losses arising from foreign currency exposure, other than foreign branch translation which are explained in (d) below, are accounted for as other operating income or charges respectively.

c) INTEREST

Interest receivable and similar income and interest payable and similar charges are brought to account on an accruals basis.

MACQUARIE EUROPE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006
(CONTINUED)****1. ACCOUNTING POLICIES (CONTINUED)****d) FOREIGN CURRENCIES**

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of transaction. Profits and losses of branches which have currencies of operation other than sterling are translated into sterling at average rates of exchange. Monetary assets and liabilities denominated in foreign currencies which are not covered by forward exchange contracts are translated to sterling using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Exchange differences arising from the translation of the Company's foreign branches, which have currencies of operation other than sterling, are taken to reserves together with the differences arising when the profit and loss accounts are translated at average rates and compared with rates ruling at the year end. Other exchange differences are taken to the profit and loss account.

e) TAXATION AND DEFERRED TAXATION

The charge for taxation is based on the result for the year and takes into account taxation deferred due to timing differences between the treatment of certain items for taxation and accounting purposes. Deferred taxation is provided fully in respect of all timing differences between the accounting and tax treatment of income and expenses at the reporting date, the anticipated reversal of which will result in a change in future liability to tax. The provision is calculated using the rates expected to be applicable when the asset or liability crystallises based on current tax rates and law and is measured on a non-discounted basis. A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

f) GOODWILL AND AMORTISATION

Purchased goodwill represents the amount by which the cost of a business or entity exceeds the aggregate fair values of its identifiable assets and liabilities at the date of acquisition. Goodwill is stated at cost less accumulated amortisation. Amortisation is provided in equal monthly instalments on a straight line basis over the estimated useful life of the goodwill, being 20 years.

The directors review the estimated useful life of the intangible benefits of goodwill on an on-going basis to ensure that the remaining useful life is appropriate. Where the directors are of the opinion that there has been a permanent diminution in the remaining useful life of the goodwill, the amortisation period is reduced accordingly.

g) FINANCIAL DERIVATIVES

Financial derivatives include over-the-counter options in the equities markets. The Company uses these derivative instruments for the Equity Markets business. They are carried at market value, which approximates their net fair value, with resultant gains and losses recognised in the Profit and Loss Account and included within "Other financial market assets" and "Other financial market liabilities" in the Balance Sheet.

MACQUARIE EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006 (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

h) TANGIBLE FIXED ASSETS AND DEPRECIATION

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is provided in equal monthly instalments on a straight line basis over the estimated useful lives of the assets. The rates of depreciation are as follows:

Furniture and fittings	20% - 25% per annum
Office equipment	20% - 33% per annum
Computers	33% - 50% per annum

i) IMPAIRMENT

Tangible fixed assets are reviewed for impairment if there are events or changes in circumstances that indicate that the carrying values may not be recoverable.

j) CASH AT BANK AND IN HAND

Cash at bank and in hand comprises cash on hand, deposits held at call with banks and other short-term highly liquid investments.

k) PROVISION FOR LIABILITIES AND CHARGES

A provision is recognised where the Company has a present legal or constructive obligation to make a payment as a result of a past event where it is more probable than not that a transfer of economic benefit will be required to settle the obligation and the amount can be reliably estimated.

l) EMPLOYEE INCENTIVE SCHEMES

Employee incentive schemes include bonuses which may be retained by the Company and paid to the employee over three years. Where such retention occurs the retained portion is recorded under *Other Assets* and amortised over the retention period.

During the year the Company adopted FRS 20 Share-based payment. Where the Company grants options to employees an option reserve and employee expense are recognised for the fair value of the options allocated to the period. Comparative information has been restated with the effect of reducing profit after tax by £24,406, reducing retained earnings by £8,683 and generating an equity reserve of £33,089.

MACQUARIE EUROPE LIMITED**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006
(CONTINUED)****2. SEGMENTAL REPORTING****Geographical Segments**

	Turnover		Profit/(loss) on ordinary activities before taxation		Net assets/(liabilities)	
	2006	2005	2006	Restated 2005	2006	2005
	£	£	£	£	£	£
United Kingdom	19,921,740	15,959,484	2,340,248	2,217,616	9,323,239	9,468,153
Germany	3,068,270	3,114,876	262,927	175,145	(88,633)	334,149
France	9,479,684	671,826	7,455,526	51,634	4,473,787	13,275
Switzerland	801,340	-	37,070	-	29,118	-
	<u>33,271,034</u>	<u>19,746,186</u>	<u>10,095,771</u>	<u>2,444,395</u>	<u>13,737,511</u>	<u>9,815,577</u>

Business Segments

	Turnover		Profit/(loss) on ordinary activities before taxation		Net assets/(liabilities)	
	2006	2005	2006	Restated 2005	2006	2005
	£	£	£	£	£	£
Institutional						
Stockbroking	16,815,388	15,379,651	1,897,551	2,330,801	9,080,250	4,265,407
Corporate						
Advisory	8,844,819	-	7,535,501	-	7,534,635	-
Equities Research	3,230,466	1,979,024	246,903	113,335	1,280,557	112,167
Equity Markets	3,482,952	2,181,049	608,848	495,158	9,671,486	8,068,752
Treasury &						
Commodities	897,409	-	212,805	(91,720)	233,429	20,650
Other *	-	206,462	(405,837)	(403,179)	(14,062,846)	(2,651,399)
	<u>33,271,034</u>	<u>19,746,186</u>	<u>10,095,771</u>	<u>2,444,395</u>	<u>13,737,511</u>	<u>9,815,577</u>

* Other net assets/(liabilities) includes profit share provision for employees and seconded employees from various business segments.

MACQUARIE EUROPE LIMITED**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006
(CONTINUED)****3. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME**

	2006	2005
	£	£
Interest receivable from ultimate parent undertaking	545,210	600,912
Interest receivable from other Macquarie Bank Limited group undertakings	196,718	56,911
Interest receivable from unrelated parties	8,778	3,211
	<u>750,706</u>	<u>661,034</u>

4. INTEREST PAYABLE AND SIMILAR CHARGES

	2006	2005
	£	£
Interest payable to ultimate parent undertaking	389,343	615,547
Interest payable to other Macquarie Bank Limited group undertakings	3,693	1,995
Interest payable to unrelated parties	1,349	-
	<u>394,385</u>	<u>617,542</u>

5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is stated after charging/(crediting):-

	2006	2005
	£	£
Foreign exchange (gains)/losses	(104,541)	48,597
Staff costs	1,970,606	1,321,134
Staff resourcing charge from ultimate parent undertaking	14,353,572	11,067,681
Depreciation expense	134,573	90,888
Auditors' remuneration:		
Audit services	51,576	21,283
Non-audit services	5,920	15,235

6. EMPLOYEE INFORMATION

The average number of persons employed by the Company during the year calculated on a quarterly basis was:

By activity	2006	2005
Production and sales	9	4
Administration	3	2
	<u>12</u>	<u>6</u>

MACQUARIE EUROPE LIMITED**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006
(CONTINUED)****7. TAX ON PROFIT ON ORDINARY ACTIVITIES****Analysis of tax charge for the year**

	2006	2005
	£	£
Current tax:		
UK corporation tax at 30% (2005: 30%)	2,848,343	1,096,701
Overseas tax suffered	2,660,571	(875)
Foreign tax relief	(2,320,357)	-
Adjustments to tax in respect of prior years	(8,685)	(47,287)
Total current tax	<u>3,179,872</u>	<u>1,048,539</u>
Deferred tax:		
Origination and reversal of timing differences	381,986	(296,439)
Adjustments to tax in respect of prior years	166,185	(339,492)
Total deferred tax	<u>548,171</u>	<u>(635,931)</u>
Tax on profit on ordinary activities	<u><u>3,728,043</u></u>	<u><u>412,608</u></u>

Factors affecting tax charge for the year

The taxation charge for the year ended 31 March 2006 is £3,728,043 (2005: £412,608). The taxation charge for the year is higher than the standard rate of corporation tax in the United Kingdom of 30%. The differences are explained below:

	2006	Restated 2005
	£	£
Profit on ordinary activities before taxation	10,095,771	2,444,395
Profit on ordinary activities before taxation multiplied by standard rate of corporation tax in the United Kingdom of 30% (2005: 30%)	3,028,731	733,319
Effects of:		
Expenses not deductible for tax purposes	201,598	66,943
Accelerated capital allowance and other timing differences	(381,986)	296,439
Additional tax expense from overseas operations	340,214	(875)
Adjustments to tax in respect of prior years	(8,685)	(47,287)
	<u><u>3,179,872</u></u>	<u><u>1,048,539</u></u>

MACQUARIE EUROPE LIMITED**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006
(CONTINUED)****8. DEFERRED TAX ASSET**

	2006	2005
	£	£
At 1 April 2005 as previously stated	635,931	-
Timing differences:		
Amount (charged)/credited to profit and loss (note 7)	(548,171)	635,931
Deferred tax asset recognised at 31 March 2006	<u>87,760</u>	<u>635,931</u>
Comprising:		
Accelerated capital allowance	(14,286)	(7,880)
Other timing differences	102,046	643,811
Deferred tax asset recognised at 31 March 2006	<u>87,760</u>	<u>635,931</u>

9. DIRECTORS' REMUNERATION

During 2005 and 2006 the directors were employed by, and received all emoluments from, the Company's ultimate parent undertaking, namely Macquarie Bank Limited. Accordingly, no separate remuneration has been disclosed.

10. TANGIBLE FIXED ASSETS

	Office furniture, fixtures, fittings and computers £
COST	
At 1 April 2005	460,420
Additions	406,081
Disposals	(19,538)
At 31 March 2006	<u>846,963</u>
ACCUMULATED DEPRECIATION	
At 1 April 2005	163,199
Charge for the year	134,573
Disposals	(477)
At 31 March 2006	<u>297,295</u>
NET BOOK AMOUNT	
31 March 2006	<u>549,668</u>
31 March 2005	<u>297,221</u>

MACQUARIE EUROPE LIMITED**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006
(CONTINUED)****11. INTANGIBLE FIXED ASSETS**

	2006	2005
	£	£
Goodwill	241,341	241,341
Accumulated amortisation	<u>(241,341)</u>	<u>(24,057)</u>
	<u>-</u>	<u>217,284</u>

The goodwill disclosed above relates to the Company's acquisition on 31 March 2003 of the institutional stockbroking business previously operating in the Munich branch of Macquarie Equities Limited, a subsidiary undertaking of Macquarie Bank Limited. The Company commenced activity in the Munich branch from 1 April 2003.

During the year, the remaining goodwill was written off to coincide with the closure of the institutional stockbroking business in Munich.

12. DEBTORS

	2006	2005
	£	£
Amounts owed by other Macquarie Bank Limited group undertakings	13,990,066	8,009,078
Employee retentions	2,556,403	1,276,750
Taxation receivables	838,360	-
VAT recoverable	191,291	85,553
Other debtors	<u>115,964</u>	<u>51,183</u>
	<u>17,692,084</u>	<u>9,422,564</u>

Included in Employee retentions is an amount of £1,714,201 (2005: £747,571) due to be amortised after one year.

Amounts owed by other Macquarie Bank Limited group undertakings are unsecured and have no fixed date of repayment. The Company derives interest on amounts owed by other Macquarie Bank Limited group undertakings at market rates and at 31 March 2006 the rate applied was LIBOR plus 0.62% (2005: LIBOR plus 0.25%).

13. CASH AT BANK AND IN HAND

	2006	2005
	£	£
Cash held with ultimate parent undertaking	20,552,625	15,138,634
Cash held with other banks	316,179	234,298
Cash on hand	<u>2,293</u>	<u>139</u>
	<u>20,871,097</u>	<u>15,373,071</u>

MACQUARIE EUROPE LIMITED**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006
(CONTINUED)****14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	2006	2005
	£	£
Amounts owed to ultimate parent undertaking	7,210,838	4,893,253
Amounts owed to other Macquarie Bank Limited group undertakings	154,225	79,505
Taxation	2,255,844	769,251
Other creditors	349,267	327,918
	<u>9,970,174</u>	<u>6,069,927</u>

Amounts owed to the ultimate parent undertaking for intercompany loans are unsecured and have no fixed date of repayment. The Company incurs interest on intercompany loans from the ultimate parent undertaking at market rates and at 31 March 2006 the rate applied was LIBOR plus 0.92% (2005: 4.80%). Other amounts owed to other Macquarie Bank Limited group undertakings are also unsecured and have no fixed date of repayment. Interest is incurred at market rates and at 31 March 2006 the rate applied was LIBOR plus 0.92% (2005: LIBOR plus 0.25%).

15. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2006	2005
	£	£
Subordinated loans	6,500,000	4,000,000
	<u>6,500,000</u>	<u>4,000,000</u>

On 23 May 2002, 19 July 2004 and 24 March 2006 subordinated loans of £500,000, £5,000,000 and £1,000,000 respectively were granted to the Company by the ultimate parent undertaking. Interest is calculated on a daily basis at market rates charged by financial institutions for an equivalent facility. At 31 March 2006, the rate applied was between 6.60% and 6.65% (2005: 4.88%). The first loan has been fully drawdown and is repayable two years from the date of either the borrower or the lender giving notice in writing to the other party and to the Financial Services Authority. The second loan and third loan have also been fully drawdown and are repayable five years from the date of either the borrower or the lender giving notice in writing to the other party and to the Financial Services Authority.

At reporting date, no notices have been given by the borrower or the lender regarding the payment of these subordinated loans.

MACQUARIE EUROPE LIMITED**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006
(CONTINUED)****16. PROVISION FOR LIABILITIES AND CHARGES**

	2006	2005
	£	£
1 April 2005	6,060,567	-
Paid during the year	(7,839,216)	-
Charged to profit and loss	8,981,005	4,783,817
Charged to profit and loss – foreign exchange movement	(17,341)	-
Deferred as employee retentions	1,807,909	1,276,750
31 March 2006	<u>8,992,924</u>	<u>6,060,567</u>

A provision of £9,779,339 (2005: £6,060,567) has been made in relation to 2006 bonuses payable to staff both employed by the Company and seconded to the Company from other group undertakings.

Maturity profile of provision

	2006	2005
	£	£
Within 1 year	7,140,049	4,791,709
Between 1 and 2 years	22,483	274,662
Between 2 and 5 years	1,830,392	994,196
	<u>8,992,924</u>	<u>6,060,567</u>

17. SHARE CAPITAL

	2006	2005
	£	£
AUTHORISED		
2,101,000 ordinary shares of £1 each	<u>2,101,000</u>	<u>2,101,000</u>
ALLOTTED, CALLED UP AND FULLY PAID		
Ordinary shares of £1 each	2,101,000	2,101,000
Share premium reserve (1,000 ordinary shares of £4,999 each)	4,999,000	4,999,000
	<u>7,100,000</u>	<u>7,100,000</u>

18. OPTION RESERVE

	2006
	£
1 April 2005 as previously reported	-
Prior year adjustment – FRS 20	33,089
1 April 2005 restated	33,089
Movement on option valuation	45,191
31 March 2006	<u>78,280</u>

MACQUARIE EUROPE LIMITED**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006
(CONTINUED)****19. FOREIGN CURRENCY REVALUATION RESERVE**

	2006	2005
	£	£
Opening foreign currency revaluation reserve	-	-
Movements in reserve during the year	9,015	-
	<u>9,015</u>	<u>-</u>

Exchange differences arising from the translation the Company's foreign branches, which have currencies of operation other than sterling, are taken to reserves together with the differences arising when the profit and loss accounts are translated at average rates and compared with rates ruling at the year end.

20. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2006	Restated 2005
	£	£
Opening shareholders' funds	9,815,577	7,750,701
Movement in option reserve	45,191	-
Movement in foreign currency translation reserve	9,015	-
FRS 20 restatement (note 18)	-	33,089
Retained profit for the financial year	3,867,728	2,031,787
Closing shareholders' funds	<u>13,737,511</u>	<u>9,815,577</u>

21. ULTIMATE PARENT UNDERTAKING

The immediate parent undertaking of the Company is Macquarie European Holdings Pty Limited, a company incorporated in Australia.

The ultimate parent undertaking and controlling party of Macquarie Europe Limited, which is the parent undertaking of the smallest and the largest group to prepare consolidated financial statements, is Macquarie Bank Limited, a company incorporated in Australia. Copies of group financial statements for Macquarie Bank Limited can be obtained from the Company Secretary, Level 15, No. 1 Martin Place, Sydney, New South Wales, 2000, Australia.

22. RELATED PARTY TRANSACTIONS

As 100% of the voting rights of the Company are controlled within the group headed by Macquarie Bank Limited, incorporated in Australia, the Company has taken advantage of the exemption contained in Financial Reporting Standard 8 and has therefore not disclosed transactions or balances with entities which form part of the Macquarie Bank Limited group. The consolidated financial statements of Macquarie Bank Limited, within which the Company is included, can be obtained from the address given in Note 21.

MACQUARIE EUROPE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006
(CONTINUED)****23. CASH FLOW STATEMENT**

The Company was a wholly owned subsidiary within the Macquarie Bank Limited group throughout the year and is included in the consolidated financial statements of Macquarie Bank Limited, which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of the Financial Reporting Standard 1 (revised 1996).