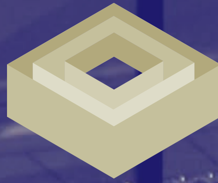

SERVICED**OFFICE**GROUP

ANNUAL REPORT AND ACCOUNTS
31 DECEMBER 2010

ACCOMMODATING BUSINESS, ACCOMMODATING PEOPLE

OUR SERVICES

- Fully equipped, serviced offices
- Conference facilities and meeting rooms
- Hot desking
- Virtual offices including post forwarding and call answering
- Comprehensive office design and fit-out
- Bespoke space planning and interior design
- Furniture and art supply
- Office location services
- Building management
- Facilities management
- IT and telecommunications installation and support

HIGHLIGHTS

£9.9m
Total revenues for the year increased by 39% to £9.9 million (2009: £7.1 million).

10.6%
Operating profit margin increased 3.6% from 7.0% to 10.6%.

£2.9m
EBIT increased by 15% to £2.9 million (2009: £2.5 million).

£1.19p
Earnings per share fell from £1.97p to £1.19p primarily due to issue of shares in the year.

4,961
Number of work stations increased from 4,269 to 4,511 in the year and is now 4,961.

75%
Average occupancy maintained at 75% despite opening of new centres which take time to fill.

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Serviced Office Group plc – Group Overview

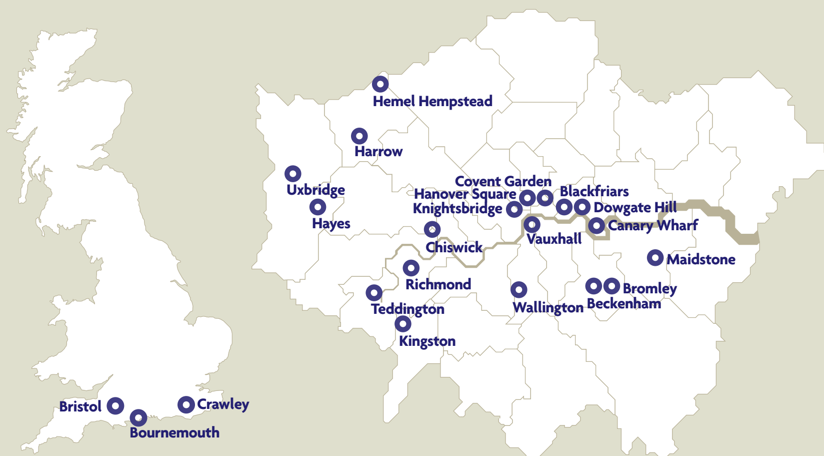
for the year ended 31 December 2010

Serviced Office Group plc ("SOG") provides fully comprehensive serviced offices and building management services. In addition to providing office space, the Group offers a number of other services which are shown on the inside cover of this report. The key additional revenue generating items are property management, fit-out project management, IT & comms and meeting rooms.

GEOGRAPHICAL COVERAGE

The Group currently operates serviced offices at 22 locations across the UK. Offices are focused around London and the South East with notable exceptions being Bristol and Bournemouth.

During the 2010 the Group has expanded its portfolio adding one new leased property (7 Hanover Square) and three managed properties (Wallington, Knightsbridge and Maidstone).



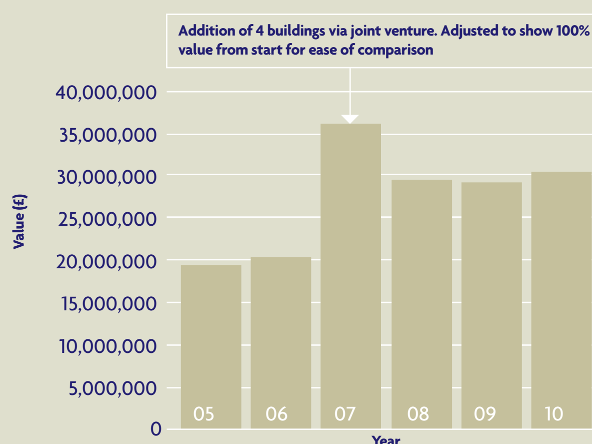
PROPERTY OWNERSHIP

The Group was established in 2005 when it acquired 5 buildings previously operated by MWB – Crawley, Hayes, Harrow, Kingston and Bournemouth. Leased properties were taken on at Blackfriars and Uxbridge followed by Richmond in 2006.

In 2007 the Group entered into a joint venture with UBS to acquire four buildings – Chiswick, Teddington, Beckenham and Crawley. In 2009 SOG subsequently acquired the remaining 50% of the joint venture from UBS and now owns 100% of these buildings.

During 2009 and continuing into 2010 management has sought to diversify the Group and reduce its risk due to fluctuation in the property market. As a result the Group has sought to lease properties or manage buildings as serviced offices on behalf of others. The Group's key customer for its management services business is currently BT for whom it operates Canary Wharf and Dowgate and will open Hemel Hempstead in Summer 2011. The Group also works closely with a number of other landlords and head-lessees at its other managed buildings.

FREEHOLD PROPERTY VALUE

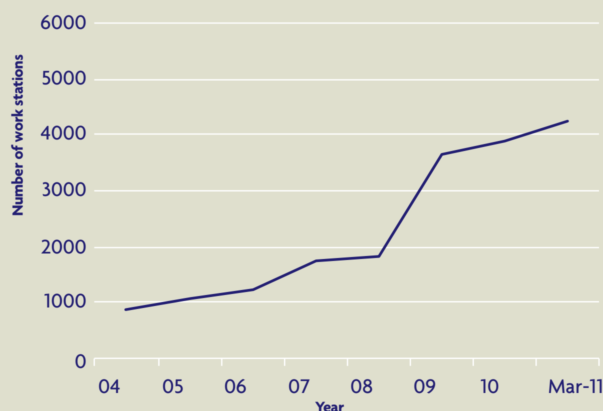


Owned properties	Leased properties	Managed properties
Beckenham	Blackfriars	Bristol
Bournemouth	Bromley	Canary Wharf
Chiswick	Covent Garden	Dowgate
Crawley	Hanover Square	Hemel Hempstead
Harrow	Richmond	Knightsbridge
Hayes	Uxbridge	Maidstone
Kingston	Vauxhall	Wallington
Teddington		

NUMBER OF WORK STATIONS UNDER MANAGEMENT

A key metric to assess the size and growth of the Group is the number of work stations under management at any given time. As at 31 December 2010, the Group operated 4,511 work stations compared to 4,269 in 2009. This has increased to 4,961 at 31 March 2011.

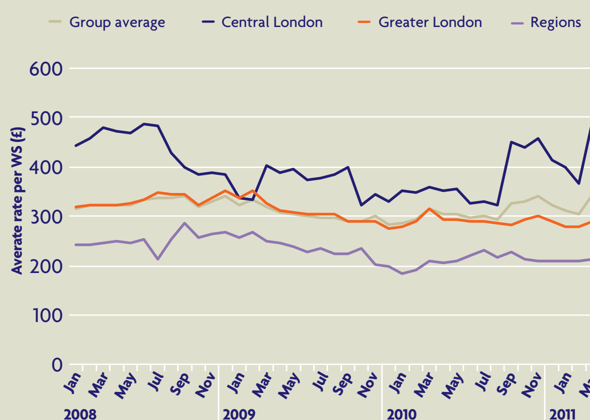
An ideal building for the Group to achieve economies of scale is around 220 work stations. Management's aim is to develop the portfolio to improve the quality of stock and increase the size of buildings to ensure economies are achieved. The disposal of the lease on Marlow in November 2010 was undertaken as part of this strategy.



AVERAGE RATE PER WORK STATION

Average rate per work station is the licence fees paid divided by the number of work stations. This measures how well the Group is performing with regards to generating recurring revenue from each work station. In addition to licence fees other revenue streams are generated such as IT & comms, meeting rooms and conferencing, catering, post, virtual offices and ad-hoc income such as sales of furniture to clients.

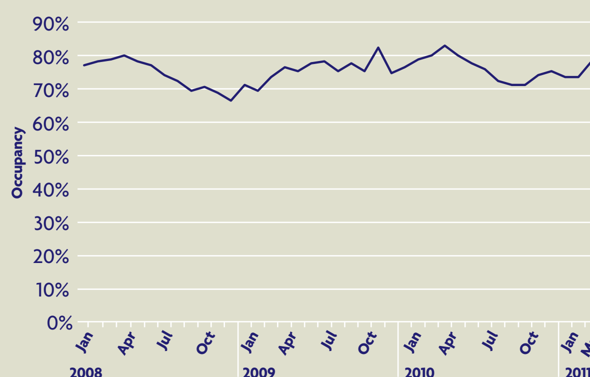
The average rate per work station as at 31 December 2010 was £321 compared to £283 in 2009 and across its central London sites the Group was achieving an average of £415 per work station.



OCCUPANCY

Occupancy measures how well the Group is performing at filling the offices it operates. Within the serviced office industry occupancy will rarely be 100% due to continuous churn in the customer base. At Serviced Office Group the optimum occupancy is 80% and above. As at 31 December 2010, the Group had an average occupancy of 75.2% compared to 74.6% in 2009.

Occupancy and average rate should be considered in association with each other as decreasing rate is likely to increase occupancy and vice-versa.



NUMBER OF CENTRES

At 31 December 2010, the Group operated 21 serviced offices compared to 18 at 31 December 2009 (one closure). Covent Garden was opened in January 2011 bringing the current total to 22 centres.

PERCENTAGE OF OTHER SERVICES

The value of sales of additional services is a key revenue driver for the Group. For the year ended 31 December 2010, additional services equated to 28.9% of licence fees compared to 26.5% in 2009.

Serviced Office Group plc
for the year ended 31 December 2010

Chairman's statement

As I forecasted 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 allow 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 subcontractors 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 the portfolio improvement 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

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31st December 2010.

Principal activities
The Board consider that the ownership and operation of serviced office accommodation has been the Group's primary activity for 2010 and will be for subsequent periods.

Business review and future developments
A review of the Group's business is contained in the Group Overview, the Chairman's Statement and the Finance Director's Report.

Going forward we will continue to expand the business and improve the quality of our portfolio by adding new centres via leases and management contracts while assessing the opportunities for our poorer performing properties. In January 2011 we opened a property in Covent Garden and have recently agreed the management contract for a property which will be our first truly 'green' building. We currently operate 4,961 work stations (31 March 2010: 4,403) and continue to view buildings with the potential to increase the scope and size of our portfolio.

Key performance indicators ("KPI's')
The directors of the Group manage the Group's operations on a centre-by-centre basis. For an understanding of the development, performance or position of the business, refer to this page, the group overview on pages 1-2, the Consolidated statement of comprehensive income on page 20 and the consolidated statement of financial position on page 21.

KPI's include:

- Number of work stations – this measures the size of the Group's portfolio
- Occupancy – this measures the percentage of work stations that clients are contracted to pay for. Within the serviced office industry, occupancy of 80% is considered satisfactory.
- Average rate – this measures the rate at which clients are contracted to pay for work stations which may be below list price due to discounts offered to attract clients. Rates vary according to the area, location of the building, condition of the building and the building's occupancy. The state of the economy also has a significant impact on the rate which a centre can achieve.

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

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

Financial market volatility adversely affecting the Group's financial performance
The ongoing reduction in credit supply and the associated cost impact have continued to impact the Group and are expected to do so in the foreseeable future. For the Group, the market risks fall into certain categories as set out below, all of which have been proactively managed by the Board in the past and even more significantly in the current economic climate.

Liquidity risk affects the Group, in that this could result in it being unable to meet its financial obligations as they fall due. The Board's approach to managing liquidity is to ensure, as far as possible, that the Group will always have sufficient liquidity to meet its liabilities, without incurring unacceptable losses or risking damage to the Group's reputation and business. The Group typically ensures it has sufficient forecast cash and available facilities to meet expected cash outflows for a forward period of 24 months. Since the Group's bank loan is due for renewal at 31 December 2012 management are currently reviewing this position and considering the best options for the Group.

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

Credit risk arises if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The risk to the Group arises principally from the Group's receivables from customers. The demographic profile of the Group's customer base mitigates against this risk with no single customer accounting for more than 2.7% of Group revenue (2009: 5.6%).

Economic downturn in its market
The Group operates solely from the UK. A worsening of the economic downturn in this market could adversely affect the Group's operating revenues thereby reducing operating performance. The Group has taken a number of actions to mitigate this risk:

- The Group has purposely acquired certain freehold and long-leasehold properties enabling it to realise these assets if they prove to be uneconomic.
- The Group has undertaken certain buildings on a management only basis to reduce the property risk that the Group is exposed to.
- The Group regularly reviews the profile of clients to avoid undue reliance on one particular client or clients operating in a particular market.

Highly competitive market
The serviced office market is highly competitive and dominated by a small number of large companies. The impact of offers within the large companies tends to effect the whole market and should one of these companies offer significantly discounted work station rates, this would have a detrimental impact on the Group's income. Further, due to the large number of small providers within the market, the likelihood of a competing office opening near to one of the Group's properties is reasonably high. Should this happen it may have a detrimental effect on the revenue generated by that property and hence the Group. In order to mitigate against these impacts the Group ensures that its rates are competitive and alternative offers are considered to attract clients without significantly lowering revenue. When a new competitor opens near to one of the Group's properties, the Group promotes its centre's differentiators such as the Group's ability to build offices bespoke to clients' needs or its ability to provide full IT and systems support.

Exposure to movements in the property market
The Group owns freehold and long leasehold interests in properties located in the UK. At 31 December 2010 they had a book value, reflecting a professional external open market value at that date, of £30.5 million (2009: £29.1 million). These properties are used by the Group from which to operate the principal business of providing serviced office accommodation and are the principal asset elements in the Group's consolidated statement of financial position.

Following the falls in value experienced as a result of the disruption of the financial markets over the last two and a half years, the value of the Group's portfolio improved in the year increasing by £1.8 million. The total assets of the Group at December 2010 were £36.9 million (31 December 2009: £33.1 million). Should the Group's property values decline materially in future years, the total asset value of the Group will also reduce and this will have an adverse effect on capital and reserves attributable to equity holders. As the Group's banking facilities contain loan to value covenants, this may reduce the Group's ability to raise finance secured on those properties.

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

Loss of management contract
The Group operates a number of properties on behalf of third parties under management contracts. The impact of losing an individual contract would be limited but should any customer cancel two or more of their contracts this would result in a loss of management fee income and hence decrease profitability. In order to mitigate against this risk, management ensure the Group operates management contracts for a number of different third parties as well as maintaining the serviced office business in its own leasehold and freehold properties.

Dividends
The directors are not declaring a dividend for the year as the company seeks to achieve sufficient realised reserves in order to be able to pay dividends in the future.

The retained profit for the year in the Group was £1,331,000 (2009: £1,746,000).

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	(resigned 5 August 2010)
Peter Duffy	
Elizabeth Scannell	(née Arnold, appointed 11 May 2010)
Andrew Bourne	(appointed 12 May 2010)
Daniel Taylor	(appointed 15 November 2010)

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

	Number of 1p ordinary shares At 31 December 2009	**Number of 1p ordinary shares At 31 December 2010**	**Options over ordinary shares granted as at 31 December 2009**	**Options over ordinary shares granted as at 31 December 2010**
Michael Kingshott	25,495,434	25,495,434	-	1,820,000
Elizabeth Scannell	-	-	-	2,120,000
Andrew Bourne	-	25,495,434	-	1,820,000
Daniel Taylor	-	6,000,000	-	1,666,667

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 18 April 2011 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.

Financial instruments
The main financial instrument held by the Group is its bank borrowings. More information in relation to financial instruments can be found in Note 24 of the notes to the financial statements.

Significant shareholdings
As at 18 April 2011 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	%
Westchester Properties (SOG) Properties Limited	27,333,333	17.98
Michael Kingshott	25,495,434	16.77
Lexton Assets SA	25,495,434	16.77
Sir Tom Farmer	21,500,000	14.14
John Morley	10,843,250	7.13
Irwin Weiler	10,286,209	6.77
Daniel Taylor	6,000,000	3.95
Peter O'Reilly	5,791,130	3.81

Policy and practice on payment of creditors and collection of amounts due
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 2010 was 33 days (2009: 51 days).

Debt is closely monitored on a site-by-site basis by both operational and finance teams. Credit checks are performed prior to taking a client on where deemed necessary and clients are required to pay a deposit to cover any outstanding debt which may be due should they leave the premises without notice. Debtor days at 31 December 2010 were 12 days (2009: 12 days).

Political and charitable contributions
The Group made no political contributions or donations to UK charities during the year (2009: nil).

Professional indemnity insurance
Professional indemnity insurance was in place for the directors during the year and at 31 December 2010 (and during 2009 and at 31 December 2009).

Disclosure of information to auditors
Each director, as at the date of this report, has confirmed that insofar as they are aware there is no relevant audit information (that is, information needed by the Group's and Company's auditors in connection with preparing their report) of which the Group's and Company's auditors are unaware, and they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Group's and Company's auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Auditors
During the year, the directors appointed BDO LLP as auditors and the previous auditors, Simpson Wreford & Partners, resigned. BDO LLP will be proposed for reappointment at the Annual General Meeting.

By order of the board

Elizabeth Scannell
Secretary
18 April 2011

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

Statement of directors' responsibilities

The directors are responsible for preparing the Annual 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 elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these 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 whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The directors are responsible for ensuring the Annual Report and the financial statements are made available on a website. The financial statements are published on the Group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Directors, Officers and Advisors

DIRECTORS

Michael Kingshott	Chairman
Elizabeth Scannell	Finance Director
Andrew Bourne	Executive Director
Daniel Taylor	Non-executive Director
Peter Duffy	Non-executive Director

SECRETARY
Elizabeth Scannell

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

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

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

Fladgate LLP
25 North Row
London
W1K 6DJ

AUDITORS
BDO LLP
55 Baker Street
London W1U 7EU

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

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

Corporate governance statement

The directors support high standards of corporate governance and although not required by the AIM rules, intend to comply with the Combined Code on Corporate governance issued by the Financial Reporting Council in June 2008 ("The Code") so far as is practicable, given the Group's size.

Compliance with the Combined Code

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

- **Nominations committee**
  The Group 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 is chaired by Michael Kingshott and 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 Group intends to keep this process under review and establish a nominations committee when it is appropriate to do so.

Audit committee

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

Remuneration committee

The Remuneration committee is chaired by Peter Duffy. The Finance Director and certain other individuals may be invited to attend all or part of any meeting as and when appropriate. This committee has responsibility for determining, within agreed terms of reference, the Group's policy on the remuneration of senior executives and specific remuneration packages for executive directors, including pension rights and compensation payments. It is also responsible for making recommendations for grants of options under the Group's share schemes.

Going concern

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

As part of the regular financial management of the Group, the directors review the detailed cash flow projections of the Group and the cash requirements for the Group. These cash flow projections include the net cash flows arising from operations, capital expenditure proposals and the financial effect of planned business expansion and disposals. The projections take into account all bank and other financing facilities available to the Group and assess the cash flow adequacy of the Group on a month by month basis for a forward period of twenty four months. Since the Group's bank loan is due for renewal at 31 December 2012 management are currently reviewing this position and considering the best options for the Group.

The financial statements have been prepared on the going concern basis, which assumes that the Group will be able to meet its liabilities as they fall due in the ordinary course of business.

The directors consider that in preparing the financial statements they have taken into account all information that could reasonably be expected to be available. On this basis, they consider that it is appropriate to prepare the financial statements on the 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 authorisation and signing of client contracts and on approval and payment of invoices.

Client contracts are created electronically and require authorisation by senior management for any changes to the standard contract, including discounted prices, notice period changes or changes to deposit payments. This ensures completeness of income as well as reducing the risk that the Group is locked into unprofitable contracts.

Invoices require approval by the appropriate level of staff with senior management approving all invoices exceeding de minimus thresholds. In addition, payment runs are reviewed by senior management and all ad-hoc payments require authorisation by senior management.

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.

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

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

Communications with shareholders

The Board endeavours to maintain good relationships with its key 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 Peter Duffy was the only member of the Remuneration committee.

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

REMUNERATION POLICY

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

DIRECTORS' REMUNERATION

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

Basic salary

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

Share options

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

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

Pensions policy

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

Service contracts

The executive directors of Serviced Office Group plc all have service contracts which are subject to 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 Group. 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 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 directions

£'000	Basic Salary	Taxable Benefits	Pension	2010 Total	Basic Salary	Taxable Benefits	Pension	2009 Total
Executive								
MJ Kingshott	**125**	**10**	**-**	**135**	103	9	-	112
S Clague	**18**	**1**	**5**	**24**	96	1	-	97
C McEwan	**-**	**-**	**-**	**-**	22	2	-	24
E Scannell	**44**	**-**	**2**	**46**	-	-	-	-
A Bourne	**45**	**-**	**-**	**45**	-	-	-	-
Non Executive								
D Taylor	**9**	**-**	**-**	**9**	-	-	-	-
P Duffy	**15**	**-**	**-**	**15**	15	-	-	15
	256	**11**	**7**	**274**	236	12	-	248

No benefits were received or are receivable by any of the directors under long-term incentive schemes.

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

Highest paid director	**2010 £000**	2009 £000
Emoluments	**135**	112

Directors' share options

During the year ended 31 December 2010, share options were granted to the directors under the existing share option scheme, the Serviced Office Group Executive Share Option Scheme 2004 (the "Scheme"). Options were issued to incentivise the directors and to enable them to benefit from future increased market capitalisation of the company. The performance criteria that must be met include a combination of increased share price and EBITDA targets. The Remuneration Committee has responsibility for supervising the scheme and the grant of options under its terms.

Grants of options were split between the approved and unapproved elements of the Scheme. In addition to the performance criteria detailed above, options granted under the approved part of the Scheme must be held for a minimum of three years before they become exercisable.

The exercise prices of the options granted were equal to the market value of the company's shares at the time when the options were granted.

In addition, options were awarded to Elizabeth Scannell and Daniel Taylor as part of their incentive packages to join the company. These options do not have any vesting criteria and are currently exercisable. The Remuneration Committee chose to award options to a non-executive director, Daniel Taylor, in order to enable the company to attract a high calibre individual as a non-executive director and to ensure his interests are aligned with those of shareholders. Neither the directors nor the Committee believe the options are significant to him and accordingly still consider Daniel Taylor to be an independent non-executive director.

A summary of the options awarded is provided below. Information relating to the exercise prices attached to these options is provided in Note 21 of the Notes to the accounts.

As at 31 December 2010	Options over ordinary shares granted under approved part of Scheme	Options over ordinary shares granted under unapproved part of Scheme	Grant date	First exercise date	Vesting criteria
Michael Kingshott		1,820,000	24 May 2010	24 May 2011	As above
Andrew Bourne		1,820,000	24 May 2010	24 May 2011	As above
Elizabeth Scannell	910,000		24 May 2010	24 May 2013	As above
Elizabeth Scannell		910,000	24 May 2010	24 May 2011	As above
Elizabeth Scannell	199,000		22 Dec 2010	22 Dec 2013	None
Elizabeth Scannell		101,000	22 Dec 2010	23 Dec 2010	None
Daniel Taylor		1,666,667	22 Dec 2010	23 Dec 2010	None

No share options were exercised by any of the directors during the year.

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
United Kingdom

18 April 2011

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

Serviced Office Group plc
for the year ended 31 December 2010

Consolidated statement of comprehensive income

	Notes	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	13	1,824	(133)
Administrative expenses		(1,850)	(1,365)
Operating profit		**2,870**	**366**
Other income	9	-	2,124
Finance expense	10	(1,471)	(839)
Profit before income tax		**1,399**	**1,651**
Income tax (expense) / credit	11	(68)	95
Profit for the year and total comprehensive income for the year		**1,331**	**1,746**

			Restated
Earnings per share:			
Basic	12	1.19p	1.97p
Diluted	12	1.19p	1.97p

The notes on pages 26 to 49 form an integral part of these financial statements.

The Earnings per share for 2009 has been restated as described in Note 12.

Serviced Office Group plc
for the year ended 31 December 2010

Consolidated statement of financial position

	Notes	2010 £000	2009 £000
ASSETS			
Non current assets			
Investment property	13	30,460	25,815
Property, plant & equipment	14	2,832	4,875
Goodwill	15	1,294	1,294
Deferred tax asset	17	-	3
		34,586	31,987
Current assets			
Inventories	18	63	63
Trade and other receivables	19	1,310	1,035
Cash and cash equivalents	20	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	21	5,040	4,509
Share premium account	21	5,510	4,409
Reserves	22	(4,355)	(5,701)
Total equity		**6,195**	**3,217**
LIABILITIES			
Non current liabilities			
Borrowings	23	26,762	25,954
Deferred tax liability	17	67	-
		26,829	25,954
Current liabilities			
Trade and other payables	25	3,695	3,424
Borrowings	23	156	490
		3,851	3,914
Total liabilities		**30,680**	**29,868**
Total equity and liabilities		**36,875**	**33,085**

The notes on pages 26 to 49 form an integral part of these financial statements. These financial statements and notes thereto on pages 20 to 49 were approved by the board of directors on 18 April 2011 and signed on behalf of the Board.

Michael Kingshott
Director

Elizabeth Scannell
Director

Company statement of financial position

	Notes	2010 £000	2009 £000
ASSETS			
Non current assets			
Investments in subsidiaries	16	4,637	4,622
		4,637	4,622
Current assets			
Trade and other receivables	19	3,004	1,366
Cash and cash equivalents	20	-	-
		3,004	1,366
Total assets		**7,641**	**5,988**
EQUITY			
Capital and reserves attributable to equity holders of the company			
Called up share capital	21	5,040	4,509
Share premium account	21	5,510	4,409
Reserves	22	(2,909)	(2,930)
Total equity		**7,641**	**5,988**
Total equity and liabilities		**7,641**	**5,988**

The notes on pages 26 to 49 form an integral part of these financial statements.

These financial statements on pages 22 to 49 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 22) £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**

Serviced Office Group plc
for the year ended 31 December 2010

Consolidated Cash Flow Statement

	Note	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 10)		-	(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	20	916	(413)
Bank balances and cash	20	916	(413)

The cash flow statement for 2009 has been restated by reducing the fixed asset purchases balance by £232,000 to account for new 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.

Company cash flow statement

	Note	2010 £000	2009 £000
Profit / (loss) before tax		**6**	(4)
Adjustment for:			
Expense arising from grant of share options		**-**	3
Operating cash flow before movement in working capital		**6**	(1)
Increase in trade and other receivables		**(6)**	-
Net cash from operating activities		**(6)**	(1)
Net (decrease)/increase in cash and cash equivalents		-	(1)
Cash and cash equivalents at the beginning of the year		-	1
Cash and cash equivalents at end of year	20	**-**	**-**
Bank balances and cash	20	**-**	**-**

Significant non-cash movements in the year relate to the issue of shares in the Company. Funds received in exchange for new shares were paid into one of the Company's subsidiaries' bank accounts resulting in a non-cash movement in intercompany receivables of £1,632,000 (2009: £309,000).

Notes to the financial statements

1 GENERAL INFORMATION

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

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

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

These consolidated financial statements have been approved for issue by the Board of Directors on 18 April 2011.

The registered company number is 04031883.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements of Serviced Office Group plc have been prepared in accordance with EU endorsed International Financial Reporting Standards (IFRS), IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment property.

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.

Restatement of 2009 balances

Earnings per share for the year ended 31 December 2009 has been restated since it was noted that the number of shares at 31 December 2009 had be utilised for the calculation rather than the weighted average for the year. Accordingly the 2009 earnings per share figure has increased from 1.77p to 1.97p.

The Group cash flow statement for the year ended 31 December 2009 has been restated to reclassify finance lease movements as described on the statement. There is no impact on the net cash flow of the Group or any impact to the other financial statements or notes thereto.

Going concern

The financial statements have been prepared on the going concern basis, which assumes that the Group will be able to meet its liabilities as they fall due in the ordinary course of business. In order to make this assessment, the directors have reviewed the forecasts for the Group to 31 December 2012 when the Group's borrowing facilities are due for renewal. The directors are currently reviewing the impact of renewal of the borrowing facilities and considering the best options for the Group.

The forecasts for the Group to 31 December 2012 indicate that the Group will have sufficient cash resources in order to meet its liabilities as they fall due and the directors consider that in preparing the financial statements they have taken into account all information that could reasonably be expected to be available. On this basis, they consider that it is appropriate to prepare the financial statements on the going concern basis.

New standards and interpretations

In the current year, the Group has adopted the following new standards, interpretations and amendments for the first time, none of which had a material effect on the results for the year:

	Effective for periods commencing on or after
IFRS 1 (amendment) Additional exemptions for first time adopters	1 January 2010
Improvements to IFRSs 2009	1 April 2009
IFRS 1(revised) First time adoption of International Financial Reporting Standards	1 July 2009
IFRS 2 (amendment) Group cash settle share based payments	1 January 2010
IFRS 3 (revised) Business combinations	1 July 2009
IFRS 5 (amendment) Non-current assets held for sale and discontinued	1 July 2009
IAS 1 (amendment) Presentation of Financial Statements	1 July 2009
IAS 27 (revised) Consolidated and separate financial statements	1 July 2009
IAS 38 (amendment) Intangible assets	1 July 2009
IAS 39 (amendment) Financial instruments: Recognition and Measurement: Eligible Hedged Items	1 July 2009
IFRIC 15 Agreements for the construction of real estate	1 January 2009
IFRIC 16 Hedges of net investment in a foreign operation	1 October 2008
IFRIC 17 Distribution of non-cash assets to owners	1 July 2009
IFRIC 18 Transfer of assets from customers	1 July 2009

The following standards and interpretations, which are in issue at the balance sheet date but not yet effective, have not been applied in these financial statements. In some cases these standards and guidance have not yet been endorsed by the European Union:

	Effective for periods commencing on or after
IFRS 1 (amendment) First time adoption of International Reporting Standards	1 July 2010
IFRS 1 (amendment) Severe Hyperinflation and removal of Fixed Assets for First Time Adopters	1 July 2010
IFRS 7 (amendment) Disclosures – transfers of financial assets	1 July 2010
IFRS 9 Financial Instruments	1 January 2013
IAS 12 (amendment) Deferred tax – recovery of underlying assets	1 January 2012
IAS 24 (amendment) Related Party disclosures	1 January 2011
IAS 32 (amendment) Classification of Rights Issues	1 February 2010
IFRIC 14 (amendment) IAS 19 Limit on Defined Benefit Asset, Minimum Funding Requirements and their interaction	1 January 2011
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	1 July 2010

It is considered that the above standards and interpretations will not have a significant effect on the results or net assets of the Group.

2.2 Consolidation

Subsidiaries

Subsidiaries are all 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 directors have elected not to apply IFRS 3 (Revised) to past business combinations occurring before 1 January 2010.

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

Joint ventures

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

2.3 Investment property

Property that is held for long term rental yields or for capital appreciation or both and that is not occupied by the companies in the consolidated Group is classified as investment property. Investment property comprises freehold and long-leasehold 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 undertaken 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. Changes in fair value are recorded in the income statement.

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.

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 property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Leasehold improvements	5 years
Fixtures, fittings & furniture	3 to 10 years
Computer and IT equipment	3 years
Motor vehicles	3 years

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.

2.5 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 at the date of acquisition.

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 Investments
Investments in subsidiaries are stated at cost less any impairment. 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.

2.7 Financial assets and liabilities
The Group classifies its financial assets as 'at fair value through profit or loss' or 'loans and receivables'. 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 each balance sheet date.

Loans and receivables are subsequently carried at amortised cost using the effective interest method. Financial assets at fair value through profit or loss are subsequently carried at fair value which is assessed at each balance sheet date with any gain or loss being recognised in the income statement.

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. If any such evidence exists, 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 recognised in the income statement.

The Group does not have any financial liabilities 'held for trading' nor has it designated any financial liabilities as being 'at fair value through profit or loss'. All the Group's financial liabilities are therefore classified as 'Other financial liabilities'. The financial liabilities held by the Group are its bank borrowings and trade payables. These are initially recognised at fair value net of any transaction costs incurred which are directly attributable to obtaining the borrowings. These financial liabilities are subsequently measured at amortised cost using the effective interest rate method which ensures that transaction costs are recognised over the life of the liability. Upon early renegotiation of loan facilities, any unamortised balance is immediately recognised within the income statement for the period.

2.8 Inventories
Inventory is initially recognised at cost. At each period end, the directors consider whether any impairment to inventory items has occurred by considering the current realisable value of the items. If there is any indication of impairment, the items are written down to their realisable value with the loss recognised in the Income Statement.

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

2.10 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 Statement of financial position.

2.11 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 within share premium.

Deferred shares are classified as equity since there are no dividend or interest payment rights attached to them. The rights attached to the deferred shares are detailed in Note 21.

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

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

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax liabilities are recognised immediately when they are identified. The main movements in the Group giving rise to deferred tax balances are the gains and losses made on property revaluations. Assets are only recognised in relation to property revaluation losses to the extent that the directors consider the decrease in value to be permanent and accordingly that the recoverability of the asset would be probable upon sale of the property.

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

2.13 Employee benefits
(a) Pension obligations
The Group operates a defined contribution scheme and pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

(b) Share-based compensation
The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

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

2.14 Provisions
Provisions for lease terminations, dilapidations 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. Provisions are not recognised for future operating losses.

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

2.15 Revenue recognition
Revenue comprises the fair value of the consideration received or receivable for the sale of goods or 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 eliminating sales within the Group. Revenue is recognised as follows:

(a) Licence fee, rental income and service charges
The majority of the Group's licence agreements comprise an element of fixed fees which are receivable on a monthly basis and variable fees which are invoiced and payable a month in arrears. The Group recognises the fixed fee element in the month it becomes due and the variable fees in the month in which they are invoiced.

The Group has a small amount of rental and service charge income which is receivable on a quarterly basis in advance of the services provided. Such revenue is recognised on a straight line basis over the lease term with accrued income being recognised within the Statement of financial position in relation to income received for periods in advance of the services being provided.

(b) Management fees
Revenue is recognised in relation to management fees for the properties which the Group operates on behalf of third parties. Since parts of this revenue are dependent upon the profitability of the properties being managed, management fees are recognised monthly in arrears as they are approved by the relevant client.

(c) Sales of goods and services
Sales of other goods and services are recognised in the accounting period in which the goods or services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual good or service provided as a proportion of the total goods or services to be provided.

2.16 Leases
The Group as a lessee:

1. Operating leases

   Leases in which a significant portion of the risks and rewards are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

2. Finance leases

   Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges, where incurred, so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The Group as a lessor:

1. Operating leases

   Properties leased out under operating leases are included in investment property held by the Group's subsidiaries. Lease income is recognised over the term of the lease on a straight-line basis.

2. Finance leases

   The Group does not consider that it has any finance leases as a lessor.

2.17 Interest
Interest expenses for borrowings are recognised within finance expenses in the income statement on an accruals basis using the effective interest rate method.

The effective rate method is the method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows or receipts throughout the expected life of the financial instrument, or a shorter period where appropriate to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the company estimates the cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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 wholly in the UK and is not exposed to foreign exchange risk arising from any currency exposure.

(ii) Cash flow and fair value interest rate risk.

The only interest-bearing asset the Group holds is cash. As the Group has no other 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 periodically. The Group is able to choose either the 3m or 6m LIBOR rate (or a longer period with prior agreement from the Bank) on which to base the interest rate for the following interest period. During the year the Group held a swap agreement fixing the interest rate payable on part of its borrowings. Such instruments are utilised by the directors to manage the impact of interest rate changes on the Group.

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

An increase in 100 basis points in interest yields would result in a decrease in the post-tax profit for the period of £187,000 (2009: 203,000). A decrease in 100 basis points in interest yields would result in an increase in post-tax profit for the period of £187,000 (2009: £203,000).

(b) Credit risk

The Group has no significant concentrations of credit risk. Its only credit risk is in relation to amounts due from customers which totalled £373,000 at 31 December 2010 (2009: £260,000). The Group has policies in place to ensure that services are made to customers with an appropriate credit history. No single customer accounts for more than 2.7% of the Group's revenue.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Management monitors the liquidity requirements of the Group and arranges facilities on the basis of expected cash flow. Funding facilities are explained and analysed in note 23 and cash equivalents in note 20. There are no derivative financial assets or liabilities.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

4.1 Estimate of fair value of investment properties

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

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

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

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

Principal assumptions for management's assessment of fair value
If information on current or recent prices or assumptions underlying the discounted cash flow approach for investment properties is not available, the fair values of the investment properties are determined using discounted cash flow techniques. The company uses assumptions that are mainly based on market conditions existing at the balance sheet date.

The principal assumptions underlying management's estimation of fair value are those related to: the receipt of contractual rentals; expected future market rentals; void periods; maintenance requirements; and appropriate discount rates. These valuations are regularly compared to actual market yield data, and actual transactions by the company and those reported by the market.

The expected future market rentals are determined on the basis of current market rentals for similar properties in the same location and condition.

4.2 Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2.5. The recoverable amounts of cash generating units have been determined based on value in use calculations. A test was prepared based on the present value (PV) of future cash flows. This took account of the past year's performance and that expected by management in the coming years. This PV was subjected to sensitivity tests which indicated that management expectations were fair and reasonable. Where PV was lower than the value of goodwill, an impairment was recognised.

4.3 Critical judgements in applying the Group's accounting policies

The directors consider that there are two critical judgements made in the application of the Group's accounting policies. These are detailed below.

Distinction between investment properties and property, plant & equipment
The Group has concluded that all of its freehold and long-leasehold properties should be classified as investment property rather than property, plant & equipment. The basis for this judgement is that property is held for its long-term value appreciation and operating revenue generated from the property is considered ancillary to the main purpose of holding the property.

Distinction between long-leasehold properties and properties held under operating leases
One of the Group's properties is classified as a long-leasehold property within investment property. All other leased properties are classified as being held under operating leases. The key differences used to determine classification are that the Group bears the significant portion of the risks and rewards on long-leasehold property.

5 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

6 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.

7 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 8)	**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:		
- Audit of Group and Parent Company financial statements	**15**	15
- Audit of subsidiaries pursuant to legislation	**25**	25
Fee payable to the company's auditors for corporate tax services	**13**	13

8 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

Information relating to directors' remuneration is provided within the Remuneration Report on page 16. The directors are considered to be the key management of the Group.

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

9 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.

9 ACQUISITIONS AND OTHER INCOME (CONTINUED)

	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.

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

10 FINANCE EXPENSE

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

11 INCOME TAX EXPENSE/ (CREDIT)

	2010 £000	2009 £000
Current tax	**-**	-
Deferred tax expense / (credit) (Note 17)	**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)

12 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.

13 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.

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).

14 PROPERTY, PLANT AND EQUIPMENT - GROUP

£'000	Leasehold improvements	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 2010	**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 13.

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

15 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%). The 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.

16 INVESTMENTS

	2010 £000	2009 £000
Company – Subsidiary undertakings		
Beginning of year	**4,622**	4,035
Additions	**15**	587
Carrying amount at 31 December	**4,637**	4,622

In the prior year Statement of financial position, the Company's investments were split into investments in subsidiaries and deferred shares in subsidiaries. Since the Group acquired the remaining 50% of the deferred shares in December 2009, there is no requirement to disclose these items separately and they have been combined in the current year and in the comparative numbers for 2009.

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

	Country of incorporation	**Principal activity**		**Percentage of ordinary shares held**
KBC Holdings Limited	England	Serviced office provider		**100%**
KBC Harrow Limited	England	Property investment	(*)	**100%**
KBC Hayes Limited	England	Property investment	(*)	**100%**
KBC Kingston Limited	England	Property investment	(*)	**100%**
KBC Bournemouth Limited	England	Property investment	(*)	**100%**
KBC Consort Limited	England	Holding company		**100%**
Consort Property Holdings Limited	England	Holding company	(*)	**100%**
KBC Teddington Limited	England	Property investment	(*)	**100%**
KBC Chiswick Limited	England	Property investment	(*)	**100%**
KBC Beckenham Limited	England	Property investment	(*)	**100%**
KBC Crawley	England	Property investment	(*)	**100%**

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

17 DEFERRED TAX

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

	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%).

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)**

17 DEFERRED TAX (CONTINUED)

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).

18 INVENTORIES

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

19 TRADE AND OTHER RECEIVABLES

	2010 £000	2009 £000
Group:		
Trade receivables	**373**	260
Prepayments	**781**	731
Other debtors	**156**	44
	1,310	1,035
Company:		
Amounts owed by Group companies	**3,004**	1,366
	3,004	1,366

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.

20 CASH AND CASH EQUIVALENTS

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

21 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.

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

21 SHARE CAPITAL (CONTINUED)

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.

22 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)**

Company	Share-based payment reserve **£000**	Retained losses **£000**	Total **£000**
At 1 January 2009	**-**	**(2,929)**	**(2,929)**
Share option charge	3	-	3
Retained loss for the year	-	(4)	(4)
At 31 December 2009	**3**	**(2,933)**	**(2,930)**
At 1 January 2010	**3**	**(2,933)**	**(2,930)**
Share option charge	**15**	**-**	**15**
Retained profit for the year	**-**	**6**	**6**
At 31 December 2010	**18**	**(2,927)**	**(2,909)**

As permitted by Section 408 of the Companies Act 2006, the Holding Company's income statement has not been included in these financial statements. The Company made a profit of £6,000 in the year ended 31st December 2010 (2009: £4,000 loss).

23 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 less than one year	947	677
In more than one year 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

24 FINANCIAL INSTRUMENTS

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

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

At 31 December 2010 the Group held a swap instrument to fix the rate of interest on part of the Group’s borrowings. Since this instrument expired in January 2011, the directors consider the value of the instrument to be equal to the amount payable in January 2011. It has, therefore, been recorded as such in the Statement of financial position.

Capital risk management
The capital structure of the Group comprises debt (as described in Note 23), cash (as detailed in Note 20) and equity comprising issued share capital, reserves and retained earnings (as disclosed in Note 21). The Group’s primary objective when managing its capital is to safeguard its ability to continue as a going concern. Longer-term objectives are to maintain a good capital structure, reduce the cost of capital and ultimately provide returns to shareholders. In order to assist the Group to expand, new shares were issued in 2010 to generate investment into the Group. These funds will primarily be used to fund capital fit out works to new buildings. This has enabled the Group to have sufficient headroom on financing and to ensure it is within its capital expenditure covenants.

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

	Book value 2010 £000	Fair value 2010 £000	Book value 2009 £000	Fair value 2009 £000
Group:				
Fair value of financial assets and financial liabilities				
Cash at bank (note 20)	**916**	**916**	-	-
Trade and other receivables (note 19)	**1,310**	**1,310**	1,035	1,035
Total financial assets	**2,226**	**2,226**	1,035	1,035
Trade and other payables (note 25)	**3,067**	**3,067**	3,181	3,181
Current borrowings (note 23)	**156**	**156**	490	490
Non-current borrowings (note 23)	**26,762**	**26,762**	25,954	25,954
Total financial liabilities	**29,985**	**29,985**	29,625	29,625

25 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

26 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

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 are 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

27 POST BALANCE SHEET EVENTS

There have been no post balance sheet events out of the normal course of trading.

28 RELATED PARTY TRANSACTION

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

	Amounts due from 2010 £'000	Amounts due from 2009 £'000	Sales 2010 £000	Sales 2009 £000
Group				
Car Park Valeting Limited	**-**	-	**5**	9
Consort Property Holdings Limited	**-**	-	**-**	103
Company				
KBC Holdings Limited	**3,004**	1,366	**-**	-

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

Consort Property Holdings Limited was only 50% owned by the Group until December 2009 and hence was a related party for transactions which occurred prior to this date. In December 2009, the Group acquired the remaining 50% and accordingly it is no longer a related party which requires disclosure.

29 ULTIMATE CONTROLLING PARTY

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

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to what action you should take, you are recommended to seek your own financial advice from your stockbroker or other independent adviser authorised under the Financial Services and Markets Act 2000.

If you have sold or transferred all of your shares in Serviced Office Group Plc, please forward this document, together with the accompanying documents, as soon as possible either to the purchaser or transferee or to the person who arranged the sale or transfer so they can pass these documents to the person who now holds the shares.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting (**Meeting**) of Serviced Office Group Plc (**Company**) will be held at 22 Long Acre, London EC2E 9LY on 25 May 2011 at 11am.

You will be asked to consider and vote on the resolutions below. Resolutions 1 to 4 will be proposed as ordinary resolutions and resolution 5 will be proposed as a special resolution. For further background on the resolutions, please refer to the explanatory note on the resolutions which appears below the Notes to the Notice of Annual General Meeting.

RESOLUTIONS

Ordinary resolutions

Resolution 1: To receive the Financial Statements of the Group for the year ended 31 December 2010 together with the reports of the Directors and Auditors thereon.

Resolution 2: To re-elect Peter Duffy as a Director.

Resolution 3: To re-elect Elizabeth Scannell as a Director.

Resolution 4: To re-elect Andrew Bourne as a Director.

Resolution 5: To re-elect Daniel Taylor as a Director.

Resolution 6: To appoint BDO LLP as auditors of the company and to authorise the directors to determine their remuneration.

Resolution 7: To generally and unconditionally authorise, in accordance with section 551 of the Companies Act 2006 (**2006 Act**), the directors of the Company (**Directors**) to allot shares in the Company or grant rights to subscribe for or to convert any security into shares in the Company (**Rights**) up to an aggregate nominal amount of £501,696. This authority:

1. will expire on the earlier of the date of the Company's next annual general meeting and 25 August 2012, except that the Company may, before such expiry, make an offer or agreement which would or might require shares to be allocated or Rights to be granted and the Directors may allot shares or grant Rights in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired; and
2. is in substitution for all previous authorities conferred on the Directors in accordance with section 551 of the 2006 Act.

Special resolution

Resolution 8: To generally authorise and empower the Directors, subject to the passing of resolution 7 and in accordance with section 570 of the 2006 Act, to allot equity securities (as defined in section 560 of the 2006 Act) pursuant to the authority conferred by resolution 4, as if section 561(1) of the 2006 Act did not apply to any such allotment, provided that this power shall:

(a) be used in connection with a rights issue or the exercise of existing options granted by the Company;

(b) be limited to the allotment of equity securities (otherwise than those allotted pursuant to paragraph (a) above) up to an aggregate nominal amount of £228,043; and

(b) expire on the earlier of the conclusion of the next Annual General Meeting of the Company and 25 August 2012 except that the Company may, before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution has expired.

By order of the Board

Michael Kingshott	**Registered Office:**
Director	**Fleet House**
Serviced Office Group Plc	**8-12 New Bridge Street**
	London EC4V 6AL

18 April 2011

NOTES TO THE NOTICE OF ANNUAL GENERAL MEETING

Appointment of proxies

1. As a member of the Company, you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the Meeting and you should have received a proxy form with this notice of meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.

2. A proxy does not need to be a member of the Company but must attend the Meeting to represent you. Details of how to appoint the Chairman of the Meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form. If you wish your proxy to speak on your behalf at the Meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them.

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

4. If you do not give your proxy an indication of how to vote on any resolution, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Meeting.

Appointment of proxy using hard copy proxy form

5. The notes to the proxy form explain how to direct your proxy how to vote on each resolution or withhold their vote.

To appoint a proxy using the proxy form, the form must be:

(a) completed and signed;
(b) sent or delivered to the Company at PROXIES, 22 Long Acre, London EC2E 9LY; and
(c) received by the Company:
  (i) no later than 11.00 am on 23 May 2011 (being 48 hours before the time fixed for the meeting); or
  (ii) no later than 24 hours before the time fixed for any adjourned meeting; or
  (iii) no later than 24 hours before the time appointed for the taking of a poll if such poll is taken more than 48 hours after it is demanded; or
  (iv) at the time appointed for the taking of a poll if such poll is taken 48 hours or less after it is demanded.

In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.

Appointment of proxy by joint members

6. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).

Changing proxy instructions

7. To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also apply in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.

If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

Termination of proxy appointments

8. In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to PROXIES, 22 Long Acre, London EC2E 9LY. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice; or

The revocation notice must be received by the Company no later than 11.00 am on 23 May 2011 (being 48 hours before the time fixed for the meeting).

If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to the paragraph directly below, your proxy appointment will remain valid.

Appointment of a proxy does not preclude you from attending the Meeting and voting in person. If you have appointed a proxy and attend the Meeting in person, your proxy appointment will automatically be terminated.

Designated corporate representatives

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

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

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

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

Regulation 41

10. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, only those shareholders registered in the register of members of the Company as at 6.00 p.m. on 23 May 2011 or, if this meeting is adjourned, at 6.00 p.m. on the day two days prior to the adjourned meeting shall be entitled to attend and vote at the Annual General Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after 6.00 p.m. on 23 May 2011 or, if this meeting is adjourned, at 6.00 p.m. on the day two days prior to the adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at this Annual General Meeting.

EXPLANATORY NOTES TO THE NOTICE OF AGM

The notes below give an explanation of the proposed resolutions.

Resolutions 1 to 7 are proposed as ordinary resolutions. This means that for each of those resolutions to be passed, more than half of the votes cast must be in favour of the resolution. Resolution 8 is proposed as a special resolution. This means that for each of this resolution to be passed, at least three quarters of the votes cast must be in favour of the resolution.

Resolution 1

Reports and accounts

The directors are required by law to present to the annual general meeting the audited accounts and the reports of the directors and auditors contained in the annual report and accounts.

Resolution 2

Re-election of Peter Duffy

An ordinary resolution will be proposed to re-elect Peter Duffy, who is retiring by rotation in accordance with the Company's articles of association and, being eligible, offers himself for re-election as a director of the Company.

Resolutions 3-5

Re-election of directors

The Company's articles require that directors appointed by the board retire from office at the next annual general meeting of the Company. Ordinary resolutions are proposed to re-elect Elizabeth Scannell, Andrew Bourne and Daniel Taylor, who are retiring in such circumstances.

Resolution 6

Re-appointment of auditors

The appointment of BDO LLP as auditors of the Company terminates at the conclusion of the Annual General Meeting. They have indicated their willingness to stand for re-election as auditors of the Company until the conclusion of the annual general meeting in 2012. The directors recommend their reappointment and seek authority to fix their remuneration.

Resolution 7

Authority to allot unissued share capital

It is proposed to authorise the directors of the Company to allot ordinary shares up to a maximum nominal value of £501,696. This amount is equal to one third of the nominal amount of the current issued ordinary share capital of the Company. The Board has no immediate plans to issue shares, however, the Board wishes to maintain an adequate margin of authority should an opportunity arise. The authority will expire on 25 August 2012 or, if earlier, the date of the Company's next Annual General Meeting.

Resolution 8

Dis-application of pre-emption rights

It is proposed, as a special resolution, to authorise the directors of the Company to allot equity securities for cash without first being required to offer such securities to existing shareholders in proportion to their existing holding by the limited dis-application of section 561 of the Companies Act 2006.

This authority is limited to the allotment of equity securities (otherwise than pursuant to paragraph (a) above) up to an aggregate nominal amount of £228,043 being the nominal value of approximately 15% of the Company's issued ordinary share capital as at the date of this resolution.

The authority will expire on 25 August 2012 or, if earlier, the date of the Company's next Annual General Meeting.

Form of Proxy

Serviced Office Group plc

Before completing this form, please read the explanatory notes below.

I/We

(Name in full in block capitals please)

being a member of the Company appoint the chairman of the meeting or (see note 3) as my/our proxy to attend, speak and vote on my/our behalf at the Annual General Meeting of the company to be held on 25 May 2011 at 11:00 am at 22 Long Acre, London EC2E 9LY and at any adjournment of the meeting.

I/We direct my/our proxy to vote on the following resolutions as I/we have indicated by marking the appropriate box with an "X". If no indication is given, my/our proxy will vote or abstain from voting at his discretion and I/we authorise my/our proxy to vote (or abstain from voting) as he thinks fit in relation to any other matter which is properly put before the meeting.

Ordinary Resolutions:	**For**	**Against**
1. To receive the report of the directors and accounts for the financial year ended 31 December 2010.	☐	☐
2. To re-elect Peter Duffy as a Director.	☐	☐
3. To re-elect Elizabeth Scannell as a Director.	☐	☐
4. To re-elect Andrew Bourne as a Director.	☐	☐
5. To re-elect Daniel Taylor as a Director.	☐	☐
6. To appoint BDO LLP as auditors of the company and to authorise the directors to determine their remuneration.	☐	☐
7. To approve the directors to allot relevant securities as set out in the Notice of Annual General Meeting.	☐	☐

Special Resolution:	**For**	**Against**
8. To approve the directors to allot equity securities otherwise than pro rata as set out in the notice of annual general meeting.	☐	☐

Dated: 2011 Signature:

Notes to the proxy form:

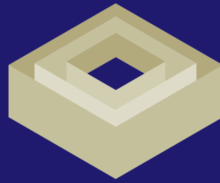
1. As a member of the company you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at a general meeting of the company. You can only appoint a proxy using the procedures set out in these notes.
2. Appointment of a proxy does not preclude you from attending the meeting and voting in person. If you have appointed a proxy and attend the meeting in person, your proxy appointment will automatically be terminated.
3. A proxy does not need to be a member of the company but must attend the meeting to represent you. To appoint as your proxy a person other than the chairman of the meeting, insert their full name in the box. If you sign and return this proxy form with no name inserted in the box, the chairman of the meeting will be deemed to be your proxy. Where you appoint as your proxy someone other than the chairman, you are responsible for ensuring that they attend the meeting and are aware of your voting intentions. If you wish your proxy to make any comments on your behalf, you will need to appoint someone other than the chairman and give them the relevant instructions directly.
4. 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.
5. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, you must complete a separate proxy form for each proxy and specify against the proxy's name the number of shares over which the proxy has rights. If you are in any doubt as to the procedure to be followed for the purpose of appointing more than one proxy you must speak with the company secretary. If you fail to specify the number of shares to which each proxy relates, or specify a number of shares greater than that held by you on the record date, proxy appointments will be invalid.
6. To direct your proxy how to vote on the resolutions mark the approximate box with an "X." If no voting indication is given, your proxy will vote or abstain from voting at his discretion. Your proxy will vote (or abstain from voting) as he thinks fit in relation to any other matter which is put before the meeting.
7. To appoint a proxy using this form, not later than 48 hours before the time of the meeting, the form must be completed and signed and sent or delivered to PROXIES, 22 Long Acre, London EC2E 9LY 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.
8. In the case of a member which is a company, this proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company.
9. 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.
10. If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.
11. For details of how to change your proxy instructions or revoke your proxy appointment see the notes to the notice of meeting.
12. You may not use any electronic address provided in this proxy form to communicate with the company for any purposes other than those expressly stated.

Third fold and tuck in

First fold

PROXIES
22 Long Acre
London
EC2E 9LY

Second fold



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