

Exchequer Partnership (No 2) Holdings
Limited

Directors' report and financial statements
for the year ended 31 December 2003

Registered Number 4426554



Exchequer Partnership (No 2) Holdings Limited
Directors' report and financial statements
for the year ended 31 December 2003

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Exchequer Partnership (No 2) 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 (No 2) Plc. Exchequer Partnership (No 2) Plc was established as a company 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 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 £2,121,000 in the year (2002: £nil). No dividend is proposed (2002: £nil).

Directors and their interests

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

D J Camp	
W A Heaney	(resigned 15 December 2003)
S Hockaday	
F P Lewis	
Sir Stuart Lipton	
DR Gorman	(resigned 6 April 2003)
A Muller	(resigned 15 October 2003)
D Nolan	(appointed 17 September 2003)
CS Matheson	(appointed 19 November 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 (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. 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.

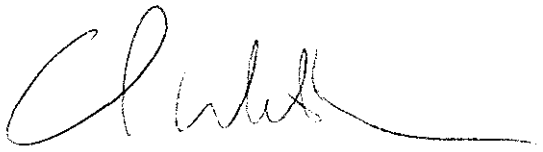
The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2003 and that applicable accounting standards have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

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

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 (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.

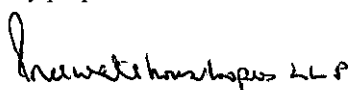
Basis of audit opinion

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 2003 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

[date]

Exchequer Partnership (No 2) Holdings Limited

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

	Notes	2003 £'000	2002 £'000
Turnover		-	-
Cost of sales		-	-
Gross profit		-	-
Administrative expenses		(478)	-
Operating loss	1	(478)	-
Interest payable and similar charges	2	(5,463)	-
Interest receivable and similar income	3	3,820	-
Loss from ordinary activities before and after taxation and loss for the year	11	(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 14 form part of these financial statements.

Exchequer Partnership (No 2) Holdings Limited

Consolidated balance sheet as at 31 December 2003

	Note	2003 £'000	2002 £'000
Current assets			
Stock	5	110,427	-
Debtors: due within one year	6	3,054	-
		113,481	-
Investments	7	44,251	-
Cash at bank and in hand		15,619	50
		173,351	50
Creditors: amounts falling due within one year	8	(13,884)	-
Net current assets		159,467	-
Creditors: amounts falling due after more than one year	9	(161,538)	-
Net assets		(2,071)	50
Capital and reserves			
Called up share capital	10	50	50
Profit and loss account	11	(2,121)	-
Total equity shareholders' (deficit)/funds	12	(2,071)	50

The financial statements on pages 4 to 14 were approved by the board of directors on 28th October 2004 and signed on its behalf by:



CS Matheson
Director

Exchequer Partnership (No 2) Holdings Limited

Company balance sheet as at 31 December 2003

	Note	2003 £'000	2002 £'000
Fixed assets			
Investment in subsidiary at cost	7	50	50
Net assets		50	50
Capital and reserves			
Called up share capital	10	50	50
Profit and loss account	11	-	-
Equity shareholders' funds	12	50	50

The financial statements on pages 4 to 14 were approved by the board of directors on ^{23rd October 2004}~~[date]~~ and signed on its behalf by:



C Matheson
Director

Exchequer Partnership (No 2) Holdings Limited

Consolidated cash flow statement for the year ended 31 December 2003

	2003 £'000	2002 £'000
Net cash outflow from operating activities	(100,863)	-
Returns on investment and servicing of finance		
Interest received	3,820	-
Interest paid	(4,259)	-
	(439)	-
Net cash outflow before financing	(101,302)	-
Management of liquid resources		
Increase in liquid resources	(44,251)	-
Financing		
Issue of ordinary share capital	-	50
Increase in borrowings	161,122	-
Increase in cash	15,569	50

Reconciliation of operating loss to net cash outflow from operating activities

	2003 £'000	2002 £'000
Operating loss	(478)	-
Increase in stock	(107,074)	-
Increase in debtors	(3,054)	-
Increase in creditors	9,743	-
Net cash outflow from operating activities	(100,863)	-

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.

Taxation

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

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.

Stocks

The costs incurred in respect of bid development, design and construction prior to the occupational availability of the properties have been accumulated within work in progress. The finance costs incurred during the construction phase have been included in work in progress.

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 34½ years.

Exchequer Partnership (No 2) Holdings Limited

Notes to the financial statements for the year ended 31 December 2003

1 Operating loss

Operating loss is stated after charging:

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

The auditors also received remuneration for other services totalling £29,000 (2002:£nil) 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

	2003 £'000	2002 £'000
Interest payable on bond	8,400	-
Interest payable on other loans	23	-
Other charges	393	-
	8,816	-
Less amounts transferred to work in progress (note 5)	(3,353)	-
	5,463	-

Interest payable and similar charges of £8,816,000 (2002: £nil) relates to interest charges, commitment fees and credit enhancement fees, with respect to the borrowings, totalling £8,423,000 (2002: £nil), plus the amortisation of loan issue costs of £393,000 (2002: £nil) in accordance with FRS 4.

3 Interest receivable and similar income

	2003 £'000	2002 £'000
Interest receivable from bank	3,820	-

Interest receivable and similar income of £3,820,000 (2002: £nil) relates to interest income from the company's investments and bank accounts.

Exchequer Partnership (No 2) Holdings Limited

4 Taxation

	2003 £'000	2002 £'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	(2,121)	-
UK Corporation Tax at 30%	(636)	-
Effects of:		
Capital allowances in excess of depreciation and other timing differences	636	-
Total current tax charge (see above)	-	-

At 31 December 2003 the company had a deferred tax asset of £2,582,000 (2002: £nil) in respect of tax losses carried forward and deferred tax liabilities of £1,946,000 (2002: £nil) in respect of accelerated capital allowances and other timing differences. The overall net deferred tax asset of £636,000 (2002: £nil) has not been recognised as it is not considered that it will be recovered in the foreseeable future.

5 Stock

	2003 £'000	2002 £'000
Work in progress		
Additions	107,074	-
Interest on financing (note 2)	3,353	-
	110,427	-

6 Debtors

	2003 £'000	2002 £'000
Tax and social security	2,848	-
Other debtors	206	-
	3,054	-

Exchequer Partnership (No 2) Holdings Limited

7 Investments

	2003 £'000	2002 £'000
Fixed price guaranteed investment contract	44,251	-

Investments comprised a fixed price guaranteed investment contract between the company and Ambac. 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 2003 £'000	Company 2002 £'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.

8 Creditors: amounts falling due within one year

	2003 £'000	2002 £'000
Trade creditors	2	-
Amounts due to related party undertakings	9,652	-
Accruals	4,230	-
	13,884	-

9 Creditors: amounts falling due after more than one year

	2003 £'000	2002 £'000
Other loans	1,149	-
Mezzanine loan	34	-
Bonds	160,355	-
	161,538	-

	2003			2002		
	Other loans £'000	Mezzanine £'000	Bonds £'000	Other loans £'000	Mezzanine £'000	Bonds £'000
Repayable within one year	-	-	-	-	-	-
Repayable between two and five years	-	365	4,215	-	-	-
Repayable after five years	1,149	15	160,937	-	-	-
Total loans outstanding	1,149	380	165,152	-	-	-
Loan issue costs	-	(346)	(4,797)	-	-	-
Total	1,149	34	160,355	-	-	-

Exchequer Partnership (No 2) Holdings Limited

Other loans

The other loans balance at 31 December 2003 represents a cash deposit to guarantee Loan Stock to be issued in 2004.

When issued, the unsecured Loan Notes will bear interest at 0% to 13th January 2007 and at 15% per annum thereafter. The Loan Notes are to be 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 2003, £380,000 (2002: £nil) has been drawn under the Mezzanine facility. The total facility is for a maximum of £10.3 million.

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

	2003 £'000	2002 £'000
Authorised		
10,000,000 ordinary shares of £1 each	10,000	10,000
Allotted, called up and fully paid		
50,000 ordinary shares of £1 each	50	50

11 Reserves

	Profit and loss account £'000
At 1 January 2003	-
Loss for the year	(2,121)
At 31 December 2003	(2,121)

Exchequer Partnership (No 2) Holdings Limited

12 Movements in equity shareholders' (deficit)/funds

	2003 £'000	2002 £'000
Loss for the year	(2,121)	-
Net reduction in equity shareholders' funds	(2,121)	-
Proceeds from the issue of share capital	-	50
Opening equity shareholders' (deficit)/funds	50	-
Closing equity shareholders' (deficit)/funds	(2,071)	50

13 Reconciliation of net cash flow to movement in net debt

	2003 £'000	2002 £'000
Increase in cash	15,569	50
Increase in mezzanine loan	-	-
Increase in bond	(159,973)	-
Increase in other creditors	(1,149)	-
Movement in net debt resulting from cash flows	(145,553)	50
Non-cash movements		
Roll up of accrued interest	(23)	-
Amortisation of issue costs	(393)	-
Movement in net debt in year	(145,969)	50
Opening net debt at 1 January 2003	50	-
Closing net debt at 31 December 2003	(145,919)	50

14 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	50	15,569	-	15,619
Debt				
Due less than one year	-	-	-	-
Due after more than one year	-	(161,122)	(416)	(161,538)
	50	(145,553)	(416)	(145,919)

Other changes in net debt comprise amortisation of issue costs £393,000 and roll up of interest of £23,000.

Exchequer Partnership (No 2) Holdings Limited

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 £41.3m 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.

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
Chesterton International 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 2003 totalled £102,976,000 (2002: £nil).

Stanhope plc fees and sponsor's costs in the year ended 31 December 2003 totalled £2,401,000 (2002: £nil).

Chesterton International plc fees and sponsor's costs in the year ended 31 December 2003 totalled (£900,000 (2002: £nil)).

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 £57,000 (2002: £nil).

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 2003 totalled £96,000 (2002: £nil).

Chesterton Workplace Management Limited, a subsidiary of Chesterton International plc, is contracted with Exchequer Partnership (No 2) 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 £124,000 (2002: £nil).

Amounts owed to related parties

	2003 £'000	2002 £'000
Bovis Lend Lease Limited	9,509	-
Stanhope plc	143	-

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

Exchequer Partnership (No 2) Holdings Limited

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.

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.