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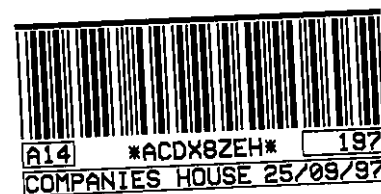


REGISTRAR

**PRINCIPAL PORTFOLIOS 4 PLC  
DIRECTORS' REPORT AND FINANCIAL  
STATEMENTS**

**for the year ended 31 March 1997**

Company number 2799756





## PRINCIPAL PORTFOLIOS 4 PLC

### **DIRECTORS' REPORT** for the year ended 31 March 1997

#### **FINANCIAL STATEMENTS**

The directors present their report and financial statements for the year ended 31 March 1997.

#### **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 as at the end of the financial year 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;
- 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. 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.

On 6 February 1995 BNP Mortgages Limited purchased 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.

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 Pinnacle Housing Limited (formerly Johnson Fry Housing Limited), the Letting and Management Agreement.

On 31 January 1997 Johnson Fry Housing Limited changed its name to Pinnacle Housing Limited.

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.

**DIRECTORS' REPORT**  
for the year ended 31 March 1997

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**RESULTS AND DIVIDENDS**

The profit for the year after taxation amounted to £17,828 (1996: £37,146). The directors do not propose the payment of a dividend and recommend that £17,828 is transferred to reserves.

**FIXED ASSETS**

Details of movements in fixed assets during the year are set out in Note 4 to the financial statements.

**DIRECTORS**

The directors during the year were as follows:

PC Nicholson (Chairman)	(appointed 5 September 1996)
JDM Smallwood	(appointed 17 July 1996)
RA Lo	
JD Fishburn	(resigned 5 September 1996)
ITC Noyce	(resigned 17 July 1996)

**DIRECTORS' INTERESTS IN SHARES**

None of the directors who held office at 31 March 1997 had any interests in the share capital of the company at the beginning and end of the financial year.

**PAYMENT POLICY**

The company's policy is to comply with the terms of payment agreed with a supplier. Where payment is made by Pinnacle Housing Limited in accordance with the management agreement, Pinnacle Housing Limited complies with the company's payment policy. Where terms are not negotiated, both the company and Pinnacle Housing Limited endeavour to adhere to the supplier's standard terms.

**AUDITORS**

A resolution for the reappointment of Deloitte & Touche as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

This report was approved by the Board on **16 SEP 1997**



**PC Nicholson**



## Chartered Accountants

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### AUDITORS' REPORT to the members of Principal Portfolios 4 PLC

We have audited the financial statements on pages 4 to 11 which have been prepared under the accounting policies set out on page 7.

#### 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 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Deloitte & Touche*

*17 September 1997*

**DELOITTE & TOUCHE**  
Chartered Accountants and  
Registered Auditors


**PRINCIPAL PORTFOLIOS 4 PLC**
**PROFIT AND LOSS ACCOUNT  
AND STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES  
for the year ended 31 March 1997**

	Notes	Continuing operations 1997	1996
		£	£
<b>PROFIT AND LOSS ACCOUNT</b>			
Rental income		142,728	139,708
Property expenses		(84,734)	(80,032)
<b>Gross profit</b>		57,994	59,676
Administrative expenses	2	(12,468)	(12,044)
<b>Operating profit</b>		45,526	47,632
Loss on disposal of tangible fixed assets		(21,015)	-
Bank interest receivable		3,528	1,514
<b>Profit on ordinary activities before taxation</b>		28,039	49,146
Tax on profit on ordinary activities	3	(10,211)	(12,000)
<b>Retained profit for the year</b>	9	17,828	37,146
<b>STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES</b>			
Profit for the financial year		17,828	37,146
Unrealised surplus on revaluation of properties		23,331	3,160
<b>Total recognised gains</b>		41,159	40,306

**PRINCIPAL PORTFOLIOS 4 PLC**

**BALANCE SHEET**  
as at 31 March 1997

	Notes	1997		1996	
		£	£	£	£
<b>FIXED ASSETS</b>					
Tangible assets	4		1,843,670		1,872,608
<b>CURRENT ASSETS</b>					
Debtors	5	6,097		3,116	
Cash at bank and in hand		135,832		69,872	
		141,929		72,988	
<b>CREDITORS:</b> amounts falling due within one year	6	(11,635)		(12,791)	
<b>Net current assets</b>			130,294		60,197
<b>Net assets</b>			1,973,964		1,932,805
<b>CAPITAL AND RESERVES</b>					
Called up share capital	7	960,002		960,002	
Share premium account		854,400		854,400	
Revaluation reserve	8	38,867		15,536	
Profit and loss account	9	120,695		102,867	
<b>Total equity shareholders' funds</b>			1,973,964		1,932,805

The financial statements on pages 4 to 11 were approved by the Board on **16 SEP 1997**



**PC Nicholson**  
Director


**PRINCIPAL PORTFOLIOS 4 PLC**
**CASH FLOW STATEMENT  
for the year ended 31 March 1997**

	Notes	1997	1996
		£	£
Net cash inflow from operating activities	10	53,709	57,295
Returns on investments and servicing of finance			
Interest received		2,983	1,514
Taxation			
UK corporation tax paid		(11,656)	(11,555)
Capital expenditure			
Proceeds from disposal of tangible fixed assets		20,924	(965)
Increase in cash in the year	11	65,960	46,289

## **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 4(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.

## **2 ADMINISTRATIVE EXPENSES**

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

	1997 £	1996 £
Auditors' remuneration		
- audit services	1,539	1,118
- other services including taxation	385	558
Directors' emoluments	874	1,555




**PRINCIPAL PORTFOLIOS 4 PLC**
**NOTES TO THE FINANCIAL STATEMENTS**

3 TAXATION	1997 £	1996 £
UK current year taxation		
UK corporation tax at 24% (1996: 25%)	11,000	12,445
Over provision in prior year	(789)	(445)
<b>Tax on profit on ordinary activities</b>	<b>10,211</b>	<b>12,000</b>

The tax charge is high this year as the loss on disposal of tangible fixed assets of £21,015 is not an allowable deduction for tax purposes.

**4 TANGIBLE FIXED ASSETS**
**(1) Summary**

	Properties £	Fixtures and fittings £	Total £
<b>Cost or valuation</b>			
1 April 1996	1,842,879	51,733	1,894,612
Disposals	(41,378)	(990)	(42,368)
Revaluations	23,331	-	23,331
<b>31 March 1997</b>	<b>1,824,832</b>	<b>50,743</b>	<b>1,875,575</b>
<b>Depreciation</b>			
1 April 1996	-	22,004	22,004
Charge for the year	-	10,330	10,330
Disposals	-	(429)	(429)
<b>31 March 1997</b>	<b>-</b>	<b>31,905</b>	<b>31,905</b>
<b>Net book value</b>			
<b>31 March 1997</b>	<b>1,824,832</b>	<b>18,838</b>	<b>1,843,670</b>
<b>31 March 1996</b>	<b>1,842,879</b>	<b>29,729</b>	<b>1,872,608</b>

The historical cost of the company's properties at 31 March 1997 was £1,785,965 (1996: £1,827,343).

**(2) Analysis of properties**

	1997 £	1996 £
<b>Net book value</b>		
Freehold	1,712,197	1,731,684
Long leasehold	112,635	111,195
	<b>1,824,832</b>	<b>1,842,879</b>

**4 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 to buy the company's properties at the end of five years ('the put option') with a corresponding right for Halifax Mortgage Services 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 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. If the above contractual arrangements were not present the directors are of the opinion that the properties may be worth less than their carrying value.

The directors confirm that Halifax Mortgage Services 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 should not be able to meet the terms of the Option Agreement when it falls due.

<b>5 DEBTORS</b>	<b>1997</b>	<b>1996</b>
	<b>£</b>	<b>£</b>
Other debtors	2,751	278
Prepayments and accrued income	3,346	2,838
	<b>6,097</b>	<b>3,116</b>

**6 CREDITORS: amounts falling due within one year**

Corporation tax	11,000	12,445
Accruals and deferred income	635	346
	<b>11,635</b>	<b>12,791</b>

**7 CALLED UP SHARE CAPITAL**

	<b>1997</b>	
<b>(1) Authorised</b>	<b>Number</b>	<b>£</b>
50p 'A' ordinary share	1	1
50p Ordinary shares	5,999,999	2,999,999

**7 CALLED UP SHARE CAPITAL *continued***

	1997 £	1996 £
(2) Allotted and fully paid		
50p 'A' ordinary share	1	1
50p Ordinary shares	960,001	960,001
<b>31 March</b>	<b>960,002</b>	<b>960,002</b>

**(3) Special rights attached to the 'A' ordinary share**

The holder of the 'A' ordinary share has the right to appoint one director and to remove that director at any time. The consent of the holder of the 'A' ordinary share is required for:

- any alteration to the Articles of Association;
- the passing of any resolution of the company;
- the passing of any special resolution to wind up the company;
- any increase in authorised or issued share capital;
- the creation of any new class of share capital of the company; and
- the payment of any dividend.

**(4) 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.

**8 REVALUATION RESERVE**

	£
1 April 1996	15,536
Revaluation in the year	23,331
<b>31 March 1997</b>	<b>38,867</b>

**9 PROFIT AND LOSS ACCOUNT**

1 April 1996	102,867
Retained profit for the year	17,828
<b>31 March 1997</b>	<b>120,695</b>

**10 RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES**

	1997 £	1996 £
Operating profit	45,526	47,632
Depreciation	10,330	10,332
Increase in debtors	(2,436)	(329)
Increase/(decrease) in creditors	289	(340)
<b>Net cash inflow from operating activities</b>	<b>53,709</b>	<b>57,295</b>

**11 NET FUNDS**

**Analysis of net funds**

Cash at bank and in hand	135,832	69,872
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**Reconciliation of net cash flows to movement in net funds**

1 April	69,872	23,583
Increase in cash in the year	65,960	46,289
<b>31 March</b>	<b>135,832</b>	<b>69,872</b>

**12 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

Profit for the financial year	17,828	37,146
Other recognised gains and losses relating to the year	23,331	3,160
<b>Net addition to shareholders' funds</b>	<b>41,159</b>	<b>40,306</b>
Opening shareholders' funds	1,932,805	1,892,499
<b>Closing shareholders' funds</b>	<b>1,973,964</b>	<b>1,932,805</b>

**13 RELATED PARTY DISCLOSURE**

Under the terms of the Management Agreement entered into between Pinnacle Housing Limited and the company, Pinnacle Housing Limited is responsible for managing the properties owned by the company and for handling all the administrative matters associated with the running of the company. During the year, Pinnacle Housing Limited and other group companies received fees for these and other services of £45,409 (gross of irrecoverable VAT). Pinnacle Housing Limited owed £2,496 to the company at the year end.