

Portman Investments (Farnham) Limited

Directors' report and financial statements

31 December 2006

Registered in England and Wales number 3662544

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Portman Investments (Farnham) Limited

Directors' report and financial statements

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Portman Investments (Farnham) Limited

Directors' report

Following the merger of London Merchant Securities plc and Derwent Valley Holdings plc (to form Derwent London plc), the directors have decided to align the Company's accounting reference date to that of Derwent London's, being 31 December

Accordingly, the Company's financial reporting period has been shortened and the directors submit their report for the nine month period 1 April 2006 to 31 December 2006

Principal activities

The Company is a property investment company. The directors foresee no material change in the nature of the Company's activities

Financial review and dividends

The results for the period are set out in the profit and loss account on page 4. A final dividend of £nil is recommended (March 2006 £928,962 paid)

Properties

The Company's properties were revalued at 31 December 2006 as set out in note 7 to the financial statements

Directors

The directors who held office during the period were as follows

N T J Groves
R N Lay
W Millsom (alternate to R A Rayne)
H R Seaborn
The Hon R A Rayne

None of the directors who held office at the end of the financial period had any disclosable interest in the shares of the Company

The interests of the directors in the shares of the Company's ultimate holding company and fellow subsidiary undertakings are set out in the financial statements of Portman Investments (Baker Street) Limited, the parent company

On 1 February 2007, the following changes took place

The Hon R A Rayne and Mr W Millsom resigned as directors. Mr J D Burns was appointed as director. Mr S C Mitchley resigned as company secretary and Mr T J Kite was appointed in his stead

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Auditors

In accordance with s 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting

By order of the board

TJ Kite
Secretary



25 Savile Row
London
W1S 2ER

Portman Investments (Farnham) Limited

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

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

- 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, and
- 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 that 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities

Independent auditors' report to the members of Portman Investments (Farnham) Limited

We have audited the financial statements of Portman Investments (Farnham) Limited for the period ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, 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.

This report is made solely to the Company's members, 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 financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 2.

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 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 UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2006 and of its profit for the period 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.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

KPMG Audit Plc

22 October 2007

Portman Investments (Farnham) Limited

Profit and loss account

for the nine month period ended 31 December 2006

	<i>Note</i>	For the 9 months ended 31 December 2006 £	For the year ended 31 March 2006 £
Net rental income from investment properties	2	1,175,805	1,232,409
Administrative expenses	3	(52)	(5,243)
		<hr/>	<hr/>
Operating profit		1,175,753	1,227,166
Other interest receivable and similar income	4	14,105	3,511
		<hr/>	<hr/>
Profit on ordinary activities before taxation		1,189,858	1,230,677
Tax on profit on ordinary activities	5	(265,500)	60,005
		<hr/>	<hr/>
Profit for the financial period/year	12	924,358	1,290,682
		<hr/>	<hr/>

All results are derived from continuing activities

There is no difference between the results as stated and their historical cost equivalents

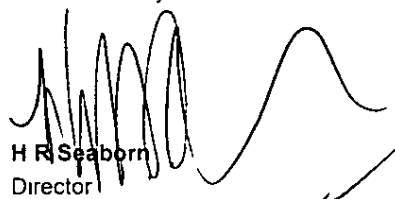
Portman Investments (Farnham) Limited

Balance sheet

at 31 December 2006

	Note	31 December 2006 £	31 December 2006 £	31 March 2006 £	31 March 2006 £
Fixed assets					
Tangible assets	7		29,400,000		27,600,000
Current assets					
Debtors	8	493,370		376,328	
Cash at bank and in hand		-		101	
		<u>493,370</u>		<u>376,429</u>	
Creditors amounts falling due within one year	9	<u>(10,527,226)</u>		<u>(11,344,314)</u>	
Net current liabilities			<u>(10,033,856)</u>		<u>(10,967,885)</u>
Total assets less current liabilities			<u>19,366,144</u>		<u>16,632,115</u>
Provisions for liabilities and charges	10		<u>(121,101)</u>		<u>(111,430)</u>
Net assets			<u><u>19,245,043</u></u>		<u><u>16,520,685</u></u>
Capital and reserves					
Called up share capital	11		2		2
Revaluation reserve	12		17,030,000		15,230,000
Profit and loss account	12		2,215,041		1,290,683
Equity shareholders' funds	13		<u><u>19,245,043</u></u>		<u><u>16,520,685</u></u>

These financial statements were approved by the board of directors on 22/10/ 2007 and were signed on its behalf by


H R Seaborn
Director

J D Burns
Director



Portman Investments (Farnham) Limited

Cash flow statement

for the nine month period ended 31 December 2006

	Note	31 December 2006 £	31 December 2006 £	31 March 2006 £	31 March 2006 £
Net cash inflow from operating activities	15		1,112,167		1,283,949
Returns on investments and servicing of finance					
Interest received		14,105		3,511	
Net cash inflow from returns on investments and servicing of finance			14,105		3,511
Tax paid			(182,202)		-
Equity dividends			-		(928,962)
Cash inflow before use of liquid resources and financing			944,070		358,498
Financing					
Decrease in intercompany loans		(944,171)		(358,397)	
Net cash outflow from financing	16		(944,171)		(358,397)
(Decrease)/increase in cash in the period/year	16		(101)		101

Reconciliation of net cash flow to movement in net debt

for the nine month period ended 31 December 2006

(Decrease)/increase in cash in the period/year	16	(101)		101
Cash movement from decrease in debt financing	16	944,171		358,397
Change in net debt resulting from cash flows			944,070	358,498
Movement in net debt in the period/year			944,070	358,498
Net debt at beginning of period/year			(10,689,588)	(11,048,086)
Net debt at end of period/year			(9,745,518)	(10,689,588)

Portman Investments (Farnham) Limited

Statement of total recognised gains and losses

for the nine month period ended 31 December 2006

	For the 9 months ended 31 December 2006	For the year ended 31 March 2006
	£	£
Profit for the financial period/year	924,358	1,290,682
Unrealised surplus on revaluation of properties	1,800,000	4,800,000
	<hr/>	<hr/>
Total recognised gains and losses relating to the financial period/year	2,724,358	6,090,682
	<hr/>	<hr/>

Portman Investments (Farnham) Limited

Notes

(forming part of the financial statements)

1 Accounting policies

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

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules, except for investment properties which are stated at their fair value

Under Financial Reporting Standard 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements

Net rental income

Rental income is recognised on an accruals basis. Rent increases arising from rent reviews are taken into account when such reviews have been settled with tenants.

Investment properties

In accordance with SSAP 19 'Accounting for Investment Properties', investment properties are revalued annually at market value determined in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors. Revaluation surpluses and temporary deficits are included in the revaluation reserve, permanent deficits are being taken through the profit and loss account.

No depreciation or amortisation is provided in respect of freehold investment properties and leasehold investment properties with over 20 years to run. This treatment, which is in accordance with SSAP 19, may be a departure from the requirements of the Companies Act concerning depreciation of fixed assets. However, these properties are not held for consumption but for investment and the directors consider that systematic annual depreciation would be inappropriate.

The accounting policy adopted is therefore necessary for the financial statements to give a true and fair view. Depreciation or amortisation is only one of many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

Taxation

The charge for taxation is based on the profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Interest and other outgoings on property developments

Interest and other outgoings on vacant properties prior to redevelopment are treated as revenue expenditure and written off as incurred. Interest costs on properties in development are written off as incurred.

Portman Investments (Farnham) Limited

Notes (continued)

(forming part of the financial statements)

Classification of financial instruments issued by the Company

Financial instruments issued by the Company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions

- a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company, and
- b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds (see dividends policy), are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Going concern

The company is dependant for its working capital on funds provided to it by Derwent London plc, the new ultimate holding company, which has provided the company with an undertaking that for at least 12 months from the date of approval of these financial statements, it will continue to make available such funds as they are needed by the company and in particular will not seek repayment of the amounts currently made available. This should enable the company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for repayment. As with any company placing reliance on other Group entities for financial support, the directors acknowledge that there can be no certainty that support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Based on this understanding the directors believe that it remains appropriate to prepare the financial statements on a going concern basis notwithstanding the net current liabilities on the company's balance sheet. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

Portman Investments (Farnham) Limited

Notes (continued)

2 Net rental income from investment properties

	For the 9 months ended 31 December 2006 £	For the year ended 31 March 2006 £
Gross rental income	1,242,532	1,303,254
Property outgoings less amounts recovered from tenants	(66,727)	(70,845)
	<hr/>	<hr/>
	1,175,805	1,232,409
	<hr/>	<hr/>

3 Administrative expenses

Audit fees have been paid by London Merchant Securities Limited in both periods

The Company does not have any employees (31 March 2006 nil) and there were no directors' emoluments (31 March 2006 £nil)

4 Other interest receivable and similar income

	For the 9 months ended 31 December 2006 £	For the year ended 31 March 2006 £
Short term deposits	8,078	3,511
Interest on late rent	6,027	-
	<hr/>	<hr/>
	14,105	3,511
	<hr/>	<hr/>

Portman Investments (Farnham) Limited

Notes (continued)

5 Tax on profit on ordinary activities

	For the 9 months ended 31 December 2006	For the year ended 31 March 2006
	£	£
Analysis of charge/(credit) in the period/year		
UK Corporation tax		
Current tax on income for the current year	206,717	105,607
Adjustments in respect of prior periods	49,112	(190,004)
	<hr/>	<hr/>
Total current tax	255,829	(84,397)
	<hr/>	<hr/>
Deferred tax		
Origination/reversal of timing differences	9,671	17,192
Adjustments in respect of prior periods	-	7,200
	<hr/>	<hr/>
Total deferred tax charge	9,671	24,392
	<hr/>	<hr/>
	<hr/>	<hr/>
Total tax	265,500	(60,005)
	<hr/>	<hr/>

Factors affecting the tax charge/(credit) for the period

The current tax charge for the period is lower (31 March 2006 lower) than the standard rate of corporation tax in the UK of 30% (31 March 2006 30%) The differences are explained below

	For the 9 months ended 31 December 2006	For the year ended 31 March 2006
	£	£
Current tax reconciliation		
Profit on ordinary activities before taxation	1,189,858	1,230,677
	<hr/>	<hr/>
Current tax at 30% (31 March 2006 30%)	356,957	369,203
Effects of		
Capital allowances for year in excess of depreciation	(9,671)	(17,192)
Adjustments to tax charge in respect of previous periods	49,112	(190,004)
Transfer pricing adjustment	(141,481)	(246,404)
Other items	912	-
	<hr/>	<hr/>
Current tax charge/(credit) for the period/year	255,829	(84,397)
	<hr/>	<hr/>

Portman Investments (Farnham) Limited

Notes (continued)

6 Dividends

	For the 9 months ended 31 December 2006	For the year ended 31 March 2006
	£	£
The aggregate amount of dividends comprises		
Final dividends paid in respect of prior year but not recognised as liabilities in that period/year	-	(928,962)
Aggregate amount of dividends paid in the financial period/year	-	(928,962)

The aggregate amount of dividends proposed and recognised as liabilities at the nine month period ended 31 December 2006 is £nil (31 March 2006 £nil)

7 Tangible fixed assets

Investment properties	Freehold £
Valuation	
At 1 April 2006	27,600,000
Surplus on revaluation	1,800,000
At 31 December 2006	29,400,000
Historical cost of revalued assets	£
At 31 December 2006	12,817,278
At 31 March 2006	12,817,278

The investment properties have been independently valued by CB Richard Ellis, Chartered Surveyors, of London as at 31 December 2006 on the basis of "Market Value" in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors

Portman Investments (Farnham) Limited

Notes (continued)

8 Debtors

	31 December 2006	31 March 2006
	£	£
Trade debtors	492,841	332,673
Other debtors	-	41,570
Prepayments and accrued income	529	2,085
	<hr/>	<hr/>
	493,370	376,328
	<hr/>	<hr/>

9 Creditors amounts falling due within one year

	31 December 2006	31 March 2006
	£	£
Rent received in advance	347,703	287,985
Amounts owed to group undertakings	9,745,518	10,689,689
Corporation tax	368,635	295,008
Taxation and social security	63,555	47,712
Other creditors	1,815	3,710
Accruals and deferred income	-	20,210
	<hr/>	<hr/>
	10,527,226	11,344,314
	<hr/>	<hr/>

10 Provisions for liabilities and charges

	31 December 2006	31 March 2006
	£	£
Provision for deferred taxation		
At 31 March 2006	111,430	87,038
Charge to the profit and loss for the period/year	9,671	24,392
	<hr/>	<hr/>
At December 2006	121,101	111,430
	<hr/>	<hr/>
 The deferred tax liability is made up of	£	£
Capital allowances in excess of depreciation	121,101	111,430
	<hr/>	<hr/>

Portman Investments (Farnham) Limited

Notes (continued)

11 Called up share capital

	31 December 2006 £	31 March 2006 £
Authorised		
1,000 Ordinary shares of £1 each	1,000	1,000
	<hr/>	<hr/>
Allotted, called up and fully paid		
2 Ordinary shares of £1 each	2	2
	<hr/>	<hr/>

12 Reserves

	Revaluation reserve £	Profit and loss account £
At 1 April 2006	15,230,000	1,290,683
Profit for the financial period	-	924,358
Surplus on revaluation of investment properties	1,800,000	-
	<hr/>	<hr/>
At 31 December 2006	17,030,000	2,215,041
	<hr/>	<hr/>

13 Reconciliation of movements in equity shareholders' funds

	31 December 2006 £	31 March 2006 £
Profit for the financial period/year	924,358	1,290,682
Dividends on shares classified in shareholders' funds	-	(928,962)
	<hr/>	<hr/>
Retained profit	924,358	361,720
Other recognised gains and losses relating to the period (net)	1,800,000	4,800,000
	<hr/>	<hr/>
Net movement in shareholders' funds	2,724,358	5,161,720
Opening shareholders' funds	16,520,685	11,358,965
	<hr/>	<hr/>
Closing shareholders' funds	19,245,043	16,520,685
	<hr/>	<hr/>

Portman Investments (Farnham) Limited

Notes (continued)

14 Contingent liabilities

No provision has been made for any taxes which might become payable in the event of future sales or deemed disposals of properties at their book values. In the opinion of the directors any such contingent liability would be £4,070,343 (31 March 2006 £2,051,233)

15 Reconciliation of operating profit to net cash inflow from operating activities

	31 December 2006 £	31 March 2006 £
Operating profit	1,175,753	1,227,166
(Increase)/decrease in debtors	(117,042)	82,540
Increase/(decrease) in creditors	53,456	(25,757)
Net cash inflow from operating activities	1,112,167	1,283,949

16 Analysis of net debt

	At 31 March 2006 £	Cash flow £	At 31 March 2006 £
Cash at bank and in hand	101	(101)	-
Debt due within one year			
Loans from group undertakings	(10,689,689)	944,171	(9,745,518)
	(10,689,588)	944,070	(9,745,518)

17 Related party transactions

The Company has received funding of £9,745,518 (31 March 2006 £10,689,689) from Portman Investments (Baker Street) Limited, its immediate parent company. At December 2006, London Merchant Securities plc (now known as London Merchant Securities Limited) was also the ultimate holding company of Portman Investments (Baker Street) Limited.

The balance is payable on demand and non-interest bearing.

The Company paid a property management fee of £31,063 (31 March 2006 £33,701) during the year to a fellow subsidiary LMS Services Limited. At December 2006, London Merchant Securities plc (now known as London Merchant Securities Limited) was also the ultimate holding company of LMS Services Limited.

18 Subsequent events

London Merchant Securities Limited, the Company's ultimate parent company, merged with Derwent London plc on 1 February 2007.

The Company's ultimate parent company is Derwent London plc, subsequent to the merger.

Portman Investments (Farnham) Limited

Notes (continued)

19 Ultimate parent company and parent undertaking of larger group of which the company is a member

At 31 December 2006, the Company was a subsidiary undertaking of London Merchant Securities plc (now known as London Merchant Securities Limited), which was the ultimate holding company

London Merchant Securities Limited is incorporated in England and Wales

No other group financial statements include the results of the Company. The consolidated financial statements of London Merchant Securities Limited are available to the public and may be obtained from Companies House

On 1 February 2007, Derwent London plc became the ultimate holding company (see 'Subsequent events' note)