

ECD (COOKHAM WOOD) LIMITED
(REGISTERED NUMBER 3241233)

DIRECTORS' REPORT AND ACCOUNTS

31 December 1997



ECD (COOKHAM WOOD) LIMITED

DIRECTORS' REPORT FOR THE PERIOD ENDED 31 DECEMBER 1997

The directors submit their report and the audited accounts of the company for the period from 23 August 1996 to 31 December 1997.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The company was incorporated on 23 August 1996. These accounts cover the period from incorporation to 31 December 1997.

The company is engaged under a 16 year contract signed on 3 March 1997 in the provision of design, construction and management services, including related financing arrangements, for a secure training centre for juveniles to be established near Rochester in Kent.

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

DIVIDENDS AND TRANSFERS TO RESERVES

No dividend is proposed. The result for the period is presented on page 4.

DIRECTORS

The directors of the company during the period ended 31 December 1997 were:

JA Harrower	(appointed 13 January 1997)
AD Banks	(appointed 13 January 1997)
MJ Lavers	(appointed 13 January 1997)
LJ Malmberg	(appointed 13 January 1997)
B Pellard	(appointed 13 January 1997)
JJ McCormack	(appointed 23 August 1996, resigned 13 January 1997)
London Law Secretarial Ltd	(appointed and resigned 23 August 1996)

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.

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.

AUDITORS

The auditors, Price Waterhouse, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the next Annual General Meeting.

ECD (COOKHAM WOOD) LIMITED

DIRECTORS' REPORT FOR THE PERIOD ENDED 31 DECEMBER 1997 (CONTINUED)

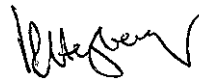
STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

30 April 1998

Price Waterhouse



AUDITORS' REPORT TO THE SHAREHOLDERS OF ECD (COOKHAM WOOD) 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

As described on page 2 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

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 mis-statement, 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 1997 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.


PRICE WATERHOUSE
Chartered Accountants
and Registered Auditors

30 April 1998

ECD (COOKHAM WOOD) LIMITED

PROFIT AND LOSS ACCOUNT FOR THE PERIOD ENDED 31 DECEMBER 1997

	<u>Notes</u>	23 August 1996 to <u>31 December 1997</u> £'000
Administrative expenses		(1,012)
		<hr/>
OPERATING LOSS	2	(1,012)
Interest payable	3	<u>(289)</u>
LOSS ON ORDINARY ACTIVITIES BEFORE AND AFTER TAXATION AND RETAINED LOSS FOR THE FINANCIAL PERIOD	9	(1,301)
		<hr/> <hr/>

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

ECD (COOKHAM WOOD) LIMITED

BALANCE SHEET AT 31 DECEMBER 1997

	<u>Notes</u>	<u>1997</u> <u>£'000</u>
CURRENT ASSETS		
Debtors (amounts falling due within one year)	5	452
Debtors (amounts falling due in more than one year)	5	8,119
Cash at bank and in hand		<u>25</u>
		8,596
CREDITORS (amounts falling due within one year)	6	<u>(1,741)</u>
NET CURRENT ASSETS		6,855
CREDITORS (amounts falling due in more than one year)	6	<u>(8,156)</u>
		<u>(1,301)</u>
		=====
CAPITAL AND RESERVES		
Equity share capital	8	-
Profit and loss account	9	<u>(1,301)</u>
TOTAL SHAREHOLDERS' FUNDS		<u>(1,301)</u>
		=====

Approved by the Board on 30 April 1998.

DIRECTORS


J A HARROWER


B PELLARD

ECD (COOKHAM WOOD) LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE PERIOD ENDED 31 DECEMBER 1997

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

NOTE OF HISTORICAL COST PROFITS AND LOSSES

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

MOVEMENT IN SHAREHOLDERS' FUNDS FOR THE PERIOD ENDED 31 DECEMBER 1997

The movement in shareholders' funds during the period ended 31 December 1997 relates wholly to the retained loss for the financial period.

ECD (COOKHAM WOOD) LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1997

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

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

(4) Depreciation

Depreciation is calculated so as to write off the cost or valuation less estimated residual value of fixed tangible assets by the straight line method over the period of their useful lives, as follows:

Plant, equipment and vehicles	10-50% per annum
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(5) Leased assets

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

(6) 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.

ECD (COOKHAM WOOD) LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1997 (CONTINUED)

2 OPERATING LOSS

The company had no employees during the period 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 £Nil for the year. The auditors also received remuneration for other services totalling £Nil.

3 INTEREST PAYABLE

	23 August 1996 to 31 December 1997 £'000
Interest payable on long term loans	293
Bank interest receivable	<u>(4)</u>
Net interest payable	<u>289</u>

4 TAXATION

There is no charge to UK corporation tax at the normal rate of 31.5% (1996 - 33%) in the period given the loss recorded.

5 DEBTORS

	1997 £'000
Amounts due within one year:	
Other debtors	452
Amounts due in more than one year:	
Contract debtor	<u>8,119</u>
	<u>8,571</u>

ECD (COOKHAM WOOD) LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1997 (CONTINUED)

6 CREDITORS

	<u>1997</u> £'000
Amounts falling due within one year:	
Trade creditors	1,704
Accruals and deferred income	<u>37</u>
	1,741
	<u> </u>
	£'000
Amounts falling due in more than one year:	
Bank borrowings	7,700
Less: issue costs	<u>(162)</u>
	7,538
Other loans	<u>618</u>
	8,156
	<u> </u>

Bank borrowings relate to a term loan facility granted by a group of banks. The loan facility is for a total value of £12,550,000 of which £7,700,000 has been drawn down at 31 December 1997. The Company has an additional working capital facility of £3,000,000 which has not been utilised at 31 December 1997. 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.

The loan facility is repayable in 26 six monthly instalments commencing on 15 December 1998. Interest is charged on amounts drawn under the facilities based on the floating LIBOR rate. The Company has entered into swap agreements with ABN Amro Bank NV in order to fix the interest rate of 7.785% applied to draws on the facility to 31 March 2011 totalling £12,550,000. 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.

The other loan balance of £618,000 relates to funds advanced by Education Care and Discipline Limited. Education Care and Discipline Limited has in turn received corresponding loans from its shareholders in proportion to their shareholdings.

ECD (COOKHAM WOOD) LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1997 (CONTINUED)

7 PROVISIONS FOR LIABILITIES AND CHARGES

No deferred tax has been provided in the accounts. The full potential (asset)/liability at 31% is £Nil.

8 SHARE CAPITAL

	<u>1997</u>
Authorised:	
Ordinary shares of £1 each	£100
	<u>=====</u>
Allotted and issued on incorporation:	
Ordinary shares of £1 each	£2
	<u>=====</u>

9 PROFIT AND LOSS ACCOUNT

	£'000
At 31 December 1996	-
Loss in financial period	<u>(1,301)</u>
At 31 December 1997	<u>(1,301)</u>
	<u>=====</u>

10 OBLIGATIONS UNDER LEASES

The company has entered into an operating lease and has an annual commitment under leases for land and buildings of £1 expiring after five years.

11 COMMITMENTS

Under the terms of a contract with Tarmac Construction Limited dated 3 March 1997, the company is committed to payments totalling £10,797,000 in respect of design and construction service to be provided in the period to April 1998, and £546,000 for major maintenance works over the remaining contract term. Payments will be made as the design and construction work progresses. Payments in the year ended 31 December 1997 were £8,119,000.

An operating agreement with Rebound ECD Limited, was signed by the company on 3 March 1997. The company is committed to pay fixed and variable fees to Rebound ECD Limited based on the number of available prisoner places. Payments will commence in April 1998 and continue for the contract term.

ECD (COOKHAM WOOD) LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1997 (CONTINUED)

12 RELATED PARTY DISCLOSURES

In addition to contract commitments set out in note 11 above, Group 4 Prison Services Limited, a company related to ECD (Cookham Wood) Limited, provided administrative and technical services to the company during the year at a cost of £10,324. Similar services were also provided by Tarmac PFI Limited at a cost of £33,833.

13 PARENT UNDERTAKINGS

The company is a wholly owned subsidiary of Education Care and Discipline Limited, a company which files consolidated financial statements in England. The share capital of Education Care and Discipline Limited is held 50% by Tarmac PFI Limited, which is registered in the United Kingdom, with the remaining 50% held by Rebound ECD Limited, a company incorporated in the United Kingdom.