Serviced Office Group plc

Annual Report and Accounts
31st December 2008

Contents

Chairman's statement

Serviced Office Group plc provides flexible office space, virtual offices, meeting rooms and high-grade IT. The Group is currently operating and managing 17 locations.

Financial highlights of these results include:

- Total Revenues for the year of 6.89m (2007: £6.38m) an increase of 8%;
- EBITDA (pre effect of revaluation) of £1.3m (2007: £1.1m) an increase of 12%;
- Cash flow positive from operations;
- Operating (loss)/profit of £(5.02)m (2007: £1.32m);
- Loss before tax of £6.45m (2007: profit £36,000);
- Basic loss per share of 6.30p (2007: profit 0.04p); and
- Net asset value per share of 1.4p on both basic and fully diluted bases. Please refer to page 2 for the positive impact of the buyout by SOG of the interest owned by UBS in the Joint Venture company Consort Property Holdings Ltd.

Operational highlights for the period include:

- 5 new centres added post year end with 3 under management agreement with BT plc;
- Number of workstations increased from 1,913 to 2,993, an increase of 56%; and
- Post year end purchase from UBS of its interest in Consort Property Holdings Limited which gives SOG 100% ownership, and which will produce a unaudited net asset value per share 4.2p and 3.4p on a fully diluted basis.

In my recent statements I have warned about the gathering economic storm. No one will now be in any doubt about the severity of the downturn in world trade and financial markets and the difficulties these have created for UK companies, particularly enterprises of relatively modest size such as your company.

However, I am pleased during these difficult times that year on year we have been able to report increased revenue due to the robust performance of our business centres. This is due to increased occupancy rate in our centres and emphasises the continued validity of our business model. As I have mentioned before, companies struggling against the enormous challenges faced over the past two years have turned to short-term rented office space rather than commit to long-term leases.

Despite the difficulties that the property sector has been experiencing we have managed to improve our position in the market place. Our refurbishment programme has now been completed and we are seeing increased activity within those centres - in some cases occupancy is close to 100% with a current average of 75% when taking into account the recently awarded management contracts.

The growth in our EBITDA, excluding the effect from the revaluation of investment properties, continues as we add more centres thereby enabling us to take advantage of our core costs. This has also led us to report another year of positive operational cash flow, which we expect to grow in the future as the company portfolio expands.

As we expected the prices that we have been able to achieve in the market place have been under pressure but the demand for our space continues to be very active and in a number of cases we are getting renewals higher than in 2008.

The turmoil in the property market has caused many owners to re-evaluate their position, and we are generating numerous approaches for our services both by way of management and possible joint ventures as a result of a continuing and successful marketing effort.

You will see from these accounts, that we have suffered a severe set-back in our net asset value resulting from the inescapable mark-down in property values. This was inevitable given the severe impact of corporate closures and mounting unemployment throughout industry and commerce, with the impact during the period under review being concentrated in London and the South-East, as difficulties in the financial markets took effect. Shareholders should remember, though, that professional valuers are having to work in an almost complete void of comparable evidence because the market in office buildings has not been tested other than by sellers under pressure to raise money.

It is also noteworthy however that an increasing number of experienced property entrepreneurs have succeeded in raising large amounts of new equity in London to take advantage of opportunities which are now emerging.

Regarding our results it is important to bear in mind the impact of the transaction just announced in which we succeeded in buying out the interest owned by UBS in our Joint Venture company Consort Property Holdings Ltd ('Consort'). We have agreed the terms for the purchase of the 50% holdings in Consort currently owned by UBS. On completion of the purchase we will own 100% of the freeholds of Beckenham, Crawley, Teddington and Chiswick. The consideration will be paid in cash totalling £750,000 via the issuance of a convertible loan note. Consort achieved an EBITDA of £0.9 million in 2008 and has total bank debt of £12.3 million. The balance sheet effect of the transaction will be to add £2.5 million to the net assets of the Group and improve the ratio of bank loans to freehold property value by 11%. The acquisition and issue of the loan notes is conditional upon The Royal Bank of Scotland (which provides funding to both the Group and Consort) consenting to the acquisition and renewing the Group's facilities.

Reflecting this acquisition in the balance sheet for 2008:

	As reported	Post acquisition
ASSETS		
Non current	24,697	32,881
Current	1,148	1,313
	24,845	34,194
EQUITY		
Share capital + premium	8,601	8,601
Profit and loss	(7,450)	(4,957)
	1,159	3,644
LIABILITIES		
Non current	1,552	26,850
Current	23,134	3,700
	24,686	30,550

It should be noted that Teddington, Beckenham, Kingston as well as Hayes and Harrow are redevelopment sites which in the future will provide interesting opportunities for the company.

As previously announced we have expanded our management business by securing four properties which we operate as serviced offices in Hemel Hempstead, Canary Wharf, Cannon Street, London, and in Bromley. In addition to which we acquired the lease of Vintage House on the Albert Embankment a property formerly operated by MLS bringing the total number of properties to 17. The company continues to look at ways of improving the management facilities to third party landlords as well as extending the number of locations where we are able to provide the KBC brand as serviced offices.

We launched the services of Streamwire during the year, providing IT, Telecommunications and data recovery services to third party clients as well as to occupiers of our own buildings. We continue to seek ways of growing this promising additional facility which we believe will become a valuable source of new revenue.

Having established our presence in the market place, we are sure that the continued growth in the Operating and Management of serviced offices for third party landlords together with Streamwire IT and telecommunications infrastructure support offer exciting growth prospects.

The business has strong cash flows and we continue to explore ways to strengthen the balance sheet. The Board is encouraged by the significant progress made during the last 12 months towards increased profitability. Further the quality of the property portfolio means the Company continues to receive good support from its debt providers, I would like to thank Aileen Pringle who retired from the board during the year for all her help and support to the company and also Catherine McEwan, who left to pursue other opportunities. Particular thanks are due to all of our staff who have helped us present the company so well, and who are achieving the growth that we are now experiencing.

Michael Kingshott
Chairman
30 June 2009

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31st December 2008.

Principal activities

The Board consider that the ownership and operation of serviced office accommodation has been the Group's primary activity for 2008 and will be for subsequent periods.

Business review and future developments

A review of the Group's business and an indication of likely developments are contained in the Operating and financial review on pages 14 and 15.

Key performance indicators ("KPI's')

The directors of the Group manage the Group's operations on a centre by centre basis. For an understanding of the development, performance or position of the business, refer to this page and pages 18 and 20.

KPI's include:

- Occupancy – this measures the percentage of workstations that clients are contracted to pay for. Within the serviced office industry, occupancy of 80% is considered satisfactory.

- Sales lead measurement – as service office licences are relatively short, being usually less than twelve months, the directors routinely measure the level of enquiries by prospective clients, the subsequent viewings of offices and workstations contracted.

Principal risks and uncertainties

There are a number of risks and uncertainties which could have an impact on the Group's long term performance. The Group has a risk management structure in place designed to identify, manage and mitigate business risks. Risk assessment and evaluation is an essential part of the annual planning, budgeting and forecasting cycle.

The directors have identified the following principal risks and uncertainties. These do not constitute all of the risk facing the Group.

Financial market volatility adversely affecting the Group's financial performance

Most of the risks faced by the Group at the date of this report have been heightened by the volatility and deterioration of the financial markets during the last eighteen months, with a resultant reduction in supply of credit and its significant increase in cost. For the Group, these risks fall into certain categories as set out below, all of which have been proactively managed by the Board in the past and even more significantly in the current economic climate.

Liquidity risk affects the Group, in that this could result in it being unable to meet its financial obligations as they fall due. The Board's approach to managing liquidity is to ensure, as far as possible, that the Group will always have sufficient liquidity to meet its liabilities, without incurring unacceptable losses or risking damage to the Group's reputation and business. The Group typically ensures it has sufficient forecast cash and available facilities to meet expected cash outflows for a forward period of 24 months.

The Group's fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates and its variable rate borrowings are exposed to a risk of change in cash flows due to changes in interest rates. Investments in short-term receivables and payables are not exposed to interest rate risk. The Group's policy of managing its exposure to changes in interest rates is generally achieved by the Group entering interest rate swaps or fixed rate contracts with financially secure counter parties denominated in Sterling, where considered appropriate by the Board. The Group holds financial instruments mainly to hedge financial risk or finance drawn for its operations, or for the temporary investment of short-term funds, and to manage the interest rate risks arising from its operations and sources of finance.

Credit risk arises if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The risk to the Group arises principally from the Group's receivables from customers. The demographics of the Group's customer base has less of an influence on credit risk. No single customer accounts for more than 2% of Group revenue.

Economic downturn in its market

The Group operates solely from the UK. A worsening of the economic downturn in this market could adversely affect the Group's operating revenues thereby reducing operating performance and possibly resulting in operating losses.

The Group has taken a number of actions to mitigate this risk:

- The Group has purposely acquired freehold and long leasehold properties enabling it to realise these assets quickly if they prove to be uneconomic.

- The Group regularly reviews the profile of clients to avoid undue reliance on one particular client or clients operating in a particular market.

Exposure to movements in the property market

The Group owns freehold and long leasehold interests in properties located in the UK. At 31 December 2008 they had a book value, reflecting a professional external open market value at that date, of £21.66m. These properties are used by the Group from which to operate the principal business of providing serviced office accommodation and are the principal asset elements in the Group's consolidated balance sheet.

The disruption of the financial markets over the latest eighteen months has adversely affected property values and in the year ended 31 December 2008 the Group's property values reduced by £5.769m. The net assets of the Group at December 2008 totalled £25.845m. Should the Group's property values decline materially in future years, the net asset value of the Group will also reduce and this will have an adverse effect on shareholders' funds. As the Group's banking facilities contain loan to value covenants, this may reduce the Group's ability to raise finance secured on those properties.

The Board monitors this position closely to ensure that shareholder net worth is not unnecessarily exposed to declines in property values. In addition, the operating nature of the Group's businesses and the experienced management teams used to deliver their performance, has demonstrated that the Group is not so markedly exposed to adverse movements in property values as the general property market has recently experienced and the expansion into management of centres, as opposed to direct ownership, is another step towards reducing the exposure to the property market and its decline in values.

Dividends

The directors are not declaring a dividend for the year.

The retained loss for the year in the group was £5,546,000 (2007: profit £36,000),

Directors and directors' interests

The directors who held office during the year and up until the date of this report were as follows:

Michael Kingshott	
Catherine McEwan	(resigned 19 March 2009)
Stephen Clague	
Aileen Pringle	(resigned 11 December 2008)
Peter Duffy	

The directors who held office at the end of the financial year had the following interests in the ordinary shares of the holding company according to the register of directors' interests:

Directors' shareholdings

	At 31 December 2007 Number of 5p ordinary shares	**At 31 December 2008 Number of 5p ordinary shares**	**Options over ordinary shares granted as at 31 December 2007**	**Options over ordinary shares granted as at 31 December 2008**
Michael Kingshott	21,500,001	21,500,001	-	-
Catherine McEwan	-	-	-	-
Stephen Clague	-	-	1,272,727	1,272,727
Peter Duffy	-	-	-	-

None of the other directors who were serving as directors at the end of the year or who were appointed since the end of the year had any beneficial interest in the ordinary shares of the company during the year or since the year end.

As at 30 June 2009 there has been no movement in these shareholdings since the end of the financial year.

Employees

The group gives every consideration to applications for employment from disabled persons where the requirements of the job may be adequately covered by a handicapped or disabled person and continues to examine ways and means of providing continuing employment under normal terms and conditions and to provide training and career development and promotion wherever appropriate.

Significant shareholdings

As at 25 June 2009 the company had been notified or was aware that the following had direct or indirect interests in 3% or more of the issued share capital.

	No of Ordinary Shares	%
Sir Tom Farmer	21,500,000	24.4
John Morley	10,843,250	12.3
Tickgold Ltd	5,342,000	6.1
Peter O'Reilly	4,592,500	5.2
Pershing Nominees Ltd KSCLT ACCT	3,800,000	4.3

Policy and practice on payment of creditors

The group's policy, concerning the payment of creditors is to pay suppliers within 30 days of date of receipt of the invoice, except where other terms have been agreed in advance or in the case of supplier related problems. The number of days billings from suppliers to the Group outstanding at 31 December 2008 was 48 days.

Political and charitable contributions

The Group made no political contributions or donations to UK charities during the year (2007 £Nil)

Disclosure of information to auditors

Each director, as at the date of this report, has confirmed that insofar as they are aware there is no relevant audit information (that is, information needed by the Group's and Company's auditors in connection with preparing their report) of which the Group's and Company's auditors are unaware, and they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Group's and Company's auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Auditors

A resolution to re-appoint Simpson Wreford & Partners as auditors will be put to the members at the forthcoming Annual General Meeting.

By order of the board

S Clague
Secretary

30 June 2009

Fleet House
8 – 12 New Bridge Street
London
EC4V 6AL

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report, the directors' remuneration 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 the directors have prepared the Group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the company and Group and of the Group's profit or loss 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 that the financial statements comply with IRFSs as adopted by the European Union;
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and the Group and to enable them to ensure that the financial statements and the directors' remuneration report comply with the Companies Act 1985 and, as regards the Group financial statements, article 4 of the IAS Regulation. 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.

Directors, Officers and Advisors

DIRECTORS

Michael Kingshott	Chairman
Stephen Clague	Finance Director
Peter Duffy	Non-executive

SECRETARY
Stephen Clague

REGISTERED OFFICE
Fleet House
8-12 New Bridge Street
London EC4V 6AL

NOMINATED ADVISER AND BROKER
Evolution Securities Limited
100 Wood Street
London
EC2V 7AN

SOLICITORS
Stephenson Harwood
1 St Paul's Churchyard
London
EC4M 8SH

Peacock & Co
94 High Street
Wimbledon
SW19 5EG

AUDITORS
Simpson Wreford & Partners
Chartered Accountants and Registered Auditors
Suffolk House
George Street
Croydon CR0 0YN

BANKERS
The Royal Bank of Scotland plc
6-8 George Street
Edinburgh EH2 2SA

REGISTRARS
Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Corporate governance statement

The Directors support high standards of corporate governance and although not required by the AIM rules, intend to comply with the Combined Code on Corporate governance issued by the Financial Reporting Council in June 2006 ("The Code") so far as is practicable, given the Company's size.

Compliance with the Combined Code
The Company has complied with the principal provisions set out in The Code since its admission to AIM except for:

- **Nominations committee**
  The company does not have a separate nominations committee. Nomination decisions are made by the Board.

- **Risk monitoring**
  The Board continues the process of identification, evaluation and management of the Group's significant risks.

The Board and main committees

The Board of Serviced Office Group plc chaired by Michael Kingshott meets monthly. It reviews trading performance, business strategy, investment and divestment opportunities and any other matters of significance to the Group.

Nominations
Given the current size of the Board and the stage of the Group's development, the Directors do not believe it to be appropriate to establish a nomination committee. The selection process for the appointment of executive directors and non-executive directors to the Board will be carried out by the Board itself. The Company intends to keep this process under review and establish a nominations committee when it is appropriate to do so.

Audit committee
The Audit committee is chaired by Peter Duffy. The external auditors, the finance director and certain other individuals may be invited to attend all or part of any meeting as and when appropriate. This committee has responsibility, within agreed terms of reference, for, among other things, the planning and reviewing of the Group's annual and interim financial statements the supervision of its auditors in the review of such financial statements and the review and monitoring of their independence. The audit committee focuses particularly on the Group's compliance with legal requirements, and accounting standards and on ensuring that effective systems for internal financial control and for reporting non financial operating data are maintained. The ultimate responsibility for reviewing and approving the annual report and accounts and interim statements remains with the Board.

Remuneration committee
The Remuneration committee is chaired by Peter Duffy. This committee has responsibility for determining, within agreed terms of reference, the Group's policy on the remuneration of senior executives and specific remuneration packages for executive directors, including pension rights and compensation payments. It is also responsible for making recommendations for grants of options under the Group's share schemes.

Going concern
The provisions of the Combined Code require directors to confirm whether, after making appropriate enquires, they have reasonable expectations that the Company and the Group have adequate financial resources to continue in operational existence for the foreseeable future.

As part of the regular financial management of the Group, the Directors review the detailed cash flow projections of the Group and the cash requirements for the Group. These cash flow projections include the net cash flows arising from operations, capital expenditure proposals and the financial effect of planned business expansion and disposals. The projections take into account all bank and other financing facilities available to the Group and assess the cash flow adequacy of the Group on a month by month basis for a forward period of twenty four months.

The financial statements have been prepared on the going concern basis, which assumes that the Group will be able to meet its liabilities as they fall due in the ordinary course of business. The Group is dependent for its working capital requirements on cash generated from operations, cash holdings of £0.409m at 31 December 2008 and bank facilities totalling £20.509m, of which £19.809m of loans are drawn at 31 December 2008. £13.650m of loans are due to mature on 19 October 2009. Following a breach of the loan covenants, in respect of the loan values in relation to the market value of properties provided as security, all the Group's loan facilities from The Royal Bank of Scotland are currently being renegotiated and the directors are confident that suitable terms can be agreed although clearly this is a material uncertainty.

The Directors have prepared cash flow projections for the period to 31 December 2012 which are based on certain assumptions regarding projected occupancy levels, rates chargeable and margins. These show that the Group is capable of continuing as a going concern provided suitable long term loan facilities are renewed at a higher interest premium reflecting the greater risk to the lender. They have therefore adopted the going concern basis in the preparation of the financial statements for the year ended 31 December 2008.

Internal control

The Board is responsible for maintaining the Group's system of internal control and for reviewing its effectiveness. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable assurance against material misstatement or loss.

The key elements of the system of internal controls are:

Control environment – There are sufficient segregation of duties and authorisation controls on approval and payment of invoices.

Financial reporting - The Executive committee members have regular meetings to discuss all aspects of the business and review financial performance against budget. Any variances are highlighted immediately and corrective action is taken as necessary to ensure performance targets are still met.

Capital investment - A detailed budget is approved by the Board. Capital expenditure is controlled via approval limits and major items of capital expenditure are approved at Board meetings.

Internal audit – the Board has considered the need for an internal audit function and concluded that cost/benefit considerations do not warrant it. Other monitoring processes are in place to ensure the system of internal control functions as intended.

Communications with shareholders

The Board endeavours to maintain good relationships with its institutional shareholders by holding regular meetings after results with further dialogue as requested.

Shareholders have at least 21 days notice of the Annual General Meeting.

Remuneration Report

The Board has established a Remuneration committee ('the committee') to advise it on an appropriate remuneration policy. During the financial year the members of the Remuneration committee have been Peter Duffy and Aileen Pringle until her resignation.

The Committee is responsible for determining and agreeing with the Board the remuneration packages of the executive directors, including basic salary, annual bonuses, the allocation of share options and the terms of any service contracts relating to the exercise of such rights, pension rights, determining their terms and conditions of service, and any compensation payments and to ensure that such remuneration levels are appropriate and acceptable. The Committee also has discussions with the board in relation to the board's annual report to shareholders on the Group's policy on the remuneration of executive directors and in particular the directors' remuneration report.

REMUNERATION POLICY

In implementing its policy, the Committee has given full consideration to the Principles of Good Governance set out in the Combined Code with reference to directors' remuneration. It seeks to ensure a competitive and well-balanced package whilst aligning the individual reward and incentives with the performance of the Group and, hence, with the interests of the shareholders.

DIRECTORS' REMUNERATION

The main elements of the executive directors' remuneration and the matters that the Committee takes into account are:

Basic salary

To determine the specific levels of salary and benefit, the Committee draws on a wide range of data on market conditions, as well as Company and individual performance.

Share options

The Committee aims to ensure that individuals are fairly rewarded for their contribution to the success of the Company and the grant of share options provides an incentive in a highly competitive labour market.

Company policy is to review on a regular on-going basis by reference to other comparable companies the incentive provided to employees throughout the Company by the grant of share options to ensure that employees are retained and incentivised.

Pensions policy

Executive directors are eligible to become members of the Group Personal Pension Plan which is a defined contribution scheme.
There are no special arrangements for Executive directors.

Service contracts

The executive directors of Serviced Office Group plc all have service contracts which are subject to 3 to 6 months notice. The committee regards the notice period in these contracts as being appropriate. In the event of termination of an executive director's service contract there are no specific compensation entitlement provisions in the contracts with respect to termination, other than the notice period.

Remuneration policy for non-executive directors

The remuneration for non-executive directors consists of fees for their services in connection with board and committee meetings and where appropriate for devoting additional time and expertise for the benefit of the Company. Non-executive directors do not have contracts of service, are not eligible for pension scheme membership and do not participate in any of the Group's bonus, share option or other incentive schemes. The remuneration of non-executive directors is determined by the executive directors of the Board.

Directors' emoluments
The following information is reported on by the auditors.

The following table is intended to bring together the value of the various elements of remuneration received by each director during the year.

REMUNERATION OF DIRECTORS

Executive	Basic Salary £000	Taxable Benefits £000	2008 Total £000	2007 Total £000
MJ Kingshott	87	6	93	93
C McEwan	120	9	129	-
S Clague	85	-	85	55
I Savani	-	-	-	14
Non Executive				
A Pringle	8	-	8	15
P Duffy	15	-	15	15
	315	15	330	192

The emoluments, excluding pension contributions, of the directors includes:

Highest paid director	2008 £000	2007 £000
Emoluments	129	93

DIRECTORS' SHARE OPTIONS

None were granted in the year.

Operating and financial review

In terms of trading performance we are satisfied with the results for 2008. The number of serviced offices centres was maintained at 12 and our objective was to improve the performance of the portfolio. This was successful with an 8% increase in revenues and a 12% increase in EBITDA. However in line with the commercial property market, we have experienced a 20% decline in the values of the freehold properties.

OVERVIEW OF RESULTS OF THE YEAR

Turnover for the year ended 31 December 2008 was £6.891m and operating loss was £5.0m.

The economic downturn has resulted in an increase in interest in our service offering and lead flow has been strong. Pressure on revenues per workstation has been very localised with some centres facing strong competition whilst others have been able to increase revenues. We constantly strive to improve our ability to succeed in such an environment with investment in marketing, staff selection and development, systems and physical appeal of the centres.

OPERATING EXPENSES

Operating expenses including depreciation and amortisation but excluding revaluations were equivalent to 89% of sales and with careful cost management enabled management to show a healthy operating margin.

OPERATING PROFIT

Group operating loss was £5.0m having suffered a property write down of £5.8m. Margins are expected to improve in the forthcoming year with management keen to improve revenues while keeping costs under control with a good internal control environment.

INTEREST

Interest was due on the bullet loans in January 2009, which now includes the Group's share of the facility granted to the joint venture. The loan to the Company was due for repayment on 19 October 2009. The loan to the Joint Venture was due for repayment on 5 July 2012.

TAXATION

The effective rate of corporation tax is lower than the normal rate of 28.5% due largely to losses not being recognised as a deferred tax asset.

LOSS PER SHARE

Loss per share is 6.30 pence for the current year. The fully diluted EPS is the same with a minimal dilution because of share options. The company policy is to reward staff with share options to ensure that the best quality staff are recruited and maintained.

DIVIDEND POLICY

No dividend will be payable for this year as the company seeks to achieve sufficient realised reserves in order to be able to pay dividends in the future.

BALANCE SHEET

Debtor days are 3 days and the company is progressively ensuring that debt is monitored and controlled by operational management.

FUTURE DEVELOPMENTS

In these uncertain economic conditions our strategy has been to pursue low risk, low investment profitable growth. We have succeeded in securing management agreements for 4 centres and acquired an established serviced office business on competitive lease terms. We have invested in a marketing campaign to promote our managed service offering. This has been very successful and has offered opportunities that are under evaluation. We will also consider leased and freehold offices where the terms are exceptional.

Independent auditors' report to the members of Serviced Office Group plc

We have audited the Group and parent company financial statements (the "financial statements") of Serviced Office Group Plc for the year ended 31st December 2008 which comprise the Group income statement, the Group and parent company balance sheets, the Group and parent cash flow statements, the Group and parent company statement of change in shareholders' equity and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS
The directors' responsibilities for preparing the annual report, the directors' remuneration report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted for use in the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements and the part of the directors' remuneration report to be audited 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 whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements. The information given in the directors' report includes that specific information presented in the Operating and financial review that is cross-referenced to the review of the business sections of the directors' report.

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 review whether the corporate governance statement reflects the company's compliance with the nine provisions of the Combined Code 2006 specified for our review by the Listing Rules of the Financial Services Authority only in so far as the company has voluntarily complied with the provisions of the code, and we report if it does not. We are not required to consider whether the Board's statements on internal controls cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. The other information comprises only the directors' report, the unaudited part of the directors' remuneration report, the chairman's statement, the operating and financial review and the corporate governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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 and the part of the directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and 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 and the part of the directors' remuneration report to be audited 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 and the part of the directors' remuneration report to be audited.

OPINION
In our opinion

- The group financial statements give a true and fair view, in accordance with IFRSs as adopted for use in the European Union, of the state of the group's and the company's affairs as at 31st December 2008 and of its loss and cash flows for the year then ended;

- The parent company financial statements give a true and fair view, in accordance with IFRSs as adopted for use in the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31st December 2008 and of its cash flows for the year ended;

- The financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and

- The information given in the directors' report is consistent with the financial statements.

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 the Summary of Significant Accounting Policies (note 2 to the financial statements) concerning the Group's and the Parent Company's ability to continue as a going concern. The note discloses the existence of material uncertainty in respect of continuing bank loan facilities which may cast significant doubt on the Group's and Parent Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group and the Parent Company were unable to continue as a going concern.

Simpson Wreford & Partners
Chartered Accountants and Registered Auditors
Suffolk House
George Street
Croydon CR0 0YN

30 June 2009

Consolidated Balance Sheet

	Notes	2008 £000	2007 £000
ASSETS			
Non current assets			
Investment property	7	19,372	25,141
Property, plant & equipment	8	3,335	3,297
Intangible assets	9	1,489	1,489
Investments	11	498	493
Deferred tax asset	17	3	-
		24,697	30,420
Current assets			
Inventories	12	63	63
Trade and other receivables	13	676	1,121
Cash and cash equivalents	14	409	275
		1,148	1,459
Total assets		**25,845**	**31,879**
EQUITY			
Capital and reserves attributable to equity holders of the company			
Called up share capital	15	4,400	4,400
Share premium account	15	4,209	4,200
Profit and loss account		(7,450)	(1,904)
Total equity		**1,159**	**6,696**
LIABILITIES			
Non current liabilities			
Borrowings	16	1,552	20,909
Deferred income tax	17	-	896
		1,552	21,805
Current liabilities			
Trade and other payables	18	3,292	3,346
Borrowings	16	19,842	32
		23,134	3,378
Total liabilities		**24,686**	**25,183**
Total equity and liabilities		**25,845**	**31,879**

The notes on pages 24 to 40 form an integral part of these financial statements.

These financial statements on pages 18 to 40 were approved by the board of directors on 30 June 2009 and signed on behalf of the Board

Michael Kingshott
Director

Stephen Clague
Director

Company balance sheet

	Notes	2008 £000	2007 £000
ASSETS			
Non current assets			
Investments in subsidiaries	10	3,039	3,039
Investments	11	996	986
		4,035	4,025
Current assets			
Trade and other receivables	13	1,644	1,612
Cash and cash equivalents	14	1	-
		1,645	1,612
Total assets		**5,680**	**5,637**
EQUITY			
Capital and reserves attributable to equity holders of the company			
Called up share capital	15	4,400	4,400
Share premium account	15	4,209	4,200
Profit and loss account		(2,929)	(2,963)
Total equity		**5,680**	**5,637**
Total equity and liabilities		**5,680**	**5,637**

The notes on pages 24 to 40 form an integral part of these financial statements.

These financial statements on pages 18 to 40 were approved by the board of directors on 30 June 2009 and signed on behalf of the Board

Michael Kingshott
Director

Stephen Clague
Director

Consolidated income statement

	Notes	2008 £000	2007 £000
Continuing operations			
Sales		6,891	6,382
Cost of Sales		(4,784)	(4,342)
Gross profit		**2,107**	**2,040**
Net (loss)/gain from revaluation of investment properties		(5,769)	624
Administrative expenses		(1,354)	(1,347)
Operating (loss)/profit		**(5,016)**	**1,317**
Finance costs	22	(1,429)	(1,248)
Interest received		-	31
(Loss)/profit before income tax		**(6,445)**	**100**
Income tax credit/(expense)	23	899	(64)
(Loss)/profit for the year		**(5,546)**	**36**

Earnings per share:			
Basic	24	(6.30)p	0.04p
Diluted	24	(6.30)p	0.04p

The notes on pages 24 to 40 form an integral part of these financial statements.

Consolidated statement of changes in equity

	Attributable to equity holders of the company			
	Share Capital £000	Share Premium £000	Retained Earnings £000	Total Equity £000
Group				
Balance at 1 January 2007	4,400	4,194	(1,940)	6,654
Profit for the year	-	-	36	36
Grant of employee share options	-	6	-	6
Balance at 31 December 2007	**4,400**	**4,200**	**(1,904)**	**6,696**
Balance at 1 January 2008	4,400	4,200	(1,904)	6,696
(Loss)/profit for the year	-	-	(5,546)	(5,546)
Grant of employee share options	-	9	-	9
Balance at 31 December 2008	**4,400**	**4,209**	**(7,450)**	**1,159**

	Share Capital £000	Share Premium £000	Retained Earnings £000	Total Equity £000
Company				
Balance at 1 January 2007	4,400	4,194	(3,172)	5,422
Profit for the year	-	-	209	209
Grant of employee share options	-	6	-	6
Balance at 31 December 2007	**4,400**	**4,200**	**(2,963)**	**5,637**
Balance at 1 January 2008	4,400	4,200	(2,963)	5,637
Profit for the year	-	-	34	34
Grant of employee share options	-	9	-	9
Balance at 31 December 2008	**4,400**	**4,209**	**(2,929)**	**5,680**

Consolidated Cash Flow Statement

	2008 £000	2007 £000
(Loss)/profit from operations	**(5,016)**	**1,317**
Adjustment for :		
Depreciation of plant and equipment	497	437
Amortisation of bank loan arrangement costs	3	-
Revaluation of investment properties	5,769	(624)
Expense arising from grant of share options	9	6
Operating cash flow before movement in working capital	**1,262**	**1,136**
Decrease in receivables	61	160
Decrease / (Increase) in other current assets	384	(492)
Increase in payables	298	777
Cash generated from operations	**743**	**1,581**
Interest Paid	(1,780)	(657)
Net cash from operating activities	**(1,037)**	**924**
Cash flows from investing activities		
Interest received	57	4
Purchase of investment property	-	(5,909)
Proceeds from sale of investment property	-	4,300
Purchases of plant and equipment	(535)	(1,928)
Proceeds from sale of plant and equipment	-	672
Loans to Joint Venture	(5)	(493)
Acquisition of subsidiaries, net of cash acquired	-	(7)
Net cash (used in) investment activities	**(483)**	**(3,361)**
Cash flows from financing activities		
Proceeds from shareholder loans	16	1,480
Repayment of long-term borrowings	-	(5,250)
Finance lease capital repayments	(24)	-
Proceeds from long-term borrowings	400	6,147
Net (decrease) in cash and cash equivalents	**134**	**(60)**
Cash and cash equivalents at the beginning of the year	275	336
Cash and cash equivalents	409	275
Bank balances and cash	409	275

Company cash flow statement

	2008 £000	2007 £000
Profit (Loss) from operations	34	209
Adjustment for :		
Expense arising from grant of share options	9	6
Operating cash flow before movement in working capital	**43**	**215**
Decrease / (Increase) in other current assets	(32)	358
(Decrease) in payables	-	(2)
Net cash from operating activities	**11**	**571**
Cash flows from investing activities		
Loans to JV	(10)	(986)
Net cash (used in) / received from investment activities	**1**	**(986)**
Net increase / (decrease) in cash and cash equivalents	1	(415)
Cash and cash equivalents at the beginning of the year	-	415
Cash and cash equivalents	**1**	**-**
Bank balances and cash	**1**	**-**

Notes to the financial statements

1. GENERAL INFORMATION
The Serviced Office Group plc ('the Company') and its subsidiaries (together 'the Group') are in the business of ownership and operation of serviced office accommodation.

The Company is a public limited company incorporated and domiciled in the United Kingdom. The address of its registered office is Fleet House, 8 – 12 New Bridge Street, London, EC4V 6AL.

The Company has its listing on the AIM market of the London Stock Exchange plc.

These consolidated financial statements have been approved for issue by the Board of Directors on 30 June 2009.

The registered company number is 04031883.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation
The consolidated financial statements of Serviced Office Group plc have been prepared in accordance with EU endorsed International Financial Reporting Standards (IFRS), IFRIC interpretations and the Companies Act 1985 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, available-for-sale financial assets, and financial assets and financial liabilities at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

Going concern
The financial statements have been prepared on the going concern basis, which assumes that the Group will be able to meet its liabilities as they fall due in the ordinary course of business. The Group is dependent for its working capital requirements on cash generated from operations, cash holdings of £0.409m at 31 December 2008 and bank facilities totalling £20.509m, of which £19.809m of loans was drawn at 31 December 2008.£13.650m of loans are due to mature on 19 October 2009.

The Group is required to comply with a number of covenants in its bank facilities and in the loan stock deeds, including a 'loan to value' covenant on the bank loans restricting this debt to 80% of the market values of the properties provided as security. Following the annual revaluation of the group's properties at 31 December 2008 this covenant was breached. As explained in note 16 to the financial statements, all the group's loan facilities are currently being renegotiated and the directors are confident that suitable terms can be agreed although clearly this is a material uncertainty.

The Directors have prepared cash flow projections for the period to 31 December 2012 which are based on certain assumptions regarding occupancy levels, rates chargeable and margins. These show that the Group is capable of continuing as a going concern provided suitable long term loan facilities are renewed which may be at a higher interest premium reflecting the greater risk to the lender.

The Directors are aware that future compliance with 'loan to value' based covenants could be affected if there are continued reductions in property values or significantly adverse trading conditions. It is recognised that in the current economic environment there are significant risks regarding future property values and the achievability of projected occupancy levels, room rates and margins in the business.

IFRSs not yet applied
The following standards and interpretations, which are in issue at the balance sheet date but not yet effective, have not been applied in these financial statements:

	Effective for periods commencing on or after
IAS 1 Revised – Presentation of financial statements	1 January 2009
IFRS 8 Operating Segments	1 January 2009
IFRS 2 (amended) Share based payment	1 January 2009
IFRS 3 (revised) Business combinations	1 July 2009
IFRS 5 (amended) Non-current assets held for resale and discontinued operations	1 July 2009
IAS 23 Revised – Borrowing costs	1 January 2009
IAS 27 (amendment) Consolidated and separate financial statements	1 July 2009
IAS 32 and IAS 1 Amendment – Financial instruments puttable at fair value and obligations arising on liquidations	I January 2009
IAS 28 (amendment) Investment in associates	1 January 2009
IAS 36 (amendment) Impairment of assets	1 January 2009
IAS 38 (amendment) Intangible assets	1 January 2009
IAS 39 (amendment) Financial instruments: recognition and measurement	1 January 2009

It is considered that the above standards and interpretations will not have a significant effect on the results or net assets of the Group. IAS 1 Revised will have no impact on the results or net assets of the Group but will increase the level of disclosure to be made in the financial statements.

2.2 Consolidation
Subsidiaries
Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement. Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Joint ventures
The Group's interests in jointly controlled entities are accounted for proportionate consolidation. The Group combines its share of the JVs' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. The Group recognises the portion of gains or losses on the sale of the assets by the Group to the JV that it is attributable to the other JVs. The Group does not recognise its share of profits or losses from the JV that result from the Group's purchase of assets from the JV until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of the current assets, or an impairment loss.

2.3 Investment property
Property that is held for long term rental yields or for capital appreciation or both and that is not occupied by the companies in the consolidated Group is classified as investment property.

Investment properties comprises freehold and long leasehold land and buildings.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices adjusted, if necessary for any difference in the nature, location or condition of the specific asset. These valuations are performed in accordance with the guidance issued by the International Valuation Standards Committee. These valuations are reviewed annually by external valuers.

The fair value of investment property reflects among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

The fair value also reflects on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of land and buildings classified as investment property,

Subsequent expenditure is charged to the assets carrying amount only when it is probable that the future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Changes in fair value are recorded in the income statement.

If an investment property becomes owner occupied, it is reclassified as property, plant and equipment and its fair value at the date of reclassification becomes its costs for accounting purposes. Property that is being constructed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified and subsequently accounted for as investment property.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment under IAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the income statement.

2.4 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

– Computer equipment 33%
– Office equipment 10% - 17%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

2.5 Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisition of subsidiaries is included in 'intangible assets'.

Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or Groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

2.6 Financial assets
The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Regular purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to maturity investments are carried at amortised cost using the effective interest method.

Gains or losses arising, from changes in the fair value of the 'financial assets at fair value through profit or loss' category, including interest and dividend income, are presented in the income statement within 'other (losses)/gains – net', in the period in which they arise.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'gains and losses from investment securities'. Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

2.7 Trade receivables
Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement within 'cost of sales'.

2.8 Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.09 Cash and cash equivalents
Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.10 Share capital
Ordinary shares are classified as equity.
Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.11 Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

2.12 Taxation
The charge for current tax is based on the results for the year as adjusted for items which are non-assessable or disallowed. It is calculated using rates that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.13 Employee benefits
(a) Pension obligations
The Group operates a defined contribution scheme and pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Share-based compensation
The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense.
The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable.

It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2.14 Provisions
Provisions for environmental restoration, restructuring costs and legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time, value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2.15 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, estimated returns, rebates and discounts and after eliminated sales within the Group. Revenue is recognised as follows:

(a) Sales of services

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(b) Dividend income

Dividend income is recognised when the right to receive payment is established.

2.16 Leases

Leases in which a significant portion of the risks and rewards of ownership are transferred to the lessee are classified as finance leases. All other leases are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. Assets held under finance leases are recognised as assets of the Group at their fair value at the date of the acquisition. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

2.17 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Group operates mainly in the UK and is not exposed to foreign exchange risk arising from any currency exposure.

(ii) Price risk

The Group is not exposed to equity securities price risk no such investments are held and the Group is not exposed to commodity price risk.

(iii) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from three bullet loans the interest rates of which are fixed every year. Within the JV in which the Group has a 50% interest, interest rate risk arises from two bullet loans the interest rates of which are fixed every six months. For a minimum of 50% of current bank borrowings, the Group has hedged against interest rate fluctuation for a period of three years, two of which remain.

The sensitivity analyses below are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated – for example, change in interest rate and change in market values.

An increase in 100 basis points in interest yields would result in a decrease in the post-tax profit for the period of £143,000. A decrease in 100 basis points in interest yields would result in an increase in post-tax profit for the period of £143,000.

(b) Credit risk
The Group has no significant concentrations of credit risk. It has policies in place to ensure that services are made to customers with an appropriate credit history.

(c) Liquidity risk
Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Management monitors the liquidity requirements of the Group and arranges facilities on the basis of expected cash flow. Funding facilities are explained and analysed in note 16 and cash equivalents in note 14. There are no derivative financial assets or liabilities.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Management makes estimates and judgments concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

4.1 Estimate of fair value of investment properties

The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. Making its judgement, the Group considers information from a variety of sources including:

a) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;

b) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

c) discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

4.2 Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2.5. The Group is the sole cash-generating unit and the recoverable amounts of cash generating units have been determined based on value in use calculations. A test was prepared based on the present value (PV) of future cash flows. This took account of the past year's performance and that expected by management in the coming years. This PV was subjected to sensitivity tests which indicated that management expectations were fair and reasonable. As the PV exceeded the value of goodwill there was therefore no impairment to its value.

4.3 Critical judgements in applying the Group's accounting policies

Distinction between investment properties and owner-occupied properties
The Group determines whether a property qualifies as investment property. In making its judgement, the Group considers whether the property generates cash flows largely independently of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the production or supply process.

5 PROFIT FOR THE FINANCIAL PERIOD

As permitted by Section 230 of the Companies Act 1985, the Holding Company's income statement has not been included in these financial statements. The profit for the year ended 31st December 2008 is £34,000 (2007: Profit: £209,000)

6 SEGMENTAL REPORTING

Primary reporting format – business segments

At 31 December 2008, all of the activities of the Group fall into one class of business, namely the ownership and management of business centres and this is the sole reportable segment.

Secondary reporting format – geographical segments

All activities of the Group originated in the South East of the United Kingdom.

6a Auditors' remuneration

	2008 £000	2007 £000
Fees payable for audit of parent company, consolidated accounts and JV investment	34	31
Fee payable to the company's and JV's auditors for other services:		
- transaction related	14	-
- tax services	8	8
- subsidiary company audit	5	-
- other	3	-

7 INVESTMENT PROPERTY

	2008 £000	2007 £000
Group:		
Fair Value		
At 1 January 2008	25,141	22,908
Disposals to the JV	-	(4,300)
Arising on acquisition of investment properties	-	5,909
Net (loss)/gain from fair value adjustments of investment properties	(5,769)	624
At 31 December 2008	**19,372**	**25,141**

The Groups investment properties were revalued at 31 December 2008 by independent professionally qualified valuers Atis Real Weatheralls. Valuations were based on current prices in an active market.

8 PROPERTY, PLANT AND EQUIPMENT

	Plant & Equipment £000
Group:	
Cost	
At 1 January 2008	4,757
Additions	535
At 31 December 2008	5,292
Accumulated Depreciation	
At 1 January 2008	1,460
Charge for the year	497
At 31 December 2008	1,957
Carrying Amount	
At 31 December 2008	**3,335**
At 31 December 2007	3,297

The net book value of assets held under finance leases at 31st December 2008 was £105,000 (2007: £62,000)

9 INTANGIBLE ASSETS - GOODWILL

	2008 £000	2007 £000
Opening net book value	1,489	1,482
Arising on acquisition of subsidiaries	-	7
	1,489	**1,489**

10 INVESTMENTS

	2008 £000	2007 £000
Company		
Subsidiary undertakings:		
Cost		
Beginning of year	3,039	3,039
Additions	-	-
Disposals	-	-
	3,039	**3,039**
Amounts written off		
Beginning of year	-	-
Amounts written off in year	-	-
Disposals	-	-
	-	-
Carrying Amount		
At 31 December	**3,039**	**3,039**

The principal undertakings in which the Group's interest at the year end is more that 20% are as follows:

	Country of incorporation	**Principal activity**		**Percentage of ordinary shares held**
Subsidiary undertakings				
KBC Holdings Limited	England	Holding company		**100%**
KBC Harrow Limited	England	Serviced office provider	(*)	**100%**
KBC Hayes Limited	England	Serviced office provider	(*)	**100%**
KBC Kingston Limited	England	Serviced office provider	(*)	**100%**
KBC Bournemouth Limited	England	Serviced office provider	(*)	**100%**
KBC Willowbank Limited	England	Serviced office provider	(*)	**100%**
KASP Limited	England	Development company		**100%**

Companies marked with a (*) are held indirectly by the Company

Joint ventures

The Group had the following significant interests in JVs.

Consort Property Holdings Limited	England	Holding company		**50%**
KBC Teddington Limited	England	Serviced office provider	(**)	**50%**
KBC Chiswick Limited	England	Serviced office provider	(**)	**50%**
KBC Beckenham Limited	England	Serviced office provider	(**)	**50%**
KBC Crawley Holdings Limited	England	Holding company	(**)	**50%**
KBC Crawley	England	Serviced office provider	(**)	**50%**

Companies marked with a (**) are held indirectly by the Company through the JV, Consort Property Holdings Limited

11 INVESTMENTS

	2008 £000	2007 £000
Group:		
Shareholder loans	498	493
Company:		
Shareholder loans	996	986

The loans by the Group to the JV, Consort Property Holdings Limited, are unsecured.

Interest in joint venture
The Group has a 50% interest in a JV, Consort Property Holdings Limited, which owns and operates serviced office accommodation. The following amounts represent the Group's 50% share of the assets and liabilities, and sales and results of the JV. They are included in the balance sheet and income statement:

	2008 £000	2007 £000
Assets:		
Non-current assets	7,758	9,088
Current assets	249	324
	8,007	9,412
Liabilities:		
Non-current liabilities	2,108	8,472
Current liabilities	7,284	644
	9,392	9,116
Net assets	**(1,385)**	**296**
Income	1,110	1,213
Expenses	2,790	918
Profit after income tax	(1,680)	295

There are no contingent liabilities relating to the Group's interest in the JVs.

12 INVENTORIES

	2008 £000	2007 £000
Land held for resale	63	63
	63	**63**

13 TRADE AND OTHER RECEIVABLES

	2008 £000	2007 £000
Group:		
Trade receivables	69	128
Prepayments	447	760
Other debtors	160	233
Receivable from related parties	-	-
	676	**1,121**
Company:		
Amounts owed by Group companies	1,644	1,612
Other debtors	-	-
	1,644	**1,612**

There is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers within its buildings.

14 CASH AND CASH EQUIVALENTS

	2008 £000	2007 £000
Group:		
Cash at bank and in hand	409	275
	409	**275**
Company:		
Short term bank deposits	**1**	**-**

15 SHARE CAPITAL

	Number of Shares	Ordinary Shares £000	Share premium £000	Total £000
At 1 January 2008	88,006,334	4,400	4,200	8,600
Employee share options	-	-	9	9
At 31 December 2008	88,006,334	4,400	4,209	8,609

The total number of authorised ordinary shares is 150 million shares (2007: 150 million shares) with a par value of 5 pence (2007: 5 pence per share) All issued shares are fully paid.

Share options:
Share options are granted to directors and selected employees. The exercise price is equal to the market price of the shares on the date of the grant. Options are exercisable after 3 years service and have a contractual term of 10 years. The Group has no legal or constructive obligation to repurchase or settle options in cash.

Movements in the number of share options and their related weighted average exercise price is as follows:

	2008		2007	
	Average Exercise Price in pence Per share	Options (Thousands)	Average Exercise Price in pence Per share	Options (Thousands)
At 1 January	10.77	2,668	9.96	595
Granted	-	-	11.00	2,073
Exercised	-	-	-	-
Forfeited	-	(500)	-	-
At 31 December	**10.77**	**2,168**	**10.77**	**2,668**

Out of the 2,168,000 outstanding options (2007: 2,668,000 options), 295,454 options were exercisable.

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

	Exercise Price in pence Per share	Options (thousands) 2008	Options (thousands) 2007
2015	11.00	45	45
2015	9.88	250	550
2017	11.00	1,873	-
At 31 December		**2,168**	**595**

There were no share options granted during the period. The weighted average fair value of share options granted during the previous period using the Black Scholes valuation model was £0.0225. The significant inputs into the model were share price of 8.6 pence at the grant date, exercise price shown above, volatility of share price of 10%, options life as disclosed above and annual risk free interest rate of 5.25%.

16 BORROWINGS

	2008 £000	2007 £000
Group:		
Current		
Finance lease obligations	41	32
Bank borrowings	19,809	-
Less: unamortised costs of arrangement	(8)	-
	19,842	32
Non-current		
Bank borrowings	-	19,409
Less: unamortised costs of arrangement	-	(10)
	-	19,399
Loans from shareholders of the JV	1,495	1,479
Finance lease obligations	57	31
	1,552	**20,909**

Bank borrowings are secured by the freehold and long leasehold investment properties.

The borrowings include amounts secured on investment property to the value of £19,809,000. This represents the value of the loans from The Royal Bank of Scotland plc which have been provided to the KBC Holdings Limited and the JV, Consort Property Holdings Limited.

The loans to the JV by its shareholders, which are the Company and UBS Investment Bank, are unsecured. Taking into account current market conditions the directors of Consort Property Holdings Limited consider that the most appropriate classification of the loan is in the “more than two years but not more than five years” category.

Maturity of financial liabilities
The maturity profile of the carrying amount of the Group’s non-current liabilities, at 31 December 2008, was as follows*:*

	2008 £000	2007 £000
In more than one year but not more than two years	17	26
In more than two years but not more than five years	1,535	20,883
	1,552	**20,909**

The effective interest rates at the balance sheet date were as follows:

	2008 %	2007 %
Bank borrowing	6.5	7.0
Loans from shareholders	15.0	15.0
Finance lease	1.7	0.0

Renegotiation of bank facilities

The loans for both KBC Holdings Limited and the JV, Consort Property Holdings Limited, have covenants stating that the bank indebtedness should not exceed 80% and 75% respectively of the combined value of the freehold and leasehold properties provided as security. Following the annual revaluation of the Group’s properties at 31 December 2008 and the inability to reduce indebtedness or provide further security, these covenants are currently breached. At 31 December 2008, the loans amounted to 98% and 79% respectively of the secured property value.

Since the loan to KBC Holdings Limited is due for renewal in October 2009 and the Group has contracted to purchase the other 50% of the shares in the JV, Consort Property Holdings Limited (see note 27), all the Group’s facilities from The Royal Bank of Scotland are currently being renegotiated. The Directors strongly believe it is in the Group’s long term interests to extend these facilities given the current level of liquidity in the financial markets, even if this has to be achieved at a increased cost.

In the meantime these loans are shown as current liabilities in the consolidated balance sheet at 31 December 2008 on page 18 of the financial statements.

17 DEFERRED TAX
Deferred income tax assets and liabilities are offset when there is a legally enforceable right to and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	2008 £000	2007 £000
Deferred tax liabilities	359	1,160
Deferred tax assets	(362)	(264)
Net position at 31 December 2008	**(3)**	**896**

The gross movement for the year on the Group's net deferred income tax account is as follows:

	2008 £000	2007 £000
At 1 January 2008	896	889
Disposal of subsidiary	-	(57)
(Credited)/Charged to the income statement	(899)	64
At 31 December 2008	**(3)**	**896**

The movement for the year in deferred tax liabilities and assets recognised by the Group is as follows:

	Accelerated tax depreciation £000	Property Revaluations £000	Total £000
Deferred tax liabilities:			
At 1 January 2008	123	1,037	1,160
Credited to the income statement	(16)	(785)	(801)
At 31 December 2008	**107**	**252**	**359**

	Tax losses £000	Property Revaluations £000	Total £000
Deferred tax assets:			
At 1 January 2008	(66)	(198)	(264)
Credited to the income statement	(242)	144	(98)
At 31 December 2008	**(308)**	**(54)**	**(362)**

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable, on the basis of forecast profitability the group did not recognise deferred income tax assets of £1,176,000 is respect of tax losses and timing differences amounting to £4,201,000 that can be carried forward against future taxable income.

18 TRADE AND OTHER PAYABLES

	2008 £000	2007 £000
Group:		
Trade payables	666	896
Social security and other taxes	255	83
Customer deposits	1,085	946
Accruals	1,286	1,421
	3,292	3,346

19 FINANCIAL INSTRUMENTS

In accordance with IAS 39, "Financial Instruments: Recognition and Measurement', the Group has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard. No such embedded derivatives were identified from this review.

There are no outstanding financial instruments that are designated as hedges at the balance sheet date.

Fair values of non-derivative financial assets and financial liabilities

Where market values are not available, fair values of financial assets and financial liabilities have been calculated by discounting expected future cash flows at prevailing interest rates. The fair value of current borrowings approximate to book value.

	Book value 2008 £000	Fair value 2008 £000	Book value 2007 £000	Fair value 2007 £000
Group:				
Fair value of financial assets and financial liabilities				
Cash at bank (note 14)	409	409	275	275
Receivables (note 13)	676	676	1,121	1,121
Trade and other payables (note 18)	3,292	3,292	3,346	3,346
Current borrowings (note 16)	41	41	32	32
Non-current borrowings (note 16)	21,352	21,352	20,909	20,909

20 EXPENSES BY NATURE

	2008 £000	2007 £000
Rent, rates and establishment costs	3,073	2,744
Other overheads	1,324	1,378
Depreciation, amortisation and impairment charges	500	437
Employee benefit expense	1,241	1,130
	6,138	**5,689**
Number of employees	36	39

21 EMPLOYEE BENEFIT EXPENSE

	2008 £000	2007 £000
Wages and salaries	1,112	1,019
Social security costs	112	103
Share options granted to employees and directors	9	6
Pension costs – defined contribution plans	8	2
	1,241	**1,130**

22 FINANCE COSTS

	2008 £000	2007 £000
Interest expense:		
- On bank borrowings	1,282	1,164
- On shareholder loans	147	84
	1,429	**1,248**

23 INCOME TAX (CREDIT)/EXPENSE

	2008 £000	2007 £000
Current tax		-
Deferred tax (Note 17)	(899)	64
	(899)	**64**

The tax on the Group's (loss)/profit before tax differs from the theoretical amount that would arise using the tax rate applicable to profits of the UK companies as follows:

	2008 £000	2007 £000
(Loss)/Profit before tax	**(6,445)**	**100**
Tax calculated at domestic rates applicable to profits in the UK	(1,840)	30
Losses not recognised as a deferred tax asset	892	82
Utilisation of losses not previously recognised	(8)	-
Expenses not deductible for tax purposes	11	9
Income not taxed	-	(4)
Change in tax rate used for deferred tax provision	35	(58)
(Over)/Under provision for prior year tax	(61)	5
Tax charge	**(899)**	**64**

The applicable tax rate was 28.5% (2007: 30%).

24 EARNINGS PER SHARE

	2008	2007
Weighted average number of shares in issue (thousands)	88,006	88,006
Profit attributable to equity holders of the company	(5,546)	36
Basic earnings per share (pence)	**(6.30)**	**0.04**

There is no difference between the basic and diluted earnings per share.

25 DISPOSAL OF SUBSIDIARIES

No subsidiaries were disposed of during the year.

	2008 £000	2007 £000
Investment property	-	4,300
Property, plant & equipment	-	672
Cash at bank and in hand	-	43
Creditors	-	(43)
Amounts owed to Group companies	-	(4,824)
Deferred tax	-	(57)
Net assets disposed	-	91

26 COMMITMENTS

	2008 £000	2007 £000
Capital commitments		
Capital expenditure contracted but not provided	-	-

Operating lease commitments – where a Group company is the lessee
The Group lease various buildings under non cancellable operating lease agreements, all of which have varying terms and break clauses.

The future aggregate minimum lease payments under non cancellable operating lease are as follows:

	2008 £000	2007 £000
No later than 1 year	-	342
Later than 1 year and no later than 5 years	535	-
Later than 5 years	488	668
	1,023	**1,010**

27 POST BALANCE SHEET EVENTS

The Company has agreed to acquire the remaining 50 per cent. of the issued shares in the JV, Consort Property Holdings Limited, from UBS AG, London Branch. The Company is financing the acquisition through the issue of £1,000,000 principal amount of convertible loan notes. The loan notes will be convertible into ordinary shares of the Company at 3.5p, the conversion price of 3.5p represents a premium of 33 per cent. to the closing middle market price of 2.63 pence per ordinary share of the Company on 25 June 2009, being the last practicable date prior to the publication of this report. The ordinary shares to be issued following conversion of the loan notes will represent approximately 32.5 per cent. of the Company's current issued ordinary share capital.

The acquisition and issue of the loan notes is conditional upon The Royal Bank of Scotland (which provides funding to both the Group) consenting to the acquisition and renewing the Group’s facilities.

28 RELATED PARTY TRANSACTION

During the year Group companies entered into the following transactions with related parties who are not members of the Group.

	Sales		Purchases		Amounts owed by related parties		Amounts owed to related parties	
	Year ended 31/12/08 £000	Year ended 31/12/07 £000	Year ended 31/12/08 £000	Year ended 31/12/07 £000	Year ended 31/12/08 £000	Year ended 31/12/07 £000	Year ended 31/12/08 £000	Year ended 31/12/07 £000
Consort Property Holdings Ltd	721	110	-	-	34	127	-	-
Car Park Valeting Ltd	-	12	-	-	-	-	-	-

The Serviced Office Group has provided services to Car Park Valeting Ltd at arms length prices in the year.
This company is controlled by MJ Kingshott who is also a director of the company.

28 ULTIMATE CONTROLLING PARTY

There is no ultimate controlling party of Serviced Office Group plc.

Notice of the Annual General Meeting

Notice is hereby given that the Annual General Meeting of the company will be held at Fleet House, 8-12 New Bridge Street, London EC4V 6AL at 11:00 am on 24 July 2009 to consider and, if thought fit, to pass the following resolutions:

Ordinary resolutions

Resolution 1: To receive the Financial Statements of the Group for the year ended 31 December 2008 together with the reports of the Directors and Auditors thereon.

Resolution 2: To re-elect as a Director Michael Kingshott in accordance with the Company's Articles of Association.

Resolution 3: To appoint Simpson Wreford & Partners as auditors of the company and to authorise the directors to determine their remuneration.

Resolution 4: THAT:

4.1 subject to the passing of resolution 7 below , each of the existing issued ordinary shares of 5p in the capital of the Company be sub-divided into and re-designated as one Ordinary Share of 1p each and one Deferred Share of 4p each, having the rights set out in the Company's articles of association, amendments to which are proposed to be adopted pursuant to resolution 7 below; and

4.2 each of the existing unissued ordinary shares of 5p in the capital of the Company be sub-divided into five Ordinary Shares of 1p each.

Resolution 5: THAT the Directors be and are hereby generally and unconditionally authorised for the purposes of Section 80 of the Companies Act 1985 (as amended) ("the Act") to allot relevant securities (as defined in section 80 (2) of the Act) of the Company up to a maximum aggregate nominal amount of £3,099,683. This authority will expire on the earlier of the conclusion of the next Annual General Meeting of the Company or the date falling fifteen months from the date of the passing of this resolution, at the end of which period such authority will expire unless previously varied or revoked by the Company in a general meeting of shareholders, provided that the Company shall be entitled under the authority hereby conferred to make at any time prior to the expiry of such authority any offer or agreement which would or might require relevant securities to be allotted after the expiry of such authority and the Directors may allot any relevant securities after the expiry of such authority pursuant to such offer or agreement as if such authority had not expired, and that all prior authorities to allot relevant securities are hereby revoked but without prejudice to the allotment of any relevant securities already made pursuant to such authorities.

Special resolutions

Resolution 6: THAT subject to the passing of Resolution 5 above and in substitution for all existing and unexercised authorities, the Directors are authorised pursuant to section 95 of the Act, to allot equity securities (as defined in section 94 of the Act) pursuant to the general authority to allot relevant securities given to the Directors by resolution 5 as if section 89(1) of the Act did not apply to any such allotment PROVIDED THAT this power is limited to the allotment of an aggregate of:

(a) up to 28,571,429 Ordinary Shares to Tickgold Limited, Newray (London) Limited and Anglia Property Limited (or their respective nominees) in connection with the exercise by such persons of their rights under convertible loan notes issued by the Company to them; and

(b) equity securities (otherwise than pursuant to paragraph (a) above) up to an aggregate nominal amount of £154, 984 (representing approximately 5% of the Company's authorised but unissued share capital as at the date of this resolution) such authority to expire on whichever is the earlier of the conclusion of the next Annual General Meeting of the Company or the date falling fifteen months following from the date of the passing of this resolution, unless renewed or extended prior to such time and all prior powers granted under section 95 of the Act be revoked provided that such revocation shall not prejudice the allotment of any equity securities already made pursuant to such powers.

Resolution 7: THAT the existing articles of association of the Company be amended as follows:

7.1 by the replacement of Article 3 with the following*: "The authorised share capital of the Company is £7,500,000 divided into 397,974,664 ordinary shares of 1 pence each ("the Ordinary Shares") and 88,006,334 deferred shares of 4 pence each ("the Deferred Shares")."*

7.2 by the insertion of the following as a new Article 4(a)

"4A Deferred Shares

The Deferred Shares shall rank pari passu with the Ordinary Shares in the capital of the Company in all respects save that:

(a) the holders of the Deferred Shares shall not have any right to receive notice of, or to attend or vote at (in person or by proxy), any general meeting of the Company;

(b) the holders of the Deferred Shares shall have no right to receive dividends or other distributions from the Company until all of the holders of the Ordinary Shares have received £1,000 per Ordinary Share;

(c) the holders of the Deferred Shares, shall, on a return of capital in a liquidation but not otherwise, be entitled to receive the amount paid up on each such Deferred Share, but only after the holders of each Ordinary Share shall have received £10,000 per Ordinary Share;

(d) the Deferred Shares shall not be redeemable and shall not be capable of transfer at any time hereafter, other than as provided in this article 4A, or otherwise with the consent of the directors of the Company;

(e) the directors of the Company be and are hereby irrevocably authorised at any time after the adoption of these Articles to appoint any person to execute or give on behalf of any holder of Deferred Shares a transfer of such Deferred Shares and/or an agreement to transfer the same to such person or persons as the directors of the Company may in their sole discretion determine as custodian of such shares and/or to purchase the such Deferred Shares in accordance with the Companies Act 1985 or the Companies Act 2006 (as applicable) in any such case for consideration not to exceed in aggregate 1p for all the holder or holders and pending such transfer and/or purchase to retain the certificates (if any) in respect of such Deferred Shares;

(f) the rights attached to the Deferred Shares shall not be deemed to be varied or abrogated by the creation or issue of any new shares ranking in priority to or pari passu with or subsequent to such shares. In addition, neither the passing by the Company of any resolution for the cancellation of the Deferred Shares for no consideration by means of a reduction of capital requiring the confirmation of the Court nor the obtaining by the Company nor the making by the Court of any order confirming any such reduction of capital nor the becoming effective of any such order shall constitute a variation, modification or abrogation of the rights attaching to the Deferred Shares and accordingly the Deferred Shares may at any time be cancelled for no consideration by means of a reduction of capital effected in accordance with applicable legislation without sanction on the part of the holders of the Deferred Shares; and

(g) notwithstanding any other provision of these Articles, and unless specifically required by the provisions of applicable legislation, the Company shall not be required to issue any certificates or other documents of title in respect of the Deferred Shares.

By Order of the Board
Stephen Clague
Company Secretary

30 June 2009

Registered Office:
Fleet House
8-12 New Bridge Street
London EC4V 6AL

Notes

1 **THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**
If you are in any doubt as to the action you should take, you should consult your bank manager, solicitor, accountant or other professional adviser immediately.

2 If you have sold or transferred all your ordinary shares in Serviced Office Group plc, please send this document and the enclosed form of proxy to the agent through whom the sale or transfer was effected or directly to the purchaser or transferee.

3 Only the holders of ordinary shares in the Company are entitled to attend the meeting and vote.

4 A member entitled to attend and vote at the meeting convened by this notice may appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.

5 To be effective, a form of proxy and, if applicable, any authority under which it is signed, or a certificated copy of such authority must be lodged at Capita Registrars, (PROXIES), The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not later than 48 hours before the time for holding the meeting. A form of proxy is provided.

6 Completing and returning a form of proxy does not preclude a member from attending the Meeting and voting in person.

7 For the purposes of determining who is entitled to attend or vote (whether on a show of hands or a poll) at the meeting a person must be entered on the register of members not later than 48 hours before the time of the meeting, or any adjournment thereof.

8 Multiple Proxy
A shareholder may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by him. To appoint more than one proxy you may photocopy this form. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope. A failure to specify the number of shares each proxy appointment relates to or specifying a number in excess of those held by you may result in the appointment being invalid.

9 Designated corporate representatives
In order to facilitate voting by corporate representatives at the Annual General Meeting, arrangements will be put in place at the Annual General Meeting so that:

(a) if a corporate member has appointed the Chairman of the Annual General Meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all the other corporate representatives for that member at the Annual General Meeting, then, on a poll, those corporate representatives will give voting directions to the Chairman and the Chairman will vote or withhold a vote as corporate representative in accordance with those directions; and

(b) if more than one corporate representative for the same corporate member attends the Annual General Meeting but the corporate member has not appointed the Chairman of the Annual General Meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative.

Corporate members are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives - www.icsa.org.uk - for further details of this procedure. The guidance includes a sample form of representation letter to appoint the Chairman as a corporate representative as described in (a) above. The Institute of Chartered Secretaries and Administrators recommends the use of multiple proxies wherever possible in favour of corporate representatives.

10 Regulation 41
Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, only those shareholders registered in the register of members of the Company as at 6.00 p.m. on 22 July 2009 or, if this meeting is adjourned, at 6.00 p.m. on the day two days prior to the adjourned meeting shall be entitled to attend and vote at the Annual General Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after 6.00 p.m. on 22 July 2009 or, if this meeting is adjourned, at 6.00 p.m. on the day two days prior to the adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at this Annual General Meeting.

Form of Proxy
Serviced Office Group plc

I/We
(Name in full in block capitals please)
of being a member/members of Serviced Office Group plc ("Company") hereby appoint the chairman of the meeting or (see note 1 below) as my/our proxy to vote for me/us on my/our behalf at the annual general meeting of the Company to be held at 11:00 am on 24 July 2009 at Fleet House, 8-12 New Bridge Street, London EC4V 6AL and at any adjournment thereof, on the following resolutions, as indicated by an 'X' in the appropriate box and, on any other business, as he thinks fit:

Resolution For Against

1 To receive the report of the directors and accounts for the financial year ended 31 December 2008.
2 To re-elect as a Director Mr Michael Kingshott in accordance with the Company's Articles of Association
3 To appoint Simpson Wreford & Partners as auditors of the company and to authorise the directors to determine their remuneration.
4 To authorise the subdivision and redesignation of the Company's shares.
5 To approve the authorisation of the directors to issue relevant securities in accordance with s80 of the Companies Act 1985
6 To approve the empowerment of the directors to allot equity securities with modified pre-emptive rights in accordance with s95 of the Companies Act 1985.
7 To approve the amendments to the Company's articles of association.

Dated: 2009 Signature:

Notes
1 If it is desired to appoint another person or persons as proxy or proxies the words "the chairman of the meeting" should be deleted and the name or names of the proxy or proxies (who need not be members of the Company) inserted into the appropriate space. If such words are not deleted and a proxy or proxies is/are named on this form the chairman shall not be authorised to vote as proxy. Any alteration must be initialled. If more than one person is appointed to act as proxy the number of shares in respect of which each such proxy is to vote must be specified. In the absence of any specific direction a proxy shall be deemed to be entitled to vote in respect of all the shares in the relevant holding.
2 Please indicate with an 'X' how you wish to vote. Unless otherwise instructed, the proxy will vote or abstain from voting as he thinks fit.
3 To be valid, this form, together with the power of attorney or other written authority, if any, under which it is signed or a notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power or written authority, must be lodged at the address given in note 6 below not less than 48 hours before the time of the meeting.
4 A corporation must execute this form either under its common seal or under the hand of two directors or one director and the secretary or under the hand of an officer or attorney duly authorised in writing.
5 In the case of joint holders, the signature of any one holder will be sufficient but the names of all the joint holders should be stated and the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. For this purpose seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding.
6 A form of proxy is provided. To be effective, a form of proxy must be completed, signed and lodged at Capita Registrars, (PROXIES), The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not later than 48 hours before the time of the meeting.
7 Deposit of a completed form of proxy will not preclude a member from attending the annual general meeting and voting in person.
8 A shareholder may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by him. To appoint more than one proxy you may photocopy this form. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope. A failure to specify the number of shares each proxy appointment relates to or specifying a number in excess of those held by you may result in the appointment being invalid.

Business Reply Service
Licence No. MB122

Capita Registrars
(Proxies)
P O Box 25
Beckenham
Kent BR3 4BR