

Company Registration Number: 2801424

PORTFOLIO HOLDINGS LIMITED

Report and Financial Statements

31 December 2004



PORTFOLIO HOLDINGS LIMITED

REPORT AND FINANCIAL STATEMENTS 2004

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PORTFOLIO HOLDINGS LIMITED

REPORT AND FINANCIAL STATEMENTS 2004

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

P T Parkinson (Chief Executive)
J Z Duzniak
J M Robertson (Non-executive)
C J Hoddell (Non-executive)
W Benjamin (Non-executive)
M Pashley (Non-executive)

SECRETARY AND REGISTERED OFFICE

J Z Duzniak
Liscartan House
127 Sloane Street
London
SW1X 9BA

SOLICITORS

Linklaters
One Silk Street
London
EC2Y 8HQ

BANKERS

Bank of Scotland
St James's Gate
14-16 Cockspur Street
London
SW1Y 5BL

AUDITORS

Deloitte & Touche LLP
Chartered Accountants
London

PORTFOLIO HOLDINGS LIMITED

DIRECTORS' REPORT

The directors have pleasure in submitting their report and the audited financial statements for the year ended 31 December 2004.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group and of the profit or loss and cash flows of the group for that period. In preparing those financial statements, the directors are required to:

- a) select suitable accounting policies and then apply them consistently;
- b) make judgements and estimates that are reasonable and prudent;
- c) state whether applicable accounting standards have been followed; and
- d) prepare 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

PRINCIPAL ACTIVITIES, REVIEW OF THE BUSINESS AND FUTURE PROSPECTS

The principal activities of the company comprise the holding of shares in property investment and trading companies together with property investment and property trading in the UK.

In the opinion of the directors, the financial position of the company at the balance sheet date was satisfactory as are the future prospects of the company.

RESULTS AND DIVIDENDS

The results of the group for the year are detailed on page 6. The group suffered a loss on ordinary activities before taxation of £358,219 (2003: £7,184,367 profit).

The directors do not recommend the payment of a dividend for the year (2003: £nil). The retained loss of the group for the year is £175,168 (2003: £3,791,728 profit) which has been transferred from/(to) reserves, giving a retained loss carried forward of £825,747 (2003: £3,562,272 profit).

PORTFOLIO HOLDINGS LIMITED

DIRECTORS' REPORT – (continued)

DIRECTORS AND THEIR INTERESTS

The directors holding office during the year were as follows:

	Ordinary Shares as at 31 December 2004	Management Incentive Scheme Shares as at 31 December 2004	Ordinary Shares as at 31 December 2003	Management Incentive Scheme Shares as at 31 December 2003
J M Robertson	-	3,792	-	10,055
C J Hoddell	20,705	3,792	54,907	10,055
J Z Duzniak	-	725	-	1,924
P T Parkinson	-	1,284	-	3,406
W Benjamin	-	-	-	-
M Pashley	-	-	-	-

On 4 June 1997 the company established a long-term management incentive scheme designed to reward all of the company's directors and employees dependent on the performance of the group. See note 19 for further information on this scheme.

Also on 4 June 1997 J M Robertson was granted options to subscribe for 42,627 ordinary shares of the company at a price of £1.03 per share. The options were exercisable between 1 June 1998 and 4 June 2004 and replaced all previous option rights. On 29 January 1999 the 4 June 1997 option agreement was restated and amended. The 42,627 options to subscribe for ordinary shares of the company at a price of £1.03 per share are now exercisable between 1 June 1998 and 28 January 2006.

On 13 February 2004 J M Robertson agreed to waive his options over 4,435 ordinary shares for a consideration of £45,068.24.

On 13 July 2004 J M Robertson agreed to waive his options over 8,872 ordinary shares for a consideration of £90,134.96.


J Z Duzniak resigned as a director and secretary of the company on 31 December 2004, and was re-appointed on 27 April 2005.

The directors held no interests in any other companies in the group.

AUDITORS

It is proposed that Deloitte & Touche LLP be reappointed as auditors to the Company.

By Order of the Board


J Z Duzniak
Secretary

Liscartan House
127 Sloane Street
London
SW1X 9BA

7 July 2005

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS
OF
PORTFOLIO HOLDINGS LIMITED**

We have audited the financial statements of Portfolio Holdings Limited for the year ended 31 December 2004 which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the note of consolidated historical cost profits and losses, the consolidated balance sheet, the company balance sheet, the consolidated cash flow statement, the reconciliation of net cash flow to movement in net (debt)/funds and the related notes 1 to 23. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company and other members of the group are not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the company and the group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company and the group's affairs as at 31 December 2004 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte Touche

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London

20/7/ 2005

PORTFOLIO HOLDINGS LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT Year ended 31 December 2004

	Note	2004 £	2003 Restated (see below) £
Turnover of group and share of joint ventures		3,109,424	79,819,765
Less share of joint ventures' turnover		(1,036,875)	(35,941,296)
Turnover	1,2	2,072,549	43,878,469
Cost of sales		(1,026,453)	(36,084,218)
GROSS PROFIT		1,046,096	7,794,251
Administration expenses		(1,875,075)	(3,460,809)
Related party contribution to overheads		-	827,387
GROUP OPERATING (LOSS)/PROFIT		(828,979)	5,160,829
Share of results of joint ventures		(5,918)	1,961,441
TOTAL OPERATING (LOSS)/PROFIT: GROUP AND SHARE OF JOINT VENTURES	3	(834,897)	7,122,270
Profit on disposal of fixed assets – joint ventures		377,971	2,514,543
Interest receivable and similar income – group	5	312,033	186,313
Interest receivable and similar income – joint ventures		24,850	35,520
Interest payable and similar charges - group	6	(193,340)	(1,646,809)
Interest payable and similar charges – joint ventures		(44,836)	(1,027,470)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		(358,219)	7,184,367
Taxation on (loss)/profit on ordinary activities	7	380,410	(3,020,362)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		22,191	4,164,005
Equity minority interests		(197,359)	(372,277)
RETAINED (LOSS)/PROFIT FOR THE FINANCIAL YEAR	15	(175,168)	3,791,728

Turnover and operating (loss)/profit derive wholly from continuing operations.

The prior year figures have been restated to give a more accurate presentation of the results. This does not impact on the profit on ordinary activities before tax, after tax or retained for the year.

PORTFOLIO HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES **for the year ended 31 December 2004**

	2004 £	2003 £
(Loss)/profit for the financial year	(175,168)	3,791,728
Share of joint ventures' unrealised deficit on revaluation	-	(5,611)
	<hr/>	<hr/>
Total gains and losses recognised in the year	(175,168)	3,786,117
	<hr/>	<hr/>

NOTE OF CONSOLIDATED HISTORICAL COST PROFITS AND LOSSES **for the year ended 31 December 2004**

	2004 £	2003 £
(Loss)/profit on ordinary activities before taxation	(358,219)	7,184,367
Realised (deficit)/surplus of prior years	(20,561)	3,371,383
	<hr/>	<hr/>
Historical cost (loss)/profit on ordinary activities before taxation	(378,780)	10,555,750
Taxation, minority interests and dividends	183,051	(3,392,639)
	<hr/>	<hr/>
Historical cost (loss)/profit after taxation, minority interests and dividends	(195,729)	7,163,111
	<hr/>	<hr/>

PORTFOLIO HOLDINGS LIMITED

CONSOLIDATED BALANCE SHEET

31 December 2004

	Note	2004 £	2003 £
FIXED ASSETS			
Tangible fixed assets	9	209,992	247,146
Investment in joint ventures:			
Share of gross assets	10 (2)	507,931	2,386,737
Share of gross liabilities	10 (2)	(412,490)	(1,325,942)
Other items	10 (2)	184,800	184,800
		<u>280,241</u>	<u>1,245,595</u>
		<u>490,233</u>	<u>1,492,741</u>
CURRENT ASSETS			
Stocks	11	3,608,707	4,402,176
Debtors	12	2,241,282	9,694,931
Cash at bank and in hand		1,799,062	4,515,296
		<u>7,649,051</u>	<u>18,612,403</u>
CREDITORS: amounts falling due within one year	13	(2,559,040)	(5,517,033)
NET CURRENT ASSETS		<u>5,090,011</u>	<u>13,095,370</u>
NET ASSETS		<u>5,580,244</u>	<u>14,588,111</u>
CAPITAL AND RESERVES			
Called up share capital	14	520,116	1,379,254
Share premium	15	4,981,501	5,115,459
Revaluation reserve	15	-	(20,561)
Capital reserve	15	904,370	904,370
Capital redemption reserve	15	-	3,830,853
Profit and loss account	15	(825,747)	3,562,272
EQUITY SHAREHOLDERS' FUNDS	16	<u>5,580,240</u>	<u>14,771,647</u>
Equity minority interests		4	(183,536)
		<u>5,580,244</u>	<u>14,588,111</u>

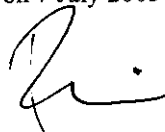
PORTFOLIO HOLDINGS LIMITED

COMPANY BALANCE SHEET

31 December 2004

	Note	2004 £	2003 £
FIXED ASSETS			
Tangible fixed assets	9	209,992	247,146
Investments	10	1,672,670	2,464,475
		<hr/>	<hr/>
		1,882,662	2,711,621
		<hr/>	<hr/>
CURRENT ASSETS			
Stocks	11	108,707	402,176
Debtors	12	2,291,050	9,550,805
Cash at bank and in hand		1,492,508	4,052,382
		<hr/>	<hr/>
		3,892,265	14,005,363
CREDITORS: amounts falling due within one year	13	(375,934)	(3,202,512)
		<hr/>	<hr/>
NET CURRENT ASSETS		3,516,331	10,802,851
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		5,398,993	13,514,472
		<hr/>	<hr/>
CAPITAL AND RESERVES			
Called up share capital			
Equity shares	14	520,116	1,379,254
Share premium account	15	4,981,501	5,115,459
Capital redemption reserve	15	-	3,830,853
Profit and loss account	15	(102,624)	3,188,906
		<hr/>	<hr/>
EQUITY SHAREHOLDERS' FUNDS	16	5,398,993	13,514,472
		<hr/>	<hr/>

The accounts were approved by the Board of Directors on 7 July 2005 and signed on its behalf by



P T Parkinson
Director

PORTFOLIO HOLDINGS LIMITED

CONSOLIDATED CASH FLOW STATEMENT for the year ended 31 December 2004

	Note	2004 £	2003 £
NET CASH INFLOW FROM OPERATING ACTIVITIES	17(1)	157,164	37,949,373
DIVIDENDS FROM JOINT VENTURES		1,337,477	6,686,222
RETURN ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		301,190	186,313
Interest paid		(440,707)	(1,310,571)
Dividends paid to minority interests		(13,409)	(346,450)
Equity repaid to minority interests		(410)	-
TAXATION			
UK corporation tax paid		(1,723,628)	(1,526,261)
CAPITAL EXPENDITURE			
Purchase of tangible fixed assets		(8,065)	(23,837)
ACQUISITIONS AND DISPOSALS	17(3)	6,695,393	(5,149,109)
NET CASH INFLOW BEFORE FINANCING		6,305,005	36,465,680
FINANCING	17(4)	(9,021,239)	(32,947,437)
(DECREASE)/INCREASE IN CASH	17(2)	(2,716,234)	3,518,243

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET (DEBT)/FUNDS for the year ended 31 December 2004

	2004 £	2003 £
(Decrease)/increase in cash in the year	(2,716,234)	3,518,243
Cash outflow from decrease in debt	-	31,413,473
Facility fees paid	5,000	31,000
Facility fees amortised	(9,892)	(303,267)
Movement in net (debt)/funds in the year	(2,721,126)	34,659,449
Net funds/(debt) as at 1 January	2,424,449	(32,235,000)
Net (debt)/funds as at 31 December	(296,677)	2,424,449

PORTFOLIO HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2004

1. ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have all been applied consistently throughout the current and preceding year.

Basis of accounting

The accounts have been prepared under the historical cost convention as modified by the revaluation of investment properties. The accounts have been prepared in accordance with applicable United Kingdom accounting standards.

Basis of consolidation

The consolidated profit and loss account and balance sheet incorporate the audited accounts of all subsidiaries and joint ventures to 31 December each year. Joint ventures are entities other than subsidiaries where the group has a substantial shareholding, held for the long term and is in a position to exert joint control. The consolidated balance sheet includes the group's share of the underlying net assets of joint ventures, plus any loans due to the group. The group's share of the profits less losses of all joint ventures is included in the group profit and loss account on the gross equity basis.

Recognition of profit

Property sales are recognised when contracts have been exchanged unconditionally prior to the year end.

Turnover

Turnover represents amounts receivable for properties and services or goods supplied by the group, exclusive of value added tax. Turnover also includes net rental income from properties, exclusive of value added tax.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, other than freehold and long term leasehold investment properties and freehold land, at rates calculated to write off the cost or valuations, less estimated residual value, of each asset evenly over its expected life as follows:

- Leasehold improvements where there are 20 or less years to run are written off over the remaining period of the lease; and
- Office equipment is written off over three to five years.

Stocks

Properties held as trading stock and work in progress are included in the balance sheet at the lower of cost and net realisable value. Costs include appropriate property purchase expenses.

Work in progress

Work in progress represents initial set up costs of identifiable projects and is stated at the lower of cost and net realisable value.

PORTFOLIO HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2004

1. ACCOUNTING POLICIES – (continued)

Taxation

Current tax, including UK corporation tax and foreign tax is provided at amounts expected to be paid, or recovered using the tax rates and laws enacted or substantially enacted by the balance sheet date.

Deferred tax is provided in full using the liability method for all timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Finance costs

Under the provisions of Financial Reporting Standard 4, "Capital Instruments", costs associated with the raising of relevant finance are capitalised and set off against the balance of finance raised. The costs are then written off against the controlled payback period of the finance.

Leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

2. SEGMENTAL INFORMATION

Turnover, all of which arises within the United Kingdom, is analysed as follows:

	Group 2004 £	Group 2003 £
Management fees	1,319,960	883,780
Rental income	10,925	661,661
Proceeds from property investment	-	75,000
Proceeds from property trading	725,000	42,235,000
Other income	16,664	23,028
	<hr/>	<hr/>
	2,072,549	43,878,469
	<hr/>	<hr/>

PORTFOLIO HOLDINGS LIMITED

NOTES TO THE ACCOUNTS Year ended 31 December 2004

3. OPERATING (LOSS)/PROFIT

Operating (loss)/profit is stated after charging:	Group 2004 £	Group 2003 £
Auditors' remuneration:		
Audit fee – company	27,835	32,000
Audit fee – group	40,530	65,207
Other non audit fees – group	74,770	116,715
Depreciation on owned assets	45,219	59,764
Rental under operating leases: Land and Buildings	155,320	155,240
	<hr/>	<hr/>

4. STAFF COSTS

Total staff costs are analysed as follows:	Group 2004 £	Group 2003 £
Wages and salaries	820,755	1,470,030
Social security costs	158,910	184,871
	<hr/>	<hr/>
	979,665	1,654,901
	<hr/>	<hr/>
Directors' emoluments included within staff costs are further analysed as follows:	Group 2004 £	Group 2003 £
Salaries	575,152	468,637
Bonuses	100,000	219,715
Directors' fees	-	7,500
	<hr/>	<hr/>
	675,152	695,852
	<hr/>	<hr/>

The emoluments of the highest paid director were £252,970 for the year ended 31 December 2004 (year ended 31 December 2003: £249,882). There were no pension contributions during the year.

A former director of the company was paid £207,688 in the year ended 31 December 2004 (2003: £nil).

The average number of employees of the group in the period, excluding non-executive directors, was ten (year ended 31 December 2003: thirteen), all of whom were employed with responsibility for the investment and trading property businesses.

PORTFOLIO HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2004

5. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

Interest receivable is analysed as follows:

	Group 2004 £	Group 2003 £
Interest receivable from joint ventures	9,718	-
Interest receivable from shareholders	161,007	93,082
Interest receivable from third parties	47,208	37,753
Bank interest receivable	94,100	55,478
	<hr/>	<hr/>
	312,033	186,313
	<hr/>	<hr/>

6. INTEREST PAYABLE AND SIMILAR CHARGES

Interest payable is analysed as follows:

	Group 2004 £	Group 2003 £
Interest on bank loans and overdrafts payable within five years	134,302	694,237
Other interest	49,146	348,205
Bank disposal and exit fees	-	301,100
Facility fees amortised	9,892	303,267
	<hr/>	<hr/>
	193,340	1,646,809
	<hr/>	<hr/>

7. TAXATION

Tax on (loss)/profit on ordinary activities is analysed as follows:

	Group 2004 £	Group 2003 £
United Kingdom corporation tax at 30% (2003: 30%) based on the (loss)/profit for the year	-	2,361,715
Adjustment with respect to prior years	(364,961)	627,405
	<hr/>	<hr/>
	(364,961)	2,989,120
Share of joint ventures' tax (credit)/charge	(15,449)	31,242
	<hr/>	<hr/>
	(380,410)	3,020,362
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Deferred tax - A deferred tax asset has not been recognised in respect of timing differences relating to accelerated capital allowances and losses carried forward as there is insufficient evidence that the asset will be recovered. The amount not recognised is £127,812 (2003: £997,860).

PORTFOLIO HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2004

7. TAXATION – (continued)

The tax assessed for the year differs from that resulting from applying the standard rate of corporation tax in the United Kingdom at 30%. The differences are explained below:

	2004 £	2003 £
(Loss)/profit on ordinary activities before tax	(358,219)	7,184,367
Tax at 30% thereon	(107,466)	2,155,310
Effect of:		
Expenses not deductible for tax purposes	27,852	(44,031)
Capital allowances in excess of depreciation	(5,031)	(4,120)
Utilisation of tax losses	4,079	-
Utilisation of tax losses brought forward	(3,052)	(350,405)
Tax losses not utilised in the period	44,852	-
Movement in short term timing differences	73,930	740
Chargeable gains	74,990	-
Group relief claimed at no charge	(4,191)	-
Share of partnership results	(107,462)	605,094
Share of taxable profits of partnership	(421)	-
Other	(58)	(152)
Share of joint ventures' results	1,978	(721)
Share of joint ventures' tax (credit)/charge	(15,449)	31,242
Adjustments in respect of prior years	(364,961)	627,405
	(380,410)	3,020,362

8. PROFIT FOR THE FINANCIAL YEAR

As permitted by section 230 of the Companies Act 1985, the profit and loss account of the company is not presented as part of these financial statements. The profit after taxation attributable to Portfolio Holdings Limited for the year and dealt with in the financial statements of the company was £900,760 (2003: £4,927,726 profit).

PORTFOLIO HOLDINGS LIMITED

NOTES TO THE ACCOUNTS Year ended 31 December 2004

9. TANGIBLE FIXED ASSETS

Tangible fixed assets of the group and the company are analysed as follows:

	Leasehold Improvements £	Office Equipment £	Total £
Cost			
Balance as at 1 January 2004	249,553	236,117	485,670
Additions	5,341	2,724	8,065
	<hr/>	<hr/>	<hr/>
Balance as at 31 December 2004	254,894	238,841	493,735
	<hr/>	<hr/>	<hr/>
Depreciation			
Balance as at 1 January 2004	45,155	193,369	238,524
Provided during the year	26,467	18,752	45,219
	<hr/>	<hr/>	<hr/>
Balance as at 31 December 2004	71,622	212,121	283,743
	<hr/>	<hr/>	<hr/>
Net book value			
As at 31 December 2004	183,272	26,720	209,992
	<hr/>	<hr/>	<hr/>
As at 31 December 2003	204,398	42,748	247,146
	<hr/>	<hr/>	<hr/>

10. INVESTMENTS

Investments are analysed as follows:

	2004 Group £	2003 Group £	2004 Company £	2003 Company £
Subsidiary undertakings	-	-	1,485,720	2,278,525
Joint ventures	280,241	1,245,595	186,950	185,950
	<hr/>	<hr/>	<hr/>	<hr/>
	280,241	1,245,595	1,672,670	2,464,475
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PORTFOLIO HOLDINGS LIMITED

NOTES TO THE ACCOUNTS Year ended 31 December 2004

10. INVESTMENTS – (continued)

(1) Investment in subsidiary undertakings

Investment in subsidiary undertakings is analysed as follows:

	Shares £	Loans £	Total £
Cost			
Balance as at 1 January 2004	70,309	4,147,378	4,217,687
New loans	-	1,133,219	1,133,219
Redemption of loans	-	(1,057,794)	(1,057,794)
Loans forgiven	-	(928,570)	(928,570)
New shares issued	189,196	-	189,196
Shares repaid on liquidation of subsidiaries	(4)	-	(4)
	<hr/>	<hr/>	<hr/>
Balance as at 31 December 2004	259,501	3,294,233	3,553,734
	<hr/>	<hr/>	<hr/>
Provisions			
Balance as at 1 January 2004	50,198	1,888,964	1,939,162
Provided during the year	189,199	868,223	1,057,422
Loans forgiven	-	(928,570)	(928,570)
	<hr/>	<hr/>	<hr/>
Balance as at 31 December 2004	239,397	1,828,617	2,068,014
	<hr/>	<hr/>	<hr/>
Net book value			
Balance as at 31 December 2004	20,104	1,465,616	1,485,720
	<hr/>	<hr/>	<hr/>
Balance as at 31 December 2003	20,111	2,258,414	2,278,525
	<hr/>	<hr/>	<hr/>

The company's subsidiaries and their activities are as follows:

Subsidiary	Principal activity	Equity share
Portfolio Parks Limited	Holding 85% of Foodparks UK Limited	100%
Foodparks UK Limited	Property development	85%
Portfolio Land III Limited	Property development and trading	100%
Portfolio Land V Limited	In liquidation	100%
Staffordshire Securities Limited	Property trading	100%
Portfolio Ventures (II) Limited	In liquidation	100%
Portfolio Ventures (III) Limited	Holding equity in property investment partnership	100%
Portfolio Ventures (IV) Limited	In liquidation	100%
Portfolio Ventures (V) Limited	Holding equity in property investment partnership	100%
Portfolio Ventures (VI) Limited	Holding equity in property investment partnership	100%
Portfolio Ventures (VII) Limited	Holding equity in property investment partnership	100%
Portfolio Ventures (VIII) Limited	Holding equity in property trading partnership	100%
Portfolio Ventures (IX) Limited	Holding equity in property trading partnership	100%
Greenport Estates II Limited	Property investment, development and trading	100%

All of the subsidiary undertakings are incorporated in Great Britain.

PORTFOLIO HOLDINGS LIMITED

NOTES TO THE ACCOUNTS Year ended 31 December 2004

10. INVESTMENTS – (continued)

(2) Investment in Joint Ventures

Investment in joint ventures is analysed as follows:

	2004 Group £	2004 Company £
Balance as at 1 January 2004	1,245,595	185,950
Additions	4,707	1,000
Share of pre-tax profits for the year	352,067	-
Dividend/profit share received	(1,337,477)	-
Redemption of equity and loans	(100)	-
Group share of taxation	15,449	-
	<hr/>	<hr/>
Balance as at 31 December 2004	280,241	186,950
	<hr/>	<hr/>

Investment in joint ventures is analysed as follows:

	2003 Group £	2003 Company £
Balance as at 1 January 2003	6,539,785	234,917
Share of pre-tax profits for the year	3,484,034	-
Share of revaluation surplus	(5,611)	-
Dividend/profit share received	(6,686,222)	-
Redemption of equity and loans	(2,050,891)	(43,967)
Provisions	(4,258)	(5,000)
Group share of taxation	(31,242)	-
	<hr/>	<hr/>
Balance as at 31 December 2003	1,245,595	185,950
	<hr/>	<hr/>

PORTFOLIO HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2004

10. INVESTMENTS – (continued)

(2) Investment in Joint Ventures – (continued)

Investment in joint ventures is further analysed as follows:

	2004 Group £	2003 Group £	2004 Company £	2003 Company £
Unlisted shares at cost	2,259	1,259	2,150	1,150
Partnership equity	29,402	25,795	-	-
Share of post acquisition profits	63,780	1,054,302	-	-
Share of post acquisition revaluation deficits	-	(20,561)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Gross assets less gross liabilities	95,441	1,060,795	2,150	1,150
Loans to joint ventures	184,200	184,200	184,200	184,200
Other costs	600	600	600	600
	<hr/>	<hr/>	<hr/>	<hr/>
Other items	184,800	184,800	184,800	184,800
	<hr/>	<hr/>	<hr/>	<hr/>
	280,241	1,245,595	186,950	185,950
	<hr/>	<hr/>	<hr/>	<hr/>

Joint ventures are as follows:

Name	Country of Incorporation/ Formation	Proportion held	Nature of Business
The APP LP	Great Britain	25%	In liquidation
APP GP L.L.C.	Delaware, USA	25%	In liquidation
The Exmoor Investment LP	Delaware, USA	* 18.75%	Property investment
APP GP (II) L.L.C.	Delaware, USA	25%	General partner in The Exmoor Investment LP
The Exmoor Trading LP	Delaware, USA	* 18.75%	In liquidation
APP GP (III) L.L.C.	Delaware, USA	25%	In liquidation
The Dartmoor LP	Great Britain	** 25%	Property investment
Piccadilly Plaza LP	Great Britain	***25%	Property investment
Piccadilly Plaza Limited	Great Britain	50%	General Partner in Piccadilly Plaza LP
Piccadilly Plaza Holding Company Limited	Great Britain	50%	Trustee structure for Piccadilly Plaza LP
Licet Holdings Limited	Great Britain	50%	Property development and trading
KP (Scotland) Limited	Great Britain	50%	General Partner in KP (North) LP
KP (South) Limited	Great Britain	50%	General Partner in KP LP

* The partnership agreements for these entities state that the group is entitled to an 18.75% share of adjusted profit from these entities. However, the structure of the partnership agreements means that the group's share of profits has now reached 26.2481% as certain IRR targets have been achieved.

** The partnership agreement for this entity states that the group is entitled to a 25% share of adjusted profit from this entity. However, the structure of the partnership agreement means that the group's share of profits has now reached 65% as certain IRR targets have now been achieved.

PORTFOLIO HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2004

10. INVESTMENTS – (continued)

(2) Investment in Joint Ventures – (continued)

*** The partnership agreement for this entity states that the group is entitled to a 25% share of adjusted profit from this entity. However, the structure of the partnership agreement means that the group's share of profits has now reached 45% as certain IRR targets have now been achieved.

The underlying assets and liabilities of the joint ventures attributable to the group were:

	2004 £	2003 £
Fixed assets	27	498,791
Property stocks	203,427	153,317
Debtors	86,127	432,129
Cash at bank	218,350	1,302,500
	<hr/>	<hr/>
Gross assets	507,931	2,386,737
	<hr/>	<hr/>
Creditors due in less than one year	(412,490)	(1,325,942)
	<hr/>	<hr/>
Gross assets less gross liabilities	95,441	1,060,795
	<hr/>	<hr/>

The group shares of the results and balance sheets of significant joint ventures are as follows:

	The Exmoor Investment LP		Piccadilly Plaza LP & Piccadilly Plaza Limited	
	2004 £	2003 £	2004 £	2003 £
Turnover	1,004,750	55,380	32,125	35,805,916
	<hr/>	<hr/>	<hr/>	<hr/>
Profit/(loss) before tax	396,898	39,217	(33,314)	3,455,359
Taxation	-	-	16,260	(31,757)
	<hr/>	<hr/>	<hr/>	<hr/>
Profit/(loss) after tax	396,898	39,217	(17,054)	3,423,602
	<hr/>	<hr/>	<hr/>	<hr/>
Investment properties	-	498,714	-	-
Other current assets	62,689	266,357	147,518	1,200,573
Creditors due in less than one year	(33,315)	(481,263)	(115,919)	(581,669)
	<hr/>	<hr/>	<hr/>	<hr/>
Net assets	29,374	283,808	31,599	618,904
	<hr/>	<hr/>	<hr/>	<hr/>

PORTFOLIO HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2004

11. STOCKS

	2004 Group £	2003 Group £	2004 Company £	2003 Company £
Property held as trading stock is analysed as follows:				
Property held as trading stock	3,500,000	4,300,000	-	300,000
Work in progress	108,707	102,176	108,707	102,176
	<u>3,608,707</u>	<u>4,402,176</u>	<u>108,707</u>	<u>402,176</u>

Work in progress relates to an option to develop land at Swindon held by Portfolio Holdings Limited.

12. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

Debtors are analysed as follows:

	2004 Group £	2003 Group £	2004 Company £	2003 Company £
Trade debtors	436,496	156,748	436,496	156,748
Other debtors	178,224	740,226	287,323	643,251
Loan to shareholders (see Note 18.)	500,000	7,200,000	500,000	7,200,000
Corporation tax recoverable	496,565	582,277	448,959	543,098
Prepayments and accrued income	629,997	1,015,680	618,272	1,007,708
	<u>2,241,282</u>	<u>9,694,931</u>	<u>2,291,050</u>	<u>9,550,805</u>

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

Creditors due within one year are analysed as follows:

	2004 Group £	2003 Group £	2004 Company £	2003 Company £
Bank loans and overdrafts	2,095,739	2,090,847	-	-
Trade creditors	111,336	194,641	44,808	63,385
Amounts owed to subsidiaries	-	-	20,002	2,063,292
Amounts owed to joint ventures	45	4,314	45	-
Corporation tax	5,902	2,180,203	-	382,488
Other creditors	74,845	121,627	74,845	80,195
Accruals and deferred income	271,173	925,401	236,234	613,152
	<u>2,559,040</u>	<u>5,517,033</u>	<u>375,934</u>	<u>3,202,512</u>

PORTFOLIO HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2004

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR – (continued)

On 9 April 1998 the company's wholly owned subsidiary, Portfolio Land III Limited, entered into a £2,100,000 loan for a term of one year. The facility had been subsequently extended to 10 July 2005 but was repaid in full on 6 July 2005. The loan was secured by means of a fixed charge over the trading property held by Portfolio Land III Limited and by a floating charge over the assets of that company. Interest was payable on this loan at LIBOR plus 2%.

14. SHARE CAPITAL – GROUP AND COMPANY

	Authorised		Allotted, called up and fully paid	
	2004 Number	2003 Number	2004 £	2003 £
Equity shares:				
Ordinary £1 shares	4,722,836	4,722,836	520,116	1,379,254

On 13 February 2004, 286,330 ordinary shares of the company were repurchased for a total consideration of £3,005,414. On 13 July 2004, a further 572,808 ordinary shares of the company were repurchased for a total consideration of £6,010,825.

15. RESERVES

The group's profit and loss account is analysed as follows:

	Profit and Loss Account £
Balance as at 1 January 2004	3,562,272
Retained loss for the year	(175,168)
Share buy back out of profits	(4,192,290)
Realised revaluation deficit	(20,561)
Balance as at 31 December 2004	(825,747)

The group's other reserves are analysed as follows:

	Share Premium Account £	Revaluation Reserve £	Capital Reserve £	Capital Redemption Reserve £
Balance as at 1 January 2004	5,115,459	(20,561)	904,370	3,830,853
Realised revaluation deficit	-	20,561	-	-
Reserve created on buyback of shares	-	-	-	859,138
Capital reduction out of reserves	(133,958)	-	-	(4,689,991)
Balance as at 31 December 2004	4,981,501	-	904,370	-

PORTFOLIO HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2004

15. RESERVES – (continued)

The company's reserves are analysed as follows:	Share Premium Reserve £	Capital Redemption Reserve £	Profit and Loss Account £
Balance as at 1 January 2004	5,115,459	3,830,853	3,188,906
Retained profit for the year	-	-	900,760
Share buy back out of profits	-	859,138	(4,192,290)
Capital reduction out of reserves	(133,958)	(4,689,991)	-
	<hr/>	<hr/>	<hr/>
Balance as at 31 December 2004	4,981,501	-	(102,624)
	<hr/>	<hr/>	<hr/>

16. RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

	2004 Group £	2003 Group £
(Loss)/profit for the financial year	(175,168)	3,791,728
Other recognised gains and losses relating to the year (net)	-	(5,611)
Repurchase of ordinary shares out of profits	(4,192,290)	(1,502,965)
Repurchase of ordinary shares out of reserves	(4,823,949)	-
	<hr/>	<hr/>
Net (decrease)/increase in equity shareholders' funds	(9,191,407)	2,283,152
Equity shareholders' funds as at 1 January	14,771,647	12,488,495
	<hr/>	<hr/>
Equity shareholders' funds as at 31 December	5,580,240	14,771,647
	<hr/>	<hr/>
	2004 Company £	2003 Company £
Profit for the financial year	900,760	4,927,726
Repurchase of ordinary shares out of profits	(4,192,290)	(1,502,965)
Repurchase of ordinary shares out of reserves	(4,823,949)	-
	<hr/>	<hr/>
Net (decrease)/increase in equity shareholders' funds	(8,115,479)	3,424,761
Equity shareholders' funds as at 1 January	13,514,472	10,089,711
	<hr/>	<hr/>
Equity shareholders' funds as at 31 December	5,398,993	13,514,472
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PORTFOLIO HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2004

17. CASH FLOW STATEMENT

(1) Reconciliation of Operating (Loss)/Profit to Net Cash Inflow from Operating Activities

	2004 £	2003 £
Operating (loss)/profit	(828,979)	5,160,829
Provision against loan to joint venture	-	4,258
Depreciation	45,219	59,764
Decrease in trading stock	793,469	33,806,254
Decrease in debtors	678,780	804,959
Decrease in creditors	(531,325)	(1,886,691)
	<hr/>	<hr/>
	157,164	37,949,373
	<hr/>	<hr/>

(2) Analysis of Changes in Net (Debt)/Funds

	Cash £	Bank loan less than one year £	Total net funds/ (debt) £
Balance as at 1 January 2004	4,515,296	(2,090,847)	2,424,449
Cash inflow during the year	(2,716,234)	-	(2,716,234)
Facility fees paid	-	5,000	5,000
Facility fees written off	-	(9,892)	(9,892)
	<hr/>	<hr/>	<hr/>
Balance as at 31 December 2004	1,799,062	(2,095,739)	(296,677)
	<hr/>	<hr/>	<hr/>

(3) Analysis of Acquisitions and Disposals

	2004 £	2003 £
Joint venture shares/equity acquired	(4,707)	-
Receipts from repayment of joint venture equity	100	18,525
Receipts from repayment of joint venture loans	-	2,032,366
Shareholder loan repaid	7,200,000	-
Shareholder loan provided	(500,000)	(7,200,000)
	<hr/>	<hr/>
	6,695,393	(5,149,109)
	<hr/>	<hr/>

PORTFOLIO HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2004

17. CASH FLOW STATEMENT – (Continued)

(4) Analysis of Financing

	2004 £	2003 £
Repurchase of share capital	(9,016,239)	(1,502,965)
Increase in bank loans	-	721,470
Repayment of bank loans	-	(29,501,818)
Repayment of shareholder loans	-	(2,250,000)
Repayment of loan to minority shareholder	-	(383,124)
Facility fees paid	(5,000)	(31,000)
	<hr/>	<hr/>
	(9,021,239)	(32,947,437)
	<hr/>	<hr/>

18. RELATED PARTY TRANSACTIONS

The company provides management services for which it charges fees to certain of its joint ventures including The Exmoor Investment LP, The Exmoor Trading LP, The Dartmoor LP, Piccadilly Plaza LP and Licet Developments Limited. Management fees charged to joint ventures totalled £4,818 (2003: £134,881). No management fees were outstanding as at 31 December 2004 or 31 December 2003.

The company has also provides management services for which it charges fees to certain subsidiary undertakings including KP LP and KP (North) LP in which it has an 80% interest. No management fees were charged to these entities during 2004 (2003: £3,771). No management fees were outstanding as at 31 December 2004 or 31 December 2003.

The company has also recharged office expenditure to Apollo Real Estate Advisors (UK) Limited. Apollo Real Estate Advisors (UK) Limited has common directors with Portfolio Holdings Limited but does not hold any direct ownership in the company. Office expenditure recharged to Apollo Real Estate Advisors (UK) Limited totalled £27,575 (2003: £nil) and £21,725 (2003: £nil) was outstanding as at 31 December 2004.

The company has taken advantage of the exemption allowing transactions with subsidiary undertakings in which it has an interest of 90% or more not to be disclosed.

The company has provided loans to its major shareholders, AP Pelham Partners VII LP and AP Pelham Partners XIII L.L.C., which own 37.77% and 55.19% of the company's share capital respectively. Interest is receivable on the loans to shareholders at the greater of 5% p.a. or LIBOR plus 0.75%. The loans are repayable on demand by the company at which point the interest receivable is also due.

As at 31 December 2004 the loan balance outstanding from AP Pelham Partners VII LP was £203,152 (2003: £2,925,387). Interest receivable on the loan during the year totalled £65,418 (2003: £37,820) and £97,024 (2003: £37,820) was outstanding as at 31 December 2004.

As at 31 December 2004 the loan balance outstanding from AP Pelham Partners XIII L.L.C. was £296,848 (2003: £4,274,613). Interest receivable on the loan during the year totalled £95,589 (2003: £55,262) and £141,773 (2003: £55,262) was outstanding as at 31 December 2004.

PORTFOLIO HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2004

19. MANAGEMENT INCENTIVE SCHEME

The Group operates a management incentive scheme which is designed to provide motivation for directors and staff in the furtherance of the Group's objectives. A total bonus pool is calculated each year dependent on the growth in the pro-forma net assets of the Group. One third of this amount is paid out as cash bonuses with the remaining two thirds being awarded as shares in the Company. The chief executive is responsible for putting forward a proposed allocation of the bonus amount and this must be approved by the board of directors. Shares allocated are held by Mourant & Co. Trustees Limited as trustees of the Portfolio Holdings Employee Share Ownership Trust. Mourant & Co. Trustees Limited held 15,895 shares (2003: 42,151 shares) in trust at 31 December 2004.

The amount of the management incentive scheme allocation is charged to the profit and loss account in the year to which it relates. The charge for the year ended 31 December 2004 was £nil (2003: £nil).

20. CONTINGENT LIABILITIES

The company has provided an all monies guarantee to Bank of Scotland in respect of a £2,100,000 facility provided to its wholly owned subsidiary, Portfolio Land III Limited.

The company has provided a guarantee of rent payable by Portfolio Ventures (Reading) II LP to Eron Investments Limited. The amount of the guarantee is limited to £37,500.

The directors do not anticipate that any losses will arise from these contingent liabilities.

21. POST BALANCE SHEET EVENTS

On 5 July 2005 the company's subsidiary, Portfolio Land III Limited, disposed of the Old Athanaeum property in Glasgow for a consideration of £2,800,000.

22. FINANCIAL COMMITMENTS

Annual commitments under non-cancellable operating leases are as follows:

	2004 Group Land and Buildings £	2003 Group Land and Buildings £	2004 Company Land and Buildings £	2003 Company Land and Buildings £
Expiry date - after 5 years	186,360	186,360	186,360	186,360
	<u>186,360</u>	<u>186,360</u>	<u>186,360</u>	<u>186,360</u>

Leases of land and buildings are typically subject to rent reviews at specified intervals and provide for the lessee to pay all insurance, maintenance and repair costs.

23. ULTIMATE CONTROLLING PARTY

A 37.77% interest in the company is owned by AP Pelham Partners VII LP and a further 55.19% interest is held by AP Pelham Partners XIII L.L.C.