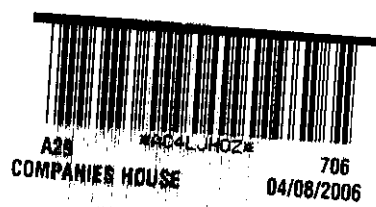


Premier Custodial Group Limited

**Annual Report and Financial Statements  
31 December 2005**



A company registered in England and Wales, number 3849249

**Directors' Report**

The Directors present their annual report and the audited financial statements of the Company for the year ended 31 December 2005.

**Principal Activities**

In 2004 the principal activities of the Company were those of a holding company with subsidiaries engaged in the design, construction, management and finance of custodial facilities. During the year Serco Holdings Limited has reorganised the business. The subsidiary company Premier Prison Services Limited was sold to Serco Limited. The subsidiary companies Premier Custodial Investments Limited and Premier Custodial Finance Limited were sold to Serco Holdings Limited. The company now holds loan capital on behalf of the group.

**Results**

The results of the Company are set out on page 5.

**Dividends**

A dividend of £7,517,000 (2004 – £15,432,000) was paid during the year.

**Directors and their interests**

The following Directors served throughout the year except as stated below:

	<b>Appointed</b>	<b>Resigned</b>
J D M Jeffery		6 May 2005
S I Taiyeb		6 May 2005
J D Carter		6 May 2005
P J Edwards		6 May 2005
C E Bailey		6 May 2005
J Smith		6 May 2005
G Hill		
T Riall	6 May 2005	

Details of Directors' interests in the shares of Serco Group plc are shown in note 2 to the Accounts. None of the Directors had any beneficial interests in the shares of the Company or any other group company during the year.

**Financial Risk Management**

The Company has exposures to a variety of financial risks which are managed with the purpose of minimising any potential adverse effect on the company's performance.

The board has policies for managing each of these risks and they are summarised below:

a) Interest rate risk

The Company's borrowings are subject to fixed interest rates resulting in the repayments being immune to changes to interest rates.

b) Inflation risk

The Company's income is not affected by inflation. Expenses are small in value and unlikely to be significantly influenced by changes in the rate of inflation.

c) Liquidity risk

The Company adopts a prudent approach to liquidity management by maintaining sufficient cash and liquid resources to meet its obligations. Due to the nature of the business, cash flows are reasonably predictable and so this is not a major risk area for the company. Cash balances are held with banks with high credit ratings.

d) Credit risk

The Company receives income in the form of interest from other group companies and therefore is not exposed to significant credit risk.

**Auditors**

The Company has elected to dispense with the obligation to appoint auditors annually and accordingly, Deloitte & Touche LLP shall be deemed to be re-appointed as auditors for a further term under the provisions of Section 386(2) of the Companies Act 1985.

Approved by the Board of Directors and signed on its behalf:



G Hill ACA  
Director

17 July 2006

**Statement of Directors' Responsibilities**

United Kingdom company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year 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; and
- 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 enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **Independent Auditors' Report to the Members of Premier Custodial Group Limited**

We have audited the financial statements of Premier Custodial Group Limited for the year ended 31 December 2005 which comprise the profit and loss account, the balance sheet and the related notes 1 to 12. These financial statements have been prepared under the accounting policies set out therein.

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 auditors' 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**

As described in the statement of directors' responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with the relevant financial reporting framework 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 the directors' report and the other information contained in the annual report for the above year as described in the contents section 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 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 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its profit for the year then ended and the financial statements have been properly prepared in accordance with the Companies Act 1985.

*Deloitte & Touche LLP*  
Deloitte & Touche LLP  
Chartered Accountants and Registered Auditors  
London

17 JULY 2006

## Premier Custodial Group Limited

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### Profit and Loss Account

For the year ended 31 December 2005

	Notes	2005 £'000	2004 £'000
<b>Turnover</b>		-	-
Administrative expenses		(10)	(34)
<b>Operating loss</b>	3	(10)	(34)
Net interest payable	4	(190)	(255)
Profit on sale of investment in subsidiaries		95,370	-
Income from shares in Group undertakings		7,590	15,631
<b>Profit on ordinary activities before taxation</b>		102,760	15,342
Tax credit on loss on ordinary activities	5	60	87
<b>Profit on ordinary activities after taxation</b>	11	102,820	15,429
Dividends paid	6, 11	(7,517)	(15,432)
<b>Retained profit / (loss) for the financial year</b>	10	95,303	(3)

There are no recognised gains or losses for the current or preceding years other than those dealt with in the profit and loss account. Therefore no separate statement of total recognised gains and losses is presented.

All results arise from continuing operations.

# Premier Custodial Group Limited

## Balance Sheet

31 December 2005

	Notes	2005 £'000	2004 £'000
<b>Fixed Assets</b>			
Investments	7	-	4,400
<b>Current Assets</b>			
Debtors:			
Amounts falling due within one year	8	8,128	262
Amounts falling due after more than one year	8	88,574	-
Cash at bank and in hand		27	11
		<b>96,729</b>	<b>273</b>
<b>Creditors: amounts falling due within one year</b>			
Amounts owed to fellow subsidiaries		-	(3,249)
Accruals and deferred income		(10)	(8)
		<b>(10)</b>	<b>(3,257)</b>
<b>Net current assets/(liabilities)</b>		<b>96,719</b>	<b>(2,984)</b>
<b>Total assets less current liabilities</b>		<b>96,719</b>	<b>1,416</b>
<b>Net Assets</b>		<b>96,719</b>	<b>1,416</b>
<b>Capital and Reserves</b>			
Called up share capital	9	6	6
Merger reserve	10	1,396	1,396
Profit and loss account	11	95,317	14
<b>Equity Shareholders' Funds</b>	10	<b>96,719</b>	<b>1,416</b>

These financial statements were approved by the Board of Directors on 17 July 2006.

Signed on behalf of the Board of Directors



G Hill ACA  
Director

## Premier Custodial Group Limited

### Notes to the Financial Statements

For the year ended 31 December 2005

#### 1. Accounting Policies

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted are described below. These have all been applied consistently throughout the current and preceding year.

##### Accounting convention

*These financial statements have been prepared under the historical cost convention.*

##### Taxation

Current tax is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

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, or a right to pay less, tax in the future have occurred at the balance sheet date, with the following exception:

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

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

##### Investments

Investments are stated at cost less provision for any impairment.

##### Cash flow statement

The Company is a wholly owned subsidiary of Serco Holdings Limited and is included in the consolidated financial statements of Serco Group plc which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 ("FRS 1") (revised 1996) – Cash flow statements.

#### 2. Information regarding Directors and Employees

No Director received any remuneration for services to the Company during the year to 31 December 2005 (2004 – £nil).

The Company had no employees other than the Directors during the year (2004 – none).

The interests of the Premier Custodial Group Limited Directors in the ordinary shares of 2 pence each fully paid of Serco Group plc are as follows:

	Shares	
	Balance at 1 January 2005	Balance at 31 December 2005
T Riall	-	-
G Hill	-	-



## Premier Custodial Group Limited

### Notes to the Financial Statements (continued)

For the year ended 31 December 2005

#### 2. Information regarding Directors and Employees (continued)

##### Serco Group Plc Save As You Earn Scheme

	Balance at 1 January 2005, or date of appointment	Granted during the year	Exercised during the year	Lapsed during the year	Balance at 31 December 2005
T Riall	-	-	-	-	-
G Hill	3,342	-	-	-	3,342

##### Long Term Incentive Scheme Options

	Balance at 1 January 2005	Granted during the year	Exercised during the year	Lapsed during the year	Balance at 31 December 2005
T Riall	-	17,023	-	-	17,023
G Hill	-	-	-	-	-

##### Executive Option Plan

		Balance at 1 January 2005	Granted during the year	Exercised during the year	Lapsed during the year	Balance at 31 December 2005
T Riall	Approved	-	-	-	-	-
	Unapproved	-	-	-	-	-
G Hill	Approved	19,672	-	-	-	19,672
	Unapproved	22,184	-	-	-	22,184

During the year the Directors were given options under the Serco Group plc 1996 Long Term Incentive Scheme.

The awards have been made in accordance with the rules of the Serco Group plc 1996 Long Term Incentive Scheme and accordingly the exercise of the options is conditional upon the performance criteria of the plan being met. Details of the performance criteria in respect of the above awards are set out in the Remuneration Report in the Serco Group plc accounts.

#### 3. Operating Loss

Operating loss is stated after charging:

	2005 £'000	2004 £'000
Auditors' remuneration – audit	10	8

#### 4. Interest

	2005 £'000	2004 £'000
Interest receivable	(471)	(3)
Interest payable on loan from subsidiary	661	258
Net interest payable	190	255

## Premier Custodial Group Limited

### Notes to the Financial Statements (continued)

For the year ended 31 December 2005

#### 5. Tax on profit on ordinary Activities

Analysis of credit in the year:

	2005 £'000	2004 £'000
<b>Current tax:</b>		
Group relief	60	87
<b>Total current tax</b>	<b>60</b>	<b>87</b>

The current tax recognised for the year is the same (2004: same) as the United Kingdom corporation tax rate of 30% (2004: 30%).

	2005 £'000	2004 £'000
Profit on ordinary activities before tax	102,760	15,342
UK corporation tax at 30%	30,828	4,689
Effect on the reported tax charge of:		
Tax exempt income	(30,888)	(4,776)
<b>Current tax credit for the period</b>	<b>60</b>	<b>87</b>

#### 6. Dividends paid

	2005 £'000	2004 £'000
Dividend paid of £12.53 per ordinary share (2004 - £25.72)	7,517	15,342

#### 7. Investments held as Fixed Assets

	£'000
Shares in subsidiary undertakings at 1 January 2005	4,400
Sale of investments	(99,770)
Profit on sale of investments	95,370
<b>At 31 December 2005</b>	<b>-</b>

## Premier Custodial Group Limited

### Notes to the Financial Statements (continued)

For the year ended 31 December 2005

#### 7. Investments held as Fixed Assets (continued)

The Premier Custodial Group Limited comprised the following three wholly owned subsidiaries. Their sub-subsidiaries are shown inset. All companies are registered in England and Wales:

Company	Business Activity
Premier Prison Services Limited	Provision of custodial management services to the Home Office
<i>100% subsidiaries of Premier Prison Services Limited:</i>	
Premier Training Services Limited	Management of a Secure Training Centre at Hassockfield
Premier Geografix Limited	Manufacture and leasing of tagging equipment
Premier Monitoring Services Limited	Provision of electronic monitoring services to the Home Office
Premier Detention Services Limited	Provision of custodial management services to the Immigration Service
Premier Custodial Investments Limited	Holding Company
<i>100% subsidiaries of Premier Custodial Investments Limited:</i>	
Lowdham Grange Prison Services Limited	Design, construction, management and finance of HMP Lowdham Grange
Pucklechurch Custodial (Holdings) Limited	Holding Company
Pucklechurch Custodial Services Limited	Design, construction, management and finance of HMP & YOI Ashfield
Medomsley Holdings Limited	Holding Company
Medomsley Training Services Limited	Design, construction, management and finance of a Secure Training Centre at Hassockfield
Moreton Prison (Holdings) Limited	Holding Company
Moreton Prison Services Limited	Design, construction, management and finance of HMP Moreton Lane
Kilmarnock Prison Services Limited	Design, construction, management and finance of HMP Kilmarnock
Kilmarnock Prison (Holdings) Limited	Holding Company
Cambridgeshire Custodial Services Limited	Non-trading newly formed company
Premier Custodial Finance Limited	Provision of finance to the Premier Custodial Group

Premier Custodial Investments Limited and Premier Custodial Finance Limited ceased to be subsidiaries of the company on 31 March 2005 when the investments were sold to Serco Holdings Limited. The investment in Premier Prison Services Limited was sold to Serco Limited on 31 March 2005.

## Premier Custodial Group Limited

### Notes to the Financial Statements (continued)

For the year ended 31 December 2005

#### 8. Debtors

	2005 £'000	2004 £'000
Amounts falling due within one year		
Amounts owed by group undertakings	7,886	-
Group relief receivable	242	262
	8,128	262
	2005 £'000	2004 £'000
Amounts falling due after one year		
Loan owed to group undertakings	88,574	-

The loan to group undertakings does not bear interest for the year 2005 and is repayable on demand. After 1 Jan 2006, the loan will bear interest at the rate of LIBOR +1%.

#### 9. Called Up Share Capital

	2005 £'000	2004 £'000
<b>Authorised:</b>		
1,000,000 ordinary shares of 1p each	10	10
<b>Called up, allotted and fully paid:</b>		
600,004 ordinary shares of 1p each	6	6

#### 10. Combined Statement of Movements in Shareholders' Funds and Statement of Movements in Reserves

	Share capital £'000	Merger reserve £'000	Profit and loss £'000	Total £'000
At 1 January 2005	6	1,396	14	1,416
Profit for the financial year	-	-	102,820	102,820
Dividends paid	-	-	(7,517)	(7,517)
<b>At 31 December 2005</b>	<b>6</b>	<b>1,396</b>	<b>95,317</b>	<b>96,719</b>

#### 11. Profit and Loss Account

	2005 £'000	2004 £'000
Retained profit brought forward	14	17
Profit for the financial year	102,820	15,429
Dividend paid	(7,517)	(15,432)
Retained profit carried forward	95,317	14

**Notes to the Financial Statements (continued)**

For the year ended 31 December 2005

**12. Related Parties and Ultimate Parent Company**

The Company has taken advantage of the exemption granted by paragraph 3(c) of Financial Reporting Standard 8 not to disclose related party transactions with Serco Group plc group companies.

The Annual Return fee is paid by Serco Group plc.

The immediate parent company is Serco Holdings Limited.

*The ultimate parent company and controlling entity of the Company is Serco Group plc, a company incorporated in Great Britain and registered in England and Wales. Serco Group plc is the parent undertaking of the smallest and largest group to consolidate these financial statements. The financial statements of Serco Group plc are available from The Company Secretary, Serco Group plc, Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY.*