



PRINCIPAL PORTFOLIOS 4 PLC
DIRECTORS' REPORT AND FINANCIAL
STATEMENTS

for the year ended 31 March 1995





PRINCIPAL PORTFOLIOS 4 PLC

COMPANY PROFILE

DIRECTORS

JD Fishburn (Chairman)
RA Lo
ITC Noyce

SECRETARY

Miss AA Gulhane ACIS

REGISTERED OFFICE

17 Gay Street
Bath BA1 2PH

AUDITORS

Touche Ross & Co
Queen Anne House
69-71 Queen Square
Bristol BS1 4JP

BANKERS

Midland Bank plc
45 Milsom Street
Bath BA1 1DU

SOLICITORS

Howard Kennedy
23 Harcourt House
19 Cavendish Square
London W1A 2AW

PRINCIPAL PORTFOLIOS 4 PLC

DIRECTORS' REPORT for the year ended 31 March 1995

FINANCIAL STATEMENTS

The directors present their report and financial statements for the year ended 31 March 1995.

STATEMENT OF 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 the 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;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The company's principal activity is to act as a property investment company.

Prior to the year end BNP Mortgages Limited was purchased by Halifax Loans Limited, a subsidiary of the Halifax Building Society and BNP Mortgages Limited changed its name to Halifax Mortgage Services Limited.

The company has purchased residential property from Halifax Mortgage Services Limited (formerly BNP Mortgages Limited), and other BNP group companies, the ultimate holding company of which was Banque Nationale de Paris. The properties are being rented under the Assured Tenancy rules contained within the Housing Act 1988 and the Business Expansion Scheme as set out in the Finance Act 1988.

PRINCIPAL PORTFOLIOS 4 PLC

DIRECTORS' REPORT for the year ended 31 March 1995

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS *continued*

The company has entered into the following agreements, details of which were set out in the Memorandum to the Issue dated 10 March 1993:

- with Halifax Mortgage Services Limited (formerly BNP Mortgages Limited), the Option Agreement;
- with Banque Nationale de Paris, a Deed of Undertaking;
- with Halifax Mortgage Services Limited (formerly BNP Mortgages Limited) and the directors, a Deed of Covenant; and
- with Johnson Fry Property Limited, the Letting and Management Agreement.

The company's business developed satisfactorily during the year and at the end of the year the company was in a good position to continue this development.

RESULTS AND DIVIDENDS

The profit for the year after taxation amounted to £34,732 (1994: £30,989). The directors do not propose the payment of a dividend and recommend that £34,732 is transferred to reserves.

FIXED ASSETS

Details of movements in fixed assets during the year are set out in Note 5 to the financial statements.

DIRECTORS

The directors during the year were as follows:

JD Fishburn	(Chairman)
RA Lo	
ITC Noyce	(appointed 3 February 1995)
CC Jenkins	(resigned 3 February 1995)

DIRECTORS' INTERESTS IN SHARES

None of the directors who held office at 31 March 1995 had any interests in the share capital of the company at the beginning of the financial year or date of appointment and end of the financial year.

PRINCIPAL PORTFOLIOS 4 PLC

DIRECTORS' REPORT
for the year ended 31 March 1995

AUDITORS

The Bristol Partnership of BDO Binder Hamlyn merged their practice with Touche Ross & Co on 5 October 1994 and now carry on business under the name of Touche Ross & Co. The directors consented to the appointment of the Bristol Partnership of BDO Binder Hamlyn as auditors of the company being treated as extending to Touche Ross & Co. A resolution to re-appoint Touche Ross & Co as auditors will be proposed at the Annual General Meeting.

This report was approved by the Board on 4.12.95



JD Fishburn



Chartered Accountants

Touche Ross & Co.
Queen Anne House
69-71 Queen Square
Bristol BS1 4JP

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AUDITORS' REPORT to the members of Principal Portfolios 4 PLC

We have audited the financial statements on pages 5 to 14 which have been prepared on the basis of the accounting policies set out on page 8.

Respective responsibilities of directors and auditors

As described on page 1, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 March 1995 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Touche Ross & Co

18 September 1995

TOUCHE ROSS & CO
Chartered Accountants and
Registered Auditors

**Deloitte Touche
Tohmatsu
International**

Aberdeen, Bath, Belfast, Birmingham, Bournemouth, Bracknell, Bristol, Cambridge, Cardiff, Crawley, Dartford, Edinburgh, Glasgow, Leeds, Leicester, Liverpool, London, Manchester, Milton Keynes, Newcastle upon Tyne, Nottingham and Southampton.

Principal place of business at which a list of partners' names is available:
Stonecutter Court, 1 Stonecutter Street, London EC4A 4TR.

Authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business.

PRINCIPAL PORTFOLIOS 4 PLC

**PROFIT AND LOSS ACCOUNT
AND STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 March 1995**

	Notes	Continuing operations Period ended 31 March 1995	31 March 1994
		£	£
PROFIT AND LOSS ACCOUNT			
Rental income		104,102	33,577
Property expenses		(48,431)	(17,145)
Gross profit		55,671	16,432
Administrative expenses	2	(11,801)	(11,425)
Operating profit		43,870	5,007
Bank interest receivable		2,862	36,116
Profit on ordinary activities before taxation		46,732	41,123
Tax on profit on ordinary activities	4	(12,000)	(10,134)
Retained profit for the year		34,732	30,989
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES			
Profit for the financial year		34,732	30,989
Unrealised surplus on revaluation of properties (net of deferred taxation)		7,783	4,593
Total recognised gains		42,515	35,582

PRINCIPAL PORTFOLIOS 4 PLC

BALANCE SHEET
as at 31 March 1995

	Notes	1995	1994
		£	£
FIXED ASSETS			
Tangible assets	5	1,878,815	1,674,919
CURRENT ASSETS			
Debtors	6	2,787	3,329
Cash at bank and in hand		23,583	204,164
		26,370	207,493
CREDITORS: amounts falling due within one year	7	(12,686)	(30,166)
Net current assets		13,684	177,327
Total assets less current liabilities		1,892,499	1,852,246
PROVISIONS FOR LIABILITIES AND CHARGES	8	-	(2,262)
Net assets		1,892,499	1,849,984
CAPITAL AND RESERVES			
Called up share capital	10	960,002	960,002
Share premium account		854,400	854,400
Revaluation reserve	11	12,376	4,593
Profit and loss account	12	65,721	30,989
Total equity shareholders' funds		1,892,499	1,849,984

The financial statements on pages 5 to 14 were approved by the Board on 4. ix. 95



JD Fishburn
Director

PRINCIPAL PORTFOLIOS 4 PLC

CASH FLOW STATEMENT
for the year ended 31 March 1995

	Notes	1995	Period ended 31 March 1994
		£	£
Net cash inflow from operating activities	13	52,414	4,602
Returns on investments and servicing of finance			
Interest received		2,862	36,116
Net cash inflow from returns on investments and servicing of finance		2,862	36,116
Taxation			
UK Corporation tax paid		(10,134)	-
Investing activities			
Purchase of tangible fixed assets		(225,723)	(1,650,956)
Net cash outflow from investing activities		(225,723)	(1,650,956)
Net cash outflow before financing		(180,581)	(1,610,238)
Financing			
Issue of ordinary share capital		-	1,920,002
Expenses paid in connection with share issue		-	(105,600)
Net cash inflow from financing		-	1,814,402
(Decrease)/increase in cash and cash equivalents	14	(180,581)	204,164

1 ACCOUNTING POLICIES

Accounting convention

The financial statements are prepared under the historical cost convention, as modified to include the revaluation of properties, and in accordance with applicable accounting standards.

Tangible fixed assets and depreciation

Tangible fixed assets (with the exception of properties) are stated at cost less depreciation.

Depreciation is provided at rates calculated to write off the cost of each asset on a straight-line basis over its estimated useful life as follows:

Fixtures and fittings - 5 years

Properties

Properties are revalued annually to recognise a proportion of the expected return to shareholders which will accrue at the end of five years under the put and call option agreement referred to in Note 5(3). The aggregate surplus or deficit on revaluation is transferred to the revaluation reserve. No depreciation is provided as the put and call option agreement fixes the residual value of the properties.

Deferred taxation

Provision is made for deferred taxation using the liability method to take account of timing differences between the incidence of income, expenditure and property revaluations for taxation and accounting purposes, except to the extent that the directors consider that a liability to taxation is unlikely to crystallise.

Rental income

Rental income comprises gross rents receivable.

PRINCIPAL PORTFOLIOS 4 PLC

NOTES TO THE FINANCIAL STATEMENTS

2 ADMINISTRATIVE EXPENSES

Under the terms of the Letting and Management Agreement between Johnson Fry Property Limited and the company, Johnson Fry Property Limited are responsible, out of the management fee charged, for all the administrative costs of the company, including the following costs:

	1995	10 March 1993 to 31 March 1994
	£	£
Auditors' remuneration		
- audit services	1,118	1,763
- other services including taxation	558	881
Directors' emoluments (Note 3)	1,503	1,363

3 DIRECTORS

(1) Emoluments

The emoluments of directors of the company were:

Fees	1,503	1,363
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(2) Bandings

Fees and other emoluments disclosed above include amounts paid to:

The chairman (who is the highest-paid director)	1,503	1,363
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Other directors' emoluments were in the following range:

	Number	Number
£0 - £5,000	3	3

PRINCIPAL PORTFOLIOS 4 PLC

NOTES TO THE FINANCIAL STATEMENTS

4 TAXATION

	1995 £	1994 £
UK current year taxation		
UK Corporation Tax at 25% (1994: 25%)	12,000	10,134

5 TANGIBLE FIXED ASSETS

(1) Summary

	Properties £	Fixtures and fittings £	Total £
Cost or valuation			
1 April 1994	1,642,255	35,436	1,677,691
Additions at cost	191,802	15,473	207,275
Revaluations	5,521	-	5,521
31 March 1995	1,839,578	50,909	1,890,487
Depreciation			
1 April 1994	-	2,772	2,772
Charge for the year	-	8,900	8,900
31 March 1995	-	11,672	11,672
Net book value			
31 March 1995	1,839,578	39,237	1,878,815
31 March 1994	1,642,255	32,664	1,674,919

The historical cost of the company's properties was £1,827,202 (1994: £1,635,400).

(2) Analysis of properties

	1995 £	1994 £
Net book value		
Freehold	1,728,581	1,538,957
Long leasehold	110,997	103,298
	1,839,578	1,642,255

5 TANGIBLE FIXED ASSETS *continued*

(3) Asset revaluations

The company has entered into an Option Agreement which sets out the company's right to require Halifax Mortgage Services Limited (formerly BNP Mortgages Limited) to buy the company's properties at the end of five years ('the put option') with a corresponding right for Halifax Mortgage Services Limited (formerly BNP Mortgages Limited) to require the company to sell those properties to it shortly thereafter ('the call option').

The formula under which the option prices are calculated, which applies equally to the put option and the call option, is designed to ensure that, after allowing for both accumulated profits (or losses) in the company and any capital gains tax liability on the sale of its properties, the company will have sufficient cash to permit a distribution of 105p per share to its shareholders on a voluntary liquidation. Banque Nationale de Paris has guaranteed the purchase obligations of Halifax Mortgage Services Limited (formerly BNP Mortgages Limited) under the Option Agreement up to a maximum liability of £2.21 million.

The directors have decided that this return to the shareholders can be deemed to accumulate on the net funds invested evenly over the five year period on a compound basis. They have revalued the company's properties accordingly.

The directors confirm that Halifax Mortgage Services Limited (formerly BNP Mortgages Limited) has signed the Option Agreement mentioned above and is able to do so under its constitution. The directors know of no reason why Halifax Mortgage Services Limited (formerly BNP Mortgages Limited) should not be able to meet the terms of the Option Agreement when it falls due.

6 DEBTORS	1995 £	1994 £
Prepayments and accrued income	2,787	3,329

7 CREDITORS: amounts falling due within one year

Trade creditors	79	18,527
Corporation tax	12,000	10,134
Accruals and deferred income	607	1,505
	12,686	30,166

PRINCIPAL PORTFOLIOS 4 PLC
NOTES TO THE FINANCIAL STATEMENTS

8 PROVISIONS FOR LIABILITIES AND CHARGES

Deferred tax	£
1 April 1994	2,262
Transfer from revaluation reserve	(2,262)
31 March 1995	-

9 DEFERRED TAX

	1995	1994
Full provision has been made for deferred tax as follows:	£	£
Revaluation of properties	-	2,262

10 CALLED UP SHARE CAPITAL

(1) Authorised	Number	1995	£
50p 'A' ordinary share	1		1
50p Ordinary shares	5,999,999		2,999,999
(2) Allotted and fully paid		1995	1994
		£	£
50p 'A' ordinary share	1		1
50p Ordinary shares	960,001		960,001
31 March	960,002		960,002

(3) Rights attached to shares

In the event of the winding up of the company at any time after the fifth anniversary of the last issue of shares, the holders of the ordinary shares and the holder of the 'A' ordinary share will be entitled to receive by way of distribution 105p per share held by them. The holder of the 'A' ordinary share shall be entitled to receive any balance available for distribution of a further amount equal to 105p multiplied by the number of shares in issue and the balance available for distribution shall be distributed equally among the holders of the ordinary shares and the holder of the 'A' ordinary share provided always that the holder of the 'A' ordinary share shall not be entitled to receive more than one half the surplus assets of the company remaining after payment of its liabilities.

PRINCIPAL PORTFOLIOS 4 PLC

NOTES TO THE FINANCIAL STATEMENTS

11	REVALUATION RESERVE	£	
	1 April 1994	4,593	
	Revaluation in the year	5,521	
	Transfer from deferred tax	2,262	
	31 March 1995	12,376	
12	PROFIT AND LOSS ACCOUNT		
	1 April 1994	30,989	
	Retained profit for the year	34,732	
	31 March 1995	65,721	
13	RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES		
			10 March 1993 to 31 March
		1995	1994
		£	£
	Operating profit	43,870	5,007
	Depreciation	8,900	2,772
	Decrease/(increase) in debtors	542	(3,329)
	(Decrease)/increase in creditors	(898)	152
	Net cash inflow from operating activities	52,414	4,602
14	CASH AND CASH EQUIVALENTS		
		1995	1994
		£	£
	Balance of cash and cash equivalents		
	Cash at bank and in hand	23,583	204,164
	Change in the balance of cash and cash equivalents		
	1 April	204,164	-
	Net cash (outflow)/inflow for the year	(180,581)	204,164
	31 March	23,583	204,164

NOTES TO THE FINANCIAL STATEMENTS

15 RECONCILIATION OF MOVEMENTS IN
SHAREHOLDERS' FUNDS

		10 March 1993 to 31 March 1994
	1995 £	1994 £
Profit for the financial year	34,732	30,989
Other recognised gains and losses relating to the year (net)	7,783	4,593
New share capital subscribed	-	1,814,402
Net addition to shareholders' funds	42,515	1,849,984
Opening shareholders' funds	1,849,984	-
Closing shareholders' funds	1,892,499	1,849,984