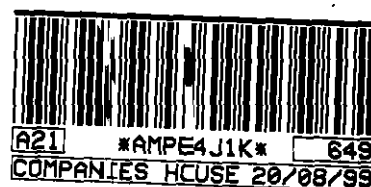


FAZAKER LEY PRISON SERVICES LIMITED
(REGISTERED NUMBER 2984969)

DIRECTORS' REPORT AND ACCOUNTS

31 December 1998



FAZAKERLEY PRISON SERVICES LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1998

The directors submit their report and the audited accounts of the company for the year ended 31 December 1998.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The company is engaged under a twenty eight year contract in the provision of design, construction and management services, including related financing arrangements for a prison, HMP Altcourse, at Fazakerley in Liverpool.

The profit incurred in the year under review as set out in the profit and loss account on page 4 relates to the activities undertaken in respect of the project.

The holding company has confirmed its continued financial support of the company.

DIVIDENDS AND TRANSFERS TO RESERVES

No dividend is proposed. The amount transferred to reserves is set out in the profit and loss account on page 4.

DIRECTORS

The directors of the company during the year were

AD Banks	
JA Harrover	
LJ Malmberg	
MJ Lavers	(resigned 30 June 1998)
BJ Sharples	
B Pellard	(resigned 13 March 1999)
FR Herzberg	(appointed 18 March 1999)
RC Osborne	(appointed 18 March 1999)

DIRECTORS' INTERESTS IN SHARES

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

MILLENNIUM AND EUROPEAN MONETARY UNION

The directors are aware of the implications of the Millennium issue and European Monetary Union both for the information systems and other aspects of the company's operations. Management has assessed the risks associated with these issues and is reviewing the actions required to ensure that any necessary systems modifications and other initiatives are planned and completed within the time available. It is not anticipated that significant incremental expenditure will be incurred to ensure compliance with the necessary requirements within the context of ongoing expenditure plans to develop and upgrade the company's systems.

FAZAKE RLEY PRISON SERVICES LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1998 (CONTINUED)

AUDITORS

Following the merger of Price Waterhouse, the company's auditors, with Coopers & Lybrand, PricewaterhouseCoopers were appointed by the Board to fill the casual vacancy arising. PricewaterhouseCoopers are willing to continue in office and their re-appointment will be proposed at the Annual General Meeting.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial period which 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. 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 are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By Order of the Board



FR Herzberg
SECRETARY

7 June 1999

PricewaterhouseCoopers
Cornwall Court
19 Cornwall Street
Birmingham B3 2DT
Telephone +44 (0) 121 200 3000
Facsimile +44 (0) 121 200 2464

AUDITORS' REPORT TO THE SHAREHOLDERS OF FAZAKERLEY PRISON SERVICES LIMITED

We have audited the financial statements on pages 4 to 11 which have been prepared under the historical cost convention and the accounting policies set out on page 7.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described on page 2 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

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. 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 misstatement or material inconsistencies with the financial statements.


Basis of 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 the company's affairs as at 31 December 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


PricewaterhouseCoopers
Chartered Accountants
and Registered Auditors

7 June 1999

FAZAKERLEY PRISON SERVICES LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1998

	<u>Notes</u>	<u>1998</u> £'000	<u>1997</u> <u>Restated</u> £'000
TURNOVER		15,889	403
Operating costs		(12,946)	-
Administrative expenses		<u>(257)</u>	<u>(321)</u>
OPERATING PROFIT	2	2,686	82
Net interest payable and similar charges	3	(8,107)	(5,718)
Interest transferred to contract debtor	3	<u>7,055</u>	<u>5,712</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		1,634	76
Taxation	4	<u>(507)</u>	<u>(24)</u>
RETAINED PROFIT FOR THE FINANCIAL YEAR	9	<u>1,127</u>	<u>52</u>

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

The movements on reserves are shown in note 9 to the financial statements

FAZAKER LEY PRISON SERVICES LIMITED

BALANCE SHEET AT 31 DECEMBER 1998

	Notes	1998 £'000	1997 Restated £'000
CURRENT ASSETS			
Debtors (amounts falling due within one year)	5	3,886	3,106
Debtors (amounts falling due in more than one year)	5	86,834	88,421
Cash at bank and in hand		<u>10,976</u>	<u>7,821</u>
		101,696	99,348
CREDITORS (amounts falling due within one year)	6	<u>(8,156)</u>	<u>(2,697)</u>
NET CURRENT ASSETS		93,540	96,651
CREDITORS (amounts falling due in more than one year)	6	<u>(92,360)</u>	<u>(96,599)</u>
		<u>1,180</u>	<u>52</u>
CAPITAL AND RESERVES			
Equity share capital	8	-	-
Profit and loss account	9	<u>1,180</u>	<u>52</u>
TOTAL SHAREHOLDERS' FUNDS		<u>1,180</u>	<u>52</u>

Approved by the Board on 7 June 1999.

DIRECTORS

AD Banks

FR Herzberg

FAZAKERLEY PRISON SERVICES LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 1998

There is no difference between the result for the financial year and the total recognised gains and losses relating to the year.

NOTE ON HISTORICAL COST PROFITS AND LOSSES

There is no difference between the profit for the financial year as shown in the profit and loss account and its historical equivalent.

MOVEMENT IN SHAREHOLDERS' FUNDS FOR THE YEAR ENDED 31 DECEMBER 1998

The movement in shareholders' funds during the year ended 31 December 1998 relates wholly to the retained profit for the financial year.

FAZAKERLEY PRISON SERVICES LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1998

1 ACCOUNTING POLICIES

(1) Basis of accounting

The financial statements are prepared under the historical cost convention and in accordance with applicable UK accounting and financial reporting standards.

(2) Turnover

Turnover represents the value of work done and services rendered, excluding sales related taxes. All turnover originates in the United Kingdom.

(3) Deferred taxation

Provisions are made under the liability method in respect of those timing differences which are expected to become payable in the foreseeable future.

(4) Leased assets

Payments under operating leases are charged against profits in the year the payments are made.

(5) Contract debtors

The costs incurred in respect of services under the contract during the period prior to the prison becoming available for occupation are remunerated over the remaining contract term.

Accordingly these costs are accumulated within contract debtors as incurred. Availability fees will be allocated between turnover and reimbursement of contract debtors so as to generate a constant rate of return over the life of the contract.

(6) Restatement of 1997

The restatement of the accounts is due to a change in interpretation of the accounting policy relating to the contract debtor. Interest, previously expensed, is now capitalised as part of the contract debtor in accordance with note 1(5).

As a result, comparative figures for the year ended 31 December 1997 have been adjusted as follows:

	Result for the year £'000	Net Assets £'000
As previously reported	(6,042)	(11,349)
Effect of interest treatment	6,118	11,425
Taxation arising on taxable profit	(24)	(24)
As restated	52	52

FAZAKERLEY PRISON SERVICES LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1998 (CONTINUED)

2 OPERATING PROFIT

The company had no employees during the year other than the directors. No remuneration was paid to the directors in respect of their services to the company.

The audit fee in respect of the company was £10,500 (1997 - £11,200) for the year. The auditors also received remuneration for other services totalling £1,706 (1997 - £7,500).

Operating lease expenditure incurred in respect of other leases during the year was £1,000 (1997 - £1,000).

3 INTEREST PAYABLE

	<u>1998</u> £'000	<u>1997</u> <u>Restated</u> £'000
Interest payable on short term loans	106	-
Interest payable on long term loans	3,573	5,870
Amortisation of debt issue costs	<u>66</u>	<u>64</u>
	3,745	5,934
Bank interest receivable	(638)	(64)
Interest on contract debtor	<u>-</u>	<u>(152)</u>
	8,107	5,718
Interest transferred to contract debtor	<u>(7,055)</u>	<u>(5,712)</u>
	<u>1,052</u>	<u>6</u>

4 TAXATION

	<u>1998</u> £'000	<u>1997</u> <u>Restated</u> £'000
UK Corporation tax at 31% (1997 - 31½%)	507	24

FAZAKERLEY PRISON SERVICES LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1998 (CONTINUED)

5 DEBTORS

	1998 <u>£'000</u>	1997 <u>Restated</u> <u>£'000</u>
Amounts due within one year:		
Other debtors	2,682	1,969
Contract debtor	<u>1,204</u>	<u>1,137</u>
	3,886	3,106
Amounts due in more than one year:		
Contract debtor	<u>85,834</u>	<u>88,421</u>
	<u>90,720</u>	<u>91,527</u>

6 CREDITORS

	1998 <u>£'000</u>	1997 <u>Restated</u> <u>£'000</u>
Amounts falling due within one year:		
Trade creditors	1,464	2,346
Accruals and deferred income	1,141	327
Corporation tax payable	530	24
Bank borrowings	<u>5,021</u>	<u>-</u>
	8,156	2,697
	<u>£'000</u>	<u>£'000</u>
Amounts falling due in more than one year:		
Bank borrowings	£6,479	90,500
Less: issue costs	<u>(1,119)</u>	<u>(1,250)</u>
	£5,360	89,250
Accruals and deferred income	-	349
Other loans	<u>7,000</u>	<u>7,000</u>
	<u>£12,360</u>	<u>96,599</u>

Bank borrowings relate to a term loan facility totalling £90,500,000 granted by a group of banks. The company has an additional working capital facility of £3,000,000 of which £1,000,000 is being utilised as at 31 December 1998. Loan issue costs have been offset against bank borrowings and are being amortised over the period of the facility as part of the finance cost in accordance with the provisions of Financial Reporting Standard 4.

FAZAKERLEY PRISON SERVICES LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1998 (CONTINUED)

6 CREDITORS (CONTINUED)

The loan facility is repayable in thirty-four six monthly instalments commencing on 15 June 1999. Interest is charged on amounts drawn under the facilities based on the floating LIBOR rate. The company has entered into swap agreements with Bank of America and ABN Amro in order to fix the interest rate at 8.0595% applied to draws of £826,400 on the facility to 15 December 2005. The term loan and working capital facilities are secured by a fixed charge over all leasehold interests, book debt, project accounts and intellectual property of the company and by a floating charge over the company's undertakings and assets.

The other loan balance of £7,000,000 relates to funds advanced by Group 4 Tarmac (Fazakerley) Limited. Group 4 Tarmac (Fazakerley) Limited has in turn received corresponding loans from its shareholders in proportion to their shareholdings.

7 PROVISIONS FOR LIABILITIES AND CHARGES

No deferred tax has been provided in the accounts. The full potential (asset)/liability at 30% is £Nil (1997 - £Nil).

8 SHARE CAPITAL

	1998	1997
Authorised:		
Ordinary shares of £1 each	£100	£100
	<u> </u>	<u> </u>
Allotted and issued on incorporation:		
Ordinary shares of £1 each	£100	£100
	<u> </u>	<u> </u>

9 PROFIT AND LOSS ACCOUNT

	£'000
At 31 December 1997 as previously stated	(11,349)
Prior year adjustment (see note 1(6))	<u>11,401</u>
At 31 December 1997 - restated	52
Profit in financial year	<u>1,127</u>
At 31 December 1998	<u>1,179</u>

FAZAKERLEY PRISON SERVICES LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1998 (CONTINUED)

10 OBLIGATIONS UNDER LEASES

The company has entered into operating leases and has annual commitments under leases expiring as follows:

	Land and buildings	
	1998 £'000	1997 £'000
After five years	1	1
	=	=

11 COMMITMENTS

Under the terms of a contract with Tarmac Construction Limited dated 20 December 1995, the company is committed to payments totalling £7,050,000 for major maintenance works over the remaining contract term.

An operating agreement with Group 4 Prison Services Limited was signed by the company on 20 December 1995. The company is committed to pay fixed and variable fees to Group 4 Prison Services Limited based on the number of available prisoner places for the remaining contract term. Payments in the year ended 31 December 1998 were £12,181,312 (1997 - ££26,636).

12 RELATED PARTY DISCLOSURES

In addition to the contracted commitments set out in note 11 above, Group 4 Prison Services Limited provided administrative and technical services to the company during the year at a cost of £135,335 (1997 - £34,784). Similar services were provided by companies related to Tarmac (PFI) Limited at a cost of £82,463 (1997 - £75,503).

13 PARENT UNDERTAKINGS

The company is a wholly owned subsidiary of Group 4 Tarmac (Fazakerley) Limited, a company which files consolidated financial statements in England. The share capital of Group 4 Tarmac (Fazakerley) Limited is held fifty percent by Tarmac (PFI) Limited, which is registered in the United Kingdom, with the other fifty percent held by Group 4 Prison Services Limited, a company incorporated in the United Kingdom.