

FAZAKERLEY PRISON SERVICES LIMITED
(REGISTERED NUMBER 2984969)

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 December 2002



FAZAKERLEY PRISON SERVICES LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2002

The directors submit their report and the audited financial statements of the company for the year ended 31 December 2002.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The company is engaged under a 28 year contract signed on 20 December 1995 for the provision of design, construction and management services, including related financing arrangements for a prison, HMP Altcourse, at Fazakerley in Liverpool.

The loss for the year under review as set out in the profit and loss account on page 4.

DIVIDENDS AND TRANSFERS FROM RESERVES

An interim dividend of £1,600,000 (2001: £1,800,000) has been paid during the year; a final dividend declared for the year 2002 of £1,750,000 (2001: £1,800,000) was paid on 25th February 2003. The amount transferred from reserves is set out in the profit and loss account on page 4.

DIRECTORS

The directors of the company during the year ended 31 December 2002, and subsequently, were:

A D Banks	
S R Brown	(appointed 4 March 2003)
C Elliott	
H Gilbey	(appointed 26 March 2003)
S N Jones	(appointed 26 March 2003)
R W Robinson	
C F G Girling	(resigned 26 March 2003)
J A Harrower	(resigned 8 February 2003)
F R Herzberg	(resigned 26 March 2003)

DIRECTORS' INTEREST 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.

EUROPEAN MONETARY UNION

The directors are aware of the implications of the European Monetary Union. No significant costs have arisen during the year.

FAZAKERLEY PRISON SERVICES LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2002 (CONTINUED)

AUDITORS

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 21 February 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the annual general meeting.

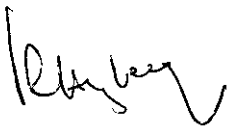
STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The directors confirm that suitable accounting policies have been used and applied consistently with the exception of the changes arising on the adoption of the new accounting standards in the year as explained on page 7 under Note 1 'Accounting policies'. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2002 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 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 company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By Order of the Board



F R Herzberg
SECRETARY
30 April 2003

FAZAKERLEY PRISON SERVICES LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FAZAKERLEY PRISON SERVICES LIMITED

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes.

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 any 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.

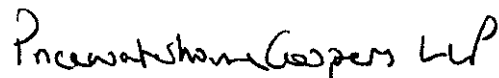
Basis of audit opinion

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 the company's affairs at 31 December 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Birmingham
30 April 2003

FAZAKERLEY PRISON SERVICES LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2002

	Notes	2002 £'000	2001 £'000
Turnover	1	22,676	21,571
Operating costs		(16,765)	(15,664)
Administrative expenses		(900)	(475)
OPERATING PROFIT	2	<u>5,011</u>	<u>5,432</u>
Interest payable and similar charges	3	(6,600)	(6,791)
Interest receivable and similar income	3	6,682	6,835
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>5,093</u>	<u>5,476</u>
Taxation on profit on ordinary activities	4	(1,783)	(1,880)
PROFIT FOR THE FINANCIAL YEAR		<u>3,310</u>	<u>3,596</u>
Equity dividends	9	(3,350)	(3,600)
LOSS TRANSFERRED FROM RESERVES	10	<u>(40)</u>	<u>(4)</u>

The company has been engaged solely in continuing activities in a single class of business within the United Kingdom.

There is no difference between the loss for the period as shown in the profit and loss account above and its historical cost equivalent.

The company has no recognised gains and losses other than the losses above and therefore no separate statement of total recognised gains and losses has been presented.

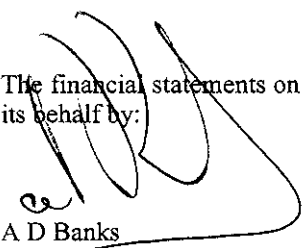
The movements on reserves are shown in note 10 to the financial statements.

FAZAKERLEY PRISON SERVICES LIMITED

BALANCE SHEET AT 31 DECEMBER 2002

	Notes	2002 £'000	2001 £'000
CURRENT ASSETS			
Debtors (amounts falling due within one year)	5	4,500	4,334
Debtors (amounts falling due in more than one year)	5	81,473	83,178
Cash at bank and in hand		7,812	6,553
		<u>93,785</u>	<u>94,065</u>
CREDITORS (amounts falling due within one year)	6	<u>(7,590)</u>	<u>(7,051)</u>
NET CURRENT ASSETS		86,195	87,014
CREDITORS (amounts falling due in more than one year)	6	<u>(79,312)</u>	<u>(81,788)</u>
		6,883	5,226
PROVISIONS FOR LIABILITIES AND CHARGES	7	<u>(6,849)</u>	<u>(5,152)</u>
NET ASSETS		<u>34</u>	<u>74</u>
CAPITAL AND RESERVES			
Called up share capital	8	-	-
Profit and loss account	10	<u>34</u>	<u>74</u>
TOTAL EQUITY SHAREHOLDERS' FUNDS		<u>34</u>	<u>74</u>

The financial statements on pages 4 to 13 were approved by the Board on 30 April 2003 and were signed on its behalf by:


A D Banks

DIRECTOR

FAZAKERLEY PRISON SERVICES LIMITED

RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS FOR THE YEAR ENDED 31 DECEMBER 2002

	2002 £'000	2001 £'000
Profit for the financial year	3,310	3,596
Equity dividends	<u>(3,350)</u>	<u>(3,600)</u>
Net reduction to equity shareholders' funds	(40)	(4)
Equity shareholders' funds at 1 January	<u>74</u>	<u>78</u>
Equity shareholders' funds at 31 December	<u><u>34</u></u>	<u><u>74</u></u>

FAZAKERLEY PRISON SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002

1 ACCOUNTING POLICIES

A summary of the company's principal accounting policies is set out below, together with an explanation of any changes that have been made to previous policies due to the adoption of new accounting standards in the year.

The requirements of FRS 19 'Deferred tax' have been implemented in the current year. The adoption of this Standard represents a change in accounting policy but no restatement of the prior period figures was required.

(1) Basis of preparation of accounts

The financial statements are prepared under the historical cost convention and in accordance with applicable UK accounting and financial reporting standards. Narrative disclosures of values in the notes to the accounts are shown as round £'000.

(2) Turnover

Turnover represents the amount receivable, excluding value added tax, for goods, services supplied and fee income from contracts. All turnover originates in the United Kingdom.

The company recognises income when it has fully fulfilled its contractual obligations for which the payment was receivable.

(3) Deferred taxation

Following the introduction of FRS 19, provision is made for deferred tax in so far as a liability or asset arose as a result of transactions that had occurred by the balance sheet date and gave rise to an obligation to pay more tax in the future or a right to pay less tax in the future. An asset is only recognised to the extent that the transfer of economic benefits in the future is certain. Deferred tax assets and liabilities recognised have not been discounted.

(4) Leased assets

Payments under operating leases are charged to the profit and loss account on a straight-line basis over the term of the lease.

(5) Contract debtor

Amounts recoverable under long term Private Finance Initiative contracts are transferred to a contract debtor in accordance with the requirements of Financial Reporting Standard 5 Application Note F – Private Finance Initiative and Similar Contracts. The amounts receivable, (which may include the costs of construction of related assets), are treated as a long-term contract debtor from the commencement of the operating contract, with a constant proportion of the net revenue arising from the project being allocated to remunerate the contract debtor. Imputed interest receivable is allocated to the contract debtor using a property specific rate to generate a constant rate of return over the life of the contract. Over the course of the contract term, the contract debtor is expected to be fully repaid.

(6) Cash flow statement

At 31 December 2002, the company was a wholly owned subsidiary of Group 4 Carillion (Fazakerley) Limited which prepares consolidated group financial statements including a group cash flow statement. In accordance with Financial Reporting Standard 1 (revised), no cash flow statement is therefore included in these financial statements.

FAZAKERLEY PRISON SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002 (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 (2001: £nil).

The audit fee in respect of the company was £12,000 (2001: £11,000) for the year. In addition, the company bore £1,000 in respect of the audit fee for its parent company during the year. The auditors also received remuneration for other services totalling £25,000 (2001: £2,000).

Operating lease expenditure incurred in respect of other leases during the year was £1,000 (2001: £1,000).

3 INTEREST

	2002 £'000	2001 £'000
Interest payable on long term loans	(6,495)	(6,686)
Amortisation of debt issue costs	(105)	(105)
Interest payable and similar charges	<u>(6,600)</u>	<u>(6,791)</u>
Bank interest receivable	287	320
Imputed interest on contract debtor	<u>6,395</u>	<u>6,515</u>
Interest receivable and similar income	<u>6,682</u>	<u>6,835</u>

Interest is imputed on the contract debtor using a property specific rate of 7.6% (2001: 7.6%).

FAZAKERLEY PRISON SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002 (CONTINUED)

4 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

Analysis of charge in period	2002 £'000	2001 £'000
Current tax		
UK corporation tax on profits of the period	86	96
Adjustments in respect of previous periods	-	93
Total current tax	86	189
Deferred tax		
Origination and reversal of timing differences (note 7)	1,697	1,691
Tax on profit on ordinary activities	1,783	1,880

The tax for the period is lower (2001: lower) than the standard rate of corporation tax in the UK (30%). The differences are explained below:

Factors affecting tax charge for the period

Profit on ordinary activities before tax	5,093	5,476
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2001: 30%)	1,528	1,643
Effects of:		
Remuneration of contract debtor less capital allowances and imputed interest for the period	(85)	(313)
Utilisation of tax losses brought forward from prior periods	(1,357)	(1,234)
Adjustment to tax charge in respect of previous periods	-	93
Current tax charge for the period	86	189

Factors that may affect future tax charges

The company has incurred significant expenditure in the construction of the prison on which it has claimed tax relief through capital allowances and claims for interest and loan related expenditure during the construction period. It has used these claims to offset its current liabilities and retains tax losses to offset liabilities in future years.

As amounts are recovered to remunerate these costs they will be brought into current taxation in the year in which they are received.

As a result of these claims there exist significant timing differences, which are expected to reverse over the period of the contract term.

FAZAKERLEY PRISON SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002 (CONTINUED)

5 DEBTORS

	2002 £'000	2001 £'000
Amounts falling due within one year:		
Other debtors	2,727	2,622
Contract debtor	1,773	1,712
	<u>4,500</u>	<u>4,334</u>
Amounts falling due in more than one year:		
Contract debtor	<u>81,473</u>	<u>83,178</u>

6 CREDITORS

	2002 £'000	2001 £'000
Amounts falling due within one year:		
Bank borrowings	2,579	2,442
Trade creditors	2,650	2,389
Corporation tax	87	97
Accruals and deferred income	524	323
Proposed dividend	1,750	1,800
	<u>7,590</u>	<u>7,051</u>
Amounts falling due in more than one year:		
Bank borrowings	80,961	83,542
Less: issue costs	(1,649)	(1,754)
	<u>79,312</u>	<u>81,788</u>

Bank borrowings relate to a term loan facility totalling £90,500,000 granted by a group of banks to the company. The loan facility is for a total value of £90,500,000 of which £90,500,000 (2001: £90,500,000) has been drawn down in total. As at 31 December 2002, £83,540,000 (2001: £85,984,000) remains outstanding. The company has an additional working capital facility of £2,000,000 of which £nil was utilised (2001: £nil). Loan issue costs have been offset against bank borrowings and are being amortised over the term of the facility as part of the finance cost in accordance with the provisions of Financial Reporting Standard 4.

The loan facility is repayable in forty-four six monthly instalments and payment commenced on 15 June 2000. Interest is charged on balances remaining under the facilities based on the floating LIBOR rate. The company has entered into swap agreements with ABN Amro Bank NV and HBOS Treasury Services plc in order to fix the interest rate at 6.9% applied to those balances on the facility to 15 December 2021. The term loan and working capital facilities are secured by a fixed charge over all leasehold interests, book debts, project accounts and intellectual property of the company and by a floating charge over the company's undertakings and assets.

FAZAKERLEY PRISON SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002 (CONTINUED)

6 CREDITORS (CONTINUED)

MATURITY OF BANK DEBT

	2002 £'000	2001 £'000
In one year or less	2,579	2,442
In more than one year but not more than two years	2,733	2,579
In more than two years but not more than five years	9,122	8,642
In more than five years	69,106	72,321
	<u>83,540</u>	<u>85,984</u>

7 PROVISIONS FOR LIABILITIES AND CHARGES

	2002 £'000	2001 £'000
Provision for deferred taxation		
Accelerated capital allowances and accelerated finance costs	6,849	5,152
Total provision for deferred tax	<u>6,849</u>	<u>5,152</u>
Provision at 1 January	5,152	
Deferred tax charge in profit and loss account for the period (note 4)	1,697	
Provision at 31 December	<u>6,849</u>	

8 CALLED UP SHARE CAPITAL

	2002	2001
Authorised:		
100 Ordinary shares of £1 each	<u>£100</u>	<u>£100</u>
Allotted, called up and fully paid:		
100 Ordinary shares of £1 each	<u>£100</u>	<u>£100</u>

FAZAKERLEY PRISON SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002 (CONTINUED)

9 EQUITY DIVIDENDS

	2002 £'000	2001 £'000
Interim paid	1,600	1,800
Final dividend proposed/paid	1,750	1,800
	<u>3,350</u>	<u>3,600</u>

10 PROFIT AND LOSS ACCOUNT

	2002 £'000
At 1 January 2002	74
Loss for the financial year	(40)
At 31 December 2002	<u>34</u>

11 OBLIGATIONS UNDER LEASES

The company has entered into operating leases and has annual commitments under leases for land and buildings of £1,000 (2001: £1,000) expiring after five years.

12 COMMITMENTS

Under the terms of the original contract, dated 20 December 1995 with Carillion Construction Limited, a company related to Carillion Private Finance Limited, the company is committed to payments totalling £7,578,000 for major maintenance works over the remaining contract term.

Under the terms of a fee assignment with Group 4 Carillion (Fazakerley) Limited dated 30 November 1999, the company is committed to payments totalling £767,000 for financial advice over a period of twelve years. Payments in the year ended 31 December 2002 were £52,000 (2001: £69,000).

Under the terms of a contract, dated 20 December 1995, the company is committed to pay fixed and variable fees to Group 4 Falck Global Solutions UK Limited, a company related to Group 4 Falck Joint Ventures Limited, based on the number of available trainee places for the remaining contract term. Payments in the year ended 31 December 2002 were £17,300,000 (2001: £15,672,000).

FAZAKERLEY PRISON SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002 (CONTINUED)

13 RELATED PARTY DISCLOSURES

In addition to contracted commitments set out in note 12 above, Group 4 Falck Global Solutions Limited and Group 4 Falck Global Solutions UK Limited, companies related to Group 4 Falck Joint Ventures Limited, provided administrative and technical services to the company during the year at a cost of £20,000 (2001: £98,000) for Group 4 Falck Global Solutions Limited, and £197,000 (£257,000) for Group 4 Falck Global Solutions UK Limited. Similar services were also provided by Carillion Construction Limited, a company related to Carillion Private Finance Limited at a cost of £111,000 (2001: £76,000).

At the year end there was £nil (2001: £nil) payable to Group 4 Falck Global Solutions Limited, £1,861,000 (2001: £389,000) payable to Group 4 Falck Global Solutions UK Limited and £121,000 (2001: £84,000) payable to Carillion Construction Limited.

14 PARENT UNDERTAKINGS

The company is a wholly owned subsidiary of Group 4 Carillion (Fazakerley) Limited, a company which files consolidated financial statements in England. Fifty percent of the share capital of Group 4 Carillion (Fazakerley) Limited is held by Carillion Private Finance Limited and fifty percent of the shares are held by Group 4 Falck Joint Ventures Limited. Both shareholders are companies incorporated in the United Kingdom.