Serviced Office Group plc (SVO)

Preliminary Results for the year ended 31 December 2010

Serviced Office Group plc ("the Group") is an AIM-listed provider of flexible office space, which now operates from 22 centres providing a total of 4,961 work stations

HIGHLIGHTS

- Turnover increased 39% to £9.8 million, with a like-for-like increase of 1.9%
- Operating profit increased by £2.5 million to £2.9 million (2009: £0.4 million)
- Operating profit margin (excluding revaluation movements) increased from 7.0% in 2009 to 10.6% in 2010
- EBIT increased 15.3% to £2.9 million (2009: £2.5 million)
- Positive operating cash flow of £1.6 million (2009: £1.5 million)
- Net cash at 31 December 2010 of £0.9 million (2009: £0.4 million overdraft)
- Earnings per share decreased to 1.19p (2009: 1.97p) primarily due to the issue of shares in the year

Michael Kingshott, Chairman, comments:

"2010 was a demanding year for trading with significant competition on work station rates to attract clients during the continued economic downturn. During these challenging conditions, we have focused on opening new centres for clients with the opening of a new leased property on Hanover Square and three new managed properties at Wallington, Knightsbridge and Maidstone.

"Despite challenging trading conditions it is pleasing to note that the Group's results for the year are positive. Much of the Group's success over the past year has been due to the growth of its property management business which is now performing strongly and enabling the Group to expand its portfolio much quicker than it would otherwise be able."

19 April 2011

ENQUIRIES:

Serviced Office Group plc **Tel: 020 7583 8833**
Michael Kingshott, Chairman
Elizabeth Scannell, Finance Director

Evolution Securities **Tel: 020 7071 4300**
Bobbie Hilliam
Patrick Castle

College Hill **Tel: 020 7457 2020**
Gareth David

CHAIRMAN'S STATEMENT

As I forecast in my report for the six months ended 30 June 2010, the property market continued to be challenging during the second half of the year. While we are starting to see the beginnings of improved conditions and have experienced stronger trading during the first quarter of 2011, I do not expect to see significant improvements in the property market until 2012.

During the difficult trading conditions of 2010, we have focussed on opening new centres for clients with the opening of four new properties at Wallington, Hanover Square, Knightsbridge and Maidstone. The Group has also devoted significant time and effort during the year into controlling costs and improving internal procedures to ensure it is in a strong position to take advantage of any improvement within the market.

Despite challenging trading conditions it is pleasing to note that the Group's results for the year are positive. Key highlights include:

- Operating profit increased by £2.5 million to £2.87 million and the operating profit margin excluding revaluation gains increased by 3.6% to 10.6%

- The number of work stations managed by the Group increased from 4,269 to 4,511. This has further increased to 4,961 at 31 March 2011

- The average monthly rate per work station increased by 12% (£38) to £321 with central London sites achieving up to £662 per work station

- Average occupancy for the Group's portfolio was maintained at 75%

Maintaining the average occupancy rate is a significant achievement given the opening of new centres which take time to fill up. Particular success was achieved at Hanover Square which was opened in April 2010 and by September 2010 had achieved occupancy of 91%.

Much of the Group's success over the past year has been due to the growth of its property management business. During the financial crisis the Group recognised the need to diversify its services into both managed and leasehold opportunities thereby enabling the Group to capitalise on its core skills in relation to property management.

It is pleasing now to see the results of offering our management services to other freeholders and leaseholders who benefit from our ability to design, fit-out and sell office space in a highly efficient and cost effective manner. This approach has been highly successful and the Group has won a number of new buildings as a result of these skills which is allowing it to expand its portfolio much quicker than would otherwise be possible.

The Group raised approximately £1.6 million through placing new ordinary shares with investors during the year. The ability of the Group to attract this new investment is an endorsement of the Group's business and strategy going forward. The new investments have enabled the Group to further grow its property portfolio in the last year and allows the Group to continue to do so in 2011. Furthermore, the Group has welcomed two new directors and a new non-executive director during the year. The fact that the Group is able to attract directors of such calibre is confirmation of the strong future prospects for the Group.

Discussions regarding the acquisition of Bourne Financial Limited are ongoing and the Board will continue to update progress on this to shareholders as and when appropriate. I am also pleased to report that the Group has recently received planning permission for development of its Teddington site and is now marketing this property for sale later this year.

I would like to thank all the staff of Serviced Office Group and our many sub-contractors who work closely with us. 2010 was a tough year for everyone and without the continued support of our staff and subcontractors we would not have been able to achieve the results we have generated. I look forward in the coming year to continuing working with you and in partnership with our managed property clients to enable us to further expand the portfolio we can offer potential occupiers.

Following the last two years of an extremely difficult property market, the first quarter of 2011 has been very strong. The Group has recently received an unprecedented number of enquiries for its office space and is successfully converting these into sales with March 2011 being a record month. In January 2011, a new site in Covent Garden was opened and in March 2011 the Group announced it had reached agreement with British Telecommunications plc to manage their building in Hemel Hempstead.

There are currently advanced negotiations taking place regarding two other managed properties and the Group continues preliminary discussions on a number of other sites. Given this upturn I look forward to 2011 with expectations for positive growth in the business and continued improvement in profit levels. We have made a strong start to the year but I expect the market to remain challenging throughout 2011.

MICHAEL KINGSHOTT
Chairman

18 April 2011

FINANCE DIRECTOR'S REPORT

Having joined the Group in January 2010, I am pleased to be able to report a strong set of results against challenging trading conditions. Much change has taken place in the Group over the last year including: the addition of four new leased and managed properties; the disposal of one leased property; restructuring and strengthening of the senior management team; new investment into the Group; and, development of the Group's property management business.

The increased interest in the serviced office market seen last year as a result of the economic downturn has continued in the current year and lead flow has been reasonable. Pressure on revenues per work station has, however, been even stronger and we have had to be competitive by reducing rates or offering other incentives to attract tenants. We have demonstrated that our flexible approach with regards to providing clients with bespoke offices built to suit their needs has enabled us to retain and attract new tenants in an increasingly competitive environment.

This focus on winning new sales and retaining clients as well as controlling costs helped the Group generate an operating profit for the year excluding revaluation gains of £1,046,000 in 2010 compared to £499,000 in 2009. The value of the Group's properties has partly recovered in 2010 with a revaluation increase of £1.82 million, resulting in operating profit of £2.87 million (2009: £366,000).

Financial highlights for the year

- Turnover increased 39% with a like-for-like increase of 1.9%
- Operating profit increased by £2.50 million to £2.87 million (2009: £0.37 million)
- Operating profit margin (excluding revaluation movements) increased from 7.0% in 2009 to 10.6% in 2010
- EBIT increased 15.3% to £2.87 million (2009: £2.49 million)
- Positive operating cash flow of £1.61 million (2009: £1.51 million)
- Net cash at 31 December 2010 of £0.92 million (2009: £0.41 million overdraft)
- Earnings per share decreased to 1.19p (2009: 1.97p) primarily due to the issue of shares in the year.

Revenue and operating profit

The addition of four new centres and 100% contribution of the Consort centres (the remaining 50% of which was acquired in December 2009) resulted in revenue increasing during the year by 39% to £9.86 million. This increase comprises like-for-like sales increases as well as the new additions as shown below.

	Revenue £'000	**Operating profit £'000**
Year ended 31 December 2009	**7,087**	**366**
Like-for-like change	111	91
Impact of additional 50% of Consort properties	1,284	787
New centres opened in 2009	809	206
New centres opened in 2010	353	(117)
Centres disposed of in 2010	(84)	26
Increase in management fees	99	-
Non-serviced office revenue	196	-
Increase in central costs	-	(446)
Revaluation change	-	1,957
Year ended 31 December 2010	**9,855**	**2,870**

The focus on cost control applied during the year has had a positive effect, improving the adjusted operating profit margin by 3.6% from 7.0% in 2009 to 10.6% in 2010. This focus will continue in 2011 when the Group will further streamline suppliers and take advantage of the increased buying-power it is now gaining. The increase in operating profit is analysed above and the increase in central costs, which is primarily related to professional fees and staff costs, is explained within the administrative expenses section.

Administrative expenses
Administrative expenses increased by £0.49 million in 2010 to £1.85 million (2009: £1.37 million). Much of this was due to professional fees incurred in acquiring new leased and managed buildings. In addition, payroll costs have increased as a result of the strengthening of the management team. An analysis of these movements is provided below.

	Administrative expenses £'000
Year ended 31 December 2009	**1,365**
Increased costs on like-for-like business	43
Impact of additional 50% of Consort properties	19
New centres opened in 2009	107
New centres opened in 2010	55
Centres disposed of in 2010	5
Professional fees primarily related to new properties	123
Strengthening of management team	133
Year ended 31 December 2010	**1,850**

Considerable work has been undertaken on the Group's properties in 2010 in line with the Board's strategy of improving the quality of the portfolio. The standards of its existing properties have been improved either through major refurbishments (for example at Fleet House, Bromley and Beckenham), mechanical & engineering work (for example replacement of the lifts at Hayes) or smaller improvements such as corridor and reception redecoration at Chiswick and Richmond. Included within administrative expenses are repairs & maintenance costs of £290,000 (2009: £195,000).

The disposal of the leased property at Marlow was part of this strategy with the Board's focus being on disposing of non-performing assets and enhancing quality through the addition of premium buildings such as Hanover Square and Covent Garden.

Other income
The other income recognised in 2009 related to the Group's acquisition of 100% of KBC Consort Limited, and thereby its indirect acquisition of the remaining 50% of Consort Property Holdings Limited. As described in last year's full year results, the net result of this was to generate negative goodwill of £1.0 million and an uplift on the value of the investment of £1.3 million. There were no such one-off items in 2010.

Finance costs
Following renegotiation of the Group's borrowing facilities in 2009, the Group's interest rate on its bank loan was 4.18% on average during 2010. Finance costs were £1.47 million in 2010 compared to £0.84 million in 2009. The increase was driven by the Group consolidating 100% of the cost for the Consort loan in 2010 whereas only 50% was consolidated in 2009. Mindful of the anticipation that interest rates will rise in the near future, the Board is looking at a number of opportunities to reduce the Group's debt including the anticipated sale of the Teddington property in 2011.

Profit before tax
Profit before tax was £1.40 million for the year ended 31 December 2010, a £0.25 million decrease on 2009 (2009: £1.65 million). The decrease on prior year was due to the one-off income of £2.1 million in 2009 in relation to the acquisition of the remaining 50% of the Consort properties and to the increased finance costs in the current year.

Taxation
The tax charge for the year was £0.07 million (2009: credit of £0.10 million) which represents the movement in the deferred tax liability due to revaluation movements. The effective rate of corporation tax is lower than the normal rate of 28% due largely to the utilisation of bought forward losses.

Earnings per share
Earnings per share decreased from 1.97p in 2009 to 1.19p in 2010. The 2009 earnings were driven by the one-off other income which was only partially netted off by the revaluation gains in 2010. The decrease was also due to the issue of new shares in the Company during the year to raise funds to enable the Group to further develop its property portfolio. Calculated on the average weighted number of shares for the year ended 31 December 2009, earnings per share for 2010 would have been 1.50p.

Managed properties
Investing in new properties incurs professional adviser fees and other associated opening costs and consequently new sites are initially carried at a loss. This was the case for the new Hanover Square property which generated a loss of £110,000 for the year.

In order to mitigate against the operating loss incurred in opening new sites and the Group's exposure to the property market, the Group has taken on a number of management agreements during the last two years with Wallington, Knightsbridge and Maidstone sites all being added in 2010. Whilst such sites incur professional fees, the operating cost to the Group is reduced allowing us to take on more properties that we would otherwise be able.

Expansion of the Group's property management business has increased the fees generated from managed properties from £202,000 in 2009 to £301,000 in 2010 as shown below.

	Property management fees £'000
Year ended 31 December 2009	**202**
Increase generated by centres opened in 2009 (start of management business)	131
Fees generated from new centres opened in 2010	47
Loss of fees due to acquisition of remaining 50% of Consort	(79)
Year ended 31 December 2010	**301**

Cash & investment in the Group
As well as improving occupancy and rates within the Group's existing properties, the opening of new sites is a key driver to growth. To ensure the Group's continued ability to do this, management has spent time in 2010 encouraging new investments into the Group. Following the announcements in 2009, Lexton Assets SA subscribed for a further £0.7 million of new ordinary shares in 2010 bringing their total investment in the Group to £0.9 million.

Additionally, £1 million (£0.9 million net of expenses) was raised during the year from a placing of new ordinary shares to Daniel Taylor and Westchester Properties (SOG) Limited Partnership. Access to this capital has enabled the Group to take on a highly desirable property in Covent Garden (which opened in January 2011) and will be recycled to allow further growth of the portfolio when Covent Garden becomes profitable.

Cash generated through operating cash flows was £1.61 million during the year (2009: £1.51 million). This, combined with the new investments in the Group, resulted in a cash balance of £0.92 million at 31 December 2010 (2009: £0.41 million overdraft).

Outlook
2010 was a very successful year for the Group with regards to improving the quality of the portfolio; strengthening our management, sales and centre management teams; establishing solid controls within the Group; and controlling costs. It is pleasing that these successes have been achieved alongside generating a positive set of results during challenging trading conditions.

2011 has started well with the opening of Covent Garden, agreement on two further managed properties and a strong first quarter. Whilst we do not expect trading conditions to remain as buoyant for the rest of the year I look forward to 2011 with expectations of continuing to grow the Group's portfolio and further improvement of the Group's results.

ELIZABETH SCANNELL
Finance Director
18 April 2011

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

We have audited the Group and Parent Company financial statements of Serviced Office Group Plc for the year ended 31st December 2010 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statements of Changes in Equity, The Consolidated and Parent Company Statements of Financial Position, the Consolidated and Parent Company Cash Flow Statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:-

- the financial statements give a true and fair view of the state of the Group's and the Parent Company's affairs as at 31st December 2010 and of the Group's profit for the year then ended;
- the Group's financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you, if in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Geraint Jones (Senior Statutory Auditor)
For and on behalf of BDO LLP, statutory auditor
London, 18 April 2011

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated statement of comprehensive income

	2010 £000	2009 £000
Continuing operations		
Revenue	9,855	7,087
Cost of Sales	(6,959)	(5,223)
Gross profit	**2,896**	**1,864**
Net gain / (loss) from investment properties	1,824	(133)
Administrative expenses	(1,850)	(1,365)
Operating profit	**2,870**	**366**
Other income	-	2,124
Finance expense	(1,471)	(839)
Profit before income tax	**1,399**	**1,651**
Income tax (expense) / credit	(68)	95
Profit for the year and total comprehensive income for the year	**1,331**	**1,746**

		Restated
Earnings per share:		
Basic	1.19p	1.97p
Diluted	1.19p	1.97p

The Earnings per share for 2009 has been restated as described in Note 8.

Consolidated Balance Sheet

	2010 £000	2009 £000
ASSETS		
Non current assets		
Investment property	30,460	25,815
Property, plant & equipment	2,832	4,875
Goodwill	1,294	1,294
Deferred tax asset	-	3
	34,586	31,987
Current assets		
Inventories	63	63
Trade and other receivables	1,310	1,035
Cash and cash equivalents	916	-
	2,289	1,098
Total assets	**36,875**	**33,085**
EQUITY **Capital and reserves attributable to equity holders of the company**		
Called up share capital	5,040	4,509
Share premium account	5,510	4,409
Reserves	(4,355)	(5,701)
Total equity	**6,195**	**3,217**
LIABILITIES **Non current liabilities**		
Borrowings	26,762	25,954
Deferred tax liability	67	-
	26,829	25,954
Current liabilities		
Trade and other payables	3,695	3,424
Borrowings	156	490
	3,851	3,914
Total liabilities	**30,680**	**29,868**
Total equity and liabilities	**36,875**	**33,085**

These financial statements and notes thereto were approved by the board of directors on 18 April 2011 and signed on behalf of the Board.

Michael Kingshott
Director

Elizabeth Scannell
Director

Consolidated statement of changes in equity

	Attributable to equity holders of the company			
	Share Capital £000	Share Premium £000	Reserves (Note 17) £000	Total Equity £000
Group				
Balance at 1 January 2009	4,400	4,209	(7,450)	1,159
Profit and total comprehensive income for the year	-	-	1,746	1,746
Grant of employee share options	-	-	3	3
Issue of new shares	109	200	-	309
Balance at 31 December 2009	**4,509**	**4,409**	**(5,701)**	**3,217**
Balance at 1 January 2010	4,509	4,409	(5,701)	3,217
Profit and total comprehensive income for the year	-	-	1,331	1,331
Grant of employee share options	-	-	15	15
Issue of new shares	531	1,101	-	1,632
Balance at 31 December 2010	**5,040**	**5,510**	**(4,355)**	**6,195**

	Share Capital £000	Share Premium £000	Reserves £000	Total Equity £000
Company				
Balance at 1 January 2009	4,400	4,209	(2,929)	5,680
Loss for the year	-	-	(4)	(4)
Grant of employee share options	-	-	3	3
Issue of new shares	109	200	-	309
Balance at 31 December 2009	**4,509**	**4,409**	**(2,930)**	**5,988**
Balance at 1 January 2010	4,509	4,409	(2,930)	5,988
Profit for the year	-	-	6	6
Grant of employee share options	-	-	15	15
Issue of new shares	531	1,101	-	1,632
Balance at 31 December 2010	**5,040**	**5,510**	**(2,909)**	**7,641**

Consolidated Cash Flow Statement

	2010 £000	2009 (Restated) £000
Profit before tax	**1,399**	**1,651**
Adjustment for :		
Interest expense	1,471	839
Other non-cash generating income (see note 5)	-	(2,124)
Depreciation of plant and equipment	525	531
Amortisation of bank loan arrangement costs	76	8
Revaluation (gain) / loss on investment properties	(1,824)	226
Expense arising from grant of share options	15	3
Operating cash flow before movement in working capital	**1,662**	**1,134**
Increase in trade receivables	(113)	(153)
Increase in other current assets	(162)	(194)
Increase in payables	220	490
Cash generated from operations	**1,607**	**1,277**
Interest Paid	(943)	(1,230)
Net cash from operating activities	**664**	**47**
Cash flows from investing activities		
Purchases of plant and equipment	(835)	(734)
Acquisition of subsidiaries, net of cash acquired	-	(150)
Net cash (used in) investment activities	**(835)**	**(884)**
Cash flows from financing activities		
Repayment of shareholder loans	-	(228)
Proceeds from issue of shares	1,632	309
Finance lease capital repayments	(132)	(66)
Net cash used in financing activities	**1,500**	**15**
Net (decrease) in cash and cash equivalents	**1,329**	**(822)**
Cash and cash equivalents at the beginning of the year	(413)	409
Cash and cash equivalents	916	(413)
Bank balances and cash	916	(413)

The cash flow statement for 2009 has been restated by reducing the fixed asset purchases balance by £232,000 to account for finance lease creditors which had been incorrectly included in fixed asset purchases and within financing activities. There is no impact to the net cash flow or to any of the other financial statements or notes thereto.

The increase in finance leases in 2010 was £479,000 which is a non-cash movement included within the Increase in payables balance.

NOTES TO THE FINANCIAL STATEMENTS

1 SEGMENTAL REPORTING

The Group's business is the provision of serviced office accommodation. The directors consider the Group to have two segments in relation to this business as follows:

- Serviced office business undertaken in the Group's freehold and leasehold properties; and
- Serviced office business undertaken under management contracts on behalf of third parties.

The basis for this conclusion is that in order to spread the Group's exposure to the property market, it has undertaken management contracts whereby the Group earns a management fee for operating a third party's building as a serviced office. Since the risks and rewards of the serviced office business and property ownership are borne by the third party, the directors consider this a separate segment to the rest of the portfolio.

The directors receive financial and operational information on a property-by-property basis and all properties are located within the south of England. The economic and operational risks associated with each of the properties is similar and the information for each property is aggregated for the Board and reviewed as one portfolio. The directors do not, therefore, believe that there are any other segments on either a geographic or operational perspective.

2010	**Serviced office business**	**Managed serviced offices**	**Total**
	£'000	**£'000**	**£'000**
Revenue	9,554	301	9,855
Cost of sales	(6,959)	-	(6,959)
Gross profit	**2,595**	**301**	**2,896**
Net gain from investment properties	1,824	-	1,824
Administrative expenses	(1,850)	-	(1,850)
Operating profit	**2,569**	**301**	**2,870**
Finance expense	(1,471)	-	(1,471)
Profit before tax	**1,098**	**301**	**1,399**
Income tax charge	(68)	-	(68)
Profit after tax	**1,030**	**301**	**1,331**

2009	**Serviced office business**	**Managed serviced offices**	**Total**
	£'000	**£'000**	**£'000**
Revenue	6,885	202	7,087
Cost of sales	(5,223)	-	(5,223)
Gross profit	**1,662**	**202**	**1,864**
Net loss from investment properties	(133)	-	(133)
Administrative expenses	(1,365)	-	(1,365)
Operating profit	**164**	**202**	**366**
Other income	2,124	-	2,124
Finance expense	(839)	-	(839)
Profit before tax	**1,449**	**202**	**1,651**
Income tax credit	95	-	95
Profit after tax	**1,544**	**202**	**1,746**

Since the only financial impact of the managed properties is the revenue received by the Group, there are no associated assets or liabilities to disclose in relation to this segment.

2 REVENUE ANALYSIS

The Group's revenue for the year was comprised as shown below.

	2010 £000	2009 £000
Licence fees & rental income	**6,855**	5,325
Other services income	**2,699**	1,560
Management fees	**301**	202
	9,855	7,087

3 EXPENSES BY NATURE

	2010 £000	2009 £000
Depreciation of owned assets	**410**	479
Depreciation of assets under finance leases	**115**	40
Amortisation of loan arrangement fee	**76**	17
Impairment charges	**-**	185
Employee benefit expense (note 4)	**1,790**	1,625
Other operating costs and overheads	**6,418**	4,242
	8,809	6,588

Auditors' remuneration

	2010 £000	2009 £000
Fees payable for audit of parent company, consolidated accounts and subsidiaries	**40**	40
Fee payable to the company's auditors for other services:		
- Corporate tax services	**13**	13

4 EMPLOYEE BENEFIT EXPENSE

	2010 £000	2009 £000
Wages and salaries	**1,604**	1,510
Social security costs	**168**	108
Share options granted to employees and directors	**15**	3
Pension costs – defined contribution plans	**3**	4
	1,790	1,625
Number of employees	**64**	48

All employees perform administrative duties and the directors consider that as such there is only one category of employee.

5 ACQUISITIONS AND OTHER INCOME

On 5 December 2009 the Group acquired 100% of KBC Consort Limited (formerly Maidencraig Limited) for cash consideration of £175,000, thereby indirectly acquiring the remaining 50% of Consort Property Holdings Limited.

Prior to the acquisition, the shareholder loans to Consort Property Holdings Limited (CPHL) from UBS AG and Serviced Office Group plc were converted to 2,000,000 £1 deferred shares with the remaining balance being recognised as share premium. The net result of these two transactions was to generate negative goodwill of £987,000 and an uplift on the value of the investment of £1,339,000.

	Book & fair value £'000
Net assets acquired	
Investment property	6,669
Property, plant & equipment	1,105
Investments	7
Trade and other receivables	36
Cash and cash equivalents	95
Trade and other payables	(379)
Current tax liabilities	(53)
Deferred tax liability	(95)
Long-term borrowings	(6,153)
Total	(1,232)
Negative goodwill	987
Total consideration	(245)
Satisfied by:	
Cash	175
Legal fees	70
Total consideration	245
Net cash outflow arising on acquisition	
Cash consideration	(175)
Legal fees	(70)
Cash acquired	95
	(150)

The negative goodwill arising on the acquisition is attributable to the anticipated profitability of the buildings acquired from the combination compared to the purchase price which was paid. Consort Property Holdings Limited contributed revenue of £230,245 and profit of £159,465 to the Group's profit before tax for the period between the date of acquisition and the balance sheet date.

If the acquisition of KBC Consort Limited had been completed on the first day of the financial year, Group revenues for the year to 31 December 2009 would have been £8.3 million and the profit attributable to equity holders of the parent would have been £1.5 million.

5 ACQUISITIONS AND OTHER INCOME (CONTINUED)

Other income recognised in the income statement for the year ended 31 December 2009 was comprised as follows:

	£000
Negative goodwill arising on acquisition	987
Uplift in value of investment	1,339
Impairment of goodwill in relation to KBC Willowbank Limited	(202)
Other income	2,124

6 FINANCE EXPENSE

	2010 £000	2009 £000
Interest expense:		
- On bank borrowings	**1,471**	701
- On shareholder loans	**-**	138
	1,471	839

7 INCOME TAX EXPENSE/(CREDIT)

	2010 £000	2009 £000
Current tax	**-**	-
Deferred tax expense / (credit) (Note 12)	**68**	(95)
	68	(95)

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate of 28% (2009: 28%) applicable to profits of the UK companies as follows:

	2010 £000	2009 £000
Profit before tax	**1,399**	1,651
Tax calculated at domestic rate applicable to profits in the UK	**392**	462
Trading losses carried forward not recognised as a deferred tax assets	**172**	581
Movement in fair value losses not recognised as deferred tax assets	**(228)**	(404)
Capital allowances for period in excess of depreciation	**(15)**	-
Utilisation of bought forward losses	**(37)**	-
Expenses not deductible for tax purposes	**(218)**	9
Income not taxed	**-**	(611)
Change in tax rate used for deferred tax provision	**2**	-
Over provision in respect of prior year charge	**-**	(132)
Tax expense / (credit)	**68**	(95)

8 EARNINGS PER SHARE

	2010	2009 (restated)
Weighted average number of shares in issue (thousands)	**111,942**	88,694
(Loss)/profit attributable to equity holders of the company	**1,331**	1,746
Basic (loss)/earnings per share (pence)	**1.19**	1.97

The change to the prior year comparative numbers has arisen due to it being noted that the number of shares at 31 December 2009 had been used in the calculation rather than the weighted average for the year. Accordingly the 2009 earnings per share have increased from 1.77p to 1.97p.

Since all options granted to directors and employees were issued at a price equal to or greater than the average share price during the year, the directors do not consider that the potentially dilutive effect of share options is material.

9 INVESTMENT PROPERTY

	2010 £000	2009 £000
Group:		
Fair Value		
At 1 January	**25,815**	19,372
Arising on acquisition of subsidiaries	**-**	6,669
Net profit / (loss) from fair value adjustments of investment properties	**1,824**	(226)
Transfer from property, plant & equipment	**2,821**	-
At 31 December	**30,460**	25,815

In prior years, certain assets which related to investment property were held within property, plant and equipment. This has been adjusted in the current year ensure the full property value is included within investment property. This adjustment results in assets with a value of £2,821,000 being transferred from property, plant and equipment to investment property.

The Group's investment properties were revalued at 31 December 2010 by independent professionally qualified valuers, Ernst & Young LLP. Valuations are based on current prices in an active market and also the revenue from the serviced office business.

The investment property charge shown in the income statement comprises the revaluation movement detailed above. In the prior year, the charge also included income of £93,000 received in respect of an option paid for one of the sites providing the option holders with the opportunity to acquire the site for a minimum purchase price.

9 INVESTMENT PROPERTY (CONTINUED)

The split of rental income, revaluation gains and costs between freehold and long-leasehold properties is provided below.

	2010 £000	2009 £000
Rental income generated by freehold properties	**3,342**	2,608
Rental income generated by long-leasehold properties	**530**	294
Total rental income generated by investment properties	**3,872**	2,902
Direct operating expenses incurred on freehold properties	**1,196**	1,087
Direct operating expenses incurred on long-leasehold properties	**155**	95
Total direct operating expenses incurred on investment properties	**1,351**	1,182
Revaluation gains on freehold properties	**1,990**	73
Revaluation loss on long-leasehold properties	**(166)**	(206)
Total revaluation gains and (losses) on investment properties	**1,824**	(133)

There were no investment properties held by the Group which did not generate any income during the year ended 31 December 2010 (31 December 2009: none).

10 PROPERTY, PLANT AND EQUIPMENT

£'000	Leasehold improvem-ents	Fixtures & fittings	Furniture	Motor vehicles	Computer equipment & IT	Total
Cost						
As at 1 January 2010	50	5,344	574	13	1,447	7,428
Reclassification between asset classes	-	113	219	-	(332)	-
Additions	-	560	272	-	482	1,314
Disposals	-	(67)	(112)	-	(35)	(214)
Transfers to investment property	-	(2,821)	-	-	-	(2,821)
As at 31 December 2010	**50**	**3,129**	**953**	**13**	**1,562**	**5,707**
Accumulated depreciation						
As at 1 January 2010	30	1,477	352	13	681	2,553
Reclassification between asset classes	-	(7)	-	-	7	-
Depreciation charge for the year	10	340	73	-	102	525
Disposals	-	(64)	(107)	-	(32)	(203)
As at 31 December 2010	**40**	**1,746**	**318**	**13**	**758**	**2,875**
Carrying amount at 31 December	**10**	**1,383**	**635**	**-**	**804**	**2,832**
Carrying amount at 1 January 2010	20	3,867	222	-	766	4,875

The transfer to investment property is described in Note 9.

The net book value of assets held under finance leases at 31 December 2010 was £584,000 (2009: £257,000).

£'000	Leasehold improvements	Fixtures & fittings	Furniture	Motor vehicles	Computer equipment & IT	Total
Cost						
As at 1 January 2009	50	3,889	522	13	818	5,292
Arising on acquisition of subsidiaries	-	902	-	-	268	1,170
Additions	-	553	52	-	361	966
As at 31 December 2009	**50**	**5,344**	**574**	**13**	**1,447**	**7,428**
Accumulated depreciation						
As at 1 January 2009	20	1,197	310	12	418	1,957
Arising on acquisition of subsidiaries	-	-	-	-	65	65
Depreciation charge for the year	10	280	42	1	198	531
As at 31 December 2009	**30**	**1,477**	**352**	**13**	**681**	**2,553**
Carrying amount at 31 December 2009	**20**	**3,867**	**222**	**-**	**766**	**4,875**
Carrying amount at 1 January 2009	30	2,692	212	1	400	3,335

11 GOODWILL

	2010 £000	2009 £000
Opening net book value	**1,294**	1,489
Arising on acquisition of subsidiaries	**-**	8
Impairment of goodwill	**-**	(203)
	1,294	1,294

The goodwill balance relates to the serviced office business which was acquired along with the original properties in 2004. It represents the premium which was paid to acquire the business in addition to the properties. The goodwill balance is reviewed for impairment at each balance sheet date. The goodwill is tested for impairment against the cash flows generated by the leased and managed properties as these are generated as a direct result of acquiring the business. Cash flows from owned properties are excluded as they are included within the valuation of investment property.

The assumptions used in the Group's assessment of impairment were a discount rate of 5.19% (2009: 3.79%), operating margin of 10% (2009: 10%), growth rate of 3% (2009: 2%) and inflation of 1% (2009: 1%). Group has undertaken sensitivity analysis which demonstrates that no significant change in any of the assumptions would lead to an indication of impairment as at 31 December 2010. As at 31 December 2009, the goodwill balance also included goodwill which arose on the Group's acquisition of a business containing leases on two properties at Uxbridge and Marlow. Following poor performance by both properties, the entire goodwill balance relating to this acquisition was written off.

12 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:

	2010 £000	2009 £000
Deferred tax liabilities	**292**	627
Deferred tax assets	**(225)**	(630)
Net position at 31 December	**67**	(3)

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

	2010 £000	2009 £000
At 1 January	**(3)**	(3)
Deferred tax net liability acquired through acquisition of subsidiary	**-**	95
Charged / (credited) to the income statement	**68**	(95)
Change in tax rate used for deferred tax provision	**2**	-
At 31 December	**67**	(3)

Deferred tax has been calculated at a rate of 27% (2009: 28%).

12 DEFERRED TAX (CONTINUED)

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

Deferred tax liabilities

	Accelerated tax depreciation £000	Property Revaluations £000	Total £000
At 1 January 2009	107	252	359
Deferred tax liability acquired through acquisition of subsidiary	-	198	198
Charged/(credited) to the income statement	80	(10)	70
At 31 December 2009	187	440	627
At 1 January 2010	**187**	**440**	**627**
Credited to the income statement	**(187)**	**(148)**	**(335)**
At 31 December 2010	**-**	**292**	**292**

Deferred tax assets

	Tax losses £000	Property Revaluations £000	Total £000
At 1 January 2009	(308)	(54)	(362)
Deferred tax asset acquired through acquisition of subsidiary	(103)	-	(103)
Charged/(credited) to the income statement	221	(386)	(165)
At 31 December 2009	(190)	(440)	(630)
At 1 January 2010	**(190)**	**(440)**	**(630)**
(Credited)/charged to the income statement	**(35)**	**440**	**405**
At 31 December 2010	**(225)**	**-**	**(225)**

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 £2,373,376 (2009: £1,569,000) in respect of tax losses and timing differences that can be carried forward against future taxable income. In addition, the Group did not recognise deferred tax assets of £674,024 (2009: £963,135) in respect of unrealised capital losses of £2,496,385 (2009: £3,439,769).

13 INVENTORIES

	2010 £000	2009 £000
Land held for resale	**63**	63

14 TRADE AND OTHER RECEIVABLES

	2010 £000	2009 £000
Group:		
Trade receivables	**373**	260
Prepayments	**781**	731
Other debtors	**156**	44
	1,310	1,035

There is little concentration of credit risk with respect to trade receivables as the Group has a large number of customers within its buildings. All amounts are due within one year.

15 CASH AND CASH EQUIVALENTS

	2010 £000	2009 £000
Group:		
Cash at bank and in hand	**916**	-
	916	-

16 SHARE CAPITAL

	Ordinary shares		**Deferred shares**		**Share premium**	**Total**
	Number	Value £000	Number	Value £000	£000	£000
At 1 January 2009	88,006,334	4,400	-	-	4,209	8,609
Share restructuring	-	(3,520)	88,006,334	3,520	-	-
Shares issued in the year	10,908,348	109	-	-	200	309
At 31 December 2009	98,914,682	989	88,006,334	3,520	4,409	8,918
At 1 January 2010	**98,914,682**	**989**	**88,006,334**	**3,520**	**4,409**	**8,918**
Shares issued in the year	**53,114,482**	**531**	**-**	**-**	**1,101**	**1,632**
At 31 December 2010	**152,029,164**	**1,520**	**88,006,334**	**3,520**	**5,510**	**10,550**

The total number of authorised ordinary shares is 398 million shares (2009: 398 million shares) with a par value of 1 pence (2009: 1 pence per share). All issued shares are fully paid.

The total number of authorised deferred shares is 88 million shares (2008: nil) with a par value of 4 pence (2008: nil). All issued shares are fully paid. The deferred shares were created as part of the restructuring of the Group's capital in 2009 and do not have any voting rights, preferences, dividend rights, restrictions or rights on wind up of the Company.

Share options:
The Group's policy is to reward staff and directors with share options to ensure that the best quality staff are recruited and retained. The exercise price is equal to the market price of the shares on the date of the grant. Options granted under the approved part of the Scheme are exercisable after 3 years service and all options have a contractual term of 10 years. The Group has no legal or constructive obligation to repurchase or settle options in cash. During the year, share options which were exercisable at 31 December 2010 have been issued to certain directors. Information relating to these options and to all options held by directors is provided in the Remuneration Report.

16 SHARE CAPITAL (CONTINUED)

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

	2010		2009	
	Weighted Average Exercise Price in pence Per share	Options (Thousands)	Weighted Average Exercise Price in pence Per share	Options (Thousands)
Outstanding as at 1 January	**10.97**	**1,668**	10.77	2,168
Forfeited during the year	**-**	**(1,993)**	-	(500)
Granted during the year	-	**10,357**	-	-
Outstanding as at 31 December	**3.02**	**10,032**	10.97	1,668
Exercisable as at 31 December	**-**	**1,863**	-	95

During the financial year, options were granted on 24 May 2010 and 22 December 2010. 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) 2010	Options (thousands) 2009
22 February 2015	11.00	45	45
21 October 2015	9.88	50	50
15 August 2017	11.00	300	1,573
23 May 2020	2.75	7,620	-
21 December 2020	2.50	2,017	-
At 31 December		**10,032**	**1,668**

The Group recognised total expenses of £15,067 and £2,998 in relation to share options in 2010 and 2009 respectively.

17 RESERVES

Group	Share-based payment reserve £000	Retained losses £000	Total £000
At 1 January 2009	-	(7,450)	(7,450)
Revaluation loss for the year	-	(350)	(350)
Share option charge	3	-	3
Retained profit for the year	-	2,096	2,096
At 31 December 2009	3	(5,704)	(5,701)
At 1 January 2010	**3**	**(5,704)**	**(5,701)**
Share option charge	**15**	**-**	**15**
Retained profit for the year	**-**	**1,331**	**1,331**
At 31 December 2010	**18**	**(4,373)**	**(4,355)**

18 BORROWINGS

	2010 £000	2009 £000
Group:		
Current		
Bank overdraft	**-**	413
Finance lease obligations	**156**	77
Less: unamortised costs of arrangement	**-**	-
	156	490
Non-current		
Bank borrowings	**25,969**	25,968
Interest accruing to loan balance	**534**	-
Less: unamortised costs of arrangement	**(152)**	(228)
	26,351	25,740
Finance lease obligations	**411**	214
	26,762	25,954

The investment properties over which the bank borrowings are secured have a value of £30.5 million (2009: £29.1 million).

Maturity of financial liabilities
The maturity profile of the carrying amount of the Group's non-current liabilities at 31 December 2010 was as follows:

	2010 £000	2009 £000
In more than one year but not more than two years	**26,507**	77
In more than two years but not more than five years	**255**	25,877
	26,762	25,954

The maturity profile of the future payments due on the Group's borrowings at 31 December 2010 was as follows:

	2010 £000	2009 £000
In more than one year but not more than two years	947	677
In more than two years but not more than five years	27,882	28,449
	28,829	**29,126**

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

	2010 %	2009 %
Bank borrowing	**4.8**	3.0
Finance lease	**10.8**	9.6

19 TRADE AND OTHER PAYABLES

	2010 £000	2009 £000
Group:		
Trade payables	**729**	832
Social security and other taxes	**628**	243
Customer deposits	**1,249**	1,114
Accruals	**1,089**	1,235
	3,695	3,424

20 COMMITMENTS

Capital commitments
At 31 December 2010 the Group was committed to capital expenditure of £24,000 which is not provided as works were not carried out until 2011. The Group was not committed to any other expenditure contracted but not provided (2009: none).

Operating lease commitments – where a Group company is the lessee
The Group leases various buildings under non cancellable operating lease agreements, all of which have varying terms and break clauses. Operating lease rental charges for the year ended 31 December 2010 totalled £939,000 (2009: £1,059,000).

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

	2010 £000	2009 £000
No later than 1 year	**845**	-
Later than 1 year and no later than 5 years	**1,061**	1,553
Later than 5 years	**-**	133
	1,906	1,686

Operating lease commitments – where a Group company is the lessor
The Group has determined that all tenant leases are operating leases within the meaning of IAS 17. The majority of the Group's tenant leases are short-term (3m-1yr) and with a 3 month break clause at the end of the contract. The future minimum rental receipts under non-cancellable operated leases granted to tenants as at 31 December are as follows:

	2010 £000	2009 £000
No later than 1 year	**5,493**	3,316
Later than 1 year and no later than 5 years	**1,999**	956
Later than 5 years	**180**	-
	7,672	4,272

20 COMMITMENTS (CONTINUED)

Finance lease commitments – where a Group company is the lessee
The Group leases various items of IT and communications equipment under finance lease agreements, all of which have varying terms.

The present value of future aggregate minimum finance lease payments is as follows:

	Future minimum lease payments 2010 £'000	Present value of future minimum lease payments 2010 £'000	Future minimum lease payments 2009 £'000	Present value of future minimum lease payments 2010 £'000
No later than 1 year	**236**	**220**	106	98
Later than 1 year and no later than 5 years	**617**	**579**	304	280
	853	**799**	410	378
Interest	**(244)**	**(232)**	(90)	(87)
Finance lease liabilities	**609**	**567**	320	291

21 POST BALANCE SHEET EVENTS
There have been no post balance sheet events out of the normal course of trading.