SERVICED**OFFICE**GROUP

Annual Report and Accounts 2006

ACCOMMODATING BUSINESS & ACCOMMODATING PEOPLE

Highlights

47%
Revenues up 47% to £5.3 million for the year (2005: £3.6 million)

£2.0m
EBITDA of £2.0 million (2005: £1.7 million) and operating profit of £1.8 million (2005: £1.4 million), including a surplus on revaluation of £0.75 million (2005: £0.49 million)

£970,000
Profit before tax of £970,000 on continuing operations (2005: £680,000), an increase of 43%

0.76p
Earnings per share of 0.76p on continuing operations (2005: 0.59p), an increase of 29%

1,494
Number of workstations increased by 406 to 1,494, an increase of 37% over the year

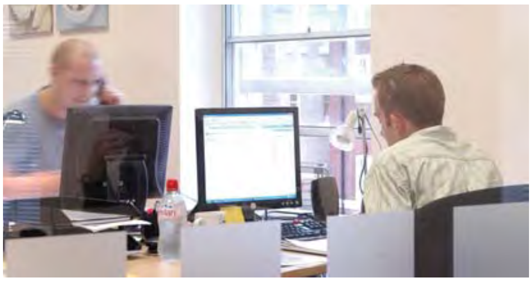
8%
8% increase in Net Asset Value per share to 7.6p (2005: 7.0p)

£50m
New £50 million Joint Venture with UBS Investment Bank

New centres
Opened in Crawley and Richmond

The Company

Serviced Office Group plc ("the Group") is an AIM Listed provider of flexible office space, which now operates from 12 centres providing a total of 1,848 workstations.



Chairman's Statement and Business Review

I am pleased to report our second year's results as Serviced Office Group plc ("the Group"). For the year ended 31 December 2006 the Group achieved turnover of £5.3 million (2005: £3.6 million) and a pre-tax profit of £970,000 on continuing operations (2005: profit of £680,000). Including discontinued operation, pre-tax profit was £808,000 due to the loss on investments of £162,000 relating to former Tecc-IS shareholdings. Basic earnings per share was 0.76p, compared to 0.59p in 2005. Including discontinued operations earnings per share was 0.57p.

During the year the Group acquired a new freehold centre at Crawley, as announced on 3rd May 2006. This has been integrated into the Group on time and ahead on budget and is meeting management's expectations in terms of leasing workstations. On 7th June 2006, as announced, we acquired a leasehold property in Richmond. After considerable refurbishment, we opened in August and it is now currently 95% occupied. Later in the year we also acquired sizeable new buildings in Teddington and Chiswick, totalling 35,000sq ft, with both offering long-term development prospects. Initial letting interest in both buildings is in line with management's expectations and we are confident about the prospects for both of these new additions to our portfolio. Once the fit-outs have been completed, the total number of workstations will be increased by 320.

"We are well positioned to take advantage of the growth in the market and expect to continue to benefit from the rise in demand for 'two to three star accommodation' which is the sector that we operate in."

NEW JOINT VENTURE
We have launched a new Joint Venture with UBS Investment Bank as our partner. The Joint Venture will acquire both existing and new properties with an initial investment of up to £50 million. Serviced Office Group will finance its initial equity investment in the joint venture from existing resources.

I am sure this exciting new relationship with such a high profile partner will enable us to create a very strong presence in the market place and will allow us to deliver faster growth in profitability and enhanced capital value for our shareholders than would have otherwise been possible. Furthermore the ability to expand our portfolio will be beneficial as a result of operational gearing.

REVALUATION OF ASSETS
The Board commissioned a revaluation of the Group's freehold assets as at 31st December 2006, and this has resulted in an uplift in value of properties held on the balance sheet by an amount of £755,000. Our net asset value per share at the year-end was 7.6p, representing a 8% increase over the previous year's figure of 7.0p.

DISCONTINUED OPERATIONS (TECC-IS INVESTMENTS)
The Board had taken the view that all assets of the former company should be sold so that they could focus on the business of Serviced Office Group. This process has realised £212,000 resulting in a book loss of £162,000. The one remaining investment has been written off.

CURRENT TRADING AND FUTURE PROSPECTS
Towards the end of the year we undertook a complete review of standards of accommodation offered in all of our properties. In the closing weeks of the year we embarked on an extensive programme to improve standards of service and accommodation, particularly in our most recent purchases. A number of our earlier investments in Kingston, Harrow and Hayes also required a certain amount of refurbishment to bring them in line with our standards. As this programme has some weeks to run I expect to report a modest decline in revenues for the opening weeks of the current year. However the underlying demand for the facilities offered by your Group remains very strong.

Whilst we are not immune to the increases in interest rates, we continue to actively manage the associated risks in terms of cost and gearing. Your board continues to be confident that we are investing for the long term future and we shall continue to invest providing we can see an adequate return on those investments.

Our Joint Venture with UBS Investment Bank will enable us to grow the number of centres faster than we would otherwise been able to achieve on our own and will also provide us with the operational gearing which will benefit the group overall.

Occupancy levels are predicted to rise and we expect to benefit from the increased size of our portfolio during the coming year. We now have the infrastructure in place not only to manage the group in its present form, but also to handle the rapid and efficient integration of further property acquisitions.

Whilst we benefit from a favourable economic climate and the stimulation of entrepreneurial activity, we are confident that we can also gain from an economic downturn with the market valuing the reduction in costs to tenants offered by our service. I am confident that we have the basis for a consistent expansion and growth in profitability.

I would like to express my thanks to all the Serviced Office Group personnel for their hard work during what has been a very exciting but demanding year. In addition I would like to thank all of our professional advisers and particularly our banks, who have assisted us throughout the year as we continue to expand the business.

Michael Kingshott
Chairman

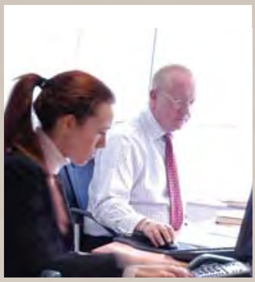
22 June 2007

There are three main types of business on which Serviced Office Group relies to help provide increased revenues – business centres, shared services and virtual offices.

Core business facilities that meet our clients' specific needs

"THE HANOVER FOUNDATION IS A CHARITY WHICH PROVIDES PROFESSIONAL, EXECUTIVE-STYLE COACHING FOR YOUNG PEOPLE.
Since 1997 it has coached almost 10,000 teenagers, many of them at the highest risk of exclusion. Using proven business methods, Hanover's goal-orientated programmes stimulate an attitude of personal responsibility, producing dramatic changes in confidence, aspiration and achievement. The charity is proud that 85% of turnover is spent on delivery to young people, and Kingshott's sponsorship-in-kind helps them keep overheads down. Serviced office space also provides an appropriate environment to meet with influential business leaders from sponsoring companies such as Deutsche Bank, Prudential and HBOS plc. As the charity expands, corporate support becomes increasingly vital, enabling Hanover to offer coaching programmes at an affordable price, which in turn means more young people are helped towards a brighter future."

SERENA STANDING, HANOVER PARTNERSHIP, BLACKFRIARS.



"**OAKLAND ASSOCIATES IS A WELL RESPECTED, HIGHLY SUCCESSFUL RECRUITMENT CONSULTANCY...**
in its 17th year in business, recruiting support staff for a wide range of clients throughout London and the South East. Since moving to the KBC building in EC4 we have found that the superb location has significantly increased the number of candidates able to attend interviews at our office. We have also made significant cost savings as a result of the switch to KBC and these, combined with the more relaxed and friendly atmosphere here means that we have been delighted with the move."

TOM WHITE, OAKLAND ASSOCIATES, BLACKFRIARS

"**BOLAMROSE IS A THRIVING FINANCIAL SERVICES BUSINESS, WE DEAL LARGELY WITH PEOPLE AND BUSINESSES SPLIT ACROSS THE CITY AND THE WEST END...**
making Blackfriars a fantastic location. Our business is completely client focused so we know how to make our clients' experience very special and that is exactly what we wanted when we were looking for a complete office solution. The KBC team is efficient and friendly and the space delivers exactly what we need."

GUY BOLAM, BOLAMROSE, BLACKFRIARS

BUSINESS CENTRES

Within our business centres we provide managed office space allowing our client to concentrate on running their own business.

We provide flexible fully furnished office space on short term licenses including managed IT and Telephone support services.

Each clients' requirement is tailored to meet their every day needs. The aim of our business centre operations is to create a vibrant 'hotel' for small business and to achieve maximum occupancy.

SHARED OFFICES

Hot desks are available at each location thereby allowing clients to operate within a small community of fellow businesses.

VIRTUAL OFFICES

Total flexibility, clients can work outside the office environment with us providing all the back office functionalities.

TYPICAL CUSTOMERS

Our typical customers have an average number of employees ranging from 2 to 15.

Our client profile varies from centre to centre, however generally consist of Law firms, Accountants, Media companies, Headhunters, Hedge fund managers, Market research companies, Call centre and Public service overspill. The average length of occupancy is 2 years, 40% of which are in excess of three years or more.

Due to our flexible space, clients are able to expand or contract according to needs.

Including the recent additions of Chiswick, Crawley, Richmond and Teddington, KBC currently owns 7 freehold and operates 5 leasehold business centres at Harrow, Hayes, Kingston, Marlow, Uxbridge, Uxbridge Central, Blackfriars and Bournemouth.

A Strategy for Expansion with a firm focus on the South East

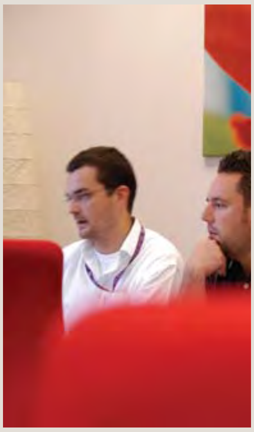
RICHMOND – A MAJOR NEW ACQUISITION
KBC Richmond Exchange provides quality serviced office space in an exclusive courtyard environment within easy access to the riverside, recreational amenities and excellent shopping facilities of Richmond town centre. The centre offers superior offices from 2 workstations to 38 workstations, spread over 3 floors, with a total number of 169 workstations. The centre is fully furnished to an excellent standard offering a fully serviced package and a comfortable environment.

CRAWLEY
The building has been fully refurbished to create modern, managed offices, catering for the often changing and demanding needs of today's businesses. In total there are 150 workstations. The centre also provide ample parking space within a demanding area.

CHISWICK
The centre is situated in the heart of Chiswick giving superb access to a wide range of restaurants and shops. This recently refurbished centre offers very high quality fully serviced office space with a total of 142 workstations.

Directors' Report





The directors present their annual report and the audited financial statements for the year ended 31st December 2006.

PRINCIPAL ACTIVITIES
The Board consider that the ownership and operation of serviced office accommodation has been the Group's primary activity for 2006 and will be for subsequent periods. The Company has completed the disposal of its investments in technology companies with the exception of one investment that has been fully written off.

BUSINESS REVIEW
A review of the Group's business and an indication of likely developments are contained in the operating and financial review.

DIVIDENDS
The directors are not declaring a dividend for the year.

The retained profit for the year in the group was £666,000 excluding discontinued operations (2005: £507,000), £504,000 including discontinued operations (2005: £507,000).

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	
Stephen Clague	(appointed 9th May 2007)
Iqbal Savani	(resigned 16th March 2007)
Aileen Pringle	
Peter Duffy	(appointed 12th September 2006)
Larry Lipman	(resigned 12th September 2006)
Paul Davis	(resigned 12th September 2006)

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 2005 Number of 5p ordinary shares	At 31 December2006 Number of 5p ordinary shares	Options over ordinary granted as at 31 December2005	Options over ordinary granted as at 31 December2006
Michael Kingshott	21,500,001	21,500,001	-	-
Aileen Pringle	-	-	-	-
Peter Duffy	-	-	-	-
Iqbal Savani	-	-	300,000	300,000

Directors' Report Continued

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 22 June 2007 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.

SUBSTANTIAL SHAREHOLDINGS
As at 22 June 2007 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
BBHISL Nominees Ltd	10,853,640	12.3
Tickgold Limited	5,342,000	6.1
Pershing Keen Nominees Ltd	5,062,500	5.8
Peter O'Reilly	4,592,500	5.2

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 2006 was 38 days.

POLITICAL AND CHARITABLE CONTRIBUTIONS
The Group made no political contributions or donations to UK charities during the year (2005: £Nil).

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

22 June 2007

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 and Advisors


from left to right **Michael Kingshott, Stephen Clague, Aileen Pringle and Peter Duffy**

DIRECTORS
Michael Kingshott
Chairman and
Managing Director

Stephen Clague
Finance Director

Aileen Pringle
Non-executive

Peter Duffy
Non-executive

SECRETARY
Stephen Clague

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

NOMINATED ADVISER & 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




SENIOR MANAGEMENT
from left to right
Jean Eustace
Michael Knapp
Lee Pyle
Vic Chaudray

Corporate Governance

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 July 2003 ("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 Aileen Pringle and its other member is Peter Duffy. The external auditors, the Group 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 and its other member is Aileen Pringle. 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 directors have reviewed the latest budget and cash flow projections. The directors are satisfied that the group has adequate resources to continue in operation for the foreseeable future. The financial statements have therefore been prepared on a going concern basis.

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 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, Aileen Pringle and Paul Davis until his 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. The review considered input from external sources and compared findings to similar sized companies in similar industry types. As a result of this review, appropriate changes were made to ensure a competitive and well-balanced package was maintained. It also seeks to align 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 are:

BASIC SALARY
To determine the specific levels of salary and benefit, the Committee draws on a wide range of data, 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 ongoing 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.

PENSION 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

	Basic Salary £000	Taxable Benefits £000	Loss of Office £000	Pension Contributions £000	2006 Total £000	2005 Total £000
Executive						
MJ Kingshott	81	4	-	-	85	75
I Savani	68	-	-	-	68	16
P Pascan	-	-	-	-	-	32
Non Executive						
L Lipman	11	-	4	-	15	14
P Davis	11	-	4	-	15	14
A Pringle	15	-	-	-	15	14
P Duffy	4	-	-	-	4	-
G Clarke	-	-	-	-	-	5
	190	**4**	**8**	**-**	**202**	**170**

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

Highest paid director	2006 Total £000	2005 Total £000
Emoluments	**85**	**75**

DIRECTORS' SHARE OPTIONS

I Savani was granted 300,000 options on 22nd October 2005 which subsequently lapsed at the date of his resignation.

Operating and financial review

We are pleased with the results for 2006, our growth in revenues and group operating profit was derived solely from our portfolio of buildings, the majority which are held on a freehold basis. The continued expansion in capabilities of our portfolio into both managed and serviced workspace solutions will ensure that the group remains highly focused on achieving its aims for 2007.

OVERVIEW OF RESULTS FOR THE YEAR

Turnover for the year ended 31 December 2006 was £5.3m and operating profit was £1.8m.

In November 2006, the group acquired The Office Building in Crawley and this has been successfully integrated with the rest of the group. A total of £1.5m was paid for the freehold comprising 11,200 square feet and 120 workstations. In the same month, the group acquired a leasehold office in Richmond compromising 16,409 square feet and 170 workstations.

Our growth in revenues together with the maximisation of revenues per workstation will ensure that the company remains profitable and in a strong position to grow both organically and by bolt-on acquisitions.

OPERATING EXPENSES

Operating expenses including depreciation and amortisation but excluding revaluations were equivalent to 80% of sales and with careful cost management enabled management to show a healthy operating margin.

OPERATING PROFIT

Group operating profit was £1.8m which equates to a margin of 35%. Margins are expected to be stable in the forthcoming year with the present management keen to improve revenues but also keeping costs under control with a good internal control environment.

INTEREST

Interest was due on the bullet loan in January 2007 and the loan has been rolled over for another year at a favourable rate of interest. Of the increase in loans during 2006, interest on £2m will be payable in July 2007, with interest payable on the balance due in January 2008.

DISCONTINUED OPERATIONS (TECC-IS INVESTMENTS)

The company sold or wrote off the investments that were held in technology based companies. The book value of these investments at the end of 2005 was £374,000 and proceeds achieved during 2006 were £212,000 resulting in a loss of £162,000. The proceeds of these investments will be used to fund further property acquisitions as and when the opportunity arises.

TAXATION

The effective tax rate is higher than the normal corporation tax rate of 30% as the loss from discontinued operations was not allowable for tax.

EARNINGS PER SHARE

Earnings per share is 0.76 pence for the current year on continuing operations and 0.57 pence including discontinued operations. 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 20 days and the company is progressively ensuring that debt is monitored and controlled by operational management.

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

We have audited the group and parent company financial statements ("financial statements") of Serviced Office Group plc for the year ended 31st December 2006 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 director's 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, if 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 2003 FRC Combined Code 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 groups 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 affairs as at 31st December 2006 and of its profit 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 2006 and of its cash flow; and
- 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.

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

22 June 2007

Consolidated balance sheet

FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	2006 £000	2005 £000
ASSETS			
Non current assets			
Investment property	7	22,908	16,944
Property, plant & equipment	8	2,478	1,291
Intangible assets	9	1,482	1,482
Available-for-sale investments	11	-	374
		26,868	20,091
Current assets			
Inventories	12	63	63
Trade and other receivables	13	817	820
Cash and cash equivalents	14	335	1,762
		1,215	2,645
Total assets		**28,083**	**22,736**
EQUITY			
Capital and reserves attributable to equity holders of the company			
Called up share capital	15	4,400	4,400
Share premium account	15	4,194	4,190
Profit and loss account		(1,940)	(2,444)
Total equity		**6,654**	**6,146**
LIABILITIES			
Non current liabilities			
Long term borrowings	16	18,500	14,000
Finance lease		63	-
Deferred income tax	17	889	575
		19,452	14,575
Current liabilities			
Trade and other payables	18	1,977	2,004
Current income tax		-	11
		1,977	2,015
Total liabilities		**21,429**	**16,590**
Total equity and liabilities		**28,083**	**22,736**

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 22 June 2007 and signed on behalf of the Board

Michael Kingshott
Director

Stephen Clague
Director

Company balance sheet

FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	2006 £000	2005 £000
ASSETS			
Non current assets			
Investments in subsidiaries	10	3,039	3,039
Available-for-sale investments	11	-	374
		3,039	3,413
Current assets			
Trade and other receivables	13	1,970	951
Cash and cash equivalents	14	415	1,276
		2,385	2,227
Total assets		**5,424**	**5,640**
EQUITY			
Capital and reserves attributable to equity holders of the company			
Called up share capital	15	4,400	4,400
Share premium account	15	4,194	4,190
Profit and loss account		(3,172)	(2,987)
Total equity		**5,422**	**5,603**
LIABILITIES			
Non current liabilities			
Long term borrowings		-	-
Deferred income tax		-	-
		-	-
Current liabilities			
Trade and other payables	18	2	37
		2	37
Total liabilities		2	37
Total equity and liabilities		**5,424**	**5,640**

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 22 June 2007 and signed on behalf of the Board

Michael Kingshott
Director

Stephen Clague
Director

Consolidated income statement

FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	2006 £000	2005 £000
Continuing operations			
Continuing operations			
Sales		5,273	3,582
Cost of Sales		(3,244)	(1,920)
Gross profit		2,029	1,662
Net gain from revaluation of investment properties		755	488
Administrative expenses		(999)	(755)
Operating profit		**1,785**	**1,395**
Finance costs			
Interest received	21	(843)	(793)
		28	78
Profit before income tax		970	680
Income tax expense	22	(304)	(173)
Profit for the year from continuing operations		666	507
Loss for the year from discontinued operations	11	(162)	-
Profit for the year		**504**	**507**
Continued operations			
Basic	23	0.76p	0.59p
Diluted	23	0.76p	0.59p
Including discontinued operations			
Basic	23	0.57p	0.59p
Diluted	23	0.57p	0.59p

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

Consolidated statement of changes in equity

FOR THE YEAR ENDED 31 DECEMBER 2006

	Share Capital £000	Share Premium £000	Retained Earnings £000	Total Equity £000
	Attributable to equity holders of the company			
Group				
Balance at 1 January 2005	2,179	3,744	(2,951)	2,972
Profit for the year	-	-	507	507
Issue of share capital	2,221	444	-	2,665
Grant of employee share options	-	2	-	2
Balance at 31 December 2005	**4,400**	**4,190**	**(2,444)**	**6,146**
Balance at 1 January 2006	4,400	4,190	(2,444)	6,146
Profit for the year	-	-	504	504
Grant of employee share options	-	4	-	4
Balance at 31 December 2006	**4,400**	**4,194**	**(1,940)**	**6,654**
Company				
Balance at 1 January 2005	2,179	3,744	(2,951)	2,972
Loss for the year	-	-	(36)	(36)
Issue of share capital	2,221	444	-	2,665
Grant of employee share options	-	2	-	2
Balance at 31 December 2005	**4,400**	**4,190**	**(2,987)**	**5,603**
Balance at 1 January 2006	4,400	4,190	(2,987)	5,603
Loss for the year	-	-	(185)	(185)
Grant of employee share options	-	4	-	4
Balance at 31 December 2006	**4,400**	**4,194**	**(3,172)**	**5,422**

Consolidated cash flow statement

FOR THE YEAR ENDED 31 DECEMBER 2006

	2006 £000	2005 £000
Profit from operations	1,785	1,395
Adjustment for:		
Depreciation of plant and equipment	230	293
Revaluation of investment properties	(755)	(488)
Expense arising from grant of share options	4	2
Operating cash flow before movement in working capital	**1,264**	**1,202**
Decrease in receivables	119	194
(Increase) in other current assets	(116)	(332)
(Decrease) / Increase in payables	349	(639)
Cash generated from operations	1,616	425
Interest Paid	(1,219)	(8)
Net cash from operating activities	**397**	**417**
Cash flows from investing activities		
Interest received	28	78
Purchase of investment property	(5,209)	-
Purchases of plant and equipment	(1,349)	(337)
Repayment of Shareholder Loans	-	(1,000)
Acquisition of subsidiaries, net of cash acquired	-	(66)
	(6,530)	(1,325)
Proceeds received from available-for-sale investments (discontinued operations)	212	32
Net cash (used in) investment activities	(6,318)	(1,293)
Cash flows from financing activities		
Proceeds of issue of new ordinary shares	-	5
Proceeds from long-term borrowings	4,500	-
Payments under finance lease	(6)	-
Net (decrease) in cash and cash equivalents	(1,427)	(871)
Cash and cash equivalents at the beginning of the year	1,762	2,633
Cash and cash equivalents	**335**	**1,762**
Bank balances and cash	**335**	**1,762**

Company cash flow statement

FOR THE YEAR ENDED 31 DECEMBER 2006

	2006 £000	2005 £000
Loss from operations	(49)	(108)
Adjustment for:		
Depreciation of plant and equipment	-	-
Expense arising from grant of share options	4	2
Operating cash flow before movement in working capital	**(45)**	**(106)**
(Increase) in other current assets	(1,019)	(648)
(Decrease) in payables	(35)	(333)
Cash generated from operations	**(1,054)**	**(1,087)**
Interest Paid	-	-
Net cash used in operating activities	**(1,099)**	**(1,087)**
Cash flows from investing activities		
Interest received	26	72
Proceeds received from available-for-sale investments	212	32
Acquisition of subsidiaries, net of cash acquired	-	(379)
Net cash (used in) / received from investment activities	**(238)**	**(275)**
Cash flows from financing activities		
Proceeds of issue of new ordinary shares	-	5
Net (decrease) in cash and cash equivalents	(861)	(1,357)
Cash and cash equivalents at the beginning of the year	1,276	2,633
Cash and cash equivalents	**1,276**	**1,276**
Bank balances and cash	**415**	**1,276**

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2006

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 Alternative Investment Market.

These consolidated financial statements have been approved for issue by the Board of Directors on 22 June 2007.

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.

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.

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 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 6% - 15%

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.

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2006

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

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 'selling and marketing costs.'

2.8 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.

2.9 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.

2.10 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.

2.11 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.

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2006

2.12 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.

2.13 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 recognised 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 recognised as interest expense.

2.14 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.

2.15 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.

2.16 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 foreign various currency exposure.

(ii) Price risk
The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated balance sheet either as available-for-sale or at fair value through profit or loss. The Group is not exposed to commodity price risk.

(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.

(d) 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 two bullet loans the interest rates of which are fixed every six months or every year.

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2006

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

4.1 Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, unlisted securities and derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments

The nominal value less impairment provision of trade receivables and payables are assumed to approximate to their fair values.

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 As the group is the sole cash-generating unit, the test was based on the bid price of 10.25 pence per share as at the year end. This valued the group at £9.021m. With costs associated with any sale considered to be negligible, this value exceeds the net asset value of £6.654m by £2.397m. Therefore there was no impairment to the value of goodwill.

5 LOSS 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 loss for the year ended 31st December 2006 is £185,000 (2005: Loss: £36,000)

6 SEGMENTAL REPORTING

The group's operations comprise entirely the provision of serviced office accommodation in the UK and this is the sole reportable segment.

6a AUDITORS REMUNERATION

	2006 £000	2005 £000
Fees payable for audit of parent company and consolidated accounts	38	40

7 INVESTMENT PROPERTY

		2006 £000	2005 £000
Fair Value			
At 1 January 2006		16,944	-
Arising on acquisition of Subsidiaries		-	16,456
Arising on acquisition of investment properties		5,209	-
Net gain from fair value adjustments of investment properties	755	488	
At 31 December 2006		**22,908**	**16,944**

The groups investment properties were revalued at 31 December 2006 by independent professionally qualified valuers (Atis Real Weatheralls). Valuations were based on current prices in an active market.

8 PROPERTY, PLANT AND EQUIPMENT

Group	Plant & Equipment £000
Cost	
At 1 January 2006	2,070
Additions	1,417
At 31 December 2006	3,487
Accumulated Depreciation	
At 1 January 2006	779
Charge for the year	230
At 31 December 2006	1,009
Carrying Amount	
At 31 December 2006	2,478
At 31 December 2005	1,291

The net book value of assets held under finance leases at 31st December 2006 was £63,000 (2005: £nil)

9 INTANGIBLE ASSETS – GOODWILL

	2006 £000	2005 £000
Opening net book value	1,482	-
Arising on acquisition of subsidiaries	-	1,482
	1,482	**1,482**

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2006

10 INVESTMENTS

Company	2006 £000	2005 £000
Subsidiary undertakings:		
Cost		
Beginning of year	3,039	-
Additions	-	3,039
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%
KBC Crawley Limited	England	Serviced office provider (*)	100%
KBC Teddington Limited	England	Serviced office provider (*)	100%
KBC Chiswick Limited	England	Serviced office provider (*)	100%
KASP Limited	England	Development company	100%

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

11 AVAILABLE-FOR-SALE INVESTMENTS AND DISCONTINUED OPERATIONS

	2006 £000	2005 £000
Group and Company:		
Beginning of year	374	406
Exchange differences	-	-
Additions	-	-
Investment returned	(212)	(32)
Loss on sale	(162)	-
	-	**374**

Available-for-sale investments include the following:	2006 £000	2005 £000
Equity securities – Israel	-	374
	-	**374**

Following the acquisition of KBC Holdings Limited and subsidiaries in January 2005 the group's principal activity became the ownership and operation of serviced office accommodation. It ceased actively investing in Israeli technology companies. With the exception of one investment which has been fully provided, the investments remaining at the start of the year have been sold for £212,000 resulting in a loss of £162,000.

12 INVENTORIES

	2006 £000	2005 £000
Acquired on acquisition of subsidiary – Land held for resale	63	63
	63	**63**

13 TRADE AND OTHER RECEIVABLES

	2006 £000	2005 £000
Group:		
Trade receivables	288	383
Prepayments	451	144
Other debtors	58	201
Receivable from related parties	20	92
	817	**820**
Company:		
Amounts owed by group companies	1,968	951
Other debtors	2	-
	1,970	**951**

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

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2006

14 CASH AND CASH EQUIVALENTS

	2006 £000	2005 £000
Group:		
Cash at bank and in hand	(80)	522
Short term bank deposits	415	1,240
	335	**1,762**
Company:		
Short term bank deposits	**415**	**1,276**

The effective interest rate on short term bank deposits was 5.00% (2005: 4.45%); these deposits have an average maturity of 30 days.

15 SHARE CAPITAL

	Number of Shares	Ordinary Shares £000	Share premium £000	Total £000
At 1 January 2006	88,006,334	4,400	4,190	8,590
Employee share options	-	-	4	4
At 31 December 2006	**88,006,334**	**4,400**	**4,194**	**8,594**

The total number of authorised number of ordinary shares is 150 million shares (2005: 150 million shares) with a par value of 5 pence (2005: 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. There is no vesting period, 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:

	2006		2005	
	Average Exercise Price in pence Per share	Options (Thousands)	Average Exercise Price in pence Per share	Options (Thousands)
At 1 January	9.14	2,223	5.83	600
Granted	-	-	10.22	2,087
Exercised	-	-	5.00	(100)
Lapsed	8.84	(1,628)	11.00	(364)
At 31 December	**9.96**	**595**	**9.14**	**2,223**

Out of the 595,000 outstanding options (2005: 2,223,000 options), no options (2005: 500,000 options) were exercisable.

15 SHARE CAPITAL (CONTINUED)

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) 2006	Options (thousands) 2005
2010	5.00	-	300
2011	7.50	-	200
2015	11.00	45	273
2015	9.88	550	1,450
At 31 December		**595**	**2,223**

The fair value of share options granted during the period using the Black Scholes valuation model was £6,000 (2005: £2,000). The significant inputs into the model were share price of 10 pence (2005: 8 pence) at the grant date, exercise price shown above, volatility of share price of 10% (2005: 10%), options life as disclosed above and annual risk free interest rate of 5.0% (2005: 4.5%).

16 BORROWINGS

	2006 £000	2005 £000
Non-current		
Bank borrowings	18,500	14,000

Bank borrowings are secured by the freehold investment properties.

Of the Group's borrowings, £16,500,000 is fixed for a term of one year which ends on the 21st January 2008 and is rolled forward for another year. The effective interest rate on the bank borrowings is 6.90 per cent.

The balance of £2,000,000 is fixed for six months which ends on 19th July 2007. The effective interest rate on the bank borrowings is 6.75%.

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2006

17 DEFERRED INCOME TAX

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

	2006 £000	2005 £000
Deferred tax liabilities	1,107	781
Deferred tax assets	(218)	(206)
Net position at 31 December 2006	**889**	**575**

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

	2006 £000	2005 £000
At 1 January 2006	575	-
Acquisition of subsidiaries	-	414
Charged to the income statement	314	161
At 31 December 2006	**889**	**575**

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 2006	66	715	781
Charged to the income statement	113	213	326
At 31 December 2006	**179**	**928**	**1,107**

	Accelerated tax depreciation £000	Property Revaluations £000	Total £000
Deferred tax assets:			
At 1 January 2006	(45)	(161)	(206)
Charged to the income statement	(25)	13	(12)
At 31 December 2006	**(70)**	**(148)**	**(218)**

Deferred income tax assets are recognised for tax loss carry forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The group did not recognise deferred tax assets in respect of losses amounting to £726,000 (2005: £726,000) that can be carried forward against future taxable income.

18 TRADE AND OTHER PAYABLES

	2006 £000	2005 £000
Group:		
Trade payables	171	291
Social security and other taxes	170	(18)
Customer deposits	855	757
Accruals	781	974
	1,977	**2,004**
Company:		
Trade payables	-	20
Accruals	2	17
	2	**37**

19 EXPENSES BY NATURE

	2006 £000	2005 £000
Rent, rates and establishment costs	1,803	958
Other overheads	1,265	784
Depreciation, amortisation and impairment charges	230	293
Employee benefit expense	945	640
	4,243	**2,675**
Number of employees	36	35

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2006

20 EMPLOYEE BENEFIT EXPENSE

	2006 £000	2005 £000
Wages and salaries	858	564
Social security costs	79	56
Share options granted to employees and directors	4	2
Pension costs – defined contribution plans	4	18
	945	**640**

21 FINANCE COSTS

	2006 £000	2005 £000
Interest expense:		
– On bank borrowings	843	793
	843	**793**

22 INCOME TAX EXPENSE

	2006 £000	2005 £000
Current tax	(10)	12
Deferred tax (Note 17)	314	161
	304	**173**

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

	2006 £000	2005 £000
Profit/(loss) before tax	808	680
Tax calculated at domestic rates applicable to profits in the UK	242	129
Losses not recognised as a deferred tax asset	-	-
Expenses not deductible for tax purposes	56	5
Utilisation of unused tax losses	-	(15)
Change in tax rate used for deferred tax provision	13	54
Over provision for prior year tax	(7)	-
Tax charge	**304**	**173**

The applicable tax rate was 30% (2005: 19%).

23 EARNINGS PER SHARE

	2006 £000	2005 £000
Weighted average number of shares in issue (thousands)	88,006	86,425
Continuing operations		
Profit attributable to equity holders of the company	666	507
Basic earnings per share (pence)	**0.76**	**0.59**
Including discontinued operations		
Profit attributable to equity holders of the company	504	507
Basic earnings per share (pence)	**0.57**	**0.59**

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

24 COMMITMENTS

	2006 £000	2005 £000
Capital commitments		
Capital expenditure contracted but not provided for	300	-

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:

	2006 £000	2005 £000
No later than 1 year	-	-
Later than 1 year and no later than 5 years	331	87
Later than 5 years	659	321
	990	**408**

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2006

25 POST BALANCE SHEET EVENTS

The group has entered into a Joint Venture with UBS Investment Bank which will acquire both existing and new properties with combined internal and external resources of up to £50 million. The group will finance its initial equity investment from existing resources.

26 RELATED PARTY TRANSACTIONS

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 31/12/06 £000	Year ended 31/12/05 £000	Year ended 31/12/06 £000	Year ended 31/12/05 £000	Year ended 31/12/06 £000	Year ended 31/12/05 £000	Year ended 31/12/06 £000	Year ended 31/12/05 £000
Car Park Valeting Ltd	28	89	-	-	18	92	-	-
Roskin Ltd	-	6	-	15	-	-	-	-

The Serviced Office Group has provided services to Car Park Valeting Ltd and Roskin Ltd and purchased services from Roskin Ltd at arms length prices. These companies are controlled by MJ Kingshott who is also a director of the Company. These amounts have been settled in full after the end of the financial year.

Notice of the Annual General Meeting

FOR THE YEAR ENDED 31 DECEMBER 2006

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 12:00 PM ON 7 AUGUST 2007 FOR THE FOLLOWING PURPOSES:

Ordinary Business

Resolution 1: to receive the Financial Statements of the Group for the year ended 31 December 2006 together with the reports of the Directors and Auditors thereon.

Resolution 2: to re-elect as a Director Mr Stephen Clague in accordance with the Company's Articles of Association.

Resolution 3: to re-elect as a Director Ms Aileen Pringle in accordance with the Company's Articles of Association.

Resolution 4: to appoint Simpson Wreford & Partners as auditors of the company and to authorise the directors to determine their remuneration.

Special Business

As special business to consider and, if though fit, to pass the following resolutions which will be proposed as special resolutions:

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 £1,906,803. 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.

Resolution 6: THAT the Directors be and are hereby empowered, 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 such power shall be limited to the allotment of equity securities in connection with a rights issue, subject to such exceptions exclusions or other arrangements as the directors may deem necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws of, or the requirements of, any regulatory body or otherwise in any territory; and for the purposes of this resolution "rights issue" or any other pre-emptive issue means or offer of equity securities to holders of ordinary shares in the Company in proportion to their respective holdings (as nearly as may be); and the allotment of equity securities up to an aggregate of £220,016 a sum being 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.

By Order of the Board

Stephen Clague
Company Secretary

22 June 2007

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

Notice of the Annual General Meeting

FOR THE YEAR ENDED 31 DECEMBER 2006

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 Proxy Processing Centre, Telford Road, Bicester OX26 4LD or by hand to Capita Registrars, 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.

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 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 12:00 pm on 7 August 2007 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 2006.**	☐	☐
2	**To re-elect Mr Stephen Clague as a Director**	☐	☐
3	**To re-elect Ms Aileen Pringle as a Director**	☐	☐
4	**To appoint Simpson Wreford & Partners as auditors of the company and to authorise the directors to determine their remuneration.**	☐	☐
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**	☐	☐

Dated: 2007 **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 Proxy Processing Centre, Telford Road, Bicester OX26 4LD or by hand to Capita Registrars, 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 extraordinary general meeting and voting in person.

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BUSINESS REPLY SERVICE
Licence No. RRHB-RSXJ-GKCY

1

Proxy Processing Centre
Telford Road
BICESTER
OX26 4LD

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www.servicedofficegroup.com

Company registration number: **4031883**

Design: **Energy Design Studio**
Photography: **Daniela Horakova**
Print and production: **Greenaways**

SERVICED OFFICE GROUP PLC

Fleet House
8-12 New Bridge Street
London EC4V 6AL
Tel: +44 (0)20 7583 8833
Fax: +44 (0)20 7353 4070
Email: info@kingshott.com

www.servicedofficegroup.com