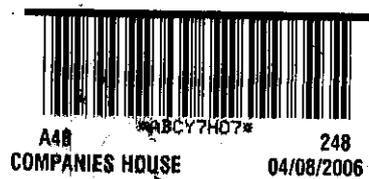


**Company Registration Number: 2801424**

**PORTFOLIO HOLDINGS LIMITED**

**Report and Financial Statements**

**31 December 2005**



# **PORTFOLIO HOLDINGS LIMITED**

## **REPORT AND FINANCIAL STATEMENTS 2005**

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# **PORTFOLIO HOLDINGS LIMITED**

## **REPORT AND FINANCIAL STATEMENTS 2005**

### **OFFICERS AND PROFESSIONAL ADVISERS**

#### **DIRECTORS**

J Z Duzniak  
P T Parkinson (Chief Executive)(resigned 12<sup>th</sup> May 2006)  
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 9AS

#### **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 2005.

### **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.

### **FINANCIAL RISK MANAGEMENT**

The company is not exposed to any financial risks and does not use any financial instruments in this regard.

### **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 £973,585 (2004: £358,219).

The directors do not recommend the payment of a dividend for the year (2004: £nil).

The retained loss of the group for the year is £987,326 (2004: £175,168) which has been transferred from reserves giving a retained loss carried forward of £1,813,073 (2004: £825,747).

# PORTFOLIO HOLDINGS LIMITED

## DIRECTORS' REPORT – (continued)

### DIRECTORS AND THEIR INTERESTS

The directors holding office during the year and their interests in the company were as follows:

	Ordinary Shares as at 31 December 2005	Management Incentive Scheme Shares as at 31 December 2005	Ordinary Shares as at 31 December 2004	Management Incentive Scheme Shares as at 31 December 2004
J M Robertson	874	412	-	3,792
C J Hoddell	2,248	412	20,705	3,792
J Z Duzniak	-	79	-	725
P T Parkinson	-	139	-	1,284
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, later extended to 28 January 2006. As at 1 January 2005 J M Robertson held options to subscribe for 8,055 ordinary shares of the company.

On 11 November 2005 J M Robertson agreed to waive his options over 7,181 ordinary shares for a consideration of £37,554.20.

On 30 December 2005 J M Robertson exercised his remaining options and subscribed for 874 shares of the company at a price of £1.03 per share. The total consideration paid for the shares was £900.22.

J Z Duzniak was appointed as a director and secretary of the company on 27 April 2005.

P T Parkinson resigned as a director of the company on 12 May 2006.

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 9AS

14 July 2006

## 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 2005 which comprise the consolidated profit and loss account, 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 funds/(debt) and the related notes 1 to 21. 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 United Kingdom Generally Accepted Accounting Practice. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with *the relevant framework 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 is not disclosed.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

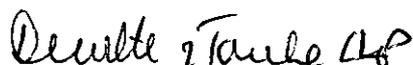
### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. 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 company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company and the group's affairs as at 31 December 2005 and of loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**Deloitte & Touche LLP**  
Chartered Accountants and Registered Auditors  
London

1 August 2006

# PORTFOLIO HOLDINGS LIMITED

## CONSOLIDATED PROFIT AND LOSS ACCOUNT Year ended 31 December 2005

	Note	2005 £	2004 £
Turnover of group and share of joint ventures		4,062,856	3,109,424
Less share of joint ventures' turnover		-	(1,036,875)
		<hr/>	<hr/>
Turnover	1,2	4,062,856	2,072,549
Cost of sales		(3,576,267)	(1,026,453)
		<hr/>	<hr/>
<b>GROSS PROFIT</b>		486,589	1,046,096
Administration expenses		(1,562,872)	(1,875,075)
		<hr/>	<hr/>
<b>GROUP OPERATING LOSS</b>		(1,076,283)	(828,979)
Share of results of joint ventures		(12,663)	(5,918)
		<hr/>	<hr/>
<b>TOTAL OPERATING LOSS: GROUP AND SHARE OF JOINT VENTURES</b>	3	(1,088,946)	(834,897)
Profit on disposal of fixed assets – joint ventures		12,994	377,971
Dividends received		269	-
Interest receivable and similar income – group	5	188,954	312,033
Interest receivable and similar income – joint ventures		5,779	24,850
Interest payable and similar charges - group	6	(78,855)	(193,340)
Interest payable and similar charges – joint ventures		(13,780)	(44,836)
		<hr/>	<hr/>
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		(973,585)	(358,219)
Taxation on loss on ordinary activities	7	(13,745)	380,410
		<hr/>	<hr/>
<b>(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>		(987,330)	22,191
Equity minority interests		4	(197,359)
		<hr/>	<hr/>
<b>RETAINED LOSS FOR THE FINANCIAL YEAR</b>	15	(987,326)	(175,168)
		<hr/> <hr/>	<hr/> <hr/>

The turnover and operating loss derive wholly from continuing operations.

There are no recognised gains or losses in either the current or previous financial years other than those disclosed in the profit and loss account. Accordingly, no statement of total recognised gains and losses is required.

# PORTFOLIO HOLDINGS LIMITED

## NOTE OF CONSOLIDATED HISTORICAL COST PROFITS AND LOSSES for the year ended 31 December 2005

	2005 £	2004 £
Loss on ordinary activities before taxation	(973,585)	(358,219)
Realised deficit of prior years	-	(20,561)
	<hr/>	<hr/>
Historical cost loss on ordinary activities before taxation	(973,585)	(378,780)
Taxation, minority interests and dividends	(13,741)	183,051
	<hr/>	<hr/>
Historical cost loss after taxation, minority interests and dividends	<u>(987,326)</u>	<u>(195,729)</u>

# PORTFOLIO HOLDINGS LIMITED

## CONSOLIDATED BALANCE SHEET

31 December 2005

	Note	2005 £	2004 £
<b>FIXED ASSETS</b>			
Tangible fixed assets	9	168,706	209,992
Investment in joint ventures:			
Share of gross assets	10 (2)	360,004	507,931
Share of gross liabilities	10 (2)	(316,248)	(412,490)
Other items	10 (2)	261,297	184,800
		<u>305,053</u>	<u>280,241</u>
		<u>473,759</u>	<u>490,233</u>
<b>CURRENT ASSETS</b>			
Stocks	11	122,090	3,608,707
Debtors	12	988,695	2,241,282
Cash at bank and in hand		1,653,076	1,799,062
		<u>2,763,861</u>	<u>7,649,051</u>
<b>CREDITORS: amounts falling due within one year</b>	13	<u>(1,140,239)</u>	<u>(2,559,040)</u>
<b>NET CURRENT ASSETS</b>		<u>1,623,622</u>	<u>5,090,011</u>
<b>NET ASSETS</b>		<u>2,097,381</u>	<u>5,580,244</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	14	58,214	520,116
Share premium	15	2,947,870	4,981,501
Capital reserve	15	904,370	904,370
Profit and loss account	15	(1,813,073)	(825,747)
<b>EQUITY SHAREHOLDERS' FUNDS</b>	16	<u>2,097,381</u>	<u>5,580,240</u>
Equity minority interests		-	4
		<u>2,097,381</u>	<u>5,580,244</u>

# PORTFOLIO HOLDINGS LIMITED

## COMPANY BALANCE SHEET

31 December 2005

	Note	2005 £	2004 £
<b>FIXED ASSETS</b>			
Tangible fixed assets	9	168,706	209,992
Investments	10	338,252	1,672,670
		<hr/>	<hr/>
		506,958	1,882,662
<b>CURRENT ASSETS</b>			
Stocks	11	122,090	108,707
Debtors	12	984,458	2,291,050
Cash at bank and in hand		1,528,079	1,492,508
		<hr/>	<hr/>
		2,634,627	3,892,265
<b>CREDITORS: amounts falling due within one year</b>	13	(1,102,567)	(375,934)
		<hr/>	<hr/>
<b>NET CURRENT ASSETS</b>		1,532,060	3,516,331
		<hr/>	<hr/>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		2,039,018	5,398,993
		<hr/> <hr/>	<hr/> <hr/>
<b>CAPITAL AND RESERVES</b>			
Called up share capital			
Equity shares	14	58,214	520,116
Share premium account	15	2,947,870	4,981,501
Profit and loss account	15	(967,066)	(102,624)
		<hr/>	<hr/>
<b>EQUITY SHAREHOLDERS' FUNDS</b>	16	2,039,018	5,398,993
		<hr/> <hr/>	<hr/> <hr/>

The accounts were approved by the Board of Directors  
On 14 July 2006 and signed on its behalf by



J Z Duzniak  
Director

# PORTFOLIO HOLDINGS LIMITED

## CONSOLIDATED CASH FLOW STATEMENT for the year ended 31 December 2005

	Note	2005 £	2004 £
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	17(1)	3,215,424	157,164
<b>DIVIDENDS RECEIVED</b>			
From joint ventures		5,548	1,337,477
Other dividends received		269	-
<b>RETURN ON INVESTMENTS AND SERVICING OF FINANCE</b>			
Interest received		420,560	301,190
Interest paid		(74,594)	(440,707)
Dividends paid to minority interests		-	(13,409)
Equity repaid to minority interests		-	(410)
<b>TAXATION</b>			
UK corporation tax received/(paid)		421,533	(1,723,628)
<b>CAPITAL EXPENDITURE</b>			
Purchase of tangible fixed assets		-	(8,065)
<b>ACQUISITIONS AND DISPOSALS</b>	17(3)	460,807	6,695,393
<b>NET CASH INFLOW BEFORE FINANCING</b>		4,449,547	6,305,005
<b>FINANCING</b>	17(4)	(4,595,533)	(9,021,239)
<b>DECREASE IN CASH</b>	17(2)	(145,986)	(2,716,234)

## RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS/(DEBT)

for the year ended 31 December 2005

		2005 £	2004 £
Decrease in cash in the year		(145,986)	(2,716,234)
Cash inflow from decrease in debt		2,100,000	-
Facility fees paid		-	5,000
Facility fees amortised		(4,261)	(9,892)
Movement in net funds/(debt) in the year		1,949,753	(2,721,126)
Net (debt)/funds as at 1 January		(296,677)	2,424,449
Net funds/(debt) as at 31 December	17(2)	1,653,076	(296,677)

# PORTFOLIO HOLDINGS LIMITED

## NOTES TO THE ACCOUNTS

Year ended 31 December 2005

### 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 2005

### 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:

	<b>Group 2005 £</b>	<b>Group 2004 £</b>
Management fees	1,216,399	1,319,960
Rental income	-	10,925
Proceeds from property trading	2,800,000	725,000
Other income	46,457	16,664
	<hr/>	<hr/>
	4,062,856	2,072,549
	<hr/> <hr/>	<hr/> <hr/>

# PORTFOLIO HOLDINGS LIMITED

## NOTES TO THE ACCOUNTS

Year ended 31 December 2005

### 3. OPERATING LOSS

Operating loss is stated after charging:	Group 2005 £	Group 2004 £
Auditors' remuneration:		
Audit fee – company	28,960	27,835
Audit fee – group	36,372	40,530
Other non audit fees – group	106,854	74,770
Depreciation on owned assets	41,286	45,219
Rental under operating leases: Land and Buildings	155,280	155,320

### 4. STAFF COSTS

Total staff costs are analysed as follows:	Group 2005 £	Group 2004 £
Wages and salaries	948,888	820,755
Social security costs	132,757	158,910

1,081,645                      979,665

Directors' emoluments included within staff costs are further analysed as follows:	Group 2005 £	Group 2004 £
Salaries	72,000	575,152
Bonuses (including management incentive scheme)	71,082	100,000

143,082                      675,152

The emoluments of the highest paid director were £143,082 for the year ended 31 December 2005 (year ended 31 December 2004: £252,970). There were no pension contributions during the year.

Former directors of the company were paid £302,534 in the year ended 31 December 2005 (2004: £207,688).

The average number of employees of the group in the period, excluding non-executive directors, was seven (year ended 31 December 2004: ten), 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 2005

### 5. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

Interest receivable is analysed as follows:	Group 2005 £	Group 2004 £
Interest receivable from joint ventures	13,780	9,718
Interest receivable from shareholders	36,005	161,007
Interest receivable from third parties	43,422	47,208
Bank interest receivable	95,747	94,100
	<hr/>	<hr/>
	188,954	312,033
	<hr/> <hr/>	<hr/> <hr/>

### 6. INTEREST PAYABLE AND SIMILAR CHARGES

Interest payable is analysed as follows:	Group 2005 £	Group 2004 £
Interest on bank loans and overdrafts payable within five years	72,675	134,302
Other interest	1,919	49,146
Facility fees amortised	4,261	9,892
	<hr/>	<hr/>
	78,855	193,340
	<hr/> <hr/>	<hr/> <hr/>

### 7. TAXATION

Tax on loss on ordinary activities is analysed as follows:	Group 2005 £	Group 2004 £
United Kingdom corporation tax at 30% (2004: 30%)	-	-
Adjustment with respect to prior years	13,601	(364,961)
	<hr/>	<hr/>
	13,601	(364,961)
Share of joint ventures' tax charge/(credit)	144	(15,449)
	<hr/>	<hr/>
	13,745	(380,410)
	<hr/> <hr/>	<hr/> <hr/>

**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 £55,453 (2004: £127,812).

# PORTFOLIO HOLDINGS LIMITED

## NOTES TO THE ACCOUNTS

Year ended 31 December 2005

### 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% (2004: 30%). The differences are explained below:

	2005 £	2004 £
Loss on ordinary activities before tax	(973,585)	(358,219)
Tax at 30% (2004: 30%) thereon	(292,076)	(107,466)
Effect of:		
Expenses not deductible for tax purposes	230,877	27,852
Depreciation in excess of capital allowances	15,181	(5,031)
Utilisation of tax losses	-	4,079
Utilisation of tax losses brought forward	-	(3,052)
Tax losses not utilised in the period	36,156	44,852
Movement in short term timing differences	-	73,930
Chargeable gains	-	74,990
Group relief claimed at no charge	-	(4,191)
Share of partnership results	9,057	(107,462)
Share of taxable profits of partnership	4,326	(421)
Other	-	(58)
Share of joint ventures' results	(3,521)	1,978
Share of joint ventures' tax (credit)/charge	144	(15,449)
Adjustments in respect of prior years	13,601	(364,961)
	<u>13,745</u>	<u>(380,410)</u>

### 8. (LOSS)/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 loss after taxation attributable to Portfolio Holdings Limited for the year and dealt with in the financial statements of the company was £864,442 (2004: £900,760 profit).

# PORTFOLIO HOLDINGS LIMITED

## NOTES TO THE ACCOUNTS Year ended 31 December 2005

### 9. TANGIBLE FIXED ASSETS

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

	Leasehold Improvements £	Office Equipment £	Total £
<b>Cost</b>			
Balance as at 1 January 2005 and 31 December 2005	254,894	238,841	493,735
<b>Depreciation</b>			
Balance as at 1 January 2005	71,622	212,121	283,743
Provided during the year	25,491	15,795	41,286
Balance as at 31 December 2005	97,113	227,916	325,029
<b>Net book value</b>			
As at 31 December 2005	157,781	10,925	168,706
As at 31 December 2004	183,272	26,720	209,992

### 10. INVESTMENTS

Investments are analysed as follows:

	2005 Group £	2004 Group £	2005 Company £	2004 Company £
Subsidiary undertakings	-	-	75,955	1,485,720
Joint ventures	305,053	280,241	262,297	186,950
	305,053	280,241	338,252	1,672,670

# PORTFOLIO HOLDINGS LIMITED

## NOTES TO THE ACCOUNTS

Year ended 31 December 2005

### 10. INVESTMENTS – (continued)

#### (1) Investment in subsidiary undertakings

The company's investments in subsidiary undertakings is analysed as follows:

	Shares £	Loans £	Total £
<b>Cost</b>			
Balance as at 1 January 2005	259,501	3,294,233	3,553,734
New loans	-	231,086	231,086
Redemption of loans	-	(638,268)	(638,268)
Loans forgiven	-	(2,812,532)	(2,812,532)
New shares issued	4,858	-	4,858
Shares purchased	5	-	5
Shares transferred from associate status	100	-	100
Shares repaid on liquidation of subsidiaries	(37,396)	-	(37,396)
	<hr/>	<hr/>	<hr/>
Balance as at 31 December 2005	227,068	74,519	301,587
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Provisions</b>			
Balance as at 1 January 2005	239,397	1,828,617	2,068,014
Provided during the year	3,338	1,004,207	1,007,545
Provisions released on liquidation of subsidiaries	(37,395)	-	(37,395)
Loans forgiven	-	(2,812,532)	(2,812,532)
	<hr/>	<hr/>	<hr/>
Balance as at 31 December 2005	205,340	20,292	225,632
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Net book value</b>			
Balance as at 31 December 2005	21,728	54,227	75,955
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Balance as at 31 December 2004	20,104	1,465,616	1,485,720
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

Subsidiary	Principal activity	Equity share
Portfolio Parks Limited	In liquidation	100%
Foodparks UK Limited	Dormant	85%
Portfolio Land III Limited	Property development and trading	100%
Staffordshire Securities Limited	In liquidation	100%
Portfolio Ventures (III) Limited	Holding equity in property investment partnership	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	In liquidation	100%
Portfolio Ventures (IX) Limited	In liquidation	100%

# PORTFOLIO HOLDINGS LIMITED

## NOTES TO THE ACCOUNTS

Year ended 31 December 2005

### 10. INVESTMENTS – (continued)

#### (1) Investment in subsidiary undertakings – (continued)

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

Subsidiary	Principal activity	Equity share
Greenport Estates II Limited	In liquidation	100%
Piccadilly Plaza LP	Property investment	100%
Piccadilly Plaza Limited	General Partner of Piccadilly Plaza LP	100%
Piccadilly Plaza Holding Company Limited	In liquidation	100%
Portfolio Holdings (Trading) Limited	Holding equity in property trading partnership	100%
Portfolio Holdings (Investments) Limited	Holding equity in property investment partnership	100%

All of the subsidiary undertakings are incorporated in Great Britain.

#### (2) Investment in Joint Ventures

	2005 Group £	2005 Company £
Investment in joint ventures is analysed as follows:		
Balance as at 1 January 2005	280,241	186,950
Additions	76,942	76,547
Share of pre-tax losses for the year	(7,671)	-
Dividend/profit share received	(5,548)	-
Redemption of equity and loans	(82)	(82)
Equity stake written off on liquidation	(1,018)	(1,018)
Group share of taxation	(144)	-
Transferred to subsidiary status	(37,667)	(100)
	<hr/>	<hr/>
Balance as at 31 December 2005	305,053	262,297
	<hr/> <hr/>	<hr/> <hr/>

	2004 Group £	2004 Company £
Investment in joint ventures is analysed as follows:		
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/>	<hr/> <hr/>

# PORTFOLIO HOLDINGS LIMITED

## NOTES TO THE ACCOUNTS

Year ended 31 December 2005

### 10. INVESTMENTS – (continued)

#### (2) Investment in Joint Ventures – (continued)

Investment in joint ventures is further analysed as follows:

	2005 Group £	2004 Group £	2005 Company £	2004 Company £
Unlisted shares at cost	1,109	2,259	1,000	2,150
Partnership equity	25,100	29,402	-	-
Share of post acquisition profits	17,547	63,780	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Gross assets less gross liabilities	43,756	95,441	1,000	2,150
Loans to joint ventures	260,697	184,200	260,697	184,200
Other costs	600	600	600	600
	<hr/>	<hr/>	<hr/>	<hr/>
Other items	261,297	184,800	261,297	184,800
	<hr/>	<hr/>	<hr/>	<hr/>
	305,053	280,241	262,297	186,950
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Joint ventures are as follows:

Name	Country of Incorporation/ Formation	Proportion held	Nature of Business
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 Dartmoor LP	Great Britain	** 25%	Property investment
Licet Holdings Limited	Great Britain	50%	Property development and trading

\* 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 2005

### 10. INVESTMENTS – (continued)

#### (2) Investment in Joint Ventures – (continued)

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

	2005 £	2004 £
Fixed assets	-	27
Property stocks	249,242	203,427
Debtors	42,488	86,127
Cash at bank	68,274	218,350
	<hr/>	<hr/>
Gross assets	360,004	507,931
Creditors due in less than one year	(316,248)	(412,490)
	<hr/>	<hr/>
Gross assets less gross liabilities	43,756	95,441
	<hr/> <hr/>	<hr/> <hr/>

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

	The Exmoor Investment LP		Licet Holdings Limited	
	2005 £	2004 £	2005 £	2004 £
Turnover	-	1,004,750	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
(Loss)/profit before tax	(1,051)	396,898	(15,836)	(5,839)
Taxation	-	-	(144)	(812)
	<hr/>	<hr/>	<hr/>	<hr/>
(Loss)/profit after tax	(1,051)	396,898	(15,980)	(6,651)
	<hr/>	<hr/>	<hr/>	<hr/>
Current assets	28,323	62,689	255,668	225,473
Creditors due in less than one year	-	(33,315)	(292,196)	(246,021)
	<hr/>	<hr/>	<hr/>	<hr/>
Net assets/(liabilities)	28,323	29,374	(36,528)	(20,548)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

# PORTFOLIO HOLDINGS LIMITED

## NOTES TO THE ACCOUNTS

Year ended 31 December 2005

### 11. STOCKS

	2005 Group £	2004 Group £	2005 Company £	2004 Company £
Property held as trading stock is analysed as follows:				
Property held as trading stock	-	3,500,000	-	-
Work in progress	122,090	108,707	122,090	108,707
	<u>122,090</u>	<u>3,608,707</u>	<u>122,090</u>	<u>108,707</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:

	2005 Group £	2004 Group £	2005 Company £	2004 Company £
Trade debtors	331,141	436,496	331,555	436,496
Other debtors	420,709	178,224	429,087	287,323
Loan to shareholders (see Note 18)	-	500,000	-	500,000
Corporation tax recoverable	55,530	496,565	42,501	448,959
Prepayments and accrued income	181,315	629,997	181,315	618,272
	<u>988,695</u>	<u>2,241,282</u>	<u>984,458</u>	<u>2,291,050</u>

### 13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

Creditors due within one year are analysed as follows:

	2005 Group £	2004 Group £	2005 Company £	2004 Company £
Bank loans and overdrafts	-	2,095,739	-	-
Trade creditors	102,282	111,336	75,787	44,808
Amounts owed to subsidiaries	-	-	21,043	20,002
Amounts owed to joint ventures	-	45	-	45
Corporation tax	-	5,902	-	-
Other creditors	134,776	74,845	134,776	74,845
Accruals and deferred income	903,181	271,173	870,961	236,234
	<u>1,140,239</u>	<u>2,559,040</u>	<u>1,102,567</u>	<u>375,934</u>

# PORTFOLIO HOLDINGS LIMITED

## NOTES TO THE ACCOUNTS

Year ended 31 December 2005

### 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	
	2005 Number	2004 Number	2005 £	2004 £
Equity shares:				
Ordinary £1 shares	4,722,836	4,722,836	58,214	520,116

On 11 November 2005, 463,650 ordinary shares of the company were repurchased for a total consideration of £2,497,333.

### 15. RESERVES

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

	Profit and Loss Account £
Balance as at 1 January 2005	(825,747)
Retained loss for the year	(987,326)
Balance as at 31 December 2005	(1,813,073)

The group's other reserves are analysed as follows:

	Share Premium Account £	Capital Reserve £
Balance as at 1 January 2005	4,981,501	904,370
Share premium on new shares issued	52	-
Capital reduction out of reserves	(2,033,683)	-
Balance as at 31 December 2005	2,947,870	904,370

# PORTFOLIO HOLDINGS LIMITED

## NOTES TO THE ACCOUNTS Year ended 31 December 2005

### 15. RESERVES – (continued)

The company's reserves are analysed as follows:	Share Premium Account £	Profit and Loss Account £
Balance as at 1 January 2005	4,981,501	(102,624)
Retained loss for the year	-	(864,442)
Share premium on new shares issued	52	-
Capital reduction out of reserves	(2,033,683)	-
	<hr/>	<hr/>
Balance as at 31 December 2005	2,947,870	(967,066)
	<hr/> <hr/>	<hr/> <hr/>

### 16. RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

	2005 Group £	2004 Group £
Loss for the financial year	(987,326)	(175,168)
Share capital issued	1,748	-
Premium paid on new share capital issued	52	-
Repurchase of ordinary shares out of profits	-	(4,192,290)
Repurchase of ordinary shares out of reserves	(2,497,333)	(4,823,949)
	<hr/>	<hr/>
Net decrease in equity shareholders' funds	(3,482,859)	(9,191,407)
Equity shareholders' funds as at 1 January	5,580,240	14,771,647
	<hr/>	<hr/>
Equity shareholders' funds as at 31 December	2,097,381	5,580,240
	<hr/> <hr/>	<hr/> <hr/>
	2005 Company £	2004 Company £
(Loss)/profit for the financial year	(864,442)	900,760
Share capital issued	1,748	-
Premium paid on new share capital issued	52	-
Repurchase of ordinary shares out of profits	-	(4,192,290)
Repurchase of ordinary shares out of reserves	(2,497,333)	(4,823,949)
	<hr/>	<hr/>
Net decrease in equity shareholders' funds	(3,359,975)	(8,115,479)
Equity shareholders' funds as at 1 January	5,398,993	13,514,472
	<hr/>	<hr/>
Equity shareholders' funds as at 31 December	2,039,018	5,398,993
	<hr/> <hr/>	<hr/> <hr/>

# PORTFOLIO HOLDINGS LIMITED

## NOTES TO THE ACCOUNTS Year ended 31 December 2005

### 17. CASH FLOW STATEMENT

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

	2005 £	2004 £
Operating loss	(1,076,283)	(828,979)
Write off investment in joint venture	1,018	
Depreciation	41,286	45,219
Decrease in trading stock	3,486,617	793,469
Decrease in debtors	79,946	678,780
Increase/(decrease) in creditors	682,840	(531,325)
	<hr/>	<hr/>
	3,215,424	157,164
	<hr/> <hr/>	<hr/> <hr/>

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

	Cash £	Bank loan less than one year £	Total net funds/ (debt) £
Balance as at 1 January 2005	1,799,062	(2,095,739)	(296,677)
Cashflow during the year	(145,986)	2,100,000	1,954,014
Facility fees written off	-	(4,261)	(4,261)
	<hr/>	<hr/>	<hr/>
Balance as at 31 December 2005	1,653,076	-	1,653,076
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

#### (3) Analysis of Acquisitions and Disposals

	2005 £	2004 £
Joint venture shares/equity acquired	(445)	(4,707)
Joint venture loans provided	(76,497)	-
Receipts from repayment of joint venture equity	82	100
Joint venture investment transferred to subsidiary status	37,667	-
Shareholder loan repaid	1,900,000	7,200,000
Shareholder loan provided	(1,400,000)	(500,000)
	<hr/>	<hr/>
	460,807	6,695,393
	<hr/> <hr/>	<hr/> <hr/>

# PORTFOLIO HOLDINGS LIMITED

## NOTES TO THE ACCOUNTS Year ended 31 December 2005

### 17. CASH FLOW STATEMENT – (Continued)

#### (4) Analysis of Financing

	2005 £	2004 £
Share capital issued	1,800	-
Repurchase of share capital	(2,497,333)	(9,016,239)
Repayment of bank loans	(2,100,000)	-
Facility fees paid	-	(5,000)
	<hr/>	<hr/>
	(4,595,533)	(9,021,239)
	<hr/> <hr/>	<hr/> <hr/>

### 18. RELATED PARTY TRANSACTIONS

Under FRS 8 the partnership is required to disclose all transactions with related parties that have occurred in the reporting period.

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 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 £67,120 (2004: £27,575) and £52,475 (2004: £21,725) was outstanding as at 31 December 2005.

The company has provided loans to its major shareholders, AP Pelham Partners VII LP and AP Pelham Partners XIII L.L.C., which own 36.64% and 53.53% 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 2005 no loans were outstanding from AP Pelham Partners VII LP (2004: £203,152). Interest receivable on loans during the year totalled £14,629 (2004: £65,418), none of which was outstanding as at 31 December 2005 (2004: £97,024).

As at 31 December 2005 no loans were outstanding from AP Pelham Partners XIII L.L.C. (2004: £296,848). Interest receivable on loans during the year totalled £21,376 (2004: £95,589), none of which was outstanding as at 31 December 2005 (2004: £141,773).

# PORTFOLIO HOLDINGS LIMITED

## NOTES TO THE ACCOUNTS

Year ended 31 December 2005

### 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 1,726 shares (2004: 15,895 shares) in trust at 31 December 2005.

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 2005 was £387,468 (2004: £nil).

### 20. FINANCIAL COMMITMENTS

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

	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
	<b>Land and</b>	<b>Land and</b>	<b>Land and</b>	<b>Land and</b>
	<b>Buildings</b>	<b>Buildings</b>	<b>Buildings</b>	<b>Buildings</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Expiry date				
- after 5 years	186,360	186,360	186,360	186,360
	<hr/>	<hr/>	<hr/>	<hr/>
	186,360	186,360	186,360	186,360
	<hr/>	<hr/>	<hr/>	<hr/>

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.

### 21. ULTIMATE CONTROLLING PARTY

A 36.64% interest in the company is owned by AP Pelham Partners VII LP and a further 53.53% interest is held by AP Pelham Partners XIII L.L.C.