

**REGISTRAR OF
COMPANIES**

Quartet Portfolio Limited

Report and Financial Statements

Year Ended

31 December 2005



BDO Stoy Hayward
Chartered Accountants

Quartet Portfolio Limited

Annual report and financial statements for the year ended 31 December 2005

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Directors

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Directors

B Anderson
J Newiss
G I S Wilson
P Roscrow
G C Sellar

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 2005

The directors present their report together with the audited financial statements for the year ended 31 December 2005.

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	
G C Sellar	(appointed 26 July 2005)
I S Mackintosh	(resigned 26 July 2005)

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

Directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

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

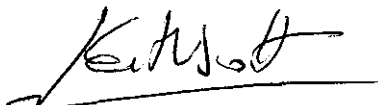
Report of the directors for the year ended 31 December 2005 (*Continued*)

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

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

Secretary

Date 29 June 2006

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 2005 which comprise the profit and loss account, the balance sheet, the reconciliation of movements in shareholders' funds and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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 law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant 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 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 other transactions 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 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 judgments 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 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*

29 June 2006

Quartet Portfolio Limited**Profit and loss account for the year ended 31 December 2005**

	Note	2005 £	2004 £
Share of profit in partnership		1,232,085	3,279,351
Administrative expenses		4,000	4,000
Operating profit	3	1,228,085	3,275,351
Interest receivable		860,300	669,765
Interest payable and similar charges	4	(998,238)	(366,736)
Profit on ordinary activities before taxation		1,090,147	3,578,380
Taxation from ordinary activities	5	(187,281)	(851,933)
Profit on ordinary activities after taxation		902,866	2,726,447

All amounts relate to continuing activities.

All recognised gains and losses in the current and prior year are included in the profit and loss account.

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 2005**

	2005 £	2004 As restated £
Reconciliation of movements in shareholders' funds		
Profit for the financial year	902,866	2,726,447
Dividends	(902,866)	(2,533,985)
	-	192,462
Opening shareholders' funds as previously stated	2,534,085	(192,362)
Prior year adjustment	(2,533,985)	-
Opening shareholders' funds as restated	100	100
Closing shareholders' funds	100	100

There were no other recognised gains and losses other than the profit for the year.

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

Quartet Portfolio Limited

Balance sheet at 31 December 2005

	Note	2005 £	2005 £	2004 As restated £	2004 As restated £
Fixed assets					
Investment in partnership	6		6,685,837		8,852,309
Current assets					
Debtors	7	38,543		131,408	
Cash at bank		30,787		2,477,369	
		<u>69,330</u>		<u>2,608,777</u>	
Creditors: amounts falling due within one year	8	<u>3,585,131</u>		<u>3,460,986</u>	
Net current (liabilities)/assets			<u>(3,515,801)</u>		<u>(852,209)</u>
Total assets less current liabilities			<u>3,170,036</u>		<u>8,000,100</u>
Creditors: amounts falling due after more than one year	9		<u>3,169,936</u>		<u>8,000,000</u>
			<u>100</u>		<u>100</u>
Capital and reserves					
Called up share capital	10		100		100
Profit and loss account	11		-		-
Shareholders' funds - equity			<u>100</u>		<u>100</u>

The financial statements were approved by the Board on 29 June 2006



B Anderson
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 2005

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 Prior period adjustment

The company's Articles of Association require all available profits to be paid as a dividend to the ordinary 'A' shareholders within six months of the year end.

The financial statements for the year ended 31 December 2004 did not include a provision for this dividend and as a consequence, a prior period adjustment has been made for £2,535,985 in respect of a dividend due to the ordinary 'A' shareholders.

3 Operating loss

	2005 £	2004 £
This has been arrived at after charging:		
Auditors' remuneration	4,000	4,000

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

Quartet Portfolio Limited

Notes forming part of the financial statements for the year ended 31 December 2005 (Continued)

4 Interest payable and similar charges

	2005 £	2004 £
Bank loans and overdrafts	1,231	4,504
5% loan notes	961,785	362,232
Other interest	35,222	-
	<u>998,238</u>	<u>366,736</u>

5 Taxation on profit from ordinary activities

	2005 £	2004 £
<i>Current tax</i>		
UK corporation tax on profit of the year	187,281	851,933
	<u>187,281</u>	<u>851,933</u>

The tax assessed for the year is lower/higher than the standard rate of corporation tax in the UK. The differences are explained below:

	2005 £	2004 £
Profit on ordinary activities before tax	1,091,133	3,578,380
	<u>1,091,133</u>	<u>3,578,380</u>
Profit on ordinary activities at the standard rate of corporation tax in the UK of 30%	327,340	1,073,514
Effects of:		
Indexation allowances	(111,981)	(136,596)
Capital allowances	(46,898)	(62,531)
Tax losses	-	(22,454)
Non-allowable expenses	18,820	-
	<u>187,281</u>	<u>851,933</u>
Current tax charge for year	187,281	851,933

Quartet Portfolio Limited

Notes forming part of the financial statements for the year ended 31 December 2005 (Continued)

6 Investment in partnership

	2005 £	2004 £
Share of profits of partnership for the year	1,232,085	3,279,351)
Repayment of loan notes	(3,398,557)	(2,239,102)
	<hr/>	<hr/>
Opening investment in partnership	(2,166,472) 8,852,309	1,040,249 7,812,060
	<hr/>	<hr/>
Closing investment in partnership	6,685,837	8,852,309
	<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.

7 Debtors

	2005 £	2004 £
Amount owed by the Quartet Partnership	20,010	131,406
Other debtors	18,533	2
	<hr/>	<hr/>
	38,543	131,408
	<hr/>	<hr/>

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

8 Creditors: amounts falling due within one year

	2005 £	2004 As restated £
Corporation tax	93,074	851,933
Accruals and deferred income	36,892	75,068
Other creditors	18,314	-
Dividends payable	3,436,851	2,533,985
	<hr/>	<hr/>
	3,585,131	3,460,986
	<hr/>	<hr/>

Quartet Portfolio Limited

Notes forming part of the financial statements for the year ended 31 December 2005 (Continued)

9 Creditors: amounts falling due after more than one year

	2005 £	2004 £
0% secured loan notes	1,584,968	4,000,000
Variable rate secured loan notes	1,584,968	4,000,000
	<u>3,169,936</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.

10 Share capital

	Authorised Number	Allotted, called up and fully paid Number
Ordinary 'A' shares of £1 each	49	49
Ordinary 'B' shares of £1 each	49	49
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. 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 year ended 31 December 2005 (Continued)

11 Reserves

	Profit and loss £
At 1 January 2005, as previously stated	2,533,985
Prior year adjustment (note 2)	(2,533,985)
	<hr/>
At 1 January 2005 as restated	-
Profit for the year	902,866
Dividends	(902,866)
	<hr/>
At 31 December 2005	-
	<hr/>

The company is obliged by its Articles of Association to declare a dividend in the amount of all profits available for distribution as defined in section 263(3) of the Companies Act 1985 and 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.

12 Related party transactions

During the year, interest of £849,755 (2004 - £636,045) was charged to the Quartet Partnership, a general partnership in which the company has an interest.

During the year, interest of £961,785 (2004 - £362,232) was charged to the profit and loss account as loan note interest. Both the loan notes and ordinary 'A' shares are controlled by HBOS plc.

13 Ultimate controlling party

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

14 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.