



PRINCIPAL PORTFOLIOS 4 PLC
DIRECTORS' REPORT AND FINANCIAL
STATEMENTS

for the year ended 31 March 1998





PRINCIPAL PORTFOLIOS 4 PLC

COMPANY PROFILE

DIRECTORS

JDM Smallwood
TJ Goode
AW Jukes
SJ Peters

SECRETARY

MS Lodge

REGISTERED OFFICE

Trinity Road
Halifax HX1 2RD

AUDITORS

Deloitte & Touche
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

**DIRECTORS' REPORT
for the year ended 31 March 1998****FINANCIAL STATEMENTS**

The directors present their report and financial statements for the year ended 31 March 1998.

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.

The company has purchased residential property from Halifax Mortgage Services Limited, and other BNP group companies, the ultimate holding company of which was Banque Nationale de Paris, now Halifax PLC. 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, the Option Agreement;
- with Banque Nationale de Paris, a Deed of Undertaking;
- with Halifax Mortgage Services Limited and the directors, a Deed of Covenant; and
- with Pinnacle Housing Limited, the Letting and Management Agreement.

POST BALANCE SHEET EVENT

On 1 April 1998, in line with the Offer for Subscription Agreement, Halifax Mortgage Services Limited purchased the shares of the company at a value of £1.05 per share. The agreements referred to above then expired.

RESULTS AND DIVIDENDS

The loss for the year after taxation amounted to £337,915 (1997: profit of £17,828). The directors do not propose the payment of a dividend and recommend that £337,915 is transferred from reserves.

DIRECTORS' REPORT
for the year ended 31 March 1998

FIXED ASSETS

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

DIRECTORS

The directors were as follows:

JDM Smallwood
TJ Goode (appointed 3 April 1998)
AW Jukes (appointed 3 April 1998)
SJ Peters (appointed 3 April 1998)
PC Nicholson (resigned 1 April 1998)
RA Lo (resigned 1 April 1998)

DIRECTORS' INTERESTS IN SHARES

None of the directors who held office at 31 March 1998 had any interest 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.

YEAR 2000

The directors have considered the impact of year 2000 on their computer systems and are taking the necessary steps to ensure that their systems will be year 2000 compliant. However, due to the nature of the company, the year 2000 is not considered to have a material impact on the company's activities and we estimate that future costs will not be material.

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 22nd September 1998

Tom Small

Director



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 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

8 October 1998

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 1998**

	Notes	Continuing operations	
		1998	1997
		£	£
PROFIT AND LOSS ACCOUNT			
Rental income		76,496	142,728
Property expenses		(44,824)	(84,734)
Gross profit		31,672	57,994
Administrative expenses	2	(21,024)	(12,468)
Operating profit		10,648	45,526
Loss on disposal of tangible fixed assets		(388,533)	(21,015)
Bank interest receivable		56,008	3,528
(Loss)/profit on ordinary activities before taxation		(321,877)	28,039
Tax on (loss)/profit on ordinary activities	3	(16,038)	(10,211)
Retained (loss)/profit for the year	9	(337,915)	17,828
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES			
(Loss)/profit for the financial year		(337,915)	17,828
Unrealised surplus on revaluation of properties		-	23,331
Total recognised losses and gains		(337,915)	41,159



PRINCIPAL PORTFOLIOS 4 PLC

BALANCE SHEET
as at 31 March 1998

	Notes	1998	1997
		£	£
FIXED ASSETS			
Tangible assets	4	40,055	1,843,670
CURRENT ASSETS			
Debtors	5	27,227	6,097
Cash at bank and in hand		1,592,609	135,832
		1,619,836	141,929
CREDITORS: amounts falling due within one year	6	(23,842)	(11,635)
Net current assets		1,595,994	130,294
Net assets		1,636,049	1,973,964
CAPITAL AND RESERVES			
Called up share capital	7	960,002	960,002
Share premium account		854,400	854,400
Revaluation reserve	8	-	38,867
Profit and loss account	9	(178,353)	120,695
Total equity shareholders' funds		1,636,049	1,973,964

The financial statements on pages 4 to 11 were approved by the Board on 22nd September 1998

Director



PRINCIPAL PORTFOLIOS 4 PLC

**CASH FLOW STATEMENT
for the year ended 31 March 1998**

	Notes	1998	1997
		£	£
Net cash inflow from operating activities	10	27,783	53,709
Returns on investments and servicing of finance			
Interest received		32,432	2,983
Taxation			
UK corporation tax paid		(11,788)	(11,656)
Capital expenditure			
Proceeds from disposal of tangible fixed assets		1,408,350	20,924
Increase in cash in the year	11	1,456,777	65,960



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

In previous years, properties were revalued annually to recognise the proportion of the expected return to shareholders which would accrue at the end of five years under the put and call option agreement referred to in Note 4(3). The aggregate deficit on revaluation was transferred from the revaluation reserve.

On expiry of the option agreement the properties are now deemed to be investment properties, and in accordance with the Statement of Standard Accounting Practice 19 'Accounting for Investment Properties' are revalued annually and any aggregate surplus or deficit arising which is deemed temporary is transferred to the revaluation reserve. Permanent deficits are charged against the profit and loss account. No depreciation is provided in respect of investment properties.

The Companies Act 1985 requires all properties to be depreciated. However, this requirement conflicts with the generally accepted accounting principle set out in SSAP 19. The directors consider that, because these properties are not held for consumption but for their investment potential, in order to give a true and fair view, they should not be depreciated. If this departure from the Act had not been made, the loss for the year would have been increased by depreciation and net assets of the company would have reduced accordingly. However, the amount of depreciation cannot reasonably be quantified because depreciation is only one of many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

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	1998	1997
		£	£
	Auditors' remuneration:		
	- audit services	2,182	1,539
	- other services including taxation	294	385
	Directors' emoluments	512	874
3	TAXATION		
	UK current year taxation		
	UK corporation tax at 21% (1997: 24%)	15,250	11,000
	Under/(over) provision in prior year	788	(789)
	Tax on (loss)/profit on ordinary activities	16,038	10,211
<p>The tax charge is high this year as the loss on disposal of tangible fixed assets of £388,533 is not an allowable deduction for tax purposes.</p>			
4	TANGIBLE FIXED ASSETS		
	(1) Summary		
		Properties	Fixtures and fittings
		£	£
	Cost or valuation		Total
	1 April 1997	1,824,832	50,743
	Disposals	(1,784,777)	(47,812)
	31 March 1998	40,055	2,931
	Depreciation		
	1 April 1997	-	31,905
	Charge for the year	-	6,732
	Disposals	-	(35,706)
	31 March 1998	-	2,931
	Net book value		
	31 March 1998	40,055	-
	31 March 1997	1,824,832	18,838
<p>The historical cost of the company's properties at 31 March 1998 was £40,055 (1997: £1,785,965).</p>			
	(2) Analysis of properties	1998	1997
		£	£
	Net book value		
	Freehold	40,055	1,712,197
	Long leasehold	-	112,635
		40,055	1,824,832



4 TANGIBLE FIXED ASSETS *continued*

(3) Asset revaluations

The directors have reviewed the valuation of all the company's investment properties as at 31 March 1998. The directors are of the opinion that the open market value of the company's investment properties is not materially different to that shown above.

In respect of previous years, the company entered into option arrangements which entitled it to require Halifax Mortgage Services Limited to buy the company's properties at the end of five years at whatever price was necessary to provide shareholders on a winding up with 105p in cash per share, calculated after allowing for all liabilities, including any corporation tax arising. Banque Nationale de Paris guaranteed the purchase obligations of Halifax Mortgage Services Limited under the Option Agreement up to a maximum liability of £2.21 million. As an alternative to the Option Arrangements, Banque Nationale de Paris or a subsidiary of Banque Nationale de Paris could elect to make a cash offer of not less than 105p per share at the end of five years. The directors decided that the net assets of the company should reflect the expected return to shareholders and that this return could be deemed to accumulate evenly over the five year period on a compound basis.

5 DEBTORS	1998	1997
	£	£
Other debtors	305	2,751
Prepayments and accrued income	26,922	3,346
	27,227	6,097

6 CREDITORS: amounts falling due within one year

Corporation tax	15,250	11,000
Accruals and deferred income	2,715	635
Other creditors	5,877	-
	23,842	11,635

7 CALLED UP SHARE CAPITAL

	1998	
(1) Authorised	Number	£
50p 'A' ordinary share	1	1
50p Ordinary shares	5,999,999	2,999,999
(2) Allotted and fully paid	1998	1997
	£	£
50p 'A' ordinary share	1	1
50p Ordinary shares	960,001	960,001
31 March	960,002	960,002



7 CALLED UP SHARE CAPITAL *continued*

(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 1997	38,867
Transfer to profit and loss account	(38,867)

31 March 1998

-

9 PROFIT AND LOSS ACCOUNT

1 April 1997	120,695
Retained loss for the year	(337,915)
Transfer from revaluation reserve	38,867

31 March 1998

(178,353)

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

1998
£

1997
£

Operating profit	10,648	45,526
Depreciation	6,732	10,330
Decrease/(increase) in debtors	2,446	(2,436)
Increase in creditors	7,957	289
Net cash inflow from operating activities	27,783	53,709


PRINCIPAL PORTFOLIOS 4 PLC
NOTES TO THE FINANCIAL STATEMENTS
11 NET FUNDS

	1998 £	1997 £
Analysis of net funds		
Cash at bank and in hand	1,592,609	135,832
Reconciliation of net cash flows to movement in net funds		
1 April	135,832	69,872
Increase in cash in the year	1,456,777	65,960
31 March	1,592,609	135,832

12 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

(Loss)/profit for the financial year	(337,915)	17,828
Other recognised gains and losses relating to the year	-	23,331
Net (reduction)/addition to shareholders' funds	(337,915)	41,159
Opening shareholders' funds	1,973,964	1,932,805
Closing shareholders' funds	1,636,049	1,973,964

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 £37,731 (gross of irrecoverable VAT). Pinnacle Housing Limited was owed £3,401 by the company at the year end.

14 POST BALANCE SHEET EVENT

On 1 April 1998, in line with the Offer for Subscription Agreement, Halifax Mortgage Services Limited purchased the shares of the company at a value of £1.05 per share.