Company No: 2231168

SOLITAIRE PROPERTY MANAGEMENT COMPANY LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

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CONTENTS

DIRECTORS AND OFFICERS

DIRECTORS

W Procter
M Gaston
I Rapley
P Rayden
J Russell

SECRETARY

Solitaire Secretaries Limited

REGISTERED OFFICE

Lynwood House
10 Victors Way
Barnet
Hertfordshire
EN5 5TZ

AUDITORS

Baker Tilly UK Audit LLP
Chartered Accountants
The Clock House
140 London Road
Guildford
Surrey
GU1 1UW

BANKERS

AIB Group (UK) Plc
10 Berkeley Square
London
W1J 6AA

Bank of Scotland
600 Gorgie Road
Edinburgh
EH11 3XP

DIRECTORS' REPORT

The directors submit their report and the financial statements for the year ended 31 December 2006

Principal activities and review of the business

The principal activity of the company is the management of blocks of flats and houses, from offices in Barnet, Leicester and Southampton Other core services include the management of all aspects of property related insurance, service charge accounting, company secretarial services and solicitors enquiries on the sale of flats, as well as the management of tenanted flats and houses The company is a member of the Association of Residential Management Agents The company has just over 25,000 units under its management and as such is in the top five of ARMA registered property managing agents The company specialises in managements of new residential blocks

Solitaire Property Management Company Limited's ultimate parent company, Solitaire Group Limited was purchased in May 2006 by Solitaire Real Estate Holdings Limited, a special purpose vehicle which is ultimately owned by the Tchenguiz Family Trust Following this purchase a full review of the companies operations and procedures has taken place This has resulted in significant investment in additional management resource and infrastructure and a full review of the companies liabilities This has resulted in the company, despite turnover growing to £4,110,331 from £3,485,629, delivering a loss of £2,314,943 for the year to 31 December 2006 Included within this is an exceptional one off charge of £2,221,671 which relates to costs arising on managed properties where, in the opinion of the directors, there is doubt about the recoverability of these amounts from tenants of the estate

Key performance indicators

Since the change in management the company has implemented a number of new Key Performance Indicators, the most important of which being the number of units under management as follows

	2006	2005
Units under management	**25,619**	23,199

Financial risks

The company reviews risk by categorising it into external and internal risks

The main external risk facing the company is the potential slowdown in the residential property market A slowdown in the residential property market is expected to result in residential developers slowing down their development program resulting in fewer new schemes completing and less new management instructions from developers The company mitigates this risk by constantly liaising with developers so that it is their preferred manager

Internal risks are primarily related to the continuing ability to recruit and retain staff The company addresses this by implementing management training, professional business development and a structured approach to recruitment and training

DIRECTORS' REPORT

Directors and their interests

The directors who served during the year were as follows

P Rayden	(Appointed 11 April 2007)
J Russell	(Appointed 11 April 2007)
W Procter	(Appointed 24 July 2006)
M Gaston	(Appointed 24 July 2006)
I Rapley	(Appointed 24 July 2006)
H B Shulman	(Resigned 24 July 2006)
G A Shapiro	(Resigned 24 July 2006)
C J Burton	(Resigned 24 July 2006)
A D B Taylor	(Resigned 24 July 2006)

Auditors

During the year the company changed its auditors from Macintyre Hudson LLP to Baker Tilly Chartered Accountants in accordance with Section 385 of the Companies Act 1985 The directors, having been notified of the cessation of the partnership known as Baker Tilly, resolved that Baker Tilly UK Audit LLP be appointed as successor auditor with effect from 1 April 2007, in accordance with the provisions of the Companies Act 1989, s26(5) Baker Tilly UK Audit LLP has indicated its willingness to continue in office

Statement as to disclosure of information to auditors

The directors who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditors are unaware Each of the directors have confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor

By order of the Board,

W Procter
Director
14 /03 / 2008

DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) The financial statements are required by law to 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 those financial statements, the directors are required to

a select suitable accounting policies and then apply them consistently,

b make judgements and estimates that are reasonable and prudent,

c state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and

d prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the requirements of 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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF SOLITAIRE PROPERTY MANAGEMENT COMPANY LIMITED

We have audited the financial statements on pages 6 to 16

This report is made solely to the company s member as a body in accordance with section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the company s members those matters we are required to state to them in an auditor s report and for no other purpose To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the company and the company s members as a body for our audit work for this report or for the opinions we have formed

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors Report is consistent with the financial statements

In addition we report to you if, in our opinion 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 OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 at 31 December 2006 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985 and
- the information given in the Directors Report is consistent with the financial statements

Baker Tilly UK Audit LLP

BAKER TILLY UK AUDIT LLP

Registered Auditor
Chartered Accountants
The Clock House
140 London Road
Guildford
Surrey GU1 1UW

14/03/ 2008

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	2006 £	2005 £
Turnover	1	**4,110,331**	3,485,629
Cost of sales		**(129,766)**	(165,512)
Gross profit		**3,980,565**	3,320,117
Administrative expenses		**(5,014,166)**	(3,561,517)
Exceptional item	5	**(2,221,671)**	-
Other operating income	2	**475,323**	418,128
Operating (loss)/profit		**(2,779,949)**	176,728
Interest receivable		**74,233**	18,686
Interest payable and similar charges	3	**(21,331)**	(12,997)
(Loss)/profit on ordinary activities before taxation	5	**(2,727,047)**	182,417
Tax on (loss)/profit on ordinary activities	6	**412,104**	13,240
(Loss)/profit for the financial year	14	**(2,314,943)**	195,657

The operating (loss)/profit for the year arises from the company's continuing operations

No separate statement of total recognised gains and losses has been presented, as all such gains and losses have been dealt within the profit and loss account

BALANCE SHEET

AT 31 DECEMBER 2006

	Note	2006 £	2005 £
Fixed assets			
Tangible fixed assets	7	**346,631**	469,098
		346,631	469,098
Current assets			
Debtors	8	**3,879,774**	2,433,103
Cash at bank		**1,422,620**	25,691
		5,302,394	2,458,794
Creditors: amounts falling due within one year	9	**(7,616,721)**	(1,748,565)
Net current (liabilities)/assets		**(2,314,327)**	710,229
Total assets less current liabilities		**(1,967,696)**	1,179,327
Creditors: amounts falling due after more than one year	10	-	1,050,000
Provisions for liabilities			
Deferred taxation	12	-	2,080
		(1,967,696)	127,247
Capital and reserves			
Called up share capital	13	**232,000**	12,000
Profit and loss account	14	**(2,199,696)**	115,247
Equity Shareholder's funds	15	**(1,967,696)**	127,247

The financial statements on pages 6 to 16 were approved by the board of directors and authorised for issue on 14/03/ 2008 and are signed on its behalf by

W Procter
Director

ACCOUNTING POLICIES

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

Basis of accounting

The financial statements have been prepared in accordance with applicable accounting standards

The financial statements have been prepared under the historical cost convention

The company is supported by Solitaire Real Estate Holdings Limited, a related party (see note 19) which has agreed to provide financial support as and when required to enable the company to meet its external obligations On this basis, the directors considered it appropriate to prepare the accounts on a going concern basis The financial statements do not include any adjustment that would result from a withdrawal of this financial support

The following accounting policies have been used consistently in dealing with items which are considered material in relation to the financial statements

Cash flow statement

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (revised 1996) from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its parent publishes a consolidated cash flow statement

Turnover

Turnover represents commission receivable recognised to the extent that the company has obtained a right to consideration through its performance Where payment is received in advance of performance, the company recognises a liability equal to the amount received, representing its obligations under the contract That liability is reduced and reported as revenue as the services are performed

Fixed assets

All fixed assets are initially recorded at cost

Depreciation

Depreciation is calculated so as to write off the cost of an asset, net of anticipated disposal proceeds, over the useful economic life of that asset as follows

Equipment - over 3 to 5 years

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date Timing differences are differences between the company's taxable profits and its results as stated in the financial statements

Deferred tax is measured at the tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date Deferred tax is measured on a non-discounted basis

Operatıng lease agreements

Rentals applıcable to operatıng leases where substantıally all of the benefits and rısks of ownershıp remaın wıth the lessor are charged agaınst profits on a straıght lıne basıs over the perıod of the lease

Pensıon costs

The company operates a defined contrıbutıon pensıon scheme for employees The assets of the scheme are held separately from those of the company ın an ındependently admınıstered fund The annual contrıbutıons payable are charged to the profit and loss account

Share based payments

Equıty settled share based payment schemes, whıch allow employees of the group to acquıre shares of Solıtaıre Group plc, are provıded to staff

In accordance wıth FRS20, the faır value of the optıons granted under the schemes ıs determıned at the date of grant usıng an appropriate optıon prıcıng model The value of the optıons granted are charged, over the vestıng perıod of the optıons to the company, and a correspondıng ıncrease ıs made to the equıty wıthın Solıtaıre Group Ltd

The company expenses the amount charged to ıt as part of ıts employment costs

Thıs polıcy applıes only to optıons granted after 7 November 2002 that remaın unexercısed by 1 January 2005

The adoptıon of FRS20 wıth effect from 1 January 2006 ıs a change of accountıng polıcy However, the effect of the change to the results of the company for the year ended 31 December 2005 ıs not materıal so no prıor year adjustment to restate the results has been effected

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

1 Turnover

The turnover and loss before tax are attributable to the one principal activity of the company

An analysis of turnover is given below

	2006	2005
	£	£
United Kingdom	**4,110,331**	3,485,629

2 Other operating income

	2006	2005
	£	£
Management fee	**475,323**	418,128

3 Interest payable and similar charges

	2006	2005
	£	£
Interest payable on		
Bank borrowing	**4,056**	12,997
Group undertakings	**17,275**	-
	21,331	12,997

4 Employees

	2006	2005
The average number of staff employed by the company during the financial year amounted to	No.	No
Administration	**91**	81

	£	£
Staff costs for the above persons		
Wages and salaries	**2,464,509**	1,933,033
Social security costs	**240,094**	213,147
Other pension costs	**22,880**	4,153
	2,727,483	2,150,333

Directors' emoluments

The directors aggregate emoluments in respect of qualifying services were

	2006	2005
	£	£
Emoluments receivable	**49,583**	134 000

5 (Loss)/profit on ordinary activities before taxation

	2006 £	2005 £
(Loss)/profit on ordinary activities is stated after charging		
Amortisation of goodwill	-	14,500
Exceptional item		
- share options	211,630	-
- write down of goodwill	-	53,167
- property management costs	2,221,671	-
Depreciation of owned fixed assets	291,214	258,897
Auditor's remuneration		
- Baker Tilly UK Audit LLP	13,687	-
- MacIntyre Hudson LLP	-	13,605
Operating lease costs		
- land and buildings	172,952	104,680
- plant and machinery	85,292	160,430

Property management costs represent costs arising on managed property estates which are not recoverable from tenants of the estates

6 Taxation

	2006 £	2005 £
Current tax		
Tax on (loss)/profit on ordinary activities	-	(4,071)
	-	(4,071)
Deferred tax		
Origination and reversal of timing differences		
Capital allowances	37,104	17,311
Other timing differences	375,000	-
Tax on profit on ordinary activities	412,104	13,240

Factors affecting tax charge for the year

	2006 £	2005 £
(Loss)/profit on ordinary activities before taxation	(2,727,047)	182,417
(Loss)/profit on ordinary activities multiplied by the standard rate of Corporation tax in the UK of 30% (2005 19%)	(818,114)	34,659
Effects of		
Expenditure not deductible for tax purposes	301,889	1,083
Depreciation in excess of capital allowances	41,026	13,962
Unrelieved losses brought forward	-	(22,933)
Group loss relief	133,262	(32,802)
Goodwill written down - exceptional item	-	10 102
Other short term timing differences	375,000	-
UK transfer pricing	(33,059)	-
Current tax charge for the year	-	4,071

7 Tangible fixed assets

	Office Equipment £
Cost	
At 1 January 2006	1,348,666
Additions	168,747
At 31 December 2006	1,517,413
Depreciation:	
At 1 January 2006	879,568
Charge for the year	291,214
At 31 December 2006	1,170,782
Net book value	
At 31 December 2006	**346,631**
At 31 December 2005	469,098

8 Debtors amounts falling due within one year

	2006 £	2005 £
Trade debtors	162,068	112,858
Amounts owed by group undertakings	2,170,187	1,391,991
Other debtors	179,516	303,280
Prepayments and accrued income	957,979	624,974
Deferred tax asset (see note 12)	410,024	-
	3,879,774	2,433,103

The debtors above include the following amounts falling due after more than one year

	2006 £	2005 £
Amounts owed by group undertakings	-	650,000

9	**Creditors: amounts falling due within one year**	**2006**	2005
		£	£
	Bank overdrafts (secured)	**10,344**	57,161
	Trade creditors	**306,162**	117,009
	Amounts owed to group undertakings	**5,260,108**	1,271,080
	Amounts owed to related parties	**143,048**	-
	Corporation tax	**-**	4,071
	Other tax and social security costs	**191,342**	207,674
	Other creditors	**1,274,557**	53,000
	Accruals and deferred income	**431,160**	38,570
		7,616,721	1,748,565

The bank overdraft is secured by way of unlimited guarantees provided by Solitaire Group Limited and certain fellow subsidiary companies

10	**Creditors: amounts falling due after more than one year**	**2006**	2005
		£	£
	Amounts owed to group undertakings	**-**	1,050,000

11 Pensions

The company operates a defined contribution pension scheme The assets of the scheme are held separately from those of the company in an independently administered fund The pension cost of £22,880 (2005 £4,153) represents contributions payable by the company to the fund

12 Deferred taxation

The movement in the deferred taxation provision during the year was

	2006 £	2005 £
Provision brought forward	**(2,080)**	(19,391)
Profit and loss account movement	**412,104**	17,311
Deferred tax asset/(liability) carried forward	**410,024**	(2,080)

The provision for deferred taxation consists of the tax effect of timing differences in respect of

	2006 £	2005 £
Capital allowances timing difference	**35,024**	(2,080)
Other timing differences	**375,000**	-
	410,024	(2,080)

The deferred tax asset at 31 December 2006 is included in debtors (see note 8)

13 Share capital

	2006 £	2005 £
Authorised		
232,000 (2005 20,000) Ordinary Shares of £1 each	**232,000**	20,000
Allotted, called up and fully paid		
232,000 (2005 12,000) Ordinary Shares of £1	**232,000**	12,000

During the year 220,000 Ordinary Shares of £1 each were issued at par

14 Profit and loss account

	2006 £	2005 £
At 1 January 2006	**115,247**	(80,410)
(Loss)/profit for the financial year	**(2,314,943)**	195,657
At 31 December 2006	**(2,199,696)**	115,247

15 Reconciliation of movements in shareholders' funds

	2006 £	2005 £
(Loss)/profit for the financial year	**(2,314,943)**	195,657
Share capital issued	**220,000**	-
Opening shareholders funds/(deficit)	**127,247**	(68,410)
Closing shareholders' funds	**(1,967,696)**	127,247

16 Commitments under operating leases

At 31 December 2006 the company had annual commitments under non-cancellable operating leases as follows

	2006		2005	
	Land & buildings	Other items	Land & buildings	Other items
	£	£	£	£
Operating leases which expire				
within one year	3,755	20,197	42,240	22,185
within 2 to 5 years	107,500	94,777	-	156,380
after more than 5 years	-	-	107,500	-
	111,255	114,974	149,740	178,565

17 Share based payments

Solitaire Group Plc operated share option plans under which it could offer shares in itself to employees of the group The options have a price fixed at the date of grant and are exercisable 3 years after the date of grant The options were subject to performance conditions that required earnings per share growth to exceed the increase in the Retail Price Index by an average of 2% per annum over any three consecutive years prior to exercise

Details of the outstanding options are as follows

	2006		2005	
	Options Number	Weighted average exercise price	Options Number	Weighted average exercise price
		£		£
Outstanding at 1 January	51,000	5 48	1,000	2 00
Granted during the year	-	-	50,000	5 55
Exercised during the year	1,000	2 00	-	-
Cancelled during the year	50,000	5 55	-	-
Outstanding at 31 December	-	-	51,000	5 48
Exercisable at 31 December	-	-	1,000	2 00

The 1,000 share options outstanding at 1 January 2005 relate to a grant made on 9 October 1998 and are exercisable up to 9 October 2008 at an option price of 200p per share As they have a grant date prior to 7 November 2002 they are exempt from the application of FRS20 and are not included in the valuation or charge to profit The balance of the option outstanding at 31 December 2005 were granted on 5 November 2005

17 **Share based payments (Continued)**

The fair value of the 50,000 options granted in 2005 has been valued at £0 89 per share under option, using the Black-Scholes method, and the assumptions used in that determination are as follows

Grant date	5 November 2005
Share price at grant date	£5 44
Exercise price	£5 55
No employees	1
Share options originally granted	50,000
Vesting period in years	3
Expected volatility	15 7%
Risk free investment rate	4 44%

Expected volatility was determined by calculating the historical volatility of the groups share price over the previous 3 years to the date of grant

The 50,000 options were surrendered under a Cancellation Proposal for a consideration of £2 95 per option totalling £147,500 In accordance with FRS20 this calculation has been treated as a cash settled share based payment and has been charged in full to the profit and loss account

In addition as the options were cancelled in 2006 the full value of the option has also been expensed in the year

18 **Contingent liability**

The company, together with other subsidiaries of Solitaire Real Estate Holdings Limited has provided an unlimited guarantee in respect of a bank loan provided to Solitaire Real Estate Holdings Limited At the year end the amount outstanding on the bank loan was £52m

19 **Control**

The immediate parent company is Holding & Management (Solitaire) Limited

During the year control of Holding & Management (Solitaire Limited) changed and at 31 December 2006 the parent undertaking of the smallest and largest group for which group accounts are prepared and of which the company is a member is Solitaire Real Estate Holdings Limited, which is registered in England Copies of these group accounts are available from Companies House, Crown Way, Maindy, Cardiff, CF14 3UZ

In view of the company's net liabilities, Solitaire Real Estate Holdings Limited has agreed to provide financial support as and when required to enable the company to meet its external obligations

The directors regard the ultimate holding company to be Euro Investments Inc, a company incorporated in the British Virgin Islands and for the ultimate controlling party to be the Tchenguiz Family Trust

20 **Related party transactions**

The company has taken advantage of the exemption in Financial Reporting Standard No 8, "Related Party Disclosures', from disclosing transactions with group undertakings on the grounds that it is a wholly owned subsidiary of a UK company which has produced consolidated financial statements which are publicly available