

**PRINCIPAL INVESTMENT MANAGEMENT LIMITED**

# **REPORT AND ACCOUNTS**

**FOR THE YEAR ENDED 31 DECEMBER 2005**



Registered in England, number 2041819

## DIRECTORS

R L W Atkinson MSI  
A F Beaney MSc  
K G Burrage FCA  
S E Dix FCA  
A H K Gilbert FCIS (Chairman)  
P F Hills BA(Hons) FCMA  
A W K Merriam FCA  
C W K Nevile LLB

## SECRETARY

C E Tolkien BSc(Hons) ACIS

## REGISTERED AUDITORS

BDO Stoy Hayward LLP  
Northside House  
69 Tweedy Road  
Bromley  
Kent  
BR1 3WA

## BANKERS

Lloyds TSB Bank PLC  
83 High Street  
Sevenoaks  
Kent  
TN13 1LG

## SOLICITORS

Taylor Wessing  
Carmelite  
50 Victoria Embankment  
London  
EC4Y 0DX

## REGISTERED OFFICE

16 South Park  
Sevenoaks  
Kent  
TN13 1AN

# PRINCIPAL INVESTMENT MANAGEMENT LIMITED

## Report of the Directors for the Year Ended 31 December 2005

The directors present their Report and Accounts for the year ended 31 December 2005.

### Principal activity

The principal activity of the Company was the provision of tailored, professional investment management services to private clients, trusts, charities and a range of corporate customers.

### Results and dividends

	2005 <u>£000</u>	2004 <u>£000</u>
The profit for the year, after providing for taxation and before deducting dividends provided for in the financial statements, amounted to:	4,346	5,950
Ordinary dividend:		
Interim paid	4,000	5,280
	<hr/>	<hr/>
Balance to profit and loss reserves	346	670

### Business review

The Company enjoyed another successful year and its funds under management and client numbers again increased through organic growth.

### Future developments

The Company is expected to continue to expand.

# PRINCIPAL INVESTMENT MANAGEMENT LIMITED

## Report of the Directors for the Year Ended 31 December 2005 (cont'd)

### Directors and their interests

The names of the directors at the date of this Report are set out below and, unless otherwise indicated, they all served throughout the year. None of the current directors had a direct interest in the shares of the Company, but their interests in the shares of the parent company (Principal Investment Holdings Limited) were as follows:

	Ordinary Shares of 10p each		"D" Shares of 10p each		Options to Acquire Ordinary Shares of 10p each		
	<u>At</u>	<u>At</u>	<u>At</u>	<u>At</u>	<u>At</u>	<u>Net</u> <u>(Exercised)</u>	<u>At</u>
	<u>31.12.05</u>	<u>1.1.05</u>	<u>31.12.05</u>	<u>1.1.05</u>	<u>31.12.05</u>	<u>During</u> <u>the Year</u>	<u>1.1.05</u>
A H K Gilbert (Chairman)	444,914	444,914	5,162	3,124	-	-	-
P F Hills	329,738	328,800	3,815	2,309	-	-	-
A F Beaney	41,000	40,000	182	-	27,000	-	27,000
K G Burrage	-	-	-	-	-	-	-
S E Dix	1,500	-	-	-	6,500	(1,500)	8,000
C W K Neville	42,381	42,381	49,657	49,240	-	-	-
A W K Merriam	40,949	40,949	50,286	49,873	-	-	-
R L W Atkinson	-	21,340	14,165	14,165	-	-	-

The Ordinary Shares held by A H K Gilbert are held jointly with her spouse. P F Hills, A F Beaney and R L W Atkinson's interests include the shares held by their spouses. C W K Neville's interest includes the shares held by a pension scheme under his control. A W K Merriam's shares were all held by his spouse and beneficiaries.

A W K Merriam has an interest in 120,000 and C W K Neville has an interest in 94,000 of the loan notes issued by the parent company.

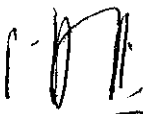
The directors have no interest in the Preferred Ordinary Shares 1999 and the Preferred Ordinary Shares 2001.

### Auditors

On 7 June 1999 the Company elected to dispense with the holding of annual general meetings and to dispense with the laying of accounts and reports before the Company in general meeting. Accordingly, BDO Stoy Hayward LLP will continue as auditors of the Company.

On behalf of the Board

16 South Park  
Sevenoaks  
Kent TN13 1AN

  
P F Hills  
Director  
20 March 2006

# PRINCIPAL INVESTMENT MANAGEMENT LIMITED

## Profit and Loss Account for the Year Ended 31 December 2005

		<u>2005</u>	<u>2004</u>
	<u>Notes</u>	<u>£000</u>	<u>£000</u>
Revenue	2	8,952	6,054
Administrative expenses (excluding Exceptional income)		4,033	2,026
Exceptional income	3	-	2,259
		<u>4,033</u>	<u>(233)</u>
Operating profit	4	4,919	6,287
Other income / (expenses)	7	<u>2</u>	<u>(10)</u>
Profit on ordinary activities before taxation		4,921	6,277
Taxation on profit on ordinary activities	8	<u>575</u>	<u>327</u>
Profit on ordinary activities after taxation		4,346	5,950
Dividends	9	<u>4,000</u>	<u>5,280</u>
Retained profit transferred to profit and loss reserves	16	<u>346</u>	<u>670</u>

(All the above derive from continuing activities.)

The Company had no recognised gains and losses other than those included in the profits above, and therefore no separate statement of total recognised gains and losses has been presented.

# PRINCIPAL INVESTMENT MANAGEMENT LIMITED

## Balance Sheet as at 31 December 2005

	<u>Notes</u>	<u>2005</u> <u>£000</u>	<u>2004</u> <u>£000</u>
<u>Fixed Assets</u>			
Investments	10	-	-
<u>Current Assets</u>			
Debtors	11	1,399	1,213
Quoted investments	12	17	9
Cash at bank and in hand		1,320	1,039
		<u>2,736</u>	<u>2,261</u>
<u>Creditors: amounts falling due</u> <u>within one year</u>	13	<u>1,017</u>	<u>827</u>
NET CURRENT ASSETS		<u>1,719</u>	<u>1,434</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		1,719	1,434
Provisions for liabilities and charges	14	<u>53</u>	<u>114</u>
NET ASSETS		<u>1,666</u>	<u>1,320</u>
CAPITAL AND RESERVES			
Called up share capital	15	100	100
Capital redemption reserve	16	103	103
Profit and loss reserves	16	<u>1,463</u>	<u>1,117</u>
EQUITY SHAREHOLDERS' FUNDS	17	<u>1,666</u>	<u>1,320</u>

The financial statements on pages 4 to 12 were approved by the Board of Directors on 20 March 2006 and signed on its behalf by:



A H K Gilbert, Director

# PRINCIPAL INVESTMENT MANAGEMENT LIMITED

## Notes to the Accounts - 31 December 2005

### 1 Statement of accounting policies

#### (i) Basis of accounting

The accounts are prepared under the historical cost convention as modified for the revaluation of current asset investments and in accordance with applicable Accounting Standards in the United Kingdom.

#### (ii) Revenue

Revenue is the amount receivable by the Company for the investment management services which it provides.

#### (iii) Management fees

Management fees are accounted for on the accruals basis and the accounts include estimates of fees receivable where the actual amounts have not yet been determined.

#### (iv) Investments

Fixed asset investments are stated at cost less provision for any permanent diminution in value.

#### (v) Current asset investments

Current asset investments are stated at the lower of cost and middle-market value at the balance sheet date. Realised and unrealised gains or losses on current asset investments arising as a result of this are credited or charged to the profit and loss account.

#### (vi) Deferred taxation

Deferred tax has been recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in future, or a right to pay less taxation in future. Deferred tax assets and liabilities recognised have not been discounted.

#### (vii) Client bank balances

Amounts held for clients are accounted for through separately designated client bank accounts, which do not form part of the Company's funds and are not included in these accounts.

# PRINCIPAL INVESTMENT MANAGEMENT LIMITED

## Notes to the Accounts - 31 December 2005 (cont'd)

### (viii) Cash flow

The Company has taken advantage of the exemption conferred by Financial Reporting Standard 1 "Cash Flow Statements (Revised 1996)" not to prepare a cash flow statement on the grounds that at least 90% of the voting rights in the Company are controlled within the Group headed by Principal Investment Holdings Limited and the Company is included in the consolidated financial statements.

### (ix) Related party transactions

The Company has taken advantage of the exemption conferred by Financial Reporting Standard 8 "Related Party Disclosures" not to disclose any transactions with members of the Group headed by Principal Investment Holdings Limited on the grounds that at least 90% of the voting rights in the Company are controlled within that group and the Company is included in the consolidated financial statements.

### 2 Revenue

	2005	2004
	<u>£000</u>	<u>£000</u>
Management fees	4,845	3,244
Commissions	4,107	2,810
	<u>8,952</u>	<u>6,054</u>

All revenue was generated in the UK.

### 3 Exceptional income

	2005	2004
	<u>£000</u>	<u>£000</u>
Waiver of amounts due to other Group companies	-	2,259

### 4 Operating profit

Operating profit is arrived at after charging:

	2005	2004
	<u>£000</u>	<u>£000</u>
Auditors' remuneration:		
Audit fees	16	15
Other services	1	1



# PRINCIPAL INVESTMENT MANAGEMENT LIMITED

## Notes to the Accounts - 31 December 2005 (cont'd)

### 5 Employees

The Company has no employees other than directors (2004 - nil).

### 6 Emoluments of directors

None of the directors received or waived any emoluments in respect of their services to the Company for the year (2004 - nil).

### 7 Other income / (expenses)

	2005 <u>£000</u>	2004 <u>£000</u>
Interest receivable	16	2
Realised and unrealised (losses) on current asset investments	(14)	(12)
	<u>2</u>	<u>(10)</u>

### 8 Taxation on profit on ordinary activities

	2005 <u>£000</u>	2004 <u>£000</u>
Current tax		
UK corporation tax on profit for the year	581	336
Adjustment in respect of previous periods	(13)	(8)
Total current tax	<u>568</u>	<u>328</u>
Deferred tax		
Origination/(reversal) of timing differences	<u>7</u>	<u>(1)</u>
Taxation on profit on ordinary activities	<u>575</u>	<u>327</u>

# PRINCIPAL INVESTMENT MANAGEMENT LIMITED

## Notes to the Accounts - 31 December 2005 (cont'd)

### 8 Taxation on profit on ordinary activities (cont'd)

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

	2005 <u>£000</u>	2004 <u>£000</u>
Profit on ordinary activities before tax	<u>4,921</u>	<u>6,277</u>
Profit on ordinary activities at the standard rate of corporation tax in the UK of 30% (2004 – 30%)	1,476	1,883
Effects of:		
Expenses not deductible for tax purposes	(5)	1
Utilisation of group relief	(891)	(870)
Adjustment to tax charge in respect of previous periods	(12)	(8)
Waiver of inter-company loan not deductible for tax purposes	<u>-</u>	<u>(678)</u>
Current tax charge for period	<u>568</u>	<u>328</u>

### 9 Dividends

	2005 <u>£000</u>	2004 <u>£000</u>
Dividends of the Company		
Ordinary Shares:		
Interim paid of £40.00 (2004 - £52.80) per share	4,000	5,280

# PRINCIPAL INVESTMENT MANAGEMENT LIMITED

## Notes to the Accounts - 31 December 2005 (cont'd)

### 10 Fixed asset investments

	2005 <u>£000</u>	2004 <u>£000</u>
Investment in subsidiary undertaking at cost at start of year	-	-
Less: disposal of investment in subsidiary undertaking	-	-
Investment in subsidiary undertaking at end of year	-	-

The Company had a 50% interest in Premier Unit Brokers (Nominees) Limited, a dormant company incorporated in England. The other 50% was owned by Principal Investment Holdings Limited. The company was dissolved during the year.

### 11 Debtors

	2005 <u>£000</u>	2004 <u>£000</u>
Amounts falling due within one year		
Amounts owed by parent company	142	78
Corporation tax recoverable	1	8
Other debtors	10	57
Prepayments and accrued income	<u>1,246</u>	<u>1,070</u>
	<u>1,399</u>	<u>1,213</u>

### 12 Quoted investments

	2005 <u>£000</u>	2004 <u>£000</u>
Quoted investments listed on the London Stock Exchange	17	9

# PRINCIPAL INVESTMENT MANAGEMENT LIMITED

## Notes to the Accounts - 31 December 2005 (cont'd)

### 13 Creditors: amounts falling due within one year

	2005	2004
	<u>£000</u>	<u>£000</u>
Corporation tax	333	178
Other taxation and social security costs	279	190
Other creditors and accruals	405	459
	<u>1,017</u>	<u>827</u>

### 14 Provisions for liabilities and charges

	Dilapidations <u>£000</u>	Onerous Contracts <u>£000</u>	Total <u>£000</u>
At 1 January 2005	10	104	114
Credited to profit and loss account	<u>(5)</u>	<u>(56)</u>	<u>(61)</u>
At 31 December 2005	<u>5</u>	<u>48</u>	<u>53</u>

### 15 Share capital

	<u>2005</u>		<u>2004</u>	
	Authorised <u>£000</u>	Allotted, Called Up and Fully Paid <u>£000</u>	Authorised <u>£000</u>	Allotted, Called Up and Fully Paid <u>£000</u>
100,000 Ordinary Shares of £1 each	100	100	100	100

# PRINCIPAL INVESTMENT MANAGEMENT LIMITED

## Notes to the Accounts - 31 December 2005 (cont'd)

### 16 Movement in reserves

	Capital Redemption Reserve £000	Profit and Loss Account £000
Balance at 1 January 2005	103	1,117
Retained profit for the year	-	346
Balance at 31 December 2005	<u>103</u>	<u>1,463</u>

### 17 Reconciliation of movements in shareholders' funds

	2005 £000	2004 £000
Profit for the year	4,346	5,950
Dividends	( 4,000 )	( 5,280 )
Net addition to shareholders' funds	<u>346</u>	<u>670</u>
Opening shareholders' funds	<u>1,320</u>	<u>650</u>
Closing shareholders' funds	<u>1,666</u>	<u>1,320</u>

### 19 Holding company

The Company's immediate and ultimate holding company is Principal Investment Holdings Limited which is incorporated in England. Copies of its accounts may be obtained from 16 South Park, Sevenoaks, Kent, TN13 1AN.

### 20 Regulatory

The Company is not subject to regulatory consolidated capital requirements.

## **PRINCIPAL INVESTMENT MANAGEMENT LIMITED**

### **Directors' Responsibilities for Preparing the Financial Statements**

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

The directors are required under company law to prepare financial statements for each financial year and to present them annually to the Members in Annual General Meeting.

The financial statements must give a true and fair view of the state of affairs of the Company at the end of the financial year, and of the profit for that period, and they must comply with applicable Accounting Standards. The financial statements must be prepared on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are also responsible for the selection of suitable accounting policies, their consistent use in the financial statements, supported where necessary by reasonable and prudent judgements.

In addition, the directors are responsible for maintaining proper accounting records and sufficient internal controls to safeguard the assets of the Company and to prevent and detect fraud or any other irregularities.

The directors confirm that the above requirements have been complied with.

# PRINCIPAL INVESTMENT MANAGEMENT LIMITED

## Independent Auditor's Report to the Shareholders of Principal Investment Management Limited

We have audited the financial statements of Principal Investment Management Limited for the year ended 31 December 2005, which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses 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.

### 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  
Chartered Accountants and Registered Auditors  
Bromley

20 March 2006

