

**REGISTRAR OF
COMPANIES**

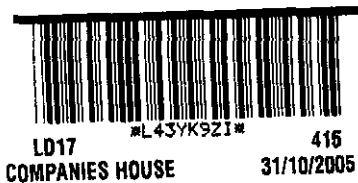
4797504

Quartet Portfolio Limited

Report and Financial Statements

Year Ended

31 December 2004



BDO

BDO Stoy Hayward
Chartered Accountants

Quartet Portfolio Limited

Annual report and financial statements for the year ended 31 December 2004

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Directors

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Directors

B Anderson
J Newiss
G I S Wilson
P Roscrow
I S Mackintosh

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 year ended 31 December 2004

The directors present their report together with the audited financial statements for the year ended 31 December 2004.

Results

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

Principal activities, trading review and future developments

The principal activity of the company is property investment through its 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 year and is expected to continue to do so.

Directors

The directors of the company during the year were:

B Anderson	
J Newiss	
G I S Wilson	
P Roscrow	
S Taylor	(resigned 23 January 2004)
D Kerr	(resigned 29 September 2004)
I S Mackintosh	(appointed 1 September 2004)

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 year 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 year. 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 year ended 31 December 2004 (Continued)

Auditors

BDO Stoy Hayward LLP have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

By order of the Board

K Scott


Secretary

Date 26 OCTOBER 2005

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 year ended 31 December 2004 on pages 5 to 12 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 2004 and of its profit for the year 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

26 October 2005

Quartet Portfolio Limited**Profit and loss account for the year ended 31 December 2004**

		Year ended 31 December 2004 £	Period ended 31 December 2003 £
	Note		
Share of profit/(loss) in partnership		3,279,351	(187,940)
Administrative expenses		4,000	2,003
		<hr/>	<hr/>
Operating profit/(loss)	2	3,275,351	(189,943)
Interest receivable		669,765	166,668
Interest payable and similar charges	3	(366,736)	(169,187)
		<hr/>	<hr/>
Profit/(loss) on ordinary activities before taxation		3,578,380	(192,462)
Taxation from ordinary activities	4	(851,933)	-
		<hr/>	<hr/>
Profit/(loss) on ordinary activities after taxation		2,726,447	(192,462)
		<hr/>	<hr/>

All amounts relate to continuing activities.

The notes on pages 8 to 12 form part of these financial statements.

Quartet Portfolio Limited

Reconciliation of movements in shareholders' funds for the year ended 31 December 2004

	Year ended 31 December 2004 £	Period ended 31 December 2003 £
Reconciliation of movements in shareholders' funds		
Profit/(loss) for the financial year	2,726,447	(192,462)
New share capital subscribed	-	100
	<hr/>	<hr/>
	2,726,447	192,362
Opening shareholders' funds	(192,322)	-
	<hr/>	<hr/>
Closing shareholders' funds	2,534,085	(192,362)
	<hr/>	<hr/>

There were no other recognised gains and losses other than the profit/(loss) for the year.

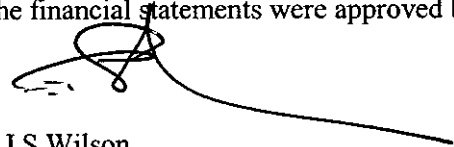
The notes on pages 8 to 12 form part of these financial statements.

Quartet Portfolio Limited

Balance sheet at 31 December 2004

	Note	2004 £	2004 £	2003 £	2003 £
Fixed assets					
Investment in partnership	5		8,852,309		7,812,060
Current assets					
Debtors	6	131,408		166,669	
Cash at bank		2,477,369		-	
		<u>2,608,777</u>		<u>166,669</u>	
Creditors: amounts falling due within one year	7	<u>927,001</u>		<u>171,091</u>	
Net current assets/(liabilities)			<u>1,681,776</u>		<u>(4,422)</u>
Total assets less current liabilities			<u>10,534,085</u>		<u>7,807,638</u>
Creditors: amounts falling due after more than one year	8		<u>(8,000,000)</u>		<u>(8,000,000)</u>
			<u>2,534,085</u>		<u>(192,362)</u>
Capital and reserves					
Called up share capital	9		100		100
Profit and loss account	10		2,583,985		(192,462)
Shareholders' funds - equity			<u>2,534,085</u>		<u>(192,362)</u>

The financial statements were approved by the Board on 26 OCTOBER 2005


G I S Wilson
Director

The notes on pages 8 to 12 form part of these financial statements.

Quartet Portfolio Limited

Notes forming part of the financial statements for the year ended 31 December 2004

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

	Year ended 31 December 2004 £	Period ended 31 December 2003 £
This has been arrived at after charging:		
Auditors' remuneration	4,000	2,000
	<hr/>	<hr/>

None of the directors received any emoluments from the company during the year.

3 Interest payable and similar charges

	Year ended 31 December 2004 £	Period ended 31 December 2003 £
Bank loans and overdrafts	4,504	2,260
5% loan notes	362,232	166,927
	<hr/>	<hr/>
	366,736	169,187
	<hr/>	<hr/>

Quartet Portfolio Limited

Notes forming part of the financial statements for the year ended 31 December 2004 (Continued)

4 Taxation on profit from ordinary activities

	Year ended 31 December 2004 £	Period ended 31 December 2003 £
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Current tax

UK corporation tax on profit/(loss) of the year	851,933	-
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The tax assessed for the year is lower/higher than the standard rate of corporation tax in the UK. The differences are explained below:

	Year ended 31 December 2004 £	Period ended 31 December 2003 £
Profit/(loss) on ordinary activities before tax	3,578,380	(199,462)
Profit/(loss) on ordinary activities at the standard rate of corporation tax in the UK of 30%	1,073,514	(59,839)
Effects of:		
Indexation allowances	(136,596)	-
Capital allowances	(62,531)	-
Tax losses	(22,454)	59,839
Current tax charge for year	851,933	-

Quartet Portfolio Limited

Notes forming part of the financial statements for the year ended 31 December 2004 (Continued)

5 Investment in partnership

	Year ended 31 December 2004 £	Period ended 31 December 2003 £
Investment in partnership	-	8,000,000
Share of profits/(losses) of partnership for the year	3,279,351	(187,940)
Repayment of loan notes	(2,239,102)	-
	<hr/>	<hr/>
Opening investment in partnership	1,040,249	7,812,060
	7,812,060	-
	<hr/>	<hr/>
Closing investment in partnership	8,852,309	7,812,060
	<hr/>	<hr/>

The investment above represents the company's investment in the Quartet Partnership, a general partnership formed to invest in real estate in the British Isles.

6 Debtors

	2004 £	2003 £
Amount owed by the Quartet Partnership	131,406	166,667
Other debtors	2	2
	<hr/>	<hr/>
	131,408	166,669
	<hr/>	<hr/>

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

7 Creditors: amounts falling due within one year

	2004 £	2003 £
Bank overdrafts (secured)	-	110,829
Corporation tax	851,933	-
Accruals and deferred income	75,068	60,262
	<hr/>	<hr/>
	927,001	171,091
	<hr/>	<hr/>

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

Quartet Portfolio Limited

Notes forming part of the financial statements for the year ended 31 December 2004 (Continued)

8 Creditors: amounts falling due after more than one year

	2004 £	2003 £
0% secured loan notes	4,000,000	4,000,000
Variable rate secured loan notes	4,000,000	4,000,000
	<u>8,000,000</u>	<u>8,000,000</u>

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
	<u>100</u>	<u>100</u>

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 year. The holders of the ordinary 'B' and ordinary 'C' shares are not entitled to receive any dividend or other distribution.

10 Reserves

	£
At 1 January 2004	(192,462)
Profit for the year	2,726,447
	<u>2,533,985</u>
At 31 December 2004	<u>2,533,985</u>

Quartet Portfolio Limited

Notes forming part of the financial statements for the year ended 31 December 2004 (*Continued*)

11 Related party transactions

During the year, interest of £636,045 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

On 15 March 2005, the Quartet Partnership completed the disposal of The Regent Centre Kirkintilloch. The disposal proceeds were £14,397,000 before transaction costs.

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.