

PRINCIPAL PORTFOLIOS 4 PLC
DIRECTORS' REPORT AND FINANCIAL
STATEMENTS

for the year ended 31 March 1996



PRINCIPAL PORTFOLIOS 4 PLC

COMPANY PROFILE

DIRECTORS

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

SECRETARY

AA Gulhane ACIS

REGISTERED OFFICE

17 Gay Street
Bath BA1 2PH

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 1996

FINANCIAL STATEMENTS

The directors present their report and financial statements for the year ended 31 March 1996.

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 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.

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

On 5 February 1996 Johnson Fry Property Limited changed its name to Johnson Fry 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.

PRINCIPAL PORTFOLIOS 4 PLC

DIRECTORS' REPORT
for the year ended 31 March 1996

RESULTS AND DIVIDENDS

The profit for the year after taxation amounted to £37,146 (1995: £34,732). The directors do not propose the payment of a dividend and recommend that £37,146 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

DIRECTORS' INTERESTS IN SHARES

None of the directors who held office at 31 March 1996 had any interests in the share capital of the company at the beginning and end of the financial year.

AUDITORS

On 1 February 1996 our auditors changed the name under which they practise to Deloitte & Touche and, accordingly, have signed their report in their new name. 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 3. viii. 96

JD Fishburn

JD Fishburn



Chartered Accountants

Deloitte & Touche
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 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 1996 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

DELOITTE & TOUCHE
Chartered Accountants and
Registered Auditors

14 August 1996

PRINCIPAL PORTFOLIOS 4 PLC

**PROFIT AND LOSS ACCOUNT
 AND STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
 for the year ended 31 March 1996**

	Notes	Continuing operations	
		1996	1995
		£	£
PROFIT AND LOSS ACCOUNT			
Rental income		139,708	104,102
Property expenses		(80,032)	(48,431)
Gross profit		59,676	55,671
Administrative expenses	2	(12,044)	(11,801)
Operating profit		47,632	43,870
Bank interest receivable		1,514	2,862
Profit on ordinary activities before taxation		49,146	46,732
Tax on profit on ordinary activities	4	(12,000)	(12,000)
Retained profit for the year	10	37,146	34,732
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES			
Profit for the financial year		37,146	34,732
Unrealised surplus on revaluation of properties		3,160	7,783
Total recognised gains		40,306	42,515

PRINCIPAL PORTFOLIOS 4 PLC

BALANCE SHEET
as at 31 March 1996

	Notes	1996	1995
		£	£
FIXED ASSETS			
Tangible assets	5	1,872,608	1,878,815
CURRENT ASSETS			
Debtors	6	3,116	2,787
Cash at bank and in hand		69,872	23,583
		72,988	26,370
CREDITORS: amounts falling due within one year	7	(12,791)	(12,686)
Net current assets		60,197	13,684
Net assets		1,932,805	1,892,499
CAPITAL AND RESERVES			
Called up share capital	8	960,002	960,002
Share premium account		854,400	854,400
Revaluation reserve	9	15,536	12,376
Profit and loss account	10	102,867	65,721
Total equity shareholders' funds		1,932,805	1,892,499

The financial statements on pages 4 to 11 were approved by the Board on

3. viii. 96

J. D. Fishburn

JD Fishburn
Director


PRINCIPAL PORTFOLIOS 4 PLC
**CASH FLOW STATEMENT
for the year ended 31 March 1996**

	Notes	1996	1995
		£	£
Net cash inflow from operating activities	11	57,295	52,414
Returns on investments and servicing of finance			
Interest received		1,514	2,862
Net cash inflow from returns on investments and servicing of finance		1,514	2,862
Taxation			
UK Corporation tax paid		(11,555)	(10,134)
Investing activities			
Purchase of tangible fixed assets		(965)	(225,723)
Net cash outflow from investing activities		(965)	(225,723)
Increase/(decrease) in cash and cash equivalents	12	46,289	(180,581)

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.

2 ADMINISTRATIVE EXPENSES

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

	1996 £	1995 £
Auditors' remuneration		
- audit services	1,118	1,118
- other services including taxation	558	558
Directors' emoluments (Note 3)	1,555	1,503

3 DIRECTORS

(1) Emoluments

The emoluments of directors of the company were:

Fees	1,555	1,503
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3 DIRECTORS *continued*

(2) Bandings

Fees and other emoluments disclosed above include amounts paid to:

	1996 £	1995 £
The chairman (who is the highest-paid director)	1,555	1,503

Other directors' emoluments were in the following range:

	Number	Number
£0 - £5,000	2	3

4 TAXATION

	£	£
UK current year taxation		
UK Corporation Tax at 25% (1995: 25%)	12,445	12,000
Over provision in prior year	(445)	-
Tax on profit on ordinary activities	12,000	12,000

5 TANGIBLE FIXED ASSETS

(1) Summary

	Properties £	Fixtures and fittings £	Total £
Cost or valuation			
1 April 1995	1,839,578	50,909	1,890,487
Additions at cost	141	824	965
Revaluations	3,160	-	3,160
31 March 1996	1,842,879	51,733	1,894,612
Depreciation			
1 April 1995	-	11,672	11,672
Charge for the year	-	10,332	10,332
31 March 1996	-	22,004	22,004
Net book value			
31 March 1996	1,842,879	29,729	1,872,608
31 March 1995	1,839,578	39,237	1,878,815

The historical cost of the company's properties at 31 March 1996 was £1,827,343 (1995: £1,827,202).

5 TANGIBLE FIXED ASSETS *continued*

(2) Analysis of properties	1996	1995
	£	£
Net book value		
Freehold	1,731,684	1,728,581
Long leasehold	111,195	110,997
	1,842,879	1,839,578

(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

Other debtors	278	-
Prepayments and accrued income	2,838	2,787
	3,116	2,787

7 CREDITORS: amounts falling due within one year

Trade creditors	-	79
Corporation tax	12,445	12,000
Accruals and deferred income	346	607
	12,791	12,686



PRINCIPAL PORTFOLIOS 4 PLC

NOTES TO THE FINANCIAL STATEMENTS

8 CALLED UP SHARE CAPITAL

	Number	1996 £	
(1) Authorised			
50p 'A' ordinary share	1	1	
50p Ordinary shares	5,999,999	2,999,999	
(2) Allotted and fully paid			
	1996 £	1995 £	
50p 'A' ordinary share	1	1	
50p Ordinary shares	960,001	960,001	
31 March	960,002	960,002	

(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.

9 REVALUATION RESERVE

	£
1 April 1995	12,376
Revaluation in the year	3,160
31 March 1996	15,536

NOTES TO THE FINANCIAL STATEMENTS

10	PROFIT AND LOSS ACCOUNT	£	
	1 April 1995	65,721	
	Retained profit for the year	37,146	
	31 March 1996	102,867	
11	RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES	1996	1995
		£	£
	Operating profit	47,632	43,870
	Depreciation	10,332	8,900
	(Increase)/decrease in debtors	(329)	542
	Decrease in creditors	(340)	(898)
	Net cash inflow from operating activities	57,295	52,414
12	CASH AND CASH EQUIVALENTS		
	Balance of cash and cash equivalents		
	Cash at bank and in hand	69,872	23,583
	Change in the balance of cash and cash equivalents		
	1 April	23,583	204,164
	Net cash inflow/(outflow) for the year	46,289	(180,581)
	31 March	69,872	23,583
13	RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS		
	Profit for the financial year	37,146	34,732
	Other recognised gains and losses relating to the year	3,160	7,783
	Net addition to shareholders' funds	40,306	42,515
	Opening shareholders' funds	1,892,499	1,849,984
	Closing shareholders' funds	1,932,805	1,892,499