

Newcastle Estate Partnership Holdings Limited

Directors' report and consolidated accounts

31 December 2002

Registered number 3473715



Newcastle Estate Partnership Holdings Limited

Directors

JSS Brown
M McGhee
P Parry
G Powell

Secretary

C L Fidler

Registered Office

Sandiway House
Hartford
Northwich
Cheshire
CW8 2YA

Auditors

KPMG Audit Plc
Chartered Accountants
St James' Square
Manchester
M2 6DS

Newcastle Estate Partnership Holdings Limited

Directors' Report

The directors present herewith their report and the audited accounts for the year ended 31 December 2002.

Business Review

The company is the holding company of The Newcastle Estate Partnership Limited, a property investment company.

In 1998, The Newcastle Estate Partnership Limited entered into an agreement with the Secretary of State for Social Security providing inter alia for The Newcastle Estate Partnership Limited to redevelop the Newcastle Estate and for the Secretary of State to enter into a series of 25 year occupational leases with the company. The Newcastle Estate Partnership Limited entered into a Credit Facility Agreement with The Royal Bank of Scotland plc to provide funding for the redevelopment project.

During 2002, the redevelopment of the Newcastle Estate continued. Phase 2 of the redevelopment was completed during the year, phase 1 having been completed in 2000. Terms were agreed with Inland Revenue to develop additional office buildings for their occupation at Longbenton, in addition to the further building being constructed at Tyneview Park.

Directors

The current directors are listed on page 1.

The directors who served during the year were as follows:

JSS Brown
S W Laird (resigned 18 December 2002)
DJ McEvedy (resigned 4 March 2003)
M McGhee
P Parry
G Powell (appointed 18 December 2002)

None of the directors have an interest in the share capital of the company.

Fixed Assets

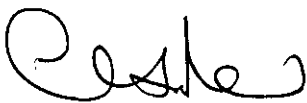
Details of fixed assets are shown in Note 8 to the accounts.

Auditors

A resolution is to be proposed at the Annual General Meeting for the re-appointment of KPMG Audit Plc as auditors of the company.

By Order of the Board

21 Nov 2003



CL FIDLER
Secretary

Sandiway House
Hartford
Northwich
Cheshire
CW8 2YA

Newcastle Estate Partnership Holdings Limited

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

	<i>Note</i>	2002 £000	2001 £000
Turnover	2	19,840	18,573
Cost of sales		(7,938)	(7,220)
Gross profit		11,902	11,353
Administrative expenses		(424)	(432)
Operating profit	4	11,478	10,921
Interest receivable		35	72
Interest payable	5	(11,790)	(10,275)
(Loss)/profit on ordinary activities before tax		(277)	718
Taxation on (loss)/profit on ordinary activities	6	-	-
Retained (loss)/profit for the year		<u>(277)</u>	<u>718</u>

All turnover and operating profit is derived from continuing operations.

There is no difference between the retained (loss)/profit for the year as stated above and its historical cost equivalent.

Newcastle Estate Partnership Holdings Limited

Statement of total recognised gains and losses for the year ended 31 December 2002

	2002 £000	2001 £000
(Loss)/profit for the financial year	(277)	718
Total gains and losses relating to the year	<u>(277)</u>	<u>718</u>

Reconciliation of movements in shareholders' funds for the year ended 31 December 2002

	2002 £000	2001 £000
(Loss)/profit for the year	(277)	718
Net (reduction)/addition to shareholders' funds	(277)	718
Shareholders funds at 1 January	(2,585)	(3,303)
Shareholders funds at 31 December	<u>(2,862)</u>	<u>(2,585)</u>

Newcastle Estate Partnership Holdings Limited

Consolidated Balance Sheet as at 31 December 2002

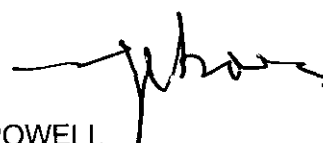
	Note	2002 £000	2001 £000
FIXED ASSETS			
Tangible assets	8	<u>185,779</u>	<u>153,346</u>
CURRENT ASSETS			
Debtors	10	1,273	1,163
Cash at bank and in hand		<u>9,866</u>	<u>6,561</u>
		11,139	7,724
CREDITORS: amounts falling due within one year	11	<u>(18,279)</u>	<u>(4,702)</u>
Net current (liabilities)/assets		<u>(7,140)</u>	<u>3,022</u>
Total assets less current liabilities		178,639	156,368
CREDITORS: amounts falling due after more than one year	12	(181,501)	(158,953)
PROVISIONS FOR LIABILITIES AND CHARGES	14	<u>-</u>	<u>-</u>
Net liabilities		<u><u>(2,862)</u></u>	<u><u>(2,585)</u></u>
CAPITAL AND RESERVES			
Called up share capital	15	1,000	1,000
Profit and loss account	16	<u>(3,862)</u>	<u>(3,585)</u>
EQUITY SHAREHOLDERS' FUNDS		<u><u>(2,862)</u></u>	<u><u>(2,585)</u></u>

These accounts were approved by the board of directors on
and were signed on its behalf by:

21 NOV 2003



P PARRY
DIRECTOR



G POWELL
DIRECTOR


The notes on pages 8 to 14 form part of these accounts.

Newcastle Estate Partnership Holdings Limited

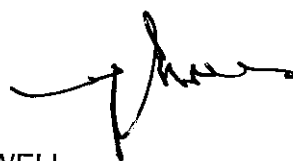
Company Balance Sheet as at 31 December 2002

	<i>Note</i>	2002 £000	2001 £000
FIXED ASSETS			
Investments in subsidiary undertakings	9	<u>1,000</u>	<u>1,000</u>
CAPITAL AND RESERVES			
Called up share capital	15	<u>1,000</u>	<u>1,000</u>

These accounts were approved by the board of directors on 21 NOV 2003
and were signed on its behalf by:



P PARRY
DIRECTOR



G POWELL
DIRECTOR

The notes on pages 8 to 14 form part of these accounts.

Newcastle Estate Partnership Holdings Limited

Consolidated cashflow statement for the year ended 31 December 2002

	<i>Note</i>	2002 £000	2001 £000
Net cashflow from operating activities	<i>17</i>	16,780	16,343
Interest received		35	72
Interest paid		(11,790)	(10,275)
Capital expenditure			
Purchase of fixed assets		<u>(34,992)</u>	<u>(13,725)</u>
Net cashflow before financing		(29,967)	(7,585)
Financing			
Net movement in loans		<u>33,272</u>	<u>9,814</u>
Movement in cash	<i>18</i>	<u><u>3,305</u></u>	<u><u>2,229</u></u>

Newcastle Estate Partnership Holdings Limited

Notes to the accounts

1 ACCOUNTING POLICIES

Accounting convention

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards and the Companies Act 1985.

Basis of preparation

The accounts have been prepared on a going concern basis which the directors believe to be appropriate since the group has a 25 year bank loan which provides funding up to £255.3 million to meet the costs of redeveloping the DSS Newcastle Estate. At 31 December 2002, the company had utilised £174.6 million of this facility. The loan is repayable in semi-annual instalments over the period January 2003 to June 2028.

Basis of consolidation

The consolidated accounts include the accounts of the company and its subsidiary undertaking made up to 31 December 2002.

Under Section 230 (4) of the Companies Act 1985, the company is exempt from the requirement of presenting its own Profit and Loss Account.

Leases

Operating leases are charged to the profit and loss account in the year in which they are incurred.

Tangible fixed assets

Tangible fixed assets are stated at cost which comprises purchase cost together with any incidental costs of acquisition. Depreciation is calculated by reference to the expected lives of the assets concerned and is applied on an annuity basis to match the depreciation charge to the revenues generated by the assets.

Depreciation is not charged on assets in the course of construction

Turnover

Turnover comprises rental income and other amounts invoiced before Value Added Tax.

Taxation

The charge for taxation is based on the results for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS19.

2 TURNOVER

A geographical analysis of turnover is as follows:

	2002 £000	2001 £000
United Kingdom	<u>19,840</u>	<u>18,573</u>

Newcastle Estate Partnership Holdings Limited

Notes (continued)

3 DIRECTORS' REMUNERATION

None of the directors received any remuneration in respect of his services to the company (2001: £Nil).

4 OPERATING PROFIT

	2002	2001
	£000	£000
Operating profit is stated after charging:		
Depreciation	<u>2,559</u>	<u>2,241</u>

5 INTEREST PAYABLE

	2002	2001
	£000	£000
Bank loans and overdrafts	11,714	10,199
Amortisation of issue costs	<u>76</u>	<u>76</u>
	<u>11,790</u>	<u>10,275</u>

6 TAXATION ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES

	2002	2001
	£000	£000
Current tax		
UK corporation tax at 30% (2001: 30%)	<u>-</u>	<u>-</u>

The current tax credit for the year is higher (2001: lower) than the standard rate of corporation tax in the UK and is explained as follows:

	2002	2001
	£000	£000
(Loss)/profit on ordinary activities before taxation	<u>(277)</u>	<u>718</u>
Tax credit/(charge) at 30%	83	(215)
Tax losses not utilised	(83)	-
Utilisation of brought forward tax losses	<u>-</u>	<u>215</u>
Current tax credit/(charge) for the year	<u>-</u>	<u>-</u>

7 PROFIT OF HOLDING COMPANY

The profit dealt with in the accounts of the parent company was £Nil (2001: £Nil).

Newcastle Estate Partnership Holdings Limited

Notes (continued)

8 TANGIBLE FIXED ASSETS

Group	Leasehold Land and Buildings £000	Plant and Equipment £000	Assets in course of Construction £000	Total
Cost				
At 1 January 2002	91,788	45,037	23,286	160,111
Additions	-	-	34,992	34,992
Transfer	<u>27,836</u>	<u>14,065</u>	<u>(41,901)</u>	<u>-</u>
At 31 December 2002	<u>119,624</u>	<u>59,102</u>	<u>16,377</u>	<u>195,103</u>
Depreciation				
At 1 January 2002	4,524	2,241	-	6,765
Charge for the year	<u>1,717</u>	<u>842</u>	<u>-</u>	<u>2,559</u>
At 31 December 2002	<u>6,241</u>	<u>3,083</u>	<u>-</u>	<u>9,324</u>
Net Book Value				
At 31 December 2002	<u>113,383</u>	<u>56,019</u>	<u>16,377</u>	<u>185,779</u>
At 31 December 2001	<u>87,264</u>	<u>42,796</u>	<u>23,286</u>	<u>153,346</u>

9 INVESTMENT IN SUBSIDIARY UNDERTAKINGS

Company

	2002 £000	2001 £000
Cost		
The Newcastle Estate Partnership Limited	<u>1,000</u>	<u>1,000</u>

Details of holdings in subsidiary undertakings are as follows:

Name of Company	Country of Registration	Holding	Proportion of voting rights and shares held	Nature of Business
The Newcastle Estate Partnership Limited	England	Ordinary Shares	100%	Property Investment

There is a charge on the shares in favour of Royal Bank of Scotland, as agent of the funders.

Newcastle Estate Partnership Holdings Limited

Notes (continued)

10 DEBTORS

Group

	2002	2001
	£000	£000
Trade debtors	553	879
Other debtors	<u>720</u>	<u>284</u>
	<u>1,273</u>	<u>1,163</u>

11 CREDITORS : AMOUNTS DUE WITHIN ONE YEAR

Group

	2002	2001
	£000	£000
Bank loans (note 13)	16,533	-
Trade creditors	446	672
Other creditors and accruals	<u>1,300</u>	<u>4,030</u>
	<u>18,279</u>	<u>4,702</u>

12 CREDITORS : AMOUNTS DUE AFTER ONE YEAR

Group

	2002	2001
	£000	£000
Bank loans (note 13)	158,052	141,313
Trade creditors	23,399	12,500
Amounts owed to related parties	50	50
Other creditors and accruals	<u>-</u>	<u>5,090</u>
	<u>181,501</u>	<u>158,953</u>

Newcastle Estate Partnership Holdings Limited

Notes (continued)

13 MATURITY OF DEBT REPAYABLE BY INSTALMENTS

Group

	2002 £000	2001 £000
Less than one year	16,533	-
Between 2 and 5 years	19,519	26,173
Over 5 years	138,533	115,140
	<u>174,585</u>	<u>141,313</u>

The bank loans, which are for a term of 25 years, provides funding up to £255.3million to meet the costs of redeveloping the Newcastle Estate. Funds can be drawn under the facility until the completion of the redevelopment in 2005. The loan is repayable in semi-annual instalments over the period January 2003 to June 2028. The bank loan is secured by a fixed and floating charge over the assets of The Newcastle Estate Partnership Holdings Limited and subsidiary undertakings.

The Newcastle Estate Partnership Limited entered into an interest rate swap agreement to fix interest costs payable at a rate (including margin) of 6.84%. Interest on the loan is payable quarterly.

14 PROVISIONS FOR LIABILITIES AND CHARGES

There is a deferred tax asset of £730,000 (2001 : £695,000) relating to tax losses carried forward. These losses are not expected to be utilised in the foreseeable future and therefore no deferred tax has been recognised in respect of this amount.

15 SHARE CAPITAL

	Authorised		Allotted, called up and fully paid	
	2002 number	2001 number	2002 £000	2001 £000
Ordinary shares of £1 each				
At 31 December 2000	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000</u>	<u>1,000</u>

The share capital is divided 500,000 'A' and 500,000 'B' shares.

The shares are owned as follows:

	£000
'A' Shares AMEC plc	500
'B' Shares Interservefm Limited	<u>500</u>
	<u>1,000</u>

Newcastle Estate Partnership Holdings Limited

Notes (continued)

16 RESERVES

	Share capital £000	Profit and loss account £000	Total £000
As at 1 January 2002	1,000	(3,585)	(2,585)
Retained loss for the year	-	(277)	(277)
Balance at 31 December 2002	<u>1,000</u>	<u>(3,862)</u>	<u>(2,862)</u>

17 RECONCILIATION OF TOTAL OPERATING PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES

	2002 £000	2001 £000
Operating profit	11,478	10,921
Depreciation	2,559	2,241
Increase in debtors	(110)	(349)
Increase in creditors	<u>2,853</u>	<u>3,530</u>
Net cash flow from operating activities	<u>16,780</u>	<u>16,343</u>

18 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET CASH

	2002 £000	2001 £000
Movement in cash	3,305	2,229
Cash flow from movement in debt	<u>(33,272)</u>	<u>(9,814)</u>
Change in net debt resulting from cashflows	<u>(29,967)</u>	<u>(7,585)</u>

19 ANALYSIS OF NET DEBT

	2002 £000	2001 £000
Cash at bank and in hand	9,866	6,561
Debt due in less than one year	(16,533)	-
Debt due after more than one year	<u>(158,052)</u>	<u>(141,313)</u>
Net debt	<u>(164,719)</u>	<u>(134,752)</u>

Newcastle Estate Partnership Holdings Limited

Notes *(continued)*

20 RELATED PARTY TRANSACTIONS

The group has entered into facilities provision contracts with Interserve (Facilities Management) Limited and property agreements and development contracts with AMEC Investments Limited in respect of the redevelopment of the Newcastle Estate.

During the year, Interserve (Facilities Management) Limited invoiced the company £4,179,000 (2001: £3,420,000) and AMEC Investments Limited invoiced £35,197,000 (2001: £13,926,000). At the year end, £428,000 (2001: £304,000) was owed to Interserve (Facilities Management) Limited and £Nil (2001: £Nil) was owed to AMEC Investments Limited.

Newcastle Estate Partnership Holdings Limited

Statement of directors' responsibilities

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and the group and of the profit or loss for that period. In preparing those accounts, 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 accounts;
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group to enable them to ensure that the accounts comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and the group and to prevent and detect fraud and other irregularities.

Newcastle Estate Partnership Holdings Limited

Independent Auditors' report to the members of Newcastle Estate Partnership Holdings Limited

We have audited the accounts on pages 3 to 14.

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

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 15, the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts 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 accounts, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of the company and group's affairs as at 31 December 2002 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

28th November 2003