

Exchequer Partnership Holdings Limited
Directors' report and consolidated financial
statements
for the year ended 31 December 2003

Registered Number 3810496



Exchequer Partnership Holdings Limited
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for the year ended 31 December 2003

Contents

Directors' report for the year ended 31 December 2003	1
Independent auditors' report to the shareholders of Exchequer Partnership Holdings Limited.....	3
Consolidated profit and loss account for the year ended 31 December 2003	4
Consolidated balance sheet as at 31 December 2003	5
Company balance sheet as at 31 December 2003.....	6
Consolidated cash flow statement for the year ended 31 December 2003	7
Accounting policies	8
Notes to the financial statements for the year ended 31 December 2003	9

Exchequer Partnership Holdings Limited

Directors' report for the year ended 31 December 2003

The directors present their report and the audited financial statements of the company and the group for the year ended 31 December 2003.

Principal activities and business review

The company is a holding company with a single subsidiary, Exchequer Partnership Plc ('EPP'). EPP 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 group achieved a profit of £2,041,000 in the year (2002: a loss of £339,000). No dividend is proposed (2002: £nil).

Directors and their interests

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

D J Camp	
F P Lewis	
Sir Stuart Lipton	
S Hockaday	
C S Matheson	(appointed 19 November 2003)
D R Gorman	(resigned 16 April 2003)
A J Muller	(resigned 15 October 2003)
W A Heaney	(resigned 15 December 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.

Exchequer Partnership Holdings Limited

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 the group and of the profit or loss of the group for that period. The directors are required to prepare financial statements on the going concern basis, unless it is inappropriate to presume that the group and the company will continue in business.

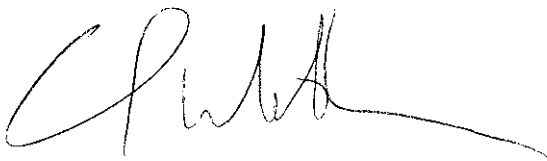
The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2003 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the group and 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 group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

A handwritten signature in black ink, appearing to read 'CS Matheson', with a long horizontal flourish extending to the right.

CS Matheson

Director

28th October 2004

Exchequer Partnership Holdings Limited

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

We have audited the financial statements which comprise the consolidated profit and loss account, the consolidated balance sheet, the company balance sheet, the cash flow statement, the related notes and the accounting policies set out in the statement of accounting policies.

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 2003 and of the profit 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

28th October 2004

Exchequer Partnership Holdings Limited

Consolidated profit and loss account for the year ended 31 December 2003

	Notes	2003 £'000	2002 £'000
Turnover		9,951	3,452
Cost of sales		(4,745)	(1,676)
Gross Profit		5,206	1,776
Administrative expenses		(2,028)	(2,059)
Operating profit/(loss)	1	3,178	(283)
Interest payable and similar charges	2	(10,470)	(7,693)
Interest receivable and similar income	3	10,062	7,637
Profit/(loss) from ordinary activities before taxation		2,770	(339)
Taxation	4	(729)	-
Profit/(loss) from ordinary activities after taxation	11	2,041	(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 profit for the year.

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

Exchequer Partnership Holdings Limited

Consolidated balance sheet as at 31 December 2003

	Notes	2003 £'000	2002 £'000
Current assets			
Debtors: due within one year	5	3,548	3,372
Debtors: due after more than one year	5	139,489	135,900
		143,037	139,272
Cash at bank and in hand		8,251	6,998
		151,288	146,270
Creditors: amounts falling due within one year	7	(7,002)	(7,306)
Net current assets		144,286	138,964
Creditors: amounts falling due after more than one year	8	(139,600)	(137,947)
Provisions for liabilities and charges	9	(2,484)	(856)
Net assets		2,202	161
Capital and reserves			
Called up share capital	10	500	500
Profit and loss account	12	1,702	(339)
Total equity shareholders' funds	11	2,202	161

The financial statements on pages 4 to 15 were approved by the board of directors on 28th October 2004 and signed on its behalf by:



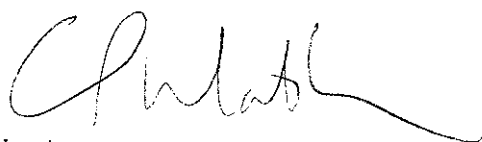
CS Matheson
Director

Exchequer Partnership Holdings Limited

Company balance sheet as at 31 December 2003

	Note	2003 £'000	2002 £'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 28th October 2004 and signed on its behalf by:



Director

Exchequer Partnership Holdings Limited

Consolidated cash flow statement for the year ended 31 December 2003

	2003 £'000	2002 £'000
Net cash inflow/(outflow) from operating activities	4,697	(15,224)
Returns on investment and servicing of finance		
Interest received	6,634	2,909
Interest paid	(6,137)	(5,550)
	497	(2,641)
Net cash inflow/(outflow) before financing	5,194	(17,865)
Management of liquid resources		
Reduction in liquid resources	-	7,525
Financing		
(Decrease)/increase in borrowings	(3,941)	11,809
Increase in cash	1,253	1,469

Reconciliation of operating profit/(loss) to net cash inflow/(outflow) from operating activities

	2003 £'000	2002 £'000
Operating profit/(loss)	3,178	(283)
Increase in debtors	(337)	(12,569)
Increase/(decrease) in creditors	957	(3,228)
Provision movement	899	856
Net cash inflow/(outflow) from operating activities	4,697	(15,224)

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 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 2003.

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 2003

1 Operating profit/(loss)

Operating profit/(loss) is stated after charging:

	2003 £'000	2002 £'000
Auditors' remuneration	8	9

The auditors also received remuneration for other services totalling £8,000 (2002: £16,000) 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

	2003 £'000	2002 £'000
Interest payable on bond	5,173	4,837
Interest payable on other loans	964	421
Other charges	4,333	2,435
	10,470	7,693

Interest payable and similar charges of £10,470,000 (2002: £7,693,000) relates to interest charges, indexation of the bond principal, commitment fees and credit enhancement fees, with respect to the borrowings, totalling £10,340,000 (2002: £7,561,000), plus the amortisation of loan issue costs of £130,000 (2002: £132,000) in accordance with FRS 4.

3 Interest receivable and similar income

	2003 £'000	2002 £'000
Interest receivable from bank	296	199
Finance income	9,766	7,199
Other interest receivable	-	268
Less: amortisation of investment fee	-	(29)
	10,062	7,637

Interest receivable and similar income of £10,062,000 (2002: £7,637,000) relates to finance income generated on the finance receivable of £9,766,000 (2002: £7,199,000) together with interest income from the group's investments and bank accounts of £296,000 (2002: £467,000) less the amortisation of the investment fee of £nil (2002: £29,000).

Exchequer Partnership Holdings Limited

4 Taxation

	2003 £'000	2002 £'000
Current tax	-	-
Deferred tax – current year	831	-
Deferred tax – prior year	(102)	-
Total tax charge for the year	729	-

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:

Profit/(loss) before tax	2,770	(339)
UK Corporation Tax at 30%	831	(102)
Effects of:		
Expenses not deductible for tax purposes	94	-
Recognition of losses / losses not recognised	(102)	102
Capital allowances in excess of depreciation and other timing differences	(823)	-
Total current tax charge (see above)	-	-

5 Debtors

	2003 £'000	2002 £'000
Amounts due within one year		
Trade debtors	2,998	2,721
Other debtors	550	651
	3,548	3,372

Amounts due after more than one year:

Finance receivable	139,489	135,900
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Finance receivable

Balance at 1 January	135,900	120,634
Additions	161	10,509
Finance income recognised	9,766	7,199
Finance income reimbursed	(6,338)	(2,442)
Balance at 31 December	139,489	135,900

Exchequer Partnership Holdings Limited

6 Investments

	Company 2003 £'000	Company 2002 £'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

	2003 £'000	2002 £'000
Trade creditors	36	77
Amounts due to related party undertakings	998	968
Accruals	608	121
Other taxation and social security	525	44
Loan Stock	92	2,364
Mezzanine Loan	87	80
Bonds	4,656	3,652
	7,002	7,306

Exchequer Partnership Holdings Limited

8 Creditors: amounts falling due after more than one year

	2003 £'000	2002 £'000
Loan Stock	6,333	4,061
Mezzanine loan	5,871	5,953
Bonds	127,396	127,933
	139,600	137,947

	2003			2002		
	Loan Stock £'000	Mezzanine £'000	Bonds £'000	Loan Stock £'000	Mezzanine £'000	Bonds £'000
Repayable within one year	92	92	4,781	2,364	85	3,778
Repayable between two and five years	197	460	14,554	265	423	14,566
Repayable after five years	6,136	5,519	116,597	3,796	5,643	117,246
Total loans outstanding	6,425	6,071	135,932	6,425	6,151	135,590
Loan issue costs	-	(113)	(3,880)	-	(118)	(4,005)
Total	6,425	5,958	132,052	6,425	6,033	131,585

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 2003, £6,071,000 (2002: £6,151,000) 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 £4,203,000 (2002: £2,011,000) to £135,932,000 (2002: £135,590,000) as at 31 December 2003.

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	Deferred taxation	Total
	£'000	£'000	£'000
At 1 January 2003	856	-	856
Charged to the profit and loss account in the year	899	729	1,628
At 31 December 2003	1,755	729	2,484

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.

At 31 December 2003 the company had a deferred tax asset of £153,000 (2002: £3,946,000) in respect of tax losses brought and carried forward and deferred tax liabilities of £882,000 (2002: £3,844,000) in respect of accelerated capital allowances and other timing differences.

10 Share capital

	2003 £'000	2002 £'000
Authorised		
10,000,000 ordinary shares of £1 each	10,000	10,000
Allotted, called up and fully paid		
500,000 ordinary shares of £1 each	500	500

11 Movements in equity shareholders' funds

	2003 £'000	2002 £'000
Profit/(loss) for the year	2,041	(339)
Net reduction in Equity Shareholders' Funds	2,041	(339)
Opening Equity Shareholders' Funds	161	500
Closing Equity Shareholders' Funds	2,202	161

12 Reserves

	Profit and loss account £'000
At 1 January 2003	(339)
Profit for the year	2,041
At 31 December 2003	1,702

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 £31.4 million for lifecycle expenditure over the remaining contract term.

14 Reconciliation of net cash flow to movement in net debt

	2003 £'000	2002 £'000
Increase in cash	1,253	1,469
Decrease /(increase) in mezzanine loan	80	(5,384)
Decrease in bond	3,861	-
Loan note issue	-	(6,425)
Movement in net debt resulting from cash flows	5,194	(10,340)
Non-cash movements		
Increase in bond relating to indexation	(4,203)	(2,011)
Amortisation of issue costs	(130)	(132)
Movement in net debt in year	861	(12,483)
Opening net debt at 1 January 2003	(137,045)	(124,562)
Closing net debt at 31 December 2003	(136,184)	(137,045)

15 Analysis of changes in net debt

	At 1 January 2003 £'000	Cash flow £'000	Other £'000	At 31 December 2003 £'000
Cash in hand and at bank	6,998	1,253	-	8,251
Debt				
Due less than one year	(6,096)	3,941	(2,680)	(4,835)
Due after more than one year	(137,947)	-	(1,653)	(139,600)
	(137,045)	5,194	(4,333)	(136,184)

Other changes in net debt comprise indexation of the Bonds £4,203,000 and amortisation of issue costs £130,000 and reclassification of debt due less than one year £2,680,000.

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 2003 totalled £240,000 (2002: £10,010,000).

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 2003 totalled £2,337,000 (2002: £1,181,000).

Chesterton Workplace Management Limited, a subsidiary of Chesterton International 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 2003 totalled £3,062,000 (2002: £1,136,000).

Amounts owed to related parties

	2003 £'000	2002 £'000
Bovis Lend Lease Limited	365	598
Chesterton Workplace Management Limited	633	370

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 and Stanhope plc acting together.

Prior to 15 December 2003, when Chesterton International plc sold its investment in Exchequer Partnership Holdings Limited to Bovis Lend Lease Holdings Limited and Stanhope plc, in the opinion of the directors, the ultimate controlling party comprised Bovis Lend Lease Holdings Limited, Stanhope plc and Chesterton International plc acting together.