

**REGISTRAR OF
COMPANIES**

Quartet Portfolio Limited

Report and Financial Statements

Period Ended

31 December 2003



BDO

BDO Stoy Hayward
Chartered Accountants

Quartet Portfolio Limited

Annual report and financial statements for the period ended 31 December 2003

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Directors

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Directors

B Anderson
J Newiss
G I S Wilson
P Roscrow
S Taylor
D Kerr

Secretary and registered office

K Scott, 11th Floor East, 33 Cavendish Square, London, W1G 0PW.

Company number

4797504

Auditors

BDO Stoy Hayward LLP, 8 Baker Street, London, W1U 3LL.

Quartet Portfolio Limited

Report of the directors for the period ended 31 December 2003

The directors present their report together with the audited financial statements for the period from incorporation on 12 June 2003 to 31 December 2003.

Results and dividends

The profit and loss account is set out on page 5 and shows the loss for the period.

The directors do not recommend the payment of a final dividend.

Principal activities, trading review and future developments

The principal activity of the company is property investment.

On 30 June 2003 the company acquired an interest in the Quartet Partnership, a general partnership, which has interests in investment properties in the British Isles.

The company has conducted its investment activities satisfactorily during the period and is expected to continue to do so.

Directors

The directors of the company during the period were:

B Anderson
J Newiss
G I S Wilson
P Roscrow
S Taylor
D Kerr

Business (Directors) Limited (appointed on incorporation and resigned 20 June 2003)

No director had any interest in the ordinary shares of the company.

Directors' responsibilities

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. 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.

Quartet Portfolio Limited

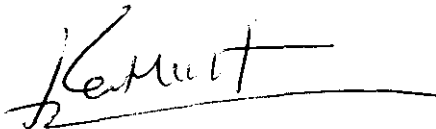
Report of the directors for the period ended 31 December 2003 (*Continued*)

Auditors

BDO Stoy Hayward LLP were appointed as first auditors to the company. A resolution to reappoint them will be proposed at the next Annual General meeting.

By order of the Board

K Scott

A handwritten signature in black ink, appearing to read 'K Scott', written over a horizontal line.

Secretary

Date 16 July 2004

Quartet Portfolio Limited

Report of the independent auditors

To the shareholders of Quartet Portfolio Limited

We have audited the financial statements of Quartet Portfolio Limited for the period ended 31 December 2003 on pages 5 to 11 which have been prepared under the accounting policies set out on page 8.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom 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 to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

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 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.

Quartet Portfolio Limited

Report of the independent auditors (*Continued*)

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2003 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

BDO Stoy Hayward LLP

BDO STOY HAYWARD LLP

*Chartered Accountants
and Registered Auditors
London*

16 July 2004

Quartet Portfolio Limited

Profit and loss account for the period ended 31 December 2003

	Note	£
Share of loss in partnership		187,940
Administrative expenses		2,003
		<hr/>
Operating loss	2	(189,943)
Interest receivable		166,668
Interest payable and similar charges	3	(169,187)
		<hr/>
Loss on ordinary activities before taxation		(192,462)
Taxation from ordinary activities	4	-
		<hr/>
Loss on ordinary activities after taxation		(192,462)
		<hr/>

All amounts relate to continuing activities.

The notes on pages 8 to 11 form part of these financial statements.

Quartet Portfolio Limited

Reconciliation of movements in shareholders' funds for the period ended 31 December 2003

£

Reconciliation of movements in shareholders' funds

Loss for the financial period	(192,462)
New share capital subscribed	100
	<hr/>
Shareholders' funds at 31 December 2003	(192,362)
	<hr/>

There were no other recognised gains and losses other than the loss for the period.


The notes on pages 8 to 11 form part of these financial statements.

Quartet Portfolio Limited

Balance sheet at 31 December 2003

	Note	£	£
Fixed assets			
Investment in partnership	5		7,812,060
Current assets			
Debtors	6	166,669	
Creditors: amounts falling due within one year	7	171,091	
Net current liabilities			(4,422)
Total assets less current liabilities			7,807,638
Creditors: amounts falling due after more than one year	8		(8,000,000)
			(192,362)
Capital and reserves			
Called up share capital	9		100
Profit and loss account	10		(192,462)
Shareholders' funds - equity			(192,362)

The financial statements were approved by the Board on 16 July 2004


P C Kasch
Director

The notes on pages 8 to 11 form part of these financial statements.

Quartet Portfolio Limited

Notes forming part of the financial statements for the period ended 31 December 2003

1 Accounting policies

The financial statements have been prepared under the historical cost convention in accordance with applicable accounting standards. The following principal accounting policies have been applied:

Interest in partnership

The company treats its investments in partnerships as a fixed asset investment at historical cost less any provision for impairment.

Deferred taxation

Provision is made for timing differences between the treatment of certain items for taxation and accounting purposes to the extent that it is probable that a liability or asset will crystallise.

No provision is made for taxation which would become payable under present legislation in the extent of the realisation of the property portfolio at the valuations at which they are stated in the financial statements unless such liability is expected to crystallise in the foreseeable future.

2 Operating loss

£

This has been arrived at after charging:

Auditors' remuneration	2,000
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None of the directors received any emoluments from the company during the period.

3 Interest payable and similar charges

£

Bank loans and overdrafts	2,260
5% loan notes	166,927

169,187

Quartet Portfolio Limited

Notes forming part of the financial statements for the period ended 31 December 2003 (Continued)

4	Taxation on profit from ordinary activities	£
	<i>Current tax</i>	
	UK corporation tax on loss of the period	-
		<hr/>
	The tax assessed for the period is higher than the standard rate of corporation tax in the UK. The differences are explained below:	
		£
	Loss on ordinary activities before tax	199,462
		<hr/>
	Loss on ordinary activities at the standard rate of corporation tax in the UK of 30%	59,839
	Effects of:	
	Losses carried forward to next period	(59,839)
		<hr/>
	Current tax charge for period	-
		<hr/>
5	Investment in partnership	£
	Investment in partnership	8,000,000
	Share of losses of partnership for the period	(187,940)
		<hr/>
		7,812,060
		<hr/>
	The investment above represents the company's investment in the Quartet Partnership, a general partnership formed to invest in UK real estate.	
6	Debtors	£
	Amount owed by the Quartet Partnership	166,667
	Other debtors	2
		<hr/>
		166,669
		<hr/>

All amounts shown under debtors fall due for payment within one year.

Quartet Portfolio Limited

Notes forming part of the financial statements for the period ended 31 December 2003 (Continued)

7	Creditors: amounts falling due within one year	£
	Bank overdrafts (secured)	110,829
	Accruals and deferred income	60,262
		<hr/>
		171,091
		<hr/>

The bank overdraft is secured against the assets of the company and the Quartet Partnership.

8	Creditors: amounts falling due after more than one year	£
	0% secured loan notes	4,000,000
	Variable rate secured loan notes	4,000,000
		<hr/>
		8,000,000
		<hr/>

The variable and 0% secured loan notes were both issued at par pursuant to an agreement dated 20 June 2003 and are redeemable on 20 June 2008 at par, plus a contingent premium of 15%. This premium is contingent on the company's investment in the Quartet Partnership delivering a 15% Internal Rate of Return (IRR) to Quartet Portfolio Limited and in the event that this IRR is achieved will be payable to the holders of the loan notes. No provision has been made in these financial statements for this premium at the balance sheet date as the conditions giving rise to this payment have not been met.

9 Share capital

	Authorised Number	Allotted, called up and fully paid Number
Ordinary 'A' shares of £1 each	50	50
Ordinary 'B' shares of £1 each	48	48
Ordinary 'C' shares of £1 each	2	2
	<hr/>	<hr/>
	100	100
	<hr/>	<hr/>

The holders of the ordinary 'A' shares in the company are entitled to all of the profits available for distribution and in accordance with the company's articles of association, any such profits are required to be paid within six months of the end of the accounting period. The holders of the ordinary 'B' and ordinary 'C' shares are not entitled to receive any dividend or other distribution.

Quartet Portfolio Limited

Notes forming part of the financial statements for the period ended 31 December 2003 (*Continued*)

10 Reserves	£
Loss for the period	192,462
	<hr/>
At 31 December 2003	192,462
	<hr/>

11 Related party transactions

During the period, interest of £166,668 was charged to the Quartet Partnership, a general partnership in which the company has an interest.

12 Ultimate controlling party

The directors do not consider there to be an ultimate controlling party.

13 Cash flow statement

The company has used the exemption under Financial Reporting Standard 1, "Cash Flow Statements", not to prepare a cash flow statement as the directors believe the company is 'small' under the Companies Act 1985.

14 Post balance sheet events

The Quartet Partnership (a partnership in which the company has an interest) completed the sale of the following properties in the period after the year end:

- a) 27 Bank Street, part of George Yard, Braintree Investment Property sold for £1,176,000 on 13 February 2004. The carrying value of the property at 31 December 2003 was £1,150,000.
- b) St Matthews House, Shepherdess Walk sold for £11,750,000 on 24 February 2004, this was also the carrying value at 31 December 2003.

Quartet Portfolio Limited is entitled to a share of the disposal proceeds according to the terms of the Quartet Partnership agreement. No profit has been recognised in these financial statements resulting from these property transactions.