

Kandahar (Bishop's Stortford) Limited
Directors' report and financial statements
For the year ended
31 December 2009

Registered Number: 5468961

WEDNESDAY



L14 *LI00GNTZ* 18
29/09/2010
COMPANIES HOUSE

Kandahar (Bishop's Stortford) Limited

Contents

	Page
Directors' report	1
Independent auditors' report	3
Profit and loss account	4
Balance sheet	6
Notes to the financial statements	7

Kandahar (Bishop's Stortford) 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 at the balance sheet date 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 financial statements of Kandahar Group Limited. The consolidated financial statements of Kandahar Group Limited can be obtained from the Company's office (Nuffield House, 41-46 Piccadilly, London, W1J 0DS).

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

Results and dividends

The Director does not propose to pay a dividend in respect of the year ended 31 December 2009 (2008 £nil). The profit for the financial year was £nil (2008 £nil).

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 uncertainty with regard to preparing the financial statements 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.

Kandahar (Bishop's Stortford) Limited

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

Directors

The Directors during the year under review and up to the date of this report were as follows

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 year. 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 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

Kandahar (Bishop's Stortford) Limited

Independent auditors' report to the members of Kandahar (Bishop's Stortford) Limited

We have audited the financial statements of Kandahar (Bishop's Stortford) Limited for the year ended 31 December 2009 which comprise the Profit and loss account, 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 profit 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 2010. The Group's banker, HBOS and the shareholder of Kandahar Real Estate, The Kandahar Trust, have confirmed to the Director of the Company that they will continue to provide sufficient financial support to allow the Group and 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 Group and the Company to continue as a going concern. The financial statements do not include the adjustments that would result if the Group and the Company were unable to continue as a going concern.

Kandahar (Bishop's Stortford) Limited

Independent auditors' report to the members of Kandahar (Bishop's Stortford) 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

Kandahar (Bishop's Stortford) Limited

Profit and loss account for the year ended 31 December 2009

	Note	2009 £'000	2008 £'000
Administrative expenses		-	-
Operating profit	2	-	-
Interest receivable and similar income		-	-
Interest payable and similar charges	3	-	-
Profit on ordinary activities before taxation		-	-
Tax on profit ordinary activities	4	-	-
Profit for the financial year	8	-	-

The above results relate to the continuing operations of the Company

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

There are no recognised gains and losses for the year apart from the profit and loss account presented above. Therefore no statement of total recognised gains and losses are prepared separately

Kandahar (Bishop's Stortford) Limited

Balance sheet as at 31 December 2009

		2009	2008
	Note	£'000	£'000
Current assets			
Debtors	5	-	-
Creditors: amounts falling due within one year	6	<u>(1,166)</u>	<u>(1,166)</u>
Net current liabilities		(1,166)	(1,166)
 Capital and reserves			
Called up share capital	7	-	-
Profit and loss account	8	<u>(1,166)</u>	<u>(1,166)</u>
Total shareholders' deficit	9	<u>(1,166)</u>	<u>(1,166)</u>

The financial statements on pages 5 to 10 (Registered number 5468961) were approved by the Board of Directors on 29 September 2010 and were signed on its behalf by



A Hill
Director

Kandahar (Bishop's Stortford) 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 a subsidiary 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 in 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.

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

Kandahar (Bishop's Stortford) Limited

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

1. Basis of preparation (continued)

Going concern (continued)

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.

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 disclosure' from disclosing related party transactions with entities that are part of Kandahar Group Limited group of companies.

Kandahar (Bishop's Stortford) Limited

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

2 Operating profit

The Director was the sole employees of the Company and 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
Bank charges	-	-
Interest payable to Group undertakings	-	-
	<u>-</u>	<u>-</u>

4. Tax on profit on ordinary activities

The company has not traded in the year ended 31 December 2009 or in the year ended 31 December 2008. Therefore, no tax liabilities/credits have arisen.

5. Debtors

	2009 £'000	2008 £'000
Amounts owed by Group undertakings	-	-
Prepayments and accrued income	-	-
Total	<u>-</u>	<u>-</u>

6. Creditors' amounts falling due within one year

	2009 £'000	2008 £'000
Amounts owed to Group undertakings	1,166	1,166
Total	<u>1,166</u>	<u>1,166</u>

The amounts owed to Group undertakings are unsecured, non-interest bearing and have no fixed term of repayment.

7. Called up share capital

	2009 £'000	2008 £'000
Authorised		
10,000 ordinary shares of £1 each	10	10
Allotted and fully paid		
1 ordinary share of £1 each	-	-

Kandahar (Bishop's Stortford) Limited

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

8 Profit and loss account

	Profit and loss account £'000
At 31 December 2009 and 2008	<u>(1,166)</u>

9 Reconciliation of movement in shareholders' deficit

	2009 £'000	2008 £'000
Profit for the financial year	-	-
Opening shareholders' deficit	<u>(1,166)</u>	<u>(1,166)</u>
Closing shareholders' deficit	<u><u>(1,166)</u></u>	<u><u>(1,166)</u></u>

10 Ultimate controlling party

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