

Exchequer Partnership Holdings Limited
Directors' report and financial statements
for the year ended 31 December 2002

Registered Number 3810496



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for the year ended 31 December 2002

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Exchequer Partnership Plc

Directors' report for the year ended 31 December 2002

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

Principal activities and business review

The company is engaged in a 35-year contract with HM Treasury to renovate and then manage the facilities at the main Treasury building formerly Government Offices, Great George Street, Whitehall, London. The renovations were completed in July 2002 and HM Treasury then moved into the refurbished accommodation. Management of the facilities commenced from this time.

Results and dividends

The costs incurred in respect of bid development, design and construction prior to the occupational availability of the Treasury building have been accumulated within a finance receivable as the costs are to be recovered over the contract period.

The company achieved a loss in the year of £339,000 (2001: £Nil). No dividend is proposed (2001: £Nil).

Directors and their interests

The directors who held office during the year are given below:

D J Camp

D R Gorman

F P Lewis

Sir Stuart Lipton

W A Heaney

S Hockaday

A J Muller

Resigned 16 April 2003

The directors have no interest in the share capital of the company according to the Register maintained by the company under Section 325 of the Companies Act 1985.

Creditor payment policy

The company's policy is to agree terms of payments with key suppliers. For all other suppliers, terms are agreed for each transaction. The company endeavours to abide by the terms of payment agreed with suppliers. The level of trade creditors at the year end was not significant and therefore no creditor days figure has been presented.

Exchequer Partnership Plc

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. The directors are required to prepare financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

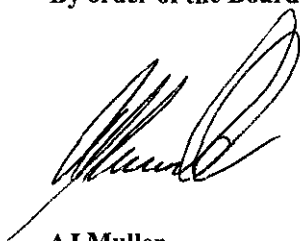
The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2002 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and 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.

Auditors

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 11 February 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the annual general meeting.

By order of the Board



AJ Muller
Director
9 June 2003

Exchequer Partnership Holdings Limited

Independent auditors' report to the shareholders of Exchequer Partnership Holdings Limited

We have audited the financial statements on pages 4 to 15 which have been prepared under the historical cost convention and the accounting policies set out on page 8.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 to you 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 is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

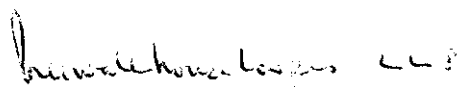
Basis of audit opinion

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 affairs of the company and the group at 31 December 2002 and of the loss and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Manchester
9 June 2003

Exchequer Partnership Holdings Limited

Consolidated profit and loss account for the year ended 31 December 2002

	Notes	2002 £'000	2001 £'000
Turnover		3,452	-
Cost of sales		(1,676)	-
Gross Profit		1,776	-
Administrative expenses		(2,059)	(327)
Operating loss	1	(283)	(327)
Interest payable and similar charges	2	(7,693)	(7,577)
Interest receivable and similar income	3	7,637	7,904
Loss from ordinary activities after taxation and loss for the year		(339)	-

The result for each year relates solely to continuing activities in a single class of business conducted within the United Kingdom.

There were no material total recognised gains and losses for the year other than the loss for the year.

The notes on pages 8 to 15 form part of these financial statements.

Exchequer Partnership Plc

Balance sheet as at 31 December 2002

	Notes	2002 £'000	2001 £'000
Current assets			
Debtors: due within one year	5	3,372	1,341
Debtors: due after more than one year	5	135,900	120,634
		139,272	121,975
Investments	6	-	7,525
Cash at bank and in hand		6,998	5,529
		146,270	135,029
Creditors: amounts falling due within one year	7	(7,306)	(4,438)
Net current assets		138,964	130,591
Creditors: amounts falling due after more than one year	8	(137,947)	(130,091)
Provisions for liabilities and charges	9	(856)	-
Net assets		161	500
Capital and reserves			
Called up share capital	10	500	500
Profit and loss account	12	(339)	-
Total equity shareholders' funds	11	161	500

The financial statements on pages 4 to 12 were approved by the board of directors on 9 June 2003 and signed on its behalf by:



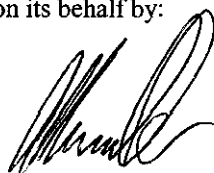
AJ Muller
Director

Exchequer Partnership Holdings Limited

Company balance sheet as at 31 December 2002

	Note	2002 £'000	2001 £'000
Fixed assets			
Investment in subsidiary at cost	6	500	500
Net assets		500	500
Capital and reserves			
Called up share capital	10	500	500
Profit and loss account		-	-
Total equity shareholders' funds		500	500

The financial statements on pages 4 to 15 were approved by the board of directors on 9 June 2003 and signed on its behalf by:



AJ Muller
Director

Exchequer Partnership Holdings Limited

Consolidated cash flow statement for the year ended 31 December 2002

	2002 £'000	2001 £'000
Net cash outflow from operating activities	(15,224)	(74,457)
Returns on investment and servicing of finance		
Interest received	2,909	3,131
Interest paid	(5,550)	(5,135)
	(2,641)	(2,004)
Net cash outflow before financing	(17,865)	(76,461)
Management of liquid resources		
Reduction in liquid resources	7,525	73,330
Financing		
Increase in borrowings	11,809	583
Increase/(decrease) in cash	1,469	(2,548)

Reconciliation of operating loss to net cash outflow from operating activities

	2002 £'000	2001 £'000
Operating loss	(283)	(327)
Increase in debtors	(12,569)	(69,183)
Decrease in creditors	(3,228)	(4,947)
Provision movement	856	-
Net cash outflow from operating activities	(15,224)	(74,457)

Notes 14 and 15 form part of this cash flow statement.

Exchequer Partnership Holdings Limited

Accounting policies

A summary of the principal accounting policies of the company all of which, other than that in respect of deferred taxation (see note 4), have been applied consistently, is set out below.

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK Financial Reporting Standards. They include the results of the activities described in the Directors' Report, all of which are continuing.

The consolidated profit and loss account, cash flow statement and balance sheet include the financial statements of the company and its subsidiary as at 31 December 2002.

Turnover

Turnover represents amounts due from HM Treasury in respect of the company's trading activities. All turnover originates in the United Kingdom and is stated exclusive of value added tax.

Taxation

Corporation tax is provided on taxable profits at the applicable rate.

Finance receivable

The costs incurred in respect of bid development, design and construction prior to the occupational availability of the Treasury building have been accumulated within a finance receivable in accordance with FRS 5 as the costs are to be recovered over the contract period.

Finance income has been recognised so as to generate a constant rate of return over the contract period, although the amount has been restricted during construction to reflect the uncertainty faced at this stage of the contract.

Occupational availability payments from HM Treasury are allocated between turnover in relation to the service element of the contract, reimbursement of the finance receivable and interest on the finance receivable so as to generate a constant rate of return over the contract period.

Finance charges

Arrangement fees and certain costs directly relating to the issuing of the facilities have been offset against the related loans and are being amortised over the duration of each respective financial instrument as part of the finance cost, in accordance with FRS 4. The directors have determined this to be 35 years for the bonds and 26 years for the mezzanine loan.

Indexation of the bond is charged to the profit and loss account each year in accordance with the movement in the relevant index.

Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

Deferred tax assets are recognised when it is more likely than not they will be recovered. The deferred tax assets and liabilities are not discounted.

Provisions

Provisions are made in accordance with FRS12 where an obligation exists for a future liability in respect of a past event and where the amount of the obligation can be reliably estimated.

Exchequer Partnership Holdings Limited

Notes to the financial statements for the year ended 31 December 2002

1 Operating loss

Operating loss is stated after charging:

	2002 £'000	2001 £'000
Auditors' remuneration	9	8

The auditors also received remuneration for other services totalling £16,000 (2001: £31,000) during the year. The directors received no salary, fees or other benefits in the performance of their duties. The company and group had no employees throughout the year. Management and administrative staffing resources are provided by secondees staff that are employed by certain related parties (see note 16). The employment costs relating to the secondees are recharged to the Exchequer Partnership plc.

2 Interest payable and similar charges

	2002 £'000	2001 £'000
Interest payable on bond	4,837	4,764
Interest payable on other loans	421	20
Other charges	2,435	2,793
	7,693	7,577

Interest payable and similar charges of £7,693,000 (2001: £7,577,000) relates to interest charges, indexation of the bond principal, commitment fees and credit enhancement fees, with respect to the borrowings, totalling £7,561,000 (2001: £7,448,000), plus the amortisation of loan issue costs of £132,000 (2001: £129,000) in accordance with FRS 4.

3 Interest receivable and similar income

	2002 £'000	2001 £'000
Interest receivable from bank	199	381
Finance income	7,199	5,075
Other interest receivable	268	2,750
Less: amortisation of investment fee	(29)	(302)
	7,637	7,904

Interest receivable and similar income of £7,637,000 (2001: £7,904,000) relates to finance income generated on the finance receivable of £7,199,000 (2001: £5,075,000) together with interest income from the group's investments and bank accounts of £467,000 (2001: £3,131,000) less the amortisation of the investment fee of £29,000 (2001: £302,000). The total investment fee of £799,000 is being amortised in proportion to the interest received from the fixed income investment to which it relates.

Exchequer Partnership Holdings Limited

4 Taxation

The Company has adopted FRS19 Deferred Taxation in these financial statements. There has been no material impact as a result of adopting FRS19 and therefore no prior period adjustment has been made.

	2002 £'000	2001 £'000
Current Tax	-	-
Factors affecting the tax charge for the year		
The current tax charge for the year is lower than the standard rate of Corporation Tax in the UK. The differences are explained below:		
Loss before tax	(339)	-
UK Corporation Tax at 30%	(102)	-
Effects of:		
Capital allowances in excess of depreciation and other timing differences	102	-
Total current tax charge (see above)	-	-

At 31 December 2002 the group had a deferred tax asset of £3,946,000 (2001: £2,236,000) in respect of tax losses brought and carried forward and deferred tax liabilities of £3,844,000 (2001: £2,236,000) in respect of accelerated capital allowances and other timing differences. The overall net deferred tax asset of £102,000 (2001: £Nil) has not been recognised as it is not considered that it will be recovered in the foreseeable future.

5 Debtors

	2002 £'000	2001 £'000
Amounts due within one year		
Trade debtors	2,721	-
Tax and social security	-	877
Other debtors	651	464
	3,372	1,341
Amounts due after more than one year:		
Finance receivable	135,900	120,634
Finance receivable		
Balance at 1 January	120,634	45,326
Additions	10,509	70,233
Finance income recognised	7,199	5,075
Finance income reimbursed	(2,442)	-
Balance at 31 December	135,900	120,634

Exchequer Partnership Holdings Limited

6 Investments

	2002 £'000	2001 £'000
Fixed price guaranteed investment contract	-	7,525

Investments comprised a fixed price guaranteed investment contract between the group and UBS AG, London (with IRG Trustees Limited as security trustees) dated 5 May 2000. The contract provided for fixed withdrawal amounts over the period to 29 July 2002 together with fixed interest income on the balance invested. The interest income was calculated at a rate of 6.405 per cent.

	Company 2002 £'000	Company 2001 £'000
Company investment in subsidiary undertaking at cost	500	500

The company owns the entire issued share capital of Exchequer Partnership Plc, a company incorporated in England. Exchequer Partnership Plc is engaged in a 35 year contract with HM Treasury to renovate and then manage the facilities at the main Treasury buildings formerly Government Offices, Great George Street, Whitehall, London.

7 Creditors: amounts falling due within one year

	2002 £'000	2001 £'000
Trade creditors	506	42
Amounts due to related party undertakings	-	603
Accruals	660	3,793
Other taxation and social security	44	-
Loan Stock	2,364	-
Mezzanine Loan	80	-
Bonds	3,652	-
	7,306	4,438

Exchequer Partnership Holdings Limited

8 Creditors: amounts falling due after more than one year

	2002 £'000	2001 £'000
Loan Stock	4,061	-
Mezzanine loan	5,953	644
Bonds	127,933	129,447
	137,947	130,091

	Loan Stock £'000	2002 Mezzanine £'000	Bonds £'000	2001 Mezzanine £'000	Bonds £'000
Repayable within one year	2,364	85	3,778	-	-
Repayable between two and five years	265	423	14,566	394	14,495
Repayable after five years	3,796	5,643	117,246	373	119,084
Total loans outstanding	6,425	6,151	135,590	767	133,579
Loan issue costs	-	(118)	(4,005)	(123)	(4,132)
Total	6,425	6,033	131,585	644	129,447

Loan Stock

The unsecured Loan Notes 2015 bear interest at 0% to 30 June 2003 and at 15% per annum thereafter. The Loan Stock was issued in the year to the sponsoring controlling parties in proportion to their shareholdings.

The Loan Notes are to be redeemed at par in accordance with a deed poll dated 5 May 2000. Any outstanding Loan Stock will be redeemed by 31 December 2015 but they may be redeemed before that date at Exchequer Partnership plc's option on giving notice of no more than 30 days.

Mezzanine loan facility

The mezzanine loan facility is scheduled to be repaid by 30 June 2026. Interest charged on the amount drawn under the facility is based on floating LIBOR rate.

As at 31 December 2002, £6,151,000 (2001: £767,000) has been drawn under the Mezzanine facility. The total facility is for a maximum of £6.6 million.

Bonds

On 5 May 2000 Exchequer Partnership Plc issued £127,790,000 of 3.582 per cent index linked guaranteed secured bonds due to be repaid in fixed instalments over the period from 30 June 2003 to 31 December 2035.

The effects of the indexation increased the amount due to the bond holders by £2,011,000 (2001: £2,313,000) to £135,590,000 (2001: £133,579,000) as at 31 December 2002.

The bonds are secured by charges over all the assets of the company.

Exchequer Partnership Holdings Limited

9 Provisions for liabilities and charges

	Lifecycle Costs £'000
At 1 January 2002	-
Charged to the profit and loss account in the year	856
At 31 December 2002	856

The provision for lifecycle costs is established to provide for replacement costs of significant items of both revenue and capital nature during the concession period.

10 Share capital

	2002 £'000	2001 £'000
Authorised		
500,000 ordinary shares of £1 each	500	500
Allotted, called up and fully paid		
500,000 ordinary shares of £1 each	500	500

11 Movements in equity shareholders' funds

	2002 £'000
Loss for the year	(339)
Net reduction in Equity Shareholders' Funds	(339)
Opening Equity Shareholders' Funds	500
Equity Shareholders' Funds	161

12 Reserves

	Profit and loss account £'000
At 1 January 2002	-
Loss for the year	(339)
At 31 December 2002	(339)

Exchequer Partnership Holdings Limited

13 Capital commitments

Under the terms of the contract with HM Treasury dated 5 May 2000 Exchequer Partnership Plc is committed to payments totalling approximately £31.6 million for lifecycle expenditure over the remaining contract term.

14 Reconciliation of net cash flow to movement in net debt

	2002 £'000	2001 £'000
Increase/(decrease) in cash	1,469	(2,548)
Increase in mezzanine loan	(5,384)	(583)
Loan Note Issue	(6,425)	-
Movement in net debt resulting from cash flows	(10,340)	(3,131)
Non-cash movements		
Increase in bond relating to indexation	(2,011)	(2,313)
Amortisation of issue costs	(132)	(129)
Movement in net debt in year	(12,483)	(5,573)
Opening net debt at 1 January 2002	(124,562)	(118,989)
Closing net debt at 31 December 2002	(137,045)	(124,562)

15 Analysis of changes in net debt

	At 1 January 2002 £'000	Cash flow £'000	Other £'000	At 31 December 2002 £'000
Cash in hand and at bank	5,529	1,469	-	6,998
Debt				
Due less than one year	-	-	(6,096)	(6,096)
Due after more than one year	(130,091)	(11,809)	3,953	(137,947)
	(124,562)	(10,340)	(2,143)	(137,045)

Other changes in net debt comprise indexation of the Bonds (£2,011,000) and amortisation of issue costs (£132,000).

16 Related party disclosures

The following companies, together with undertakings within their individual groups of companies, are considered to be related parties to the group, as defined in FRS 8.

Bovis Lend Lease Holdings Limited
Stanhope plc
Chesterton International plc
EP Development plc (common shareholders and directors)

Exchequer Partnership Holdings Limited

16 Related party disclosures (continued)

Construction contract

Bovis Lend Lease Limited, a subsidiary of Bovis Lend Lease Holdings Limited, is contracted with Exchequer Partnership Plc in respect of the construction and renovation work. The costs charged by Bovis Lend Lease Limited in this regard in the year ended 31 December 2002 totalled £10,010,000 (2001: £69,581,000).

Facilities Management contracts

Bovis Lend Lease Limited, a subsidiary of Bovis Lend Lease Holdings Limited, is contracted with Exchequer Partnership Plc in respect of the hard facilities management contract. The costs charged by Bovis Lend Lease Limited in this regard in the year ended 31 December 2002 totalled £1,181,000 (2001: £Nil).

Chesterton Workplace Management Limited, a subsidiary of Chesterton plc, is contracted with Exchequer Partnership Plc in respect of the soft facilities management contract. The costs charged by Chesterton Workplace Management Limited in this regard in the year ended 31 December 2002 totalled £1,136,000 (2001: £Nil).

Amounts owed to related parties

	2002 £'000	2001 £'000
Bovis Lend Lease Limited	598	3,712
Chesterton Workplace Management Limited	370	-
EP Development plc	-	603

All transactions with related parties were carried out on arms length terms.

17 Ultimate controlling party

In the opinion of the directors, the ultimate controlling party comprises Bovis Lend Lease Holdings Limited, Stanhope plc and Chesterton International plc acting together.