

Daws Investments Limited

**Directors' report and financial statements
For the year ended**

31 December 2009

Registered number: 2776183

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Daws Investments Limited

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Daws Investments Limited

Directors' report for the year ended 31 December 2009

The Director presents the report and the audited financial statements of the Company for the year ended 31 December 2009

This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006

Corporate background

The Director regards Kandahar Real Estate Limited ("Kandahar Real Estate"), a Company incorporated in Gibraltar, as the ultimate parent entity. Kandahar Real Estate as at 31 December 2008 was 50/50 owned by affiliates of Morgan Stanley Real Estate Fund and The Kandahar Trust respectively.

On 4 June 2009 the affiliates of Morgan Stanley Real Estate Fund sold all its shareholdings in Kandahar Real Estate and other group companies to The Kandahar Trust. Since then, The Kandahar Trust becomes the sole shareholder of Kandahar Real Estate.

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

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

Principal activities

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

Results and dividends

The Director does not propose to pay a dividend in respect of the year ended 31 December 2009 (2008 £nil). The loss for the financial year of £271,000 (2008 profit of £155,000) will be charged against (2008 transferred to) reserves.

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 intragroup 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 Group, 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. Details of the HBOS facility are given in note 10 to the Kandahar Group Limited financial statements for the year ended 31 December 2009. 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. Since July 2009, the formal measurement date of the covenant testing, the Director considers the LTV covenant is in breach and as at 30 June 2010, the LTV covenant remains in breach.

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 Director is hopeful that a restructuring agreement could be reached during 2010. HBOS and The Kandahar Trust have confirmed to the Director that they will continue to 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 Director is in a position of material

Daws Investments Limited

Directors' report for the year ended 31 December 2009 (continued)

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.

Directors

The Directors during the year and up to the date of signing financial statements were

M Tyler (resigned 29 October 2009)

A Hill

Statement of Directors' responsibilities

The Director is responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Director to prepare financial statements for each financial year. Under that law the Director has prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under Company law the Director must not approve the financial statements unless they are satisfied that they 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 these financial statements, the Director is required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting 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
-

The Director is responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and 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 2006. They are also responsible for safeguarding the assets of the Company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of disclosure of information to auditors

In accordance with Section 418 of the Companies Act 2006, 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.

By order of the Board



Michael Creak
Company Secretary
29 September 2010

Daws Investments Limited

Independent auditors' report to the members of Daws Investments Limited

We have audited the financial statements of Daws Investments Limited for the year ended 31 December 2009 which comprise the Profit and loss account, the Statement of total recognised gains and losses, the Balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Directors' Responsibilities the Director is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2009 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 Directors' valuation of the Group's property portfolio ("the Portfolio") indicated that the market value of the Portfolio was £192 million at 31 December 2009, resulting in a LTV of approximately 127% which exceeds the 82.5% LTV covenant requirement set out in the current facility agreement. The Company is currently in discussion with its bankers to renegotiate a revised facility, which is expected to be completed by December 2009. The Group's banker, HBOS and the shareholder of Kandahar Real Estate, The Kandahar Trust, have confirmed to the Directors of the Company that they will continue to provide sufficient financial support to allow the Company 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.

Daws Investments Limited

Independent auditors' report to the members of Daws Investments Limited (continued)

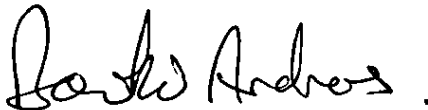
Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit
- the Director was not entitled to prepare the Directors' report in accordance with the small Company regime



Bowker Andrews (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
1 Embankment Place,
London,
WC2N 6RH

29 September 2010

Daws Investments Limited

Profit and loss account for the year ended 31 December 2009

	Note	2009 £'000	2008 £'000
Turnover		1,096	1,082
Gain on disposal of an investment property		-	-
Administrative expenses		(147)	(122)
Operating profit	2	949	960
Interest receivable and similar income		1	4
Interest payable and similar charges	3	(1,221)	(809)
(Loss)/Profit on ordinary activities before taxation		(271)	155
Tax on (loss)/profit on ordinary activities	4	-	-
(Loss)/Profit for the financial year after tax		(271)	155

The above results relate to the continuing operations of the Company

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

Statement of total recognised gains and losses for the year ended 31 December 2009

	Note	2009 £'000	2008 £'000
(Loss)/Profit for the financial year		(271)	155
Revaluation of investment property	5,10,11	768	(5,743)
Total recognised gains and losses relating to the year.		497	(5,588)

Daws Investments Limited

Balance sheet as at 31 December 2009

	Note	2009 £'000	2008 £'000
Fixed assets			
Tangible assets	5	<u>14,020</u>	<u>13,240</u>
Current assets			
Debtors	6	534	435
Cash at bank and in hand		-	-
		<u>534</u>	<u>435</u>
Creditors: amounts falling due within one year	7	<u>(12,254)</u>	<u>(352)</u>
Net current liabilities/assets		(11,720)	83
Total assets less current liabilities		2,300	13,323
Creditors: amounts falling due after more than one year	8	<u>-</u>	<u>(11,520)</u>
Net assets		<u>2,300</u>	<u>1,803</u>
Capital and reserves			
Called up share capital	9	-	-
Revaluation reserve	10	2,570	1,802
Profit and loss account	10	<u>(270)</u>	<u>1</u>
Total shareholders' funds	11	<u>2,300</u>	<u>1,803</u>

The financial statements on pages 5 to 12 (Registered number 2776183) were approved by the Board of Directors on 29 September 2010, and were signed on its behalf by

Amanda Hill

A Hill
Director

Daws Investments Limited

Notes to the financial statements for the year ended 31 December 2009

1. Basis of preparation

These financial statements are prepared on the going concern basis, under the historical cost convention as modified by the revaluation of investments and investment properties, and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies, which have been applied consistently throughout the year, are set out 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 Director notes that the financial statements of KGL, which were approved by the Board of that Company on 29 September 2010, 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 (to the Group financial statements). 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. Following consultation with its Property Advisors the Directors' valuation of the properties at 31 December 2009 was £192m resulting in a LTV of approximately 127% 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, the shareholder 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.

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Notes to the financial statements for the year ended 31 December 2009 (continued)

1. Going concern (continued)

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 during 2010. The Kandahar Trust and HBOS have confirmed to the Directors that they will continue to provide sufficient financial support to allow the Group to pay its debts as they fall due whilst the restructuring negotiations take place. To date £764,000, in aggregate, has been provided as financial support including £64,000 in 2010.

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 2010."

Material uncertainty over going concern

The Director of the Company has 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 Director expects the Company will be able to meet its liabilities as they fall due for the foreseeable future. It is on this basis that the Director considers 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 comprises rents receivable from tenants under operating leases recognised on an accruals basis over the period of the lease. Value added tax is excluded from all amounts.

For leases entered between the Company and the tenant since 1 January 2008, the cost of any incentives given to lessees to enter into leases is spread over the period from the lease commencement date to the date of the first break on a straight-line basis. Lease incentives are usually in the form of rent free periods. The Director considers that the cost of any incentives given to lessees on leases entered prior to 31 December 2007 is not material.

The Group has only one geographical market, the United Kingdom, and one class of business, managing investment properties.

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. Any deficit below original cost that is considered to be permanent is charged to the profit and loss account. Temporary revaluation deficits below original costs are recorded in the revaluation reserve. Depreciation is not provided in respect of investment properties. The Director considers that this accounting policy is necessary to provide a true and fair view.

The Director approved valuation has been carried by internal experts, employees of Kandahar Asset Management Ltd, who with the use of various third party sources form a view of the current market and fair value of the investment properties.

The last external valuation by a firm of qualified surveyors was performed in December 2008. The valuations were prepared in accordance with the requirements of the RICS Valuation Standards and SSAP19. The market value of each property is based on an income approach having regard to the existing lease terms and market rents and yields prevailing at the balance sheet date.

Daws Investments Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

1. Basis of preparation (continued)

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.

Cash flow statement and related party disclosures

The Company is a wholly-owned subsidiary of Kandahar Group Limited and is included in the consolidated financial statements of Kandahar Group 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 (revised 1996) 'Cash flow statements'. The Company is also exempt under the terms of FRS 8 'Related Party Disclosures' from disclosing related party transactions with entities that are part of the Kandahar Group Limited group of companies.

2 Operating profit

The Directors, who were the sole employees during the period, did not receive any remuneration during the year. Audit fees for the Group and its related undertakings of £72,500 (2008: £60,000) were borne by a fellow Kandahar Real Estate Group company. No non-audit services were provided.

3. Interest payable and similar charges

	2009 £'000	2008 £'000
Interest payable to a group undertakings	1,221	809
	<u>1,221</u>	<u>809</u>

4. Tax on (loss)/profit on ordinary activities

Analysis of the tax charge

	2009 £'000	2008 restated £'000
UK corporation tax on profits for the period	-	-
Adjustment in respect of previous periods	-	-
Tax credit on loss on ordinary activities	<u>-</u>	<u>-</u>

Daws Investments Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

4. Tax on (loss)/profit on ordinary activities (continued)

Reconciliation of the tax charge is set out below:	2009	2008 restated
	£'000	£'000
Current tax:		
(Loss)/profit on ordinary activities before tax	(271)	155
(Loss)/Profit on ordinary activities multiplied by the standard rate of 28% (2008 – 28.5%)	(76)	44
Effects of:		
Disallowable expenditure and other timing differences	(2)	-
Losses carried forward	89	-
Losses utilised	(11)	(44)
Current tax charge	-	-

Unutilised losses of £317,000 (2008 - £40,000) are available to offset against future taxable profits. A deferred tax asset has not been recognised, as there is not sufficient evidence that there will be sufficient taxable profits in the foreseeable future.

No deferred tax assets have been recognised on revaluing property to its market value. Such tax would become payable only if the property was sold without it being possible to claim rollover relief. The total amount unprovided for is £182,000 (2008: £25,000).

Factors affecting current and future tax charges

A number of changes to the UK Corporation tax system were announced in the June 2010 Budget Statement. The Finance Act (No 2) 2010 is expected to include legislation to reduce the main rate of corporation tax from 28% to 27% from 1 April 2011. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 24% by 1 April 2014. The changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

5. Tangible assets

Valuation	Investment properties £'000
At 1 January 2009	13,240
Additions	12
Revaluation	768
At 31 December 2009	14,020

Daws Investments Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

5. Tangible assets

The investment property was valued at £13,240,000 through an external valuation performed by DTZ as at 31 December 2008. Following consultation with DTZ and its Property Advisors the Directors' valuation of the property at 31 December 2009 was £14,020,000.

The investment property is held as part of the security against the Kandahar Group Limited HBOS facility of £247,432,000 of which £17,304,000 was the amount advanced to Kandahar Group Limited for this Company's property.

The historical cost of the Company's investment properties was £11,455,000 (2008 £11,437,000). The Director considers that the downward revaluation of the investment properties to be temporary. Accordingly, the deficit has been recorded in the revaluation reserve not the profit and loss account.

6 Debtors

	2009 £'000	2008 £'000
Trade debtors	510	344
Amounts owed by group undertakings	-	58
Prepayments and accrued income	24	33
Total	534	435

The amounts owed by group undertakings are unsecured, non-interest bearing and have no fixed terms of repayment.

7. Creditors: amounts falling due within one year

	2009 £'000	2008 £'000
Trade creditors	135	24
Amounts owed to group undertakings	11,804	-
Taxation and social security	60	57
Accruals and deferred income	255	271
Total	12,254	352

The terms of the intercompany loan with Kandahar Group Limited for £11,520,000 (2008 £11,520,000) remain unchanged, but as the Group has breached the covenants, the loan has become repayable on demand hence the reclassification of the loan to payable in less than one year. As stated in note 1 of the Kandahar Group Limited financial statements, it is not in the interest of HBOS to place the Group in an insolvency process whilst restructuring negotiations continue.

The amount advanced to Kandahar Group Limited against the security of this Company's property was £17,304,000. The Company pays interest at 7% on this amount to Kandahar Group Limited.

The remaining balance of £284,000 (2008 £Nil) is unsecured, non interest bearing and has no fixed term of repayment.

Daws Investments Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

8 Creditors. amounts falling due after more than one year

	2009 £'000	2008 £'000
Amount owed to group undertaking	-	11,520
Total	-	11,520

In the year £11,520,000 was reclassified to amounts falling due within one year as disclosed in note 7

9. Called up share capital

	2009 £'000	2008 £'000
Authorised		
1,000 ordinary shares of £1 each	1	1
Allotted and fully paid		
2 ordinary shares of £1 each	-	-

10. Reserves

	Profit and loss account £'000	Revaluation reserve £'000	Total £'000
At 1 January 2009	1	1,802	1,803
Loss for the financial year	(271)	-	(271)
Revaluation surplus	-	768	768
At 31 December 2009	(270)	2,570	2,300

11 Reconciliation of movements in shareholders' funds

	2009 £'000	2008 £'000
(Loss)/profit for the financial year	(271)	155
Revaluation surplus/(deficit)	768	(5,743)
Opening shareholders' funds	1,803	7,391
Closing shareholders' funds	2,300	1,803

12. Ultimate and immediate parent company

The immediate parent undertaking is Kandahar Academy II Limited. The ultimate parent undertaking and controlling party is to be Kandahar Real Estate Limited, a Maltese resident, Gibraltar registered company.