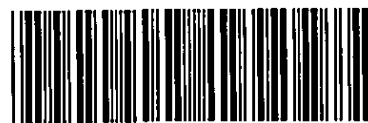


Daws Investment Limited
Directors' report and financial statements
For the year ended

31 December 2007

Registered number 2776183

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Daws Investment Limited

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Daws Investment Limited

Directors and advisers

Directors

A Hill
M Tyler

Secretary and registered office

M Creak
Nuffield House
41-46 Piccadilly
London
W1J 0DS

Solicitors

Clyde & Co
Beaufort House
Chertsey Street
Guildford
Surrey
GU1 4HA

Registered auditors

PricewaterhouseCoopers LLP
No 1 Embankment Place
London
WC2N 6RH

Bankers

Bank of Scotland plc
Level 3
21-23 Hill Street
London
W1J 5JW

Daws Investment Limited

Directors' report for the year ended 31 December 2007

The directors present their report and the audited financial statements of the company for the year ended 31 December 2007.

Corporate background

The Directors regard Kandahar Real Estate Limited ("Kandahar Real Estate"), a company incorporated in Gibraltar, as the ultimate parent entity. Kandahar Real Estate is 50:50 owned by affiliates of Morgan Stanley Real Estate Fund and The Kandahar Trust respectively.

The financial information of the Company is fully consolidated in the annual accounts of Kandahar Real Estate. The consolidated accounts of this group can be obtained from the Company's office (Nuffield House, 41-46 Piccadilly, London, W1J 0DS).

The Company is part of Kandahar Group Limited. Kandahar Group Limited and its subsidiaries are collectively known as the "Group" in these financial statements.

Principal activity

The principal activity of the company is owning and managing commercial property.

Dividends and transfer to reserve

The directors do not propose to pay a dividend in respect of the year ended 31 December 2007 (2006: nil). The loss for the year of £175,637 (2006: £257,049) will be charged against reserves.

Business review and future developments

The objective of the Company is to drive the growth and value of the Company's owned investment properties in the UK.

The directors consider the key performance indicators of the Company to be property valuation, rental income, rental growth and occupancy rates.

The Company's management assesses the key performance indicators on a periodic basis against the investment properties within other Group companies.

The 2007 performance of the Company is considered to be in line with the Directors' expectations.

Subsequent to the year end, falling rent and commercial property values have created a challenging trading environment for the Company during 2008 and 2009. Refer to note 1 to the financial statements for further details.

Daws Investment Limited

Directors' report for the year ended 31 December 2007 (continued)

Financial risks management and going concern

Historically the main financial risk which the Group faced was its liquidity risk. This has been managed by entering into intergroup loans with other Group companies and third party loans with the Group's banker, HBOS.

As a result of the Group re-financing in July 2007, the debt facility of £247 million was put in place. Kandahar Group Limited, which provides funding to the Company, arranged funding based on the Group's properties market value at that time. The facility operates on a combined basis for the Company and others in the Group. The details of the HBOS facility are given in note 10 to the Kandahar Group Limited financial statements. . The current facility contains certain covenant testing requirements such as the loan to value ratio ("LTV") and various interest cover ratios. The Group reports on these covenants to HBOS on a periodic basis. Pursuant to the facility, the failure of a covenant test would require partial repayment of the loan or an additional funding deposit into the Group's holding account. In December 2008, the Directors were notified by Kandahar Group Limited, the company which provides funding to the Company, that it had been notified by HBOS that it was in breach of the LTV covenant. The Directors and the legal advisors of Kandahar Group Limited do not believe there was a breach. However, the Directors of Kandahar Group Limited expect the LTV covenant will be in breach if tested in July 2009.

As described in note 1 to the financial statements, as of the date of this report, negotiations on the restructuring between the Group's banker, HBOS and the representatives and advisors of The Kandahar Trust are progressing and the Directors are hopeful that a restructuring agreement could be reached by December 2009. In the meantime, HBOS and The Kandahar Trust have confirmed to the Company that they will provide sufficient financial support to allow the Company to pay its debts as they fall due whilst the restructuring negotiations take place. However, based on the facts above, the Directors are in a position of material uncertainty with regard to preparing the accounts on a going concern basis as described in note 1 to the financial statements. Refer to note 1 to the financial statements for further details.

Post balance sheet events

Particulars of events affecting the Company that have occurred since the end of the financial year are disclosed in note 13 of the financial statements.

Directors

The directors during the year under review and up to the date of this report were:

M Tyler (appointed 7 January 2008)

M McGann (resigned 29 August 2008)

A Hill

Daws Investment Limited

Directors' report for the year ended 31 December 2007 (continued)

Statement of Directors' responsibilities in respect of the annual report and the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable UK 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, in which case there should be supporting assumptions or qualifications as necessary (see note 1).

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 that disclose with reasonable accuracy at any time the financial position of the company and 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.

Statement of disclosure of Information to Auditors

Each director of the company, in office at the time of approval of this report, acknowledges that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

By order of the board



Michael Creak
Company Secretary
4 June 2009

Daws Investment Limited

Independent auditor's report to Daws Investment Limited

We have audited the financial statements of Daws Investment Limited for the year ended 31 December 2007 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses 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 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 other information contained in the annual report and consider whether it is consistent with the audited financial statements. The other information comprises only the list of directors and advisors and the directors' report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and 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 and of its loss for the year then ended;
- the financial statements 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.

Daws Investment Limited

Independent auditor's report to Daws Investment Limited (continued)

Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the Company's ability to continue as a going concern. The external valuation of the Group's property portfolio ("the Portfolio") indicated that the market value of the Portfolio was £185 million at 31 December 2008, resulting in a LTV of approximately 134% which exceeds the 82.5% LTV covenant requirement set out in the current facility agreement. Kandahar Group Limited which provides funding to the Company is currently in discussion with its bankers to renegotiate a revised facility, which is expected to be completed by December 2009. In the meantime, the Group's banker, HBOS and one of the shareholders of Kandahar Real Estate, The Kandahar Trust, have confirmed to the Company that they will provide sufficient financial support to allow the Group to pay its debts as they fall due whilst the restructuring negotiations take place. This situation and the other matters referred to in note 1 to the financial statements mean that there is a material uncertainty which may cast significant doubt over the ability of the Company to continue as a going concern. The financial statements do not include the adjustments that would result if the Company were unable to continue as a going concern.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

4 June 2009

Daws Investment Limited

Profit and loss account for the year ended 31 December 2007

	Note	1 January 2007 to 31 December 2007 £	1 April 2006 to 31 December 2006 £
Turnover		1,053,664	1,070,116
Gain/(loss) on disposal of an investment property		110,000	(259,652)
Administrative expenses		(183,265)	(119,957)
Operating profit	2	870,399	690,507
Interest receivable and similar income		1,064	10,885
Interest payable and similar charges	3	(1,157,100)	(959,962)
Loss on ordinary activities before taxation		(175,637)	(258,570)
Tax on loss on ordinary activities	4	-	1,521
Loss for the financial year/period after taxation		(175,637)	(257,049)

The above results relate to the continuing operations of the company.

There is no difference between the profit/(loss) on ordinary activities before taxation and profit/(loss) for the year or period stated above and their historical cost equivalents.

Statement of total recognised gains and losses for the Year ended 31 December 2007

	Note	1 January 2007 to 31 December 2007 £	1 April 2006 to 31 December 2006 £
Loss for the financial period		(175,637)	(257,049)
Revaluation of investment property	5,10,11	(2,692,874)	2,376,916
Total recognised gains and losses relating to the year/period		(2,868,511)	2,119,867

Daws Investment Limited

Balance sheet as at 31 December 2007

	Note	2007	2006
		£	£
Fixed Assets			
Tangible assets	5	<u>18,975,000</u>	<u>22,600,000</u>
		18,975,000	22,600,000
Current Assets			
Debtors: amounts falling due within one year	6	389,807	247,054
Cash at bank		<u>66,977</u>	<u>77,341</u>
		456,784	324,395
Creditors: amounts falling due within one year	7	<u>(521,206)</u>	<u>(367,922)</u>
Net current liabilities		(64,422)	(43,527)
Total assets less current liabilities		18,910,578	22,556,473
Creditors: amounts falling due after more than one year	8	<u>(11,520,000)</u>	<u>(12,297,384)</u>
Net assets		<u>7,390,578</u>	<u>10,259,089</u>
Capital and reserves			
Called up share capital	9	2	2
Revaluation reserve	10	7,545,368	10,238,242
Profit and loss account	10	<u>(154,792)</u>	<u>20,845</u>
Shareholder's funds	11	<u>7,390,578</u>	<u>10,259,089</u>

The financial statements on pages 7 to 14 were approved by the board of directors on 4 June 2009 and were signed on its behalf by:

hlm.

Michael P Tyler
Director

Daws Investment Limited

Notes to the Financial Statements for the year ended 31 December 2007

1. Basis of preparation

The financial statements have been prepared on a going concern basis under the historical cost convention except as otherwise stated below.

Going concern

The Company is part of Kandahar Group Limited. Kandahar Group Limited and its subsidiaries are collectively known as the "Group" in these financial statements. The Group operates a "cash pooling" system which is linked into the main facility agreement with the Group's banker, Bank of Scotland plc ("HBOS").

The Company is dependant on Kandahar Group Limited ("KGL") for its continued trading. The Directors note that the financial statements of KGL, which were approved by the Board of that company on 4 June 2009, included the following disclosure of that Company to continue as a going concern.

"Loan to value ratio ("LTV") covenant

The Group's current debt facility of £247 million was put in place in July 2007 and the funding was arranged based on the Group's properties market value at that time. The facility operates on a combined basis for the Company and others in the Group. The details of the HBOS facility are given in note 10. The current facility contains certain covenant testing requirements such as the LTV and various interest cover ratios ("ICRs"). The Group reports on these covenants to HBOS on a periodic basis. Pursuant to the facility the failure of a covenant test would require partial repayment of the loan or an additional funding deposit into the Group's holding account.

At 31 December 2008, an external valuation of the Group's property portfolio (the "Portfolio") was carried out by DTZ Debenham Tie Leung Limited ("the Valuation") of the Portfolio. Details of the individual properties held by the Group are provided in each subsidiary's own statutory accounts. The Valuation indicated that the market value of the Portfolio was £185 million at 31 December 2008, resulting in a LTV of approximately 134% which exceeds the 82.5% LTV covenant requirement set out in the current facility agreement.

Restructuring process and current status

As a result of the above, one of the shareholders of Kandahar Real Estate, The Kandahar Trust has led the restructuring discussions with HBOS. In February 2009, HBOS appointed restructuring advisors with a view to agreeing a restructuring of the Group's debt. All base information for the HBOS advisor's report was provided by the management of Kandahar Asset Management Company Limited on behalf of the Directors and it is this information which has been relied upon by all parties in the restructuring negotiations. In April 2009, HBOS confirmed to the Directors of the Group its intention to work with the Group to restructure the debt and that it is not in the interest of HBOS to place the Group into an insolvency process whilst the restructuring negotiations continue.

As of the date of this report, negotiations on the restructuring between the representatives and advisors of The Kandahar Trust and HBOS are progressing and the Directors are hopeful that a restructuring agreement will be reached by December 2009. In the meantime, The Kandahar Trust and HBOS have confirmed to the Company that they will provide sufficient financial support to allow the Group to pay its debts as they fall due whilst the restructuring negotiations take place.

In order to assess the appropriateness of preparing the financial statements on a going concern basis, the Group has prepared projected cash flow information for 12 months from the date of approval of these financial statements. These projections show that in order for the Group to be able to meet its liabilities as they fall due, it will require financial support from The Kandahar Trust and HBOS such that the Group is in a position to allow time for the successful restructuring to take place by December 2009."

Daws Investment Limited

Notes to the Financial Statements for the year ended 31 December 2007 (continued)

1. Basis of preparation (continued)

Going concern

Material uncertainty over going concern

The Directors of the Company have concluded that the factors above represent material uncertainties that may cast significant doubt on the ability of the company to continue as a going concern. If it were unable to do so, it may be unable to realise its assets and liabilities in the normal course of business. Nevertheless, having taken into account the matters discussed above, the Directors expect the Company will be able to meet its liabilities as they fall due for the foreseeable future and in any event until December 2009. It is on this basis that the Directors consider it appropriate to prepare the financial statements on a going concern basis. These financial statements do not include any adjustments that would result from the going concern basis of preparation being inappropriate.

Turnover

Turnover represents net rents receivable, excluding value added tax.

Tangible Fixed assets

In accordance with SSAP 19 – Accounting for Investment Properties, investment properties are re-valued annually and the aggregate surplus or deficit is transferred to the revaluation reserve, unless any deficit below original cost is considered to be permanent in which case it is charged to the profit and loss account. Depreciation is not provided in respect of investment properties. The directors consider that this accounting policy is necessary to provide a true and fair view.

Interest receivable and payable

Interest amounts are accounted for on an accruals basis. Any net discount or premium on a financing instrument is amortised using the effective interest rate method over the term of the instrument.

Deferred taxation

Full provision is made for deferred taxation on all timing differences that have originated but not reversed at the balance sheet date that give rise to an obligation to pay more or less tax in the future. Deferred tax is not recognised when fixed assets are revalued unless, by the balance sheet date, there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on the sale has been recognised in the financial statements. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Cashflow statement and related party disclosures

The company is a wholly-owned subsidiary of Kandahar Real Estate Limited and is included in the consolidated financial statements of Kandahar Real Estate Limited, which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1. The company is also exempt under the terms of FRS 8 from disclosing related party transactions with entities that are part of the Kandahar Real Estate Limited group of companies.

Consolidation exemption

The company has taken advantage of the exemption not to prepare consolidated financial statements as the parent company, Kandahar Real Estate Limited, is incorporated in the European Union.

Daws Investment Limited

Notes to the Financial Statements for the year ended 31 December 2007 (continued)

2. Operating profit

The operating profit is stated after (crediting)/charging:

	1 January 2007 to 31 December 2007 £	1 April 2006 to 31 December 2006 £
(Gain)/loss on disposal of an investment property (note 5)	(110,000)	259,652

The directors, who were the sole employees during the period, did not receive any remuneration during the year. In addition, the audit fees of the company were borne by a fellow group company.

3. Interest payable and similar charges

	1 January 2007 to 31 December 2007 £	1 April 2006 to 31 December 2006 £
Bank charges	169	-
Interest payable on amount owed to a Group undertakings	1,156,931	959,962
	<u>1,157,100</u>	<u>959,962</u>

4. Tax on profit on ordinary activities

Analysis of charge in the year/period

	1 January 2007 to 31 December 2007 £	1 April 2006 to 31 December 2006 £
Current tax:		
UK corporation tax on loss of the year/period	(85,612)	-
Prior period adjustment	-	(1,521)
Losses carried forward	85,612	-
Tax on loss on ordinary activities	<u>-</u>	<u>(1,521)</u>

A reconciliation of the profit before tax to the tax charge for the period is set out below:

	1 January 2007 to 31 December 2007 £	1 April 2006 to 31 December 2006 £
Loss on ordinary activities before tax	(175,637)	(257,049)
Multiplied by the standard rate of tax of 30% (2006:30%)	(52,691)	(77,115)
Effect of disallowable expenditure and other timing differences	(32,921)	11,467
Prior period adjustment	-	(1,521)
Losses surrendered to other group entities	-	65,648
Losses carried forward	85,612	-
Tax on loss on ordinary activities	<u>-</u>	<u>(1,521)</u>

Daws Investment Limited

Notes to the Financial Statements for the year ended 31 December 2007 (continued)

5. Tangible fixed assets

	Investment properties £
At 31 December 2006	22,600,000
Disposal (note)	(932,126)
Revaluation	(2,692,874)
At 31 December 2007	18,975,000

During the year the Company disposed of an investment property. Refer to note 2 for the profit on disposal.

The investment property was valued at £18,975,000 on an open market basis as at 31 December 2007.

The investment property is held as part of the security against the Kandahar Group Limited HBOS facility of £247,432,000.

The historical cost of the Company's investment properties was £26,520,368 (2006: £27,452,494).

Refer to note 13 for post balance sheet events for the market value of the property subsequent to 31 December 2007.

6. Debtors

	2007 £	2006 £
Trade debtors	347,090	247,054
Prepayments and accrued income	42,717	-
Total	389,807	247,054

7. Creditors: amounts due within one year

	2007 £	2006 £
Trade creditors	180,805	79,787
Amounts owed to group undertakings (note)	55,879	-
Social security and other taxes	48,006	47,631
Accruals and deferred income	236,516	240,504
Total	521,206	367,922

Note: The intercompany loan with a group undertaking is unsecured, non-interest bearing and have no fixed terms of repayment.

Daws Investment Limited

Notes to the Financial Statements for the year ended 31 December 2007 (continued)

8. Creditors: amounts falling due after more than one year

	2007 £	2006 £
Amount owed to group undertaking	11,520,000	12,297,384
Total	11,520,000	12,297,384

The intercompany loan with a group undertaking is unsecured, accruing interest at a rate of 7% and is repayable at maturity on 15 July 2012.

9. Called up share capital

	2007 £	2006 £
Authorised		
Ordinary shares of £1 each	1,000	1,000
Allotted, called up and fully paid		
Ordinary shares of £1 each	2	2

10. Reserves

	Profit and loss account £	Revaluation reserve £	Total £
At 31 December 2006	20,845	10,238,242	10,259,087
Loss for the year	(175,637)	-	(175,637)
Revaluation deficit	-	(2,692,874)	(2,692,874)
At 31 December 2007	(154,792)	7,545,368	7,390,576

11. Reconciliation of movement on shareholder's funds

	2007 £	2006 £
Loss for the year/period	(175,637)	(257,049)
Revaluation (deficit) / surplus	(2,692,874)	2,376,916
Opening shareholder's funds	10,259,089	8,139,222
Closing shareholder's' funds	7,390,578	10,259,089

12. Ultimate and immediate parent company

The company is a wholly owned subsidiary of Kandahar Academy II Limited, whose ultimate controlling party of the company is considered to be Kandahar Real Estate Limited, a Maltese resident, Gibraltar registered company.

Daws Investment Limited

Notes to the Financial Statements for the year ended 31 December 2007 (continued)

13. Post balance sheet events

Property valuation

Following the external valuation performed by DTZ, the market valuation of the Portfolio of investment properties of the Company fell to £13,240,000 at 31 December 2008.

Following consultation with DTZ, the Directors' valuation of the Portfolio at June 2009 is approximately 20% down from the December 2008 valuation.

The significant decline in property value has led to liquidity issues. In December 2008, the Directors were notified by Kandahar Group Limited, the company which provides funding to the Company, that it had been notified by HBOS that it was in breach of the LTV covenant. The Directors and the legal advisors of Kandahar Group Limited do not believe there was a breach. However, the Directors of Kandahar Group Limited expect the LTV covenant will be in breach if tested in July 2009. The Directors of the Company are hopeful there will be a satisfactory restructuring arrangement reached between Kandahar Group Limited and HBOS by December 2009.

In the meantime, HBOS and The Kandahar Trust have confirmed to the Company that they will provide sufficient financial support to allow the Group to pay its debts as they fall due whilst the restructuring negotiation takes place.

As a result the accounts have been signed subject to material uncertainty concerning the financing arrangements. Refer to note 1 for further details.