

Company Registration No. 74643

**INTERSERVE INVESTMENTS PLC**

**Report and Financial Statements**

**31 December 2002**

**Deloitte & Touche  
London**



# **INTERSERVE INVESTMENTS PLC**

## **REPORT AND FINANCIAL STATEMENTS 2002**

### **OFFICERS AND PROFESSIONAL ADVISERS**

#### **DIRECTORS**

Mr C J Groom  
Mr M S Lee  
Mr D J McEvedy  
Mr A M Ringrose  
Mr R D Vince  
Mr J H Vyse

#### **SECRETARY**

Mr T Bradbury

#### **REGISTERED OFFICE**

Interserve House  
Ruscombe Park  
Twyford  
Reading  
Berkshire  
RG10 9JU

#### **BANKERS**

The Royal Bank of Scotland plc  
5-10 Great Tower Street  
London  
EC3P 3HX

#### **AUDITORS**

Deloitte & Touche  
Chartered Accountants  
London

# INTERSERVE INVESTMENTS PLC

## DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2002.

### ACTIVITIES

The principal activities of the company are that of a holding company of investments and bidding new work on PFI/PPP projects. This activity is expected to continue for the foreseeable future.

### RESULTS

The results of the company are as set out in the accounts on page 6. No interim dividend was paid during the year (2001: £nil) and the directors do not recommend a final dividend (2001: £nil). A loss of £800,000 (2001: £nil) has been transferred from reserves.

### DIRECTORS AND THEIR INTERESTS

The directors who served during the year and who remain directors as at the date of this report unless otherwise stated are set out below:

Mr T Bradbury (resigned 19 April 2002)  
Mr C J Groom (appointed 1 January 2002)  
Mr M S Lee  
Mr D J McEvedy  
Mr A M Ringrose  
Mr R D Vince  
Mr J H Vyse  
Mr G J Wentzell (resigned 30 June 2002)

The directors who held office at the end of the financial year had the following beneficial interests in the shares of the ultimate parent company, Interserve Plc:

Director	Ordinary shares of 10p each		Options over ordinary shares of 10p each						
	01.01.02	31.12.02	01.01.02	Granted during year	Exercised during year	31.12.02	Exercise Price	Market price at exercise date	Exercise period
RD Vince	978	978	Nil	5,295	Nil	5,295	£5.665	N/a	19.03.05-18.03.09
			Nil	4,705	Nil	4,705	£5.665	N/a	19.03.05 – 18.03.09
			Nil	241	Nil	241	£4.41	N/a	01.06.05 – 30.11.05
DJ McEvedy	4,286	4,286	1,640	Nil	Nil	1,640	£4.394	N/a	01.06.04 – 30.11.04
			Nil	5,295	Nil	5,295	£5.665	N/a	19.03.05-18.03.09
			Nil	4,705	Nil	4,705	£5.665	N/a	19.03.05 – 18.03.09
			Nil	241	Nil	241	£4.41	N/a	01.06.05 – 30.11.05

In addition DJ McEvedy holds £30,000 (2001: £38,600) unsecured floating rate loan notes issued by the ultimate parent company.

Messrs Groom, Lee, Ringrose and Vyse are, and Mr Wentzell was, until his retirement on 9 May 2002, directors of the ultimate parent company and their interests are disclosed in the accounts of that company.

The mid market price of ordinary shares of Interserve Plc as at 31 December 2002 was 166.50p. The highest and lowest market prices of the shares during the year were 579.50p and 166.50p respectively.

## **INTERSERVE INVESTMENTS PLC**

### **DIRECTORS' REPORT**

No directors had any interests, beneficial or non-beneficial, in the share capital of the company or had a material interest during the year in any significant contract with the company or any subsidiary.

### **CREDITOR PAYMENT POLICY**

It is the company's normal practice to agree payment terms with its suppliers and abide by those terms. Payment becomes due when it can be confirmed that the goods and/or services have been provided in accordance with the relevant contractual conditions. Trade creditors at 31 December 2002 calculated in accordance with the requirements of the Companies Act 1985 were nil days (2001: nil). This represents the ratio, expressed in days, between the amounts invoiced to the company in the year by its suppliers and the amounts due, at the year end, to trade creditors falling due for payment within one year.

### **AUDITORS**

Deloitte & Touche have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors  
and signed on behalf of the Board



Secretary

20 May 2003

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

United Kingdom 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; 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 the system of internal control, safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF INTERSERVE INVESTMENTS PLC**

We have audited the financial statements of Interserve Investments Plc for the year ended 31 December 2002 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes 1 to 11. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **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 United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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 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 transactions with the company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

### **Basis of opinion**

We conducted our audit in accordance with United Kingdom 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 December 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

  
Deloitte & Touche

Chartered Accountants and Registered Auditors  
London

20 May 2003

# **INTERSERVE INVESTMENTS PLC**

## **PROFIT AND LOSS ACCOUNT**

**Year ended 31 December 2002**

	<b>Note</b>	<b>2002 £'000</b>	<b>2001 £'000</b>
<b>TURNOVER AND GROSS PROFIT</b>		-	-
Administrative expenses		(2,552)	-
<b>OPERATING LOSS</b>	<b>2</b>	<b>(2,552)</b>	<b>-</b>
Income from fixed asset investments		1,528	-
Interest payable	<b>3</b>	(81)	-
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<b>(1,105)</b>	<b>-</b>
Tax on loss on ordinary activities	<b>4</b>	305	-
<b>LOSS ON ORDINARY ACTIVITIES AFTER TAXATION</b>		<b>(800)</b>	<b>-</b>

## **STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**

**Year ended 31 December 2002**

	<b>Note</b>	<b>2002 £'000</b>	<b>2001 £'000</b>
<b>Total recognised losses related to the year</b>		<b>(800)</b>	<b>-</b>
Total recognised gains and losses related to the year as above		(800)	-
Unrealised gain on sale of fixed asset investments	<b>5</b>	2,464	-
<b>Total gains recognised since the last annual report</b>		<b>1,664</b>	<b>-</b>

# INTERSERVE INVESTMENTS PLC

## BALANCE SHEET

31 December 2002

	Note	2002 £'000	2001 £'000
<b>FIXED ASSETS</b>			
Investments	5	24,557	-
<b>CURRENT ASSETS</b>			
Debtors	6	20,620	9,535
<b>CREDITORS: amounts falling due within one year</b>	7	(39,297)	(9,409)
<b>NET CURRENT (LIABILITIES)/ASSETS</b>		(18,677)	126
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		5,880	126
<b>CAPITAL AND RESERVES</b>			
Called up share capital	8	330	125
Share premium account	9	3,885	-
Profit and loss account	9	1,665	1
<b>EQUITY SHAREHOLDER'S FUNDS</b>		5,880	126

These financial statements were approved by the Board of Directors on  
Signed on behalf of the Board of Directors

20 May 2003.



Director



**NOTES TO THE ACCOUNTS**

**Year ended 31 December 2002**

**1. ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted by the directors are described below.

**Convention**

These financial statements have been prepared in accordance with the historic cost convention.

**Fixed Asset Investments**

Investments in subsidiary and associated undertakings are stated at cost less provision for any impairment in value.

**Deferred taxation**

FRS 19 "Deferred tax" was adopted for the first time in the year. There is no impact on the profit and loss account or balance sheet for the current or preceding financial year.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items or income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

**Pension scheme – SSAP 24 disclosures**

The group operates two principal pension schemes for the benefit of permanent members of staff, the Interserve Pension Scheme which is of the defined benefits type and the Interserve Retirement Plan which is of the defined contribution type. The group also set up a new defined contribution section of the Interserve Pension Scheme with effect from 1 November 2002. Actuarial valuations are carried out every three years. The surplus in the group's pension scheme after offsetting regular pension costs and allowing for accruing interest will, in accordance with Statement of Standard Accounting Practice 24 (SSAP 24) "Accounting for pension costs", be released to the profit and loss account over the average remaining service life of employees. The amortisation of the experience surplus less pension cost credited to the profit and loss account is reflected in the balance sheet.

**Pre-contract costs**

In compliance with UITF 34, pre-contract costs on PFI contracts are recognised as expenses as incurred, except that directly attributable costs are recognised as an asset when it is virtually certain that a contract will be obtained and the contract is expected to result in future net cash flows.

**Consolidation**

These financial statements present information about the company alone and not of a group. Consolidated financial statements have not been prepared as provided by section 228 (i) of the Companies Act 1985.

**Cash flow statement**

The company has taken advantage of the Financial Reporting Standard No. 1 (revised) exemption for 90% subsidiaries not to prepare a cash flow statement.

# **INTERSERVE INVESTMENTS PLC**

## **NOTES TO THE ACCOUNTS**

**Year ended 31 December 2002**

### **2. OPERATING LOSS**

The audit fee for the company in the current and preceding financial year was borne by the ultimate parent company.

#### **DIRECTORS AND EMPLOYEES**

	2002 £'000	2001 £'000
<b>Directors' emoluments</b>		
Remuneration for services to the company	180	-

The highest paid director received salary and benefits (excluding pension contributions) during the year totalling £92,000 (2001: £nil). His accrued pension entitlement at 31 December 2002 was £14,292 (31 December 2001: £nil).

All directors are members of the Interserve Pension Scheme.

	2002 No.	2001 No.
<b>Employees</b>		
The average number, excluding directors, employed by the company, within each category of persons was:		

Administration	21	-
	21	-

Staff costs incurred during the year in respect of these employees, excluding directors, were:

	£'000	£'000
Wages and salaries	688	
Social security costs	72	-
Other pension costs	150	-
	910	-

### **3. INTEREST PAYABLE**

	2002 £'000	2001 £'000
Interest payable:		
Bank interest	81	-

# INTERSERVE INVESTMENTS PLC

## NOTES TO THE ACCOUNTS

Year ended 31 December 2002

### 4. TAX ON LOSS ON ORDINARY ACTIVITIES

	2002 £'000	2001 £'000
<b>Current taxation</b>		
United Kingdom corporation tax:		
Current tax credit on loss for the year at 30% (2001: 30%)	305	-
Total current taxation	<u>305</u>	<u>-</u>
<b>Factors affecting the tax credit in the year:</b>		
Loss on ordinary activities before tax	(1,105)	-
Tax credit on loss on ordinary activities before tax at 30%	331	-
Expenses not deductible for tax purposes	(26)	-
Current tax credit for the year	<u>305</u>	<u>-</u>

### 5. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	Shares at cost £'000	Loan stock £'000	Total £'000
Balance at 1 January 2002	-	-	-
Additions – intra-group	46,594	12,709	59,303
– third party	36	-	36
Disposals – intra-group	(22,073)	(12,709)	(34,782)
Balance at 31 December 2002	<u>24,557</u>	<u>-</u>	<u>24,557</u>

#### Unrealised gain on sale of fixed asset investments:

During the year the company invested in and acquired from other group companies equity shares in a number of joint venture PFI companies. The total consideration payable for those investments acquired from other group companies is £22,057,000, to be settled predominantly by ordinary shares of £1 each in the company. Of this amount, £17,967,000 was outstanding at 31 December 2002 (see note 8).

On 20 December 2002 the company sold all of its PFI investments, with the exception of Ashford Prison Services Ltd, to another group company, Interserve PFI Holdings Ltd for consideration of £24,537,000, payable by way of equity shares in Interserve PFI Holdings Ltd. This gave rise to an unrealised gain on the sale of fixed asset investments of £2,464,000.

The remaining subsidiary and associated undertakings are set out below. None of the shares relate to a listed investment. Unless otherwise indicated the undertakings are wholly owned and incorporated in Great Britain.

Interserve PFI Holdings Ltd	100%	Holding company for PFI Investments.
Ashford Prison Services Ltd	33%	Design, build, finance and operation of Ashford Prison.
Harmondsworth Detention Services Ltd	49%	Design, build, finance and operation of Harmondsworth Detention Centre.

## INTERSERVE INVESTMENTS PLC

### NOTES TO THE ACCOUNTS

Year ended 31 December 2002

#### 5. INVESTMENT IN SUBSIDIARY UNDERTAKINGS (CONTINUED)

In accordance with the provisions of Section 228 of the Companies Act 1985 the company is exempt from the obligation to prepare and deliver group accounts as the company is included in the audited consolidated accounts of its parent undertaking, Interserve Plc, which is registered in England and Wales. Accordingly these financial statements present information about the company as an individual undertaking and not as a group.

In the opinion of the directors the aggregate value of the shares in subsidiary undertakings is not less than the aggregate of the amounts at which they are stated in the balance sheet.

#### 6. DEBTORS

	2002 £'000	2001 £'000
Amounts owed by group undertakings	19,195	9,535
Taxation receivable	95	-
Other debtors	1,330	-
	<u>20,620</u>	<u>9,535</u>

#### 7. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2002 £'000	2001 £'000
Bank overdraft	3,450	-
Amounts owed to ultimate parent company	30,951	9,409
Amounts owed to group undertakings	3,684	-
Other creditors	1,212	-
	<u>39,297</u>	<u>9,409</u>

# **INTERSERVE INVESTMENTS PLC**

## **NOTES TO THE ACCOUNTS**

**Year ended 31 December 2002**

### **8. CALLED UP SHARE CAPITAL**

	2002 £'000	2001 £'000
<b>Authorised:</b>		
50,000,000 (2001: 200,000) ordinary shares of £1 each	50,000	200
<b>Called up, allotted and fully paid:</b>		
330,470 (2001: 125,000) ordinary shares of £1 each	330	125

The issued share capital of the company was increased by ordinary resolution, from 200,000 ordinary shares of £1 each to 50,000,000 ordinary shares of £1 each on 18 December 2002.

205,470 shares of £1 each were issued on 20 December 2002 for a consideration of £4,090,000. The shares rank pari passu with the existing shares of the company.

As at 31 December 2002, the company was committed to issuing a further 902,530 shares in respect of the purchase of joint venture PFI company investments from other group companies. The total consideration due for these shares is £17,967,000 and is shown as a short-term liability in note 7.

### **9. RECONCILIATION OF MOVEMENTS ON RESERVES**

	Share premium account £'000	Profit and loss account £'000	Total £'000
Balance at 1 January 2002	-	1	1
Loss attributable to shareholders	-	(800)	(800)
Unrealised gain on sale of fixed asset investments	-	2,464	2,464
Shares issued in the year	3,885	-	3,885
Balance at 31 December 2002	3,885	1,665	5,550

### **10. CONTINGENT LIABILITIES**

The company has given guarantees covering banking facilities made available to the parent and fellow subsidiary undertakings. At 31 December 2002 these amounted to £47,274,000 (2001: £64,230,000).

### **11. ULTIMATE PARENT UNDERTAKING AND RELATED PARTY TRANSACTIONS**

The company's immediate and ultimate parent company and controlling party, and parent company of the largest and smallest group which includes the company and for which group financial statements are prepared, is Interserve Plc, a company incorporated in Great Britain. Copies of the group financial statements of Interserve Plc are available from Companies House, Crown Way, Maindy, Cardiff, CF14 3UZ.

The company has taken advantage of the exemption contained in Financial Reporting Standard 8 "Related party disclosures" not to report transactions with other group companies.