Education Care and Discipline Limited

Directors' report and financial statements

for the year ended 31 December 2005

Registered number: 3241234

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Education Care and Discipline Limited

Directors' report and financial statements for the year ended 31 December 2005

Pages

Education Care and Discipline Limited

Directors' report
for the year ended 31 December 2005

The directors submit their report and the audited financial statements of the company and group for the year ended 31 December 2005.

Principal activities and business review

The principal activity of the company is a holding company with a single subsidiary, ECD (Cookham Wood) Limited.

ECD (Cookham Wood) Limited is engaged under a 16 year contract, signed on 3 March 1997, for the provision of design, construction and management services, including related financing arrangements, for a secure training centre for juveniles, STC Medway, near Rochester, Kent.

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

The directors consider the performance of the group during the year, the financial position at the end of the year and its prospects for the future to be satisfactory.

Dividends and transfers to reserves

Interim dividends of £750,000 have been paid during the year (2004: £nil). No final dividend is proposed (2004: £nil). 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 ended 31 December 2005, and subsequently, were:

A D Banks	
S R Brown	(resigned 28 October 2005)
C Elliott	
G Farley	(appointed 11 March 2005)
F R Herzberg	
R W Robinson	
M W Taylor	(appointed 2 November 2005)
R C Turner	(resigned 11 March 2005)

Directors' interests in shares

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

Education Care and Discipline Limited

Directors' report
for the year ended 31 December 2005 (continued)

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 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 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 2005 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

D A J Anderson
Secretary
8 June 2006

Independent auditors' report to the members of Education Care and Discipline Limited

We have audited the group and parent company financial statements (the ''financial statements'') of Education Care and Discipline Limited for the year ended 31 December 2005 which comprise the Group Profit and Loss Account, the Group and Company Balance Sheets, the Group Cash Flow Statement, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland). 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 other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2005 and of the group's profit and cash flows for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Birmingham
8 June 2006

Education Care and Discipline Limited

Consolidated profit and loss account for the year ended 31 December 2005

	Notes	2005 £'000	2004 £'000
Turnover	1	**10,504**	10,127
Operating costs		**(9,414)**	(9,063)
Gross Profit		**1,090**	1,064
Administrative expenses		**(395)**	(388)
Operating profit	3	**695**	676
Interest receivable and similar income	4	**914**	968
Interest payable and similar charges	4	**(590)**	(685)
Profit on ordinary activities before taxation		**1,019**	959
Taxation on profit on ordinary activities	5	**(202)**	(389)
Profit for the financial year		**817**	570
Equity dividends paid	11	**(750)**	-
Retained profit for the financial year	12	**67**	570

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

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

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

The movement on reserves is shown in note 12 to the financial statements.

Education Care and Discipline Limited

Consolidated balance sheet
as at 31 December 2005

	Notes	2005	2004
		£'000	£'000
Current assets			
Debtors: amounts falling due within one year	7	**1,898**	1,784
Debtors: amounts falling due in more than one year	7	**7,301**	8,126
Cash at bank and in hand		**2,664**	3,157
		11,863	13,067
Creditors: amounts falling due within one year	8	**(2,794)**	(3,248)
Net current assets		**9,069**	9,819
Creditors: amounts falling due in more than one year	8	**(4,743)**	(5,701)
		4,326	4,118
Provisions for liabilities and charges	9	**(846)**	(705)
Net assets		**3,480**	3,413
Capital and reserves			
Called up share capital	10	**-**	-
Profit and loss account	12	**3,480**	3,413
Total equity shareholders' funds		**3,480**	3,413

The financial statements on pages 4 to 17 were approved by the Board on 8 June 2006 and were signed on its behalf by:

Director

Education Care and Discipline Limited

Company balance sheet
as at 31 December 2005

	Notes	**2005**	2004
		£'000	£'000
Fixed assets			
Investments	6	-	-
Creditors: amounts falling due in more than one year	8	-	-
Net assets		-	-
Capital and reserves			
Called up share capital	10	-	-
Profit and loss account	12	-	-
Total equity shareholders' funds		-	-

Approved by the Board on 8 June 2006 and signed on its behalf by:

Director

Education Care and Discipline Limited

Reconciliation of movement in group equity shareholders' funds for the year ended 31 December 2005

	2005	2004
	£'000	£'000
Profit for the financial year	**817**	570
Equity dividends	**(750)**	-
Net addition to equity shareholders' funds	**67**	570
Equity shareholders' funds as at 1 January	**3,413**	2,843
Equity shareholders' funds as at 31 December	**3,480**	3,413

Education Care and Discipline Limited

Consolidated cash flow statement
for the year ended 31 December 2005

	Notes	2005	2004
		£'000	£'000
Net cash inflow from operating activities	2	**1,417**	1,452
Returns on investment and servicing of finance			
Interest received		**914**	968
Interest paid		**(583)**	(672)
		331	296
Taxation		**(799)**	-
Equity dividends paid to shareholders		**(750)**	-
Financing			
Net decrease in borrowings		**(692)**	(1,098)
(Decrease)/increase in cash		**(493)**	650

Reconciliation of net cash flow to movement in net debt

	Notes	2005	2004
		£'000	£'000
Decrease in cash in the period		**(493)**	650
Decrease in bank borrowings		**692**	1,098
Other non cash changes	14	**(11)**	(11)
Movement in net debt in the period	14	**188**	1,737
Net debt at 1 January 2005		**(3,443)**	(5,180)
Net debt at 31 December 2005	14	**(3,255)**	(3,443)

Education Care and Discipline Limited

Notes to the financial statements for the year ended 31 December 2005

1 Accounting policies

A summary of the group's principal accounting policies is set out below.

Basis of preparation of accounts

The financial statements are prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 1985 and applicable UK accounting standards. Narrative disclosures of values in the notes to the accounts are shown as round £'000.

Basis of consolidation

The consolidated financial statements include the accounts of the company and its subsidiary undertaking ECD (Cookham Wood) Limited.

Intra-group sales and profits are eliminated on consolidation.

Turnover

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

The group recognises income when it has fully fulfilled its contractual obligations. In accordance with Financial Reporting Standard 5 – Application Note G, the group includes sales and purchase transactions related to variations under the original contract where the benefits and risks are retained by the group, within the financial statements as turnover and operating costs.

Transactions to which the group does not have access to all the significant benefits and risks are excluded from the financial statements.

Deferred taxation

Deferred tax 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 is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Deferred tax assets are only recognised when it is considered more likely than not that there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted.

Leased assets

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

Notes to the financial statements for the year ended 31 December 2005 (continued)

1 Accounting policies (continued)

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.

Investments

Investments in subsidiary undertakings are stated at cost, less an appropriate provision to reflect any impairment in the value of the investments.

Financial instruments

The group uses derivative financial instruments to hedge its exposure to fluctuations in interest rates. Financial instruments used to hedge interest rates are valued at cost. Receipts and payments on interest rate instruments are recognised in the profit and loss account over the economic life of the instrument or underlying position being hedged, within net interest. Gains or losses arising on hedging instruments, which do not qualify as hedges for accounting purposes, are taken to the profit and loss account as they arise.

Discounts, premia and related costs of debt issue are charged to the profit and loss account over the life of the instrument to which they relate.

2 Cash flow from operating activities

	2005	2004
	£'000	£'000
Reconciliation of operating profit to net cash inflow from operating activities:		
Operating profit	**695**	676
Decrease in contract debtor	**748**	583
(Increase)/decrease in debtors	**(37)**	146
Increase in creditors	**11**	47
Net cash inflow from operating activities	**1,417**	1,452

Notes to the financial statements for the year ended 31 December 2005 (continued)

3 Operating profit

The group had no employees during the year. The directors have no contract of service with the company or group. No remuneration was paid to the directors in respect of their services to the group (2004: £nil).

The audit fee in respect of the group was £7,000 (2004: £7,000), and for the company £2,000 (2004: £2,000). The auditors also received remuneration for other services in respect to the group totalling £2,000 (2004: £12,000) and £nil (2004: £nil) in respect of the company. All of these costs have been borne by the subsidiary.

Operating lease expenditure incurred in respect of other leases during the year was £1 (2004: £1).

4 Net interest payable and similar charges

	2005	2004
	£'000	£'000
Bank interest receivable	**143**	142
Imputed interest on contract debtor	**771**	826
Interest receivable and similar income	**914**	968
Interest payable on long term loans	**(579)**	(674)
Amortisation of debt issue costs	**(11)**	(11)
Interest payable and similar charges	**(590)**	(685)
Net interest receivable	**324**	283

Interest is imputed on the contract debtor using a property specific rate of 9.04% (2004: 9.04%).

Notes to the financial statements for the year ended 31 December 2005 (continued)

5 Taxation on profit on ordinary activities

	2005	2004
	£'000	£'000
Analysis of charge in period		
Current tax		
UK corporation tax on profits of the period	**401**	441
Adjustments in respect of previous periods	**(340)**	(25)
Deferred tax		
Origination and reversal of timing differences (note 9)	-	-
Adjustments in respect of previous periods (note 9)	**141**	(27)
Tax on profit on ordinary activities	**202**	389

The tax for the period is lower (2004: higher) 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	**1,019**	959
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2004: 30%)	**305**	288
Effects of remuneration of contract debtor less capital allowances and imputed interest for the period	**96**	153
Adjustments in respect of previous periods	**(340)**	(25)
Current tax charge for the period	**61**	416

Factors that may affect future tax charges

The group has incurred significant expenditure in the construction of the secure training centre 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.

Notes to the financial statements for the year ended 31 December 2005 (continued)

6 Investments

The company owns 100% of the issued share capital of £100 of ECD (Cookham Wood) Limited, which is registered in the United Kingdom and is engaged under a long term contract for the provision of design, construction and management services, including related financing arrangements, for a secure training centre. The cost of this investment is £100 (2004: £100). In the opinion of the directors the aggregate value of the investment in its subsidiary is not less than the carrying value in these financial statements.

7 Debtors

	2005	**2005**	2004	2004
	Company	**Group**	Company	Group
	£'000	**£'000**	£'000	£'000
Amounts falling due within one year				
Contract debtor	-	**817**	-	740
Other debtors	-	**1,081**	-	1,044
	-	**1,898**	-	1,784
Amounts falling due in more than one year				
Contract debtor	-	**7,301**	-	8,126

Notes to the financial statements for the year ended 31 December 2005 (continued)

8 Creditors

	2005 Company £'000	2005 Group £'000	2004 Company £'000	2004 Group £'000
Amounts falling due within one year				
Bank borrowings	-	1,176	-	899
Trade creditors	-	1,004	-	993
Corporation tax	-	461	-	1,199
VAT	-	81	-	81
Accruals and deferred income	-	72	-	76
	-	2,794	-	3,248
Amounts falling due in more than one year				
Bank borrowings	-	4,818	-	5,787
Less: issue costs	-	(75)	-	(86)
	-	4,743	-	5,701
Other loans	-	-	-	-
	-	4,743	-	5,701

Bank borrowings relate to a term loan facility of £12,550,000 granted by ABN Amro Bank NV to ECD (Cookham Wood) Limited (ECD (CW)). The term loan facility was fully drawn down in 1998. As at 31 December 2005, £5,774,000 (2004: £6,686,000) remains outstanding. ECD (CW) has an additional working capital facility of £300,000 (2004: £300,000), at 31 December 2005 £220,000 (2004: £nil) was utilised.

Loan issue costs have been offset against bank borrowings and are amortised over the term of the loan in accordance with the provisions of Financial Reporting Standard 4.

The loan facility is repayable in twenty-six six monthly instalments, which commenced on 15 December 1998. Interest is charged on amounts drawn under the facilities based on the floating LIBOR rate. ECD (CW) has entered into swap agreements with ABN Amro Bank NV in order to fix the interest rate at 7.785% applied to projected balances on the facility to 31 March 2011. 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 ECD (CW) and by a floating charge over ECD (CW)'s undertakings and assets.

Notes to the financial statements for the year ended 31 December 2005 (continued)

8 Creditors (continued)

Maturity of debt

	2005	2004
	Group	Group
	£'000	£'000
In one year or less	**1,176**	899
In more than one year, but not more than two years	**1,018**	956
In more than two years, but not more than five years	**3,383**	3,192
In more than five years	**342**	1,553
	5,919	6,600

9 Provisions for liabilities and charges

	2005	2004
	Group	Group
	£'000	£'000
Provision for deferred taxation		
Accelerated capital allowances and accelerated finance costs	**846**	705
Total provision for deferred tax	**846**	705
Provision at 1 January 2005	**705**	732
Deferred tax charge in profit and loss account for the period (note 5)	**141**	(27)
Provision at 31 December 2005	**846**	705

Notes to the financial statements for the year ended 31 December 2005 (continued)

10 Called up share capital

	2005	2004
	£	£
Authorised		
100 Ordinary shares of £1 each	**100**	100
Allotted, called up and fully paid		
100 Ordinary shares of £1 each	**100**	100

11 Equity dividends

	2005	2004
	£'000	£'000
Interim dividends paid	**750**	-
	750	-

12 Profit and loss account

	Company	Group
	£'000	**£'000**
At 1 January 2005	-	3,413
Profit for the financial year	750	817
Dividends paid	(750)	(750)
At 31 December 2005	**-**	**3,480**

As permitted by Section 230 of the Companies Act 1985, the company has not presented its own profit and loss account. The profit of the company for the year was £750,000 (2004: £nil), which was also the total of the recognised gains and losses for the year.

13 Obligations under leases

The group has entered into an operating lease and has an annual commitment under leases for land and buildings of £1 (2004: £1) expiring after five years.

Notes to the financial statements for the year ended 31 December 2005 (continued)

14 Reconciliation of movements in net debt

	At 1 January 2005	Cash flows	Other non-cash changes	**At 31 December 2005**
	£'000	£'000	£'000	**£'000**
Cash at bank and in hand	3,157	(493)	-	**2,664**
Debt due within one year	(899)	(277)	-	**(1,176)**
Debt due after one year	(5,701)	969	(11)	**(4,743)**
	(3,443)	199	(11)	**(3,255)**

Non-cash changes comprise amortisation of debt issue costs.

15 Commitments

Under the terms of the original contract, dated 3 March 1997, as amended on 11 January 2002, ECD (Cookham Wood) Limited is committed to pay fixed and variable fees to GSL UK Limited based on the number of available trainee places at STC Cookham Wood. Payments in the year ended 31 December 2005 were £9,414,000 (2004: £9,063,000).

16 Related party disclosures

In addition to contractual commitments set out in note 15 above, Global Solutions Limited and GSL UK Limited, companies related to GSL Joint Ventures Limited, provided administrative and technical services to the group during the year at a cost of £nil (2004: £20,000) for Global Solutions Limited, and £103,000 (2004: £82,000) for GSL UK Limited. Similar services were also provided by Carillion Private Finance Limited, at a cost of £82,000 (2004: £78,000).

At the year end there was £28,000 (2004: £nil) payable to Carillion Private Finance Limited, £968,000 (2004: £961,000) to GSL UK Limited and £8,000 (2004: £39,000) payable to Carillion Construction Limited.

17 Parent undertakings

Fifty percent of the shares of the company are held by Carillion Private Finance Limited and fifty percent of the shares owned by GSL Joint Ventures Limited. Both shareholders are companies incorporated in the United Kingdom.