

Registered No 4954323

Kandahar (Kingston) Limited

**Annual report for the
9 month period ended
31 December 2006**

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Kandahar (Kingston) Limited

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Directors and advisers

Directors

J H Dale
M McGann
M Tyler
Miss A Hill

Secretary and registered office

M McGann
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
Level 3
21-23 Hill Street
London
W1J 5JW

Report of the Directors for the 9 month period ended 31 December 2006

The directors present their report and the audited financial statements of the company for the period ended 31 December 2006

Principal activity

The principal activity of the company in the year under review was that of owning and managing commercial property

Business Review

During the period the company successfully continued to enhance the value of its property portfolio through effective asset management

Dividends and transfer to reserves

The directors do not propose to pay a dividend in respect of the period ended 31 December 2006. The loss for the financial period of £52,721 will be charged against reserves

Financial risk management

The main financial risk which the company faces is liquidity risk. This is managed by entering into intergroup loans with other group companies and the company's bankers on appropriate terms

Directors

The directors during the year under review were

J H Dale
M McGann
M Tyler
Miss A Hill

The directors holding office at 31 December 2006 did not hold any beneficial interest in the issued share capital of the company

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial period 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 period. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business. The directors have received assurances from the ultimate parent company that it will continue to provide funding for the foreseeable future while the company remains a Kandahar Group Limited subsidiary

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the period ended 31 December 2006 and that applicable accounting standards have been followed

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.

Disclosure of information to auditors

So far as the directors are aware, there is no relevant audit information (that is, information needed by the company's auditors in connection with preparing their report) of which the company's auditors are unaware. The directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the annual general meeting.

By order of the Board

Martin McQuinn

Company secretary

11th October 2007

**Independent auditors' report to the members of
Kandahar (Kingston) Limited**

We have audited the financial statements of Kandahar (Kingston) Limited for the period ended 31 December 2006 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). 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 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 United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its loss 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

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

11 October 2007

Profit and loss account for the 9 month period ended 31 December 2006

	Notes	Period ended 31 December 2006 £	Year ended 31 March 2006 £
Turnover	1	312,839	417,000
Administrative expenses		(58,207)	(71,065)
Operating profit	2	254,632	345,935
Interest receivable and similar income		1,167	2,431
Interest payable and similar charges	3	(308,520)	(357,161)
Loss on ordinary activities before taxation		(52,721)	(8,795)
Tax on loss on ordinary activities	4	-	-
Loss for the financial period after taxation	10,11	(52,721)	(8,795)

The above results relate to the continuing operations of the company

There is no difference between the profit on ordinary activities before taxation and profit for the period stated above and their historical cost equivalents

Statement of total recognised gains and losses for the 9 month period ended 31 December 2006

	Notes	Period ended 31 December 2006 £	Year ended 31 March 2006 £
Loss for the financial period		(52,721)	(8,795)
Revaluation of investment property	5	6,000	1,044,417
Total recognised gains and losses relating to the period		(46,721)	1,035,622

Balance sheet as at 31 December 2006

	Notes	31 December 2006 £	31 March 2006 £
Fixed assets			
Tangible assets	5	9,280,000	9,280,000
Current assets			
Debtors	6	155,627	342,454
Cash at bank		40,889	7,645
		<u>196,516</u>	<u>350,099</u>
Creditors amounts falling due within one year	7	<u>(5,820,877)</u>	<u>(171,728)</u>
Net current (liabilities)/assets		(5,624,361)	178,371
Total assets less current liabilities		3,655,639	9,458,371
Creditors amounts falling due after more than one year	8	<u>(2,129,469)</u>	<u>(7,885,480)</u>
Net assets		<u>1,526,170</u>	<u>1,572,891</u>
Capital and reserves			
Called up share capital	9	1	1
Revaluation reserve	10	1,504,034	1,498,034
Profit and loss account	10	<u>22,135</u>	<u>74,856</u>
Shareholders' funds	11	<u>1,526,170</u>	<u>1,572,891</u>

The financial statements on pages 6 to 12 were approved by the board of directors on 11/10/2007 and were signed on its behalf by

Martin McGann

Director

Notes to the Financial Statements for the 9 month period ended 31 December 2006**1. Principal accounting policies**

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Going concern

The company has received an undertaking from Kandahar Group Limited that such funds will be made available so that the company is able to continue as a going concern for a period of at least 12 months from the date of approval of the financial statements. As such the financial statements have been prepared on the going concern basis.

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

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date.

Cashflow statement

The company is exempt from publishing a cash flow statement as it qualifies as a small company.

2. Operating profit

The operating profit is stated after charging

	Period ended 31 December 2006 £	Year ended 31 March 2006 £
Auditors' remuneration	-	4,500

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

3. Interest payable and similar charges

	Period ended 31 December 2006 £	Year ended 31 March 2006 £
Bank loans and overdrafts	308,520	357,161

4 Taxation

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

	Period ended 31 December 2006 £	Year ended 31 March 2006 £
Loss on ordinary activities before tax	(52,721)	(8,795)
Multiplied by the standard rate of tax of 30%	(15,816)	(2,638)
Timing differences	(5,114)	2,638
Losses carried forwards	20,930	-
Bank loans and overdrafts	-	-

5. Tangible fixed assets

	Investment Property £
At 1 April 2006	9,280,000
Disposal	(6,000)
Revaluation	6,000
At 31 December 2006	<u>9,280,000</u>

The investments property was valued at £9,280,000 on an open market basis by DTZ Debenham Tie Leung as at 31 December 2006

The taxable gain that would arise on the sale of the investment property at its book value has been estimated at £227,000. The company would seek to utilise group losses to reduce this amount.

6. Debtors

	31 December 2006 £	31 March 2006 £
Trade debtors	155,627	172,454
Amounts owed by related parties	-	170,000
	<u>155,627</u>	<u>342,454</u>

7. Creditors: amounts falling due within one year

	31 December 2006 £	31 March 2006 £
Trade creditors	30,277	33,305
Amounts owed to related parties	5,680,405	33,878
Social security and other taxes	14,054	11,120
Accruals and deferred income	96,141	93,425
	<u>5,820,877</u>	<u>171,728</u>

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

	31 December 2006 £	31 March 2006 £
Amounts owed to related parties	<u>2,129,469</u>	<u>7,885,480</u>

9. Called up share capital

	31 December 2006 £	31 March 2006 £
Authorised		
10,000 Ordinary shares of £1 each	<u>10,000</u>	<u>10,000</u>
Allotted, called up and fully paid		
1 Ordinary share of £1 each	<u>1</u>	<u>1</u>

10. Reserves

	Profit and loss account £	Revaluation reserve £	Total £
At 1 April 2006	74,856	1,498,034	1,572,890
Loss for the period	(52,721)	-	(52,721)
Revaluation surplus	<u>-</u>	<u>6,000</u>	<u>6,000</u>
At 31 December 2006	<u>22,135</u>	<u>1,504,034</u>	<u>1,526,169</u>

11. Reconciliation of movement in shareholders funds

	Period ended 31 December 2006 £	Year ended 31 March 2006 £
Loss for the period	(52,721)	(8,795)
Revaluation surplus	<u>6,000</u>	<u>1,044,417</u>
	(46,721)	1,035,622
Opening shareholders' funds	<u>1,572,891</u>	<u>537,269</u>
Closing shareholders' funds	<u>1,526,170</u>	<u>1,572,891</u>

12 Contingent Liabilities

The bank loan in Kandahar (Great Malvern) Limited, a company under common control, is secured on the investment property owned by Kandahar (Kingston) Limited

13 Ultimate controlling party

The company is a wholly owned subsidiary of Kandahar Group Limited, whose ultimate controlling party of the company is considered to be Kandahar (Luxembourg) No 2 Ltd

14 Related party disclosures

The company had the following amounts outstanding with fellow group companies as at the end of the year

Company	Debtor	Creditor
Kandahar (Caterham) Limited	90,000	-
Kandahar (Droitwich) Limited	78,000	-
Kandahar (Great) Malvern Limited	-	(5,909,531)
Kandahar Group Limited	-	(18,645)
Kandahar (Ipswich) Limited	-	(18,058)
Kandahar Management Company Limited	87,829	-
Kandahar (Nottingham) Ltd	10,000	-
	<u>265,829</u>	<u>(5,946,234)</u>

At the balance sheet date, the company owed the related party Dimelight Ltd £2,129,469 (prior period £7,885,480)

15 Post balance sheet events

Following the year end the group of which the company is part refinanced its external borrowings to achieve more advantageous terms