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Portman Square Properties Limited

Report and Financial Statements

Year Ended

31 December 2007



BDO Stoy Hayward
Chartered Accountants

PORTMAN SQUARE PROPERTIES LIMITED

Annual report and financial statements for the year ended 31 December 2007

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Directors

L Sebba
R H Ashby
A M M Ross
B C Davis

Secretary and registered office

B C Davis, 465 Salisbury House, London Wall, London EC2M 5RQ

Company number

3872261

Auditors

BDO Stoy Hayward LLP, 2 City Place, Beehive Ring Road, Gatwick, West Sussex RH6 0PA

PORTMAN SQUARE PROPERTIES LIMITED

Report of the directors for the year ended 31 December 2007

The directors present their report together with the audited financial statements for the year ended to 31 December 2007

Results and dividends

The profit and loss account is set out on page 5 and shows the loss for the year

The directors do not recommend the payment of an ordinary dividend (2006 - £Nil)

Principal activities, trading review and future developments

The principal activity of the company continued to be that of property investment

During the year to 31 December 2007, as the property was let, rental and service charge income increased. However, costs of sales also increased due to the costs of letting, unrecoverable service charge costs, the refurbishment of the flats and the cost of settling a border dispute with the adjacent landowner. The entirety of the commercial element of the property is now let and as a result, in 2008, rental and service charge income will increase and property outgoings will reduce. Administration charges have increased because with effect from 1 January 2007, following a group reorganisation, charges for managing the Company's property have been levied by its associated company, Wardrobe Court Limited (see note 15). Also, with effect from 1 January 2007 interest has been charged to the Company on advances made to it by its associated company Warnford Investments Limited (see note 15). The value of the property decreased over the period because of an adverse movement in property yields resulting from the world wide debt crisis.

The directors expect the company to continue the principal activity for the foreseeable future

Principal risks and uncertainties

The Company's financial performance is exposed to the risk of increased interest rates and adverse movements in rent levels and investment yields and the failure of tenants to meet their lease obligations. The directors ensure that the Company's property is maintained to a standard appropriate to its type and location so as to minimise the risk of reduced rental income and decreased property values. In addition, leases are generally granted on a five yearly, upward only, review pattern. Careful consideration is given to the quality of the covenant of prospective tenants before leases are granted and where appropriate rent deposits or guarantees are sought. Credit control is closely monitored and action taken, as and when appropriate to ensure that large outstanding balances do not arise. Interest charged on advances by Warnford Investments Limited is linked to base rate to ensure that a market rate is charged.

Financial instruments – risk management

In the period to 31 December 2007 the Company borrowed funds from its associated company, Warnford Investments Limited at a commercial rate of interest. The company has not entered into any derivative contracts.

PORTMAN SQUARE PROPERTIES LIMITED

Report of the directors for the year ended 31 December 2007 (*Continued*)

Directors

The directors of the company during the year were

L Sebba
R H Ashby
A M M Ross
B C Davis

Directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing these financial statements, the directors are required to

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

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

Auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware

By order of the Board



B C Davis
Secretary

Date 17 March 2008

PORTMAN SQUARE PROPERTIES LIMITED

Report of the independent auditors

To the Shareholders of Portman Square Properties Limited

We have audited the financial statements of Portman Square Properties 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

The directors' responsibilities for preparing 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 have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the directors' report is consistent with those financial statements. We also 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.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

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.

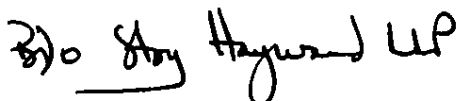
PORTMAN SQUARE PROPERTIES LIMITED

Report of the independent auditors (*Continued*)

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007 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



BDO STOY HAYWARD LLP

*Chartered Accountants
and Registered Auditors*
Gatwick

Date 17 March 2008

PORTMAN SQUARE PROPERTIES LIMITED

Profit and loss account for the year ended 31 December 2007

	Note	Year ended 31 December 2007 £	Period ended 31 December 2006 £
Turnover	2	3,150,122	350,602
Cost of sales		(2,892,739)	(1,321,507)
Gross profit/(loss)		257,383	(970,905)
Administrative expenses		(810,196)	(11,550)
Operating loss	3	(552,813)	(982,455)
Interest receivable	4	1,237	93
Interest payable	4	(2,337,520)	-
Loss on ordinary activities before taxation		(2,889,096)	(982,362)
Tax on profit on ordinary activities	6	591,764	(359,886)
Loss on ordinary activities after taxation	12	(2,297,332)	(1,342,248)

The profit and loss account has been prepared on the basis that all operations are continuing operations

The notes on pages 8 to 15 form part of these financial statements

PORTMAN SQUARE PROPERTIES LIMITED

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

	Note	Year ended 31 December 2007 £	Period ended 31 December 2006 £
Loss for the financial year/period		(2,297,332)	(1,342,248)
Unrealised surplus on revaluation of properties	12	(3,185,778)	18,550,321
		<hr/>	<hr/>
Total recognised gains and losses relating to the year/period		(5,483,110)	17,208,073
		<hr/>	<hr/>

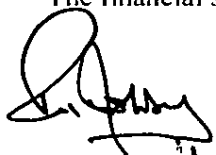
The notes on pages 8 to 15 form part of these financial statements

PORTMAN SQUARE PROPERTIES LIMITED

Balance sheet at 31 December 2007

	Note	31 December 2007 £	31 December 2007 £	31 December 2006 £	31 December 2006 £
Fixed assets					
Tangible assets	7		61,035,892		63,847,425
Current assets					
Debtors - due within one year	8	1,102,916	-	251,089	
- due after more than one year	8	1,178,244		213,335	
		2,281,160		464,424	
Creditors: amounts falling due within one year	9	(39,729,390)		(34,649,313)	
Net current liabilities			(37,448,230)		(34,184,889)
Total assets less current liabilities			23,587,662		29,662,536
Provision for liabilities and charges	10		-		(591,764)
Net assets			23,587,662		29,070,772
Capital and reserves					
Called up share capital	11		1		1
Revaluation reserve	12		24,632,072		27,817,850
Profit and loss account	12		(1,044,411)		1,252,921
Shareholders' funds	13		23,587,662		29,070,772

The financial statements were approved by the Board and authorised for issue on 17 March 2008


R H Ashby
Director

The notes on pages 8 to 15 form part of these financial statements

PORTMAN SQUARE PROPERTIES LIMITED

Notes forming part of the financial statements for the year ended 31 December 2007

1 Accounting policies

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties, and in accordance with applicable accounting standards. The company has taken advantage of the provisions in Financial Reporting Standard No 1 and has not prepared a cash flow statement. The following principal accounting policies have been applied:

Turnover

Turnover represents rents and service charges receivable.

Tangible fixed assets and depreciation

Investment properties are revalued annually and the aggregate surplus or deficit is transferred to revaluation reserve. No depreciation is provided in respect of investment properties. The Companies Act 1985 requires all properties to be depreciated. However, this requirement conflicts with the generally accepted accounting principle set out in Statement of Standard Accounting Practice No 19. The directors consider that, as these properties are not held for consumption, but for investment potential, to depreciate them would not give a true and fair view.

If this departure from the Act had not been made, the loss for the financial year would have been increased by depreciation. The directors consider that it would be neither practical nor of real value to determine the level of the depreciation charge.

Refurbishments

Expenditure on refurbishment of vacant premises is charged to income in the year in which it is incurred.

Pensions

The cost of the company's contributions to personal pension plans are charged to the profit and loss account in the year to which they reflect.

Deferred taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that:

- deferred tax is not recognised on timing differences arising on revalued properties unless the company has entered into a binding sale agreement and is not proposing to take advantage of rollover relief, and
- the recognition of deferred tax assets is limited to the extent that the company anticipates to make sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances arising from underlying timing differences in respect of tax allowances on industrial buildings are reversed if and when all conditions for retaining those allowances have been met.

Deferred tax balances are not discounted.

PORTMAN SQUARE PROPERTIES LIMITED

Notes forming part of the financial statements for the year ended 31 December 2007 (*Continued*)

1 Accounting policies (*continued*)

Operating lease incentives

Amounts granted either by or to the company as incentives to sign operating leases are, where material, spread on a straight line basis over the shorter of the lease term and the year to the review date on which the rent is first expected to be adjusted to the prevailing market rate

Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by shareholders at an annual general meeting.

2 Turnover

	Year ended 31 December 2007 £	Period ended 31 December 2006 £
Rents receivable	2,687,265	383,770
Service charges receivable	462,857	(33,168)
	<u>3,150,122</u>	<u>350,602</u>

3 Operating loss

	Year ended 31 December 2007 £	Period ended 31 December 2006 £
Operating loss is stated after charging		
Auditors' remuneration	5,500	1,300
	<u>5,500</u>	<u>1,300</u>

4 Net interest payable

	Year ended 31 December 2007 £	Period ended 31 December 2006 £
Interest receivable from parent undertaking	1,012	-
Other interest receivable	225	93
Total interest receivable	<u>1,237</u>	<u>93</u>
Interest payable to associated undertaking	(2,337,520)	-
	<u>(2,336,283)</u>	<u>93</u>

PORTMAN SQUARE PROPERTIES LIMITED

Notes forming part of the financial statements for the year ended 31 December 2007 (*Continued*)

5 Employees

The average monthly employees (excluding directors) during the year was

	Year ended 31 December 2007 Number	Period ended 31 December 2006 Number
Administration	1	1
	<u>1</u>	<u>1</u>
	£	£
Employment costs		
Wages and salaries	34,600	25,250
Social security costs	4,253	3,189
Other pension costs	2,933	1,991
	<u>41,786</u>	<u>30,430</u>

The directors did not receive any emoluments during the year

6 Taxation

	Year ended 31 December 2007 £	Period ended 31 December 2006 £
<i>Current tax</i>		
UK corporation tax on profits of the year	-	-
<i>Deferred tax</i>		
Movement in deferred tax provision (note 10)	(591,764)	359,886
	<u>(591,764)</u>	<u>359,886</u>
Taxation on profit on ordinary activities	(591,764)	359,886

PORTMAN SQUARE PROPERTIES LIMITED

Notes forming part of the financial statements for the year ended 31 December 2007 (Continued)

6 Taxation (Continued)

The tax assessed for the year is more than the standard rate of corporation tax in the UK. The differences are explained below

	Year ended 31 December 2007 £	Period ended 31 December 2006 £
Loss on ordinary activities before tax	(2,889,096)	(982,362)
Loss on ordinary activities at the standard rate of corporation tax in the UK of 30% (2006 – 30%)	(866,729)	(294,708)
Effects of		
Expenses not deductible for tax purposes	15,900	16,051
Capital allowances for year in excess of depreciation	-	(359,886)
Group relief adjustment for losses in respect of the previous year	-	80,126
Group relief	-	558,417
Losses carried forward	850,829	-
Current tax charge for year	-	-

7 Tangible fixed assets

	Leasehold investment property £
Valuation	
At 26 December 2006	63,847,425
Additions	374,245
Revaluation surplus	(3,185,778)
At 31 December 2007	61,035,892
Depreciation	
At 26 December 2006 and 31 December 2007	-
Net book value	
At 31 December 2007	61,035,892
Net book value	
At 31 December 2006	63,847,425

PORTMAN SQUARE PROPERTIES LIMITED

Notes forming part of the financial statements for the year ended 31 December 2007 (Continued)

7 Tangible fixed assets (continued)

Cost	£
At 31 December 2006	36,029,575
Additions	374,245
	<hr/>
At 31 December 2007	36,403,820
	<hr/> <hr/>

The properties were valued by CB Richard Ellis Limited, Chartered Surveyors, in accordance with the Appraisal and Valuation Manual issued by the Royal Institute of Chartered Surveyors on basis of open market value as at 31 December 2007 at a total of £61,035,892 (2006 - £63,847,425) The properties are held as long term investments and no allowance has been made for tax on capital gains which would become payable if any properties were sold at the amount at which they are valued In the opinion of the directors, this contingent liability amounts to £8,593,000 (2006 - £10,500,000)

8 Debtors

	2007 £	2006 £
Amounts receivable within one year		
Trade debtors	474,592	7,416
Prepayments and accrued income	594,497	149,877
Other taxes and social security costs	-	93,796
Amounts due from parent undertaking	33,827	-
	<hr/>	<hr/>
	1,102,916	251,089
	<hr/> <hr/>	<hr/> <hr/>
Amounts receivable after more than one year		
Trade debtors	1,178,244	213,335
	<hr/> <hr/>	<hr/> <hr/>

9 Creditors: amounts falling due within one year

	2007 £	2006 £
Accruals and deferred income	2,034,295	1,166,682
Amounts due to related (2006 parent) undertakings	37,695,095	33,482,631
	<hr/>	<hr/>
	39,729,390	34,649,313
	<hr/> <hr/>	<hr/> <hr/>

PORTMAN SQUARE PROPERTIES LIMITED

Notes forming part of the financial statements for the year ended 31 December 2007 *(Continued)*

10 Provision for liabilities and charges

		Deferred taxation £
Balance at 31 December 2006		591,764
Credited to profit and loss account (note 6)		(591,764)
		<u> </u>
Balance at 31 December 2007		-
		<u> </u>
	2007 £	2006 £
Accelerated capital allowances	-	591,764
	<u> </u>	<u> </u>

11 Share capital

Authorised		
100 Ordinary shares of £1 each	100	100
	<u> </u>	<u> </u>
Allotted, called up and fully paid		
1 Ordinary shares of £1 each	1	1
	<u> </u>	<u> </u>

12 Statement of movements on reserves

	Revaluation reserve £	Profit and loss account £
Balance at 31 December 2006	27,817,850	1,252,921
Loss for the year	-	(2,297,332)
Revaluation during the year	(3,185,778)	-
	<u> </u>	<u> </u>
Balance at 31 December 2007	24,632,072	(1,044,411)
	<u> </u>	<u> </u>

PORTMAN SQUARE PROPERTIES LIMITED

Notes forming part of the financial statements for the year ended 31 December 2007 *(Continued)*

13 Reconciliation of movements in shareholders' funds

	2007 £	2006 £
Loss for the financial year	(2,297,332)	(1,342,248)
Other recognised gains and losses	(3,185,778)	18,550,321
	<hr/>	<hr/>
Net increase in shareholders' funds	(5,483,110)	17,208,073
Opening shareholders' funds	29,070,772	11,862,699
	<hr/>	<hr/>
Closing shareholders' funds	23,587,662	29,070,772
	<hr/>	<hr/>

14 Ultimate parent company and control

The immediate and ultimate parent company is Portman Square Properties Holdings Limited which owns and controls 100% of the company's issued share capital. The ultimate control is held by the Sebba family and related parties who together hold a controlling interest in the company.

Group accounts for Portman Square Properties Holdings Limited are available to the public on payment of the appropriate fee from Companies House, Crown Way, Mandy, Cardiff CF4 3UZ.

15 Related party transactions

The company has taken advantage of the exemption from disclosing transactions with companies in which 90% of the voting rights are controlled within the group and those companies are included in the consolidated accounts of Portman Square Properties Holdings Limited.

During the year to 31 December 2007 management fees of £790,897 were charged by Wardrobe Court Limited for managing the Company's property. Wardrobe Court Limited is a wholly owned subsidiary of Wardrobe Holdings Limited, a company under the control of the Sebba family and related parties.

During the year to 31 December 2007 interest of £2,337,520 was paid by the Company to Warnford Investments Limited in connection with funds that had been advanced to the Company by Warnford Investments Limited. The amount due to Warnford Investments Limited as at 31 December 2007 amounted to £37,695,095. Warnford Investments Limited is a wholly owned subsidiary of Warnford Investments Holdings Limited, a company under the control of the Sebba family and related parties.

16 Tenants deposits

£1,693,568 (2006 - £801,700) has been deposited by tenants as security for their obligation under their leases. Of this amount £1,693,568 (2006 - £801,700) is held in bank deposit accounts not shown in the financial statements and the interest thereon accrues for the benefit of the tenants.

PORTMAN SQUARE PROPERTIES LIMITED

Notes forming part of the financial statements for the year ended 31 December 2007 *(Continued)*

17 Pension costs

The company contributes to personal pension plans of individual employees. The pension cost charge represents contributions payable by the company to the plans and amounted to £2,456 (2006 - £1,763)