

Exchequer Partnership (No 2) Holdings  
Limited

Directors' report and financial statements  
for the year ended 31 December 2004

Registered Number 4426554



Exchequer Partnership (No 2) Holdings Limited  
Directors' report and financial statements  
for the year ended 31 December 2004

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# **Exchequer Partnership (No 2) Holdings Limited**

## **Directors' report for the year ended 31 December 2004**

The directors present their report and the audited financial statements of the company and the group for the year ended 31 December 2004.

### **Principal activities and business review**

The company was established to bid for, and subsequently to complete, a 35-year contract with HM Customs and Excise and Inland Revenue to renovate and then manage the facilities at the East End of the main Treasury building formerly Government Offices, Great George Street, Whitehall, London. The renovations were completed in November 2004 and H M Customs and Excise and Inland Revenue then moved into the refurbished accommodation. Management of the facilities commenced from this time.

The project agreement with HM Customs and Excise and Inland Revenue was signed on 13 December 2002 and Financial Close for the project was achieved on 15 January 2003.

### **Results and dividends**

The group achieved a loss of £1,641,000 in the year (2003: £2,121,000). No dividend is proposed (2002: £nil).

### **Directors and their interests**

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

D J Camp  
S Hockaday  
F P Lewis  
Sir Stuart Lipton  
D Nolan

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.

Subsequent to the year end on 19 January 2005, Mr D Nolan resigned as a Director and Mr T D Anderson was appointed.

### **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. As at 31 December 2004 the creditor days represented by the closing creditors balance were 7 (2003:nil).

## Exchequer Partnership (No 2) 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. 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.
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

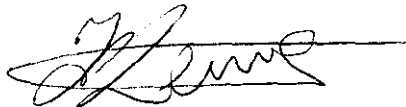
The directors have confirmed that they have complied with the above requirements in preparing the financial statements.

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

### Auditors

PricewaterhouseCoopers LLP have indicated their willingness to act as auditors, and a resolution concerning their appointment will be proposed at the Annual General Meeting.

By order of the Board



FP Lewis  
Director  
25<sup>th</sup> July 2005

# **Exchequer Partnership (No 2) Holdings Limited**

## **Independent auditors' report to the shareholders of Exchequer Partnership (No 2) 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 2004 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  
25<sup>th</sup> July 2005

## Exchequer Partnership (No 2) Holdings Limited

### Consolidated profit and loss account for the year ended 31 December 2004

	Notes	2004 £'000	2003 £'000
Turnover		163,439	-
Cost of sales		(163,431)	-
Gross profit		8	-
Administrative expenses		(430)	(478)
Operating loss	1	(422)	(478)
Interest payable and similar charges	2	(2,147)	(5,463)
Interest receivable and similar income	3	928	3,820
Loss from ordinary activities before and after taxation and loss for the year	11	(1,641)	(2,121)

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.

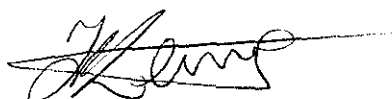
The notes on pages 8 to 15 form part of these financial statements.

# Exchequer Partnership (No 2) Holdings Limited

## Consolidated balance sheet as at 31 December 2004

	Note	2004 £'000	2003 £'000
<b>Current assets</b>			
Stock	5	-	110,427
Debtors: due within one year	6	1,865	3,054
Debtors: due after more than one year	6	162,144	-
		<b>164,009</b>	<b>113,481</b>
Investments	7	5,134	44,251
Cash at bank and in hand		6,389	15,619
		<b>175,532</b>	<b>173,351</b>
<b>Creditors: amounts falling due within one year</b>	8	<b>(10,361)</b>	<b>(13,884)</b>
<b>Net current assets</b>		<b>165,171</b>	<b>159,467</b>
<b>Creditors: amounts falling due after more than one year</b>	9	<b>(168,883)</b>	<b>(161,538)</b>
<b>Net liabilities</b>		<b>(3,712)</b>	<b>(2,071)</b>
<b>Capital and reserves</b>			
Called up share capital	10	50	50
Profit and loss account	11	(3,762)	(2,121)
<b>Total equity shareholders' deficit</b>	12	<b>(3,712)</b>	<b>(2,071)</b>

The financial statements on pages 4 to 15 were approved by the board of directors on 25<sup>th</sup> July 2005 and signed on its behalf by:



**FP Lewis**  
Director

# Exchequer Partnership (No 2) Holdings Limited

## Company balance sheet as at 31 December 2004

	Note	2004 £'000	2003 £'000
<b>Fixed assets</b>			
Investment in subsidiary at cost	7	50	50
<b>Net assets</b>		<b>50</b>	<b>50</b>
<b>Capital and reserves</b>			
Called up share capital	10	50	50
Profit and loss account	11	-	-
<b>Equity shareholders' funds</b>	12	<b>50</b>	<b>50</b>

The financial statements on pages 4 to 15 were approved by the board of directors on 25<sup>th</sup> July 2005 and signed on its behalf by:



**FP Lewis**  
**Director**



## Exchequer Partnership (No 2) Holdings Limited

### Consolidated cash flow statement for the year ended 31 December 2004

	2004 £'000	2003 £'000
<b>Net cash outflow from operating activities</b>	<b>(50,605)</b>	<b>(100,863)</b>
<b>Returns on investment and servicing of finance</b>		
Interest received	928	3,820
Interest paid	(9,166)	(4,259)
	<b>(8,238)</b>	<b>(439)</b>
<b>Net cash outflow before financing</b>	<b>(58,843)</b>	<b>(101,302)</b>
<b>Management of liquid resources</b>		
Decrease / (increase) in liquid resources	39,117	(44,251)
<b>Financing</b>		
Increase in borrowings	10,496	161,122
<b>(Decrease) / increase in cash</b>	<b>(9,230)</b>	<b>15,569</b>

### Reconciliation of operating loss to net cash outflow from operating activities

	2004 £'000	2003 £'000
Operating loss	(422)	(478)
Increase in stock	(44,176)	(107,074)
Decrease/(increase) in debtors	1,189	(3,054)
(Decrease) / increase in creditors	(7,196)	9,743
<b>Net cash outflow from operating activities</b>	<b>(50,605)</b>	<b>(100,863)</b>

Notes 13 and 14 form part of this cash flow statement.

# Exchequer Partnership (No 2) 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.

### **Turnover**

Turnover represents amounts due from HM Customs and Excise and Inland Revenue 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. The finance costs incurred during the construction phase have been included in work in progress. Interest payable and similar charges and administration costs relating to the day to day running of the company are written off as incurred.

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 Customs and Excise and Inland Revenue 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 34.5 years for the bonds and 29 years for the mezzanine loan.

### **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 FRS 12 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 (No 2) Holdings Limited

## Notes to the financial statements for the year ended 31 December 2004

### 1 Operating loss

Operating loss is stated after charging:

	2004 £'000	2003 £'000
Auditors' remuneration	9	8

The auditors also received remuneration for other services totalling £13,000 (2003:£29,000) during the year. The directors received no salary, fees or other benefits in the performance of their duties. The company 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 company.

### 2 Interest payable and similar charges

	2004 £'000	2003 £'000
Interest payable on bond	8,910	8,400
Interest payable on other loans	333	23
Other charges	445	393
	9,688	8,816
Less amounts transferred to work in progress (note 5)	(7,541)	(3,353)
	2,147	5,463

Interest payable and similar charges of £9,688,000 (2003: £8,816,000) relates to interest charges, commitment fees and credit enhancement fees, with respect to the borrowings, totalling £9,498,000 (2003: £8,663,000), plus the amortisation of loan issue costs of £190,000 (2003: £153,000) in accordance with FRS 4.

### 3 Interest receivable and similar income

	2004 £'000	2003 £'000
Interest receivable from bank	928	3,820

Interest receivable and similar income of £928,000 (2003: £3,820,000) relates to interest income from the company's investments and bank accounts.

# Exchequer Partnership (No 2) Holdings Limited

## 4 Taxation

	2004 £'000	2003 £'000
<b>Current tax</b>	-	-
<b>Factors affecting the tax charge for the year</b>		
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	(1,641)	(2,121)
<b>UK Corporation Tax at 30%</b>	(492)	(636)
<b>Effects of:</b>		
Capital allowances in excess of depreciation and other timing differences	492	636
<b>Total current tax charge (see above)</b>	-	-

At 31 December 2004 the company had a deferred tax asset of £1,893,000 (2003: £2,582,000) in respect of tax losses carried forward and deferred tax liabilities of £765,000 (2003: £1,946,000) in respect of accelerated capital allowances and other timing differences. The overall net deferred tax asset of £1,128,000 (2003: £636,000) has not been recognised as it is not considered that it will be recovered in the foreseeable future.

## 5 Stock

	2004 £'000	2003 £'000
<b>Work in progress</b>		
Balance at 1 January	110,427	-
Additions	44,176	107,074
Interest on financing (note 2)	7,541	3,353
Balance at 31 December	162,144	110,427
Less: Amounts transferred to finance receivable	(162,144)	-
	-	110,427

## Exchequer Partnership (No 2) Holdings Limited

### 6 Debtors

	2004 £'000	2003 £'000
Trade debtors	1,398	-
Tax and social security	124	2,848
Other debtors	343	206
	<b>1,865</b>	<b>3,054</b>
Amounts due after more than one year:		
Finance receivable	-	-
<b>Finance receivable</b>		
Balance at 1 January	-	-
Additions – amounts transferred from stock (see note 5)	162,144	-
Balance at 31 December	<b>162,144</b>	-

### 7 Investments

	2004 £'000	2003 £'000
Fixed price guaranteed investment contract	5,134	44,251

Investments comprised a fixed price guaranteed investment contract between the company and Ambac Capital Funding Incorporated. The contract provided for fixed withdrawal amounts over the period to January 2005 together with fixed interest income on the balance invested. The interest income was calculated at a rate of 3.846 %.

### Company

	Company 2004 £'000	Company 2003 £'000
Company investment in subsidiary undertaking at cost	50	50

The company owns the entire issued share capital of Exchequer Partnership (No 2) Plc, a company incorporated in England. Exchequer Partnership (No 2) Plc is now 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.

## Exchequer Partnership (No 2) Holdings Limited

### 8 Creditors: amounts falling due within one year

	2004 £'000	2003 £'000
Trade creditors	795	2
Amounts due to related party undertakings	1,718	9,652
Accruals	4,175	4,230
Other loans	668	-
Loan stock	2,897	-
Bonds	108	-
	<b>10,361</b>	<b>13,884</b>

### 9 Creditors: amounts falling due after more than one year

	2004 £'000	2003 £'000
Other loans	-	1,149
Mezzanine loan	8,632	34
Bonds	160,251	160,355
	<b>168,883</b>	<b>161,538</b>

	2004				2003			
	Loan Stock £'000	Other loans £'000	Mezzanine £'000	Bonds £'000	Loan Stock £'000	Other loans £'000	Mezzanine £'000	Bonds £'000
Repayable within one year	2,897	668	-	108	-	-	-	-
Repayable between two and five years	-	-	299	5,987	-	-	365	4,215
Repayable after five years	-	-	8,762	159,057	-	1,149	15	160,937
<b>Total loans outstanding</b>	<b>2,897</b>	<b>668</b>	<b>9,061</b>	<b>165,152</b>	<b>-</b>	<b>1,149</b>	<b>380</b>	<b>165,152</b>
Loan issue costs	-	-	(429)	(4,793)	-	-	(346)	(4,797)
<b>Total</b>	<b>2,897</b>	<b>668</b>	<b>8,632</b>	<b>160,359</b>	<b>-</b>	<b>1,149</b>	<b>34</b>	<b>160,355</b>

#### Other loans

The other loans balance at 31 December 2004 represents a cash deposit to guarantee Loan Stock to be issued in 2004.

#### Loan stock

The unsecured Loan Notes bear interest at 0% to 13<sup>th</sup> January 2007 and at 15% per annum thereafter. The Loan Notes are redeemed at par in accordance with a deed poll dated 21 January 2003. Any outstanding Loan Stock will be redeemed by 18 January 2037 but they may be redeemed before that date at the company's option on giving notice of no more than 30 days.

#### Mezzanine loan facility

The mezzanine loan facility is scheduled to be repaid by 31 December 2031. Interest charged on the amount drawn under the facility is based on floating LIBOR rate.

As at 31 December 2004, £9,061,000 (2003: £380,000) has been drawn under the Mezzanine facility. The total facility is for a maximum of £10.3 million.

## Exchequer Partnership (No 2) Holdings Limited

### Bonds

On 15 January 2003 Exchequer Partnership (No2) plc issued £165,145,000 of 5.39%, guaranteed secured bonds due to be repaid in fixed instalments over the period 13 July 2005 to 13 July 2036.

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

### 10 Share capital

	2004 £'000	2003 £'000
<b>Authorised</b>		
10,000,000 ordinary shares of £1 each	10,000	10,000
<b>Allotted, called up and fully paid</b>		
50,000 ordinary shares of £1 each	50	50

### 11 Reserves

	Company £'000	Group £'000
At 1 January 2004	-	(2,121)
Loss for the year	-	(1,641)
At 31 December 2004	-	(3,762)

### 12 Movements in equity shareholders' deficit

	2004 £'000	2003 £'000
Loss for the year	(1,641)	(2,121)
Net reduction in equity shareholders' funds	(1,641)	(2,121)
Opening equity shareholders' (deficit)/funds	(2,071)	50
Closing equity shareholders' (deficit)/funds	(3,712)	(2,071)

## Exchequer Partnership (No 2) Holdings Limited

### 13 Reconciliation of net cash flow to movement in net debt

	2004 £'000	2003 £'000
(Decrease) / increase in cash	(9,230)	15,569
Increase in Mezzanine loan	(8,080)	-
Decrease in bond	-	(159,973)
Increase in loan stock	(2,897)	-
Decrease/(increase) in other creditors	481	(1,149)
(Decrease)/increase in liquid resources	(39,117)	44,251
<b>Movement in net debt resulting from cash flows</b>	<b>(58,843)</b>	<b>(101,302)</b>
<b>Non-cash movements</b>		
Roll up of accrued interest	(332)	(23)
Amortisation of issue costs	(190)	(393)
<b>Movement in net debt in year</b>	<b>(59,365)</b>	<b>(101,718)</b>
Opening net debt at 1 January 2004	(101,668)	50
<b>Closing net debt at 31 December 2004</b>	<b>(161,033)</b>	<b>(101,668)</b>

### 14 Analysis of changes in net debt

	At 1 January 2004 £'000	Cash flow £'000	Other £'000	At 31 December 2004 £'000
Cash in hand and at bank	15,619	(9,230)	-	6,389
<b>Debt</b>				
Due less than one year	-	(2,897)	(776)	(3,673)
Due after more than one year	(161,538)	(7,599)	254	(168,883)
Liquid resources	44,251	(39,117)	-	5,134
	(101,668)	(58,843)	(522)	(161,033)

Other changes in net debt comprise amortisation of issue costs £190,000 and roll up of interest of £332,000.

### 15 Capital commitments

Under the terms of the contract with the First Secretary of State dated 21 January 2003, the company is committed to payments of approximately £200,000 in respect of design and construction work through to January 2005. The company is also committed to payments of approximately £38.3m for lifecycle expenditure over the remaining contract term.



# Exchequer Partnership (No 2) Holdings Limited

## 16 Related party disclosures

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

Bovis Lend Lease Holdings Limited  
Stanhope plc  
EP (Holdings) Ltd  
GOGGS Development plc  
Lend Lease Developments Services (UK) Limited

### Construction contract

Bovis Lend Lease Limited, a subsidiary of Bovis Lend Lease Holdings Limited, is contracted with Exchequer Partnership (No 2) 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 2004 totalled £41,487,000 (2003: £102,976,000).

Stanhope plc fees and sponsor's costs in the year ended 31 December 2004 totalled £1,709,000 (2003: £2,401,000).

Lend Lease Development Services Limited provided staff and SPV management services in the year. The costs charged by Lend Lease Development Services Limited in the year totalled £119,000 (2003: £57,000).

### Facilities Management contracts

Bovis Lend Lease Limited, a subsidiary of Bovis Lend Lease Holdings Limited, is contracted with Exchequer Partnership (No 2) 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 2004 totalled £639,000 (2003: £96,000).

### Amounts owed to related parties

	2004 £'000	2003 £'000
Bovis Lend Lease Limited	1,324	9,509
Lend Lease Development Services Limited	59	-
Stanhope plc	335	143

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

## 17 Parent undertaking and ultimate controlling party

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