

Evans & Reid Coal Company Limited

**Directors' report and financial
statements**

Registered number 180263

30 September 2007

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Directors' report

The directors have pleasure in presenting their annual report and the audited financial statements for the year ended 30 September 2007

Principal activities

The principal activity of the company during the year was that of coal factors

Business review

Overview

A disappointing result driven by an unseasonal mild winter and supply based issues, which negatively impacted the all important first quarter

Commentary

- Sales reduced by 17.3% - £1.64m down year on year. Margin decrease of 1.37% to 9.94% against prior year of 11.31%
- Profit before tax reduced by £242k from a prior year profit of £131k to a loss of £111k
- Capital costs returned to normal levels after prior year costs associated with Barry start up

During the last two years sales volumes in E & R Coal have seen a reduction of £3.1m – a loss, in sales terms, of 28%. Behind these numbers the management within Coal have been hard at work to reverse the fall-off in sales

New mining extraction – whether underground or open-cast – are immense projects. Furthermore, they often have political impact and come with environmental warnings and restrictions. Added to which, the planning process will almost certainly be complex and lengthy. This is the supplier side of the business environment that Coal find themselves operating within as they seek new opportunities.

During 2006/07 Coal's management are beginning to see positive results of the work undertaken to reposition and expand both their supplier network and the serviced markets outside their previous core relationships and markets.

During 2007/08 E & R Coal will be nearing completion of three major projects that will, over time, reverse the recent sales volumes decline. The first project, Ffos-y-fran, has seen E & R Coal being appointed as the marketing partner to distribute the "sized product". Forecast volumes for 2007/08 are estimated at the £2m sales volume level. The second project – a necessary replacement for E & R Coal's current main supplier contract moves towards a critical phase. The outcome is expected towards the end of the second quarter in 2007/08. The third and final project sees E & R Coal undertaking desk bound research and analysis in reviewing a number of business opportunities in the Bio Fuel and alternative energy markets. These three projects are key fundamental building blocks in repositioning E & R Coal.

Key risks

- Management's ability to reposition the Coal business in a wider context rather than just a single market being served by a single supplier
- The ability to network and deliver overseas/European supply side contracts
- Cash control, debtor management and inventory levels

Strategy

Tactically the management of the Coal business need to focus on delivering the necessary budgeted short term sales volume improvements from their existing market and customer base. Anything less will give rise for further concern. Strategically E & R Coal need to move into a wider framework of reference – not just coal but more importantly, coal and other products, that are part of the energy market.

Directors' report *(continued)*

Dividends

During the year a dividend of £100,000 was paid in respect of 2007 (2006 £490,000)

Directors

The directors who served during the year were as follows

Dr P Harrison
G Lewis
JR Dunn
DI Williams
P Paddock
DH Ball (appointed 1 October 2007)

Dr P Harrison and G Lewis are also directors of the company's ultimate parent undertaking, Evans & Reid Investment Company Limited, and their interests in the shares of group undertakings are disclosed in the financial statements of that company

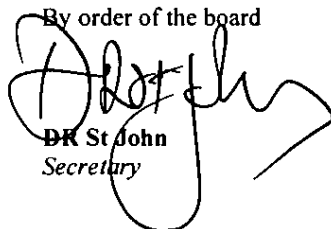
Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware, and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting

By order of the board


DR St John
Secretary

Ceredig House
6 Mount Stuart Square
Cardiff
CF10 5EE

29 January 2008

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The financial statements are required by law to 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 these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



KPMG LLP

Marlborough House
Fitzalan Road
Cardiff
CF24 0TE
United Kingdom

Independent auditors' report to the members of Evans & Reid Coal Company Limited

We have audited the financial statements of Evans & Reid Coal Company Limited for the year ended 30 September 2007 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. 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 auditor's 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

The directors' responsibilities for preparing the Directors' Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 3.

Our responsibility is to audit the financial statements in accordance with relevant 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 and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanation 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 consider the implications for our report if we become aware of any apparent misstatements within it.

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 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.

Independent auditors' report to the members of Evans & Reid Coal Company Limited *(continued)*

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 September 2007 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements


KPMG LLP
Chartered Accountants
Registered Auditor

 2008

Profit and loss account
for the year ended 30 September 2007

	<i>Note</i>	2007 £	2006 £
Turnover	2	7,946,075	9,532,686
Cost of sales		(7,195,183)	(8,472,017)
Gross profit		750,892	1,060,669
Administrative expenses		(812,373)	(918,514)
Operating (loss)/profit	3	(61,481)	142,155
Provision against carrying value of fixed asset investments	6	-	(1,117,944)
(Loss)/profit on disposal of investments		4,027	(269,399)
Loss before interest and tax		(57,454)	(1,245,188)
Income from shares in group undertakings	7	90,000	400,000
Interest receivable and similar income	8	3,342	4,588
Interest payable and similar charges	9	(142,933)	(149,741)
Loss on ordinary activities before taxation		(107,045)	(990,341)
Tax on loss on ordinary activities	10	18,816	(41,390)
Loss for the financial year		(88,229)	(1,031,731)

Turnover and operating (loss)/profit relate entirely to continuing operations

There is no difference between the loss for the financial year stated above and its historical cost equivalent

The above results represent the total recognised gains and losses for the year

Balance sheet
at 30 September 2007

	Note	2007		2006	
		£	£	£	£
Fixed assets					
Tangible assets	11		221,681		151,545
Investments	12		649,145		1,437,095
			<u>870,826</u>		<u>1,588,640</u>
Current assets					
Stocks	13	2,080,916		1,038,351	
Debtors	14	1,844,281		3,388,266	
Cash at bank and in hand		193,508		923,300	
		<u>4,118,705</u>		<u>5,349,917</u>	
Creditors amounts falling due within one year	15	<u>(3,949,739)</u>		<u>(4,310,536)</u>	
Net current assets			<u>168,966</u>		<u>1,039,381</u>
Total assets less current liabilities			<u>1,039,792</u>		<u>2,628,021</u>
Creditors amounts falling due after more than one year	16		-		(1,400,000)
			<u>1,039,792</u>		<u>1,228,021</u>
Capital and reserves					
Called up share capital	19		863,150		863,150
Other reserves	20		50,352		50,352
Profit and loss account	20		126,290		314,519
			<u>1,039,792</u>		<u>1,228,021</u>
Shareholders' funds - equity	21		<u>1,039,792</u>		<u>1,228,021</u>

These financial statements were approved by the board of directors on 29 January 2008 and were signed on its behalf by



G Lewis
Director

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements

Basis of accounting

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules, subject to the revaluation of investment properties in accordance with SSAP 19

The company has taken advantage of the exemption in Section 228 of the Companies Act 1985 and has not produced group financial statements as the company is consolidated in the group financial statements of the ultimate parent undertaking, Evans & Reid Investment Company Limited

The company has taken advantage of the exemption in FRS 1 from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its parent publishes a consolidated cash flow statement

The company has taken advantage of the exemption in FRS 8 from the requirement to disclose transactions with group companies where 90% or more of the equity is controlled

In accordance with FRS 21, dividends proposed but not approved until after the balance sheet date are no longer recognised as a liability at that date. Furthermore, in accordance with FRS 25 dividends are no longer shown as an expense in the profit and loss account – they are instead shown as a movement on shareholders' funds

Turnover

The turnover shown in the profit and loss account represents amounts invoiced during the year, exclusive of Value Added Tax. Income is recognised when all the significant risks and rewards of ownership have been transferred to the customer

Fixed assets and depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows

Plant and machinery	-	10% on cost
Leasehold improvements	-	10% on cost
Motor vehicles	-	25% on reducing balance
Office equipment	-	25% on reducing balance

Investments

Investments are included in the financial statements at cost, less provision for any permanent diminution in value

Investment properties

Investment properties are included in the balance sheet at open market value. Changes in the market value are recognised in the statement of total recognised gains and losses (being a movement on an investment revaluation reserve) unless a deficit on an individual property is expected to be permanent, in which case it is charged against profits

Notes (continued)

1 Accounting policies (continued)

Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items

Pension costs

The company is a member of a group which operates a defined benefit pension scheme for employees. The assets of the scheme are held separately from those of the company. As the company is unable to identify its share of the underlying assets and liabilities of the scheme, it is accounted for as a defined contribution scheme. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

Foreign currencies

Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating result.

Taxation

The charge or credit for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Deferred tax assets are recognised to the extent that they are regarded as recoverable. They are regarded as recoverable to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

2 Turnover

The turnover and loss before tax are attributable to the principal activity of the company and all arise in the UK.

3 Operating (loss)/profit

	2007 £	2006 £
<i>Operating (loss)/profit is stated after charging /(crediting)</i>		
Amortisation of unlisted investments	420	419
Loss on sale of fixed assets	6,595	-
Depreciation of fixed assets	26,168	3,930
Auditors' remuneration – audit of these financial statements	8,000	8,000

Notes (continued)

4 Staff numbers and costs

The average number of staff employed by the company during the year was

	2007 No	2006 No
Office and management	4	4
Sales	9	9
	<u>13</u>	<u>13</u>

The aggregate payroll costs of the above were

	2007 £	2006 £
Wages and salaries	376,538	365,570
Social security costs	44,980	46,279
Staff pension costs (note 17)	37,806	33,358
Other pension costs (note 5)	12,687	12,174
	<u>472,011</u>	<u>457,381</u>

5 Directors' emoluments

The directors' aggregate emoluments, including pension contributions and amounts from subsidiary undertakings, in respect of qualifying services were

	2007 £	2006 £
Emoluments receivable	161,393	177,365
Excess retirement benefits funded by the company		
Pension to former director	12,687	12,174
	<u>174,080</u>	<u>189,539</u>

Of the aggregate emoluments (excluding pension contributions)

	2007 £	2006 £
The chairman received	-	-
The highest paid director received	81,847	77,202
The emoluments of the other directors were within the following ranges		
£5 001 - £10 000	1	-
£35 001 - £40,000	2	1
£45 001 - £50 000	-	1
	<u>-</u>	<u>1</u>

Notes (continued)

6 Provision against carrying value of fixed asset investments

	2007 £	2006 £
Increase in provisions against investments in subsidiary undertakings	-	1,117,944

7 Income from shares in group undertakings

	2007 £	2006 £
Dividends received from subsidiary undertaking	90,000	400,000

8 Interest receivable and similar income

	2007 £	2006 £
Bank interest receivable	1,636	306
Rent receivable	1,706	4,282
	<u>3,342</u>	<u>4,588</u>

9 Interest payable and similar charges

	2007 £	2006 £
Bank overdraft interest	76,404	64,984
Bank loan interest	66,529	84,757
	<u>142,933</u>	<u>149,741</u>

Notes (continued)

10 Taxation

	2007 £	2006 £
<i>UK corporation tax</i>		
Current tax on loss for the year	-	88,566
Adjustments in respect of previous years	(18,816)	(47,176)
	<hr/>	<hr/>
Total current tax (charge)/credit	(18,816)	41 390
	<hr/>	<hr/>

Factors affecting the tax (credit) / charge for the current year

The current tax (credit) / charge for the year is lower (2006 lower) than the standard rate of corporation tax in the UK of 30% (2006 30%) The differences are explained below

	2007 £	2006 £
Loss on ordinary activities before taxation	(107,045)	(990,341)
	<hr/>	<hr/>
Loss multiplied by the standard rate of tax in the UK of 30% (2006 30%)	(32,114)	(297,102)
<i>Effects of</i>		
Adjustment for disallowable expenditure	1,500	13,352
Difference between depreciation and capital allowances	(3,361)	1,305
Other taxable items	46,959	155,628
Adjustment for group dividends received	(27,000)	(120,000)
Amount written off investments in group undertakings	-	335,383
Group loss relief surrendered at nil consideration	14,016	-
Adjustments in respect of previous years	(18,816)	(47,176)
	<hr/>	<hr/>
Total current tax (credit) / charge	(18,816)	41,390
	<hr/>	<hr/>

Notes (continued)

11 Tangible fixed assets

	Leasehold improvements £	Plant and machinery £	Motor vehicles £	Office equipment £	Total £
<i>Cost</i>					
At 1 October 2006	34,117	111,135	24,830	15,656	185,738
Additions	78,826	24,276	-	-	103,102
Disposals	-	-	(20,980)	(14,050)	(35,030)
At 30 September 2007	112,943	135,411	3,850	1,606	253,810
<i>Depreciation</i>					
At 1 October 2006	-	5,488	15,194	13,511	34,193
Charge for the year	11,294	13,006	1,579	289	26,168
Released on disposal	-	-	(15,172)	(13,060)	(28,232)
At 30 September 2007	11,294	18,494	1,601	740	32,129
<i>Net book value</i>					
At 30 September 2007	101,649	116,917	2,249	866	221,681
At 30 September 2006	34,117	105,647	9,636	2,145	151,545

12 Investments

	Shares in subsidiary and associated undertakings £	Long leasehold investment property £	Freehold investment properties £	Unlisted investments £	Total £
<i>Cost or valuation</i>					
At 1 October 2006	3,357,648	175,000	254,792	10,050	3,797,490
Disposals	(2,868,631)	-	-	-	(2,868,631)
At 30 September 2007	489,017	175,000	254,792	10,050	928,859
<i>Provisions/amortisation</i>					
At 1 October 2006	2,357,596	-	-	2,799	2,360,395
Released on disposals	(2,081,101)	-	-	-	(2,081,101)
Charge for the year	-	-	-	420	420
At 30 September 2007	276,495	-	-	3,219	279,714
<i>Net book value</i>					
At 30 September 2007	212,522	175,000	254,792	6,831	649,145
At 30 September 2006	1,000,052	175,000	254,792	7,251	1,437,095

Notes (continued)

12 Investments (continued)

The investment properties are included at open market value, following independent valuations during 2004 and 2005. The directors consider that there has been no change to open market values since these properties were independently valued.

Unlisted investments

	2007 £	2006 £
At directors' valuation	6,831	7,251

Shares in subsidiary and associated undertakings

	Cost At 01/10/06 £	Provision at 01/10/06 £	Disposals in year £	(Provided)/ released in year £	Carrying value at 30/09/07 £
Subsidiary undertakings					
Evans & Reid Coal Concentration (Cardiff) Limited					
100 Shares of £1 each	65	-	-	-	65
Evans & Reid Alloys Limited					
25,000 Shares of £1 each	127,110	-	-	-	127,110
The Sutton Trading Co. Limited					
50,000 Shares of £1 each	164,450	(79,103)	-	-	85,347
Baker & Kernick Limited					
100,008 Shares of £1 each	197,392	(197,392)	-	-	-
E&R Polymers Limited					
213,502 Shares of £1 each	2,843,631	(2,081,101)	(762,530)	-	-
Associated undertaking					
The Principality Fuel Co. Limited					
25,000 Shares of £1 each	25,000	-	(25,000)	-	-
	<u>3,357,648</u>	<u>(2,357,596)</u>	<u>(787,530)</u>	<u>-</u>	<u>212,522</u>

	Shareholding	Principal activity
Evans & Reid Coal Concentration (Cardiff) Limited	100%	Coal factors
Evans & Reid Alloys Limited	100%	Secondary Aluminium Smelting
The Sutton Trading Co. Limited	100%	Dormant

The directors are of the opinion that the realisable value of the subsidiary undertakings would not be less than the value stated above.

During the year the company disposed of its entire interest in the share capital of E & R Polymers Limited to its parent company at net book value. In addition, the company sold its investment in its associated undertaking for a net consideration of £29,027.

Notes (continued)

13 Stocks

	2007 £	2006 £
Goods for resale	2,080,916	1,038,351

14 Debtors

	2007 £	2006 £
Trade debtors	1,524,854	1,879,912
Amounts due from group undertakings	299,357	211,328
Group loans	-	900,000
Other debtors and prepayments	20,070	397,026
	<u>1,844,281</u>	<u>3,388,266</u>

15 Creditors: amounts falling due within one year

	2007 £	2006 £
Bank loan	900,000	-
Bank overdrafts	1,979,188	1,800,000
Trade creditors	651,586	723,041
Group loans	228,332	1,479,127
Amounts due to group undertakings	82,099	108,722
Other creditors including taxation and social security	42,702	34,247
Corporation tax	-	81,346
Accruals and deferred income	65,832	84,053
	<u>3,949,739</u>	<u>4,310,536</u>

Notes (continued)

16 Creditors: amounts falling due after more than one year

	2007 £	2006 £
Bank loan	-	1,400,000
<i>Maturity of bank loan</i>		
Within one year	900,000	-
Between one and two years	-	1,400,000
	<u>900,000</u>	<u>1,400,000</u>

The bank loan has the following terms

Period	10 years
Principal	£1,956,000
Outstanding principal	£900,000
First drawn	November 1997
Interest	1.5% above libor
Repayment	The outstanding principal is due for repayment in full in February 2008

The bank loan and overdrafts are secured by a debenture giving a legal mortgage over the freehold property, a first fixed charge over all book debts of the company, a first floating charge over all other assets and a cross guarantee and debenture on other Group undertakings

17 Pensions

The company participates in the Evans & Reid Investment Company Limited group defined pension scheme, the contribution rates of which are based upon pension costs across the participating undertakings as a whole. However, being a multiple employer scheme the company is unable to identify its share of the underlying assets and liabilities. The scheme funds are administered by an independent insurance company and any surplus/deficit will be accounted for by Evans & Reid Investment Company Limited.

The charge for the year amounted to £37,806 (2006 £33,358). In addition, a pension of £12,687 (2006 £12,174) was paid to a former director.

18 Contingencies

Under a right of set off given to its bankers the company is contingently liable to the extent of its credit balance at any time for overdraft facilities provided by the bank for the company and certain other group undertakings. At 30 September 2007, the contingent liability amounted to £193,508 (2006 £923,300).

Notes (continued)

19 Share capital

	2007 £	2006 £
<i>Authorised share capital</i>		
900 000 ordinary shares of £1 each	900,000	900,000
<i>Allotted, called up and fully paid</i>		
863,150 ordinary shares of £1 each	863,150	863,150

20 Reserves

	Other reserves £	Profit and loss account £
At beginning of year	50,352	314,519
Loss for the financial year	-	(88,229)
Dividends	-	(100,000)
At end of year	50,352	126,290

21 Reconciliation of movements in shareholders' funds

	2007 £	2006 £
Loss for the financial year	(88,229)	(1,031,731)
Dividends	(100,000)	(490,000)
Net reduction in shareholders' equity funds	(188,229)	(1,521,731)
Opening shareholders' equity funds	1,228,021	2,749,752
Closing shareholders' equity funds	1,039,792	1,228,021

22 Ultimate parent undertaking

The company is a wholly owned subsidiary of Evans & Reid Investment Company Limited, incorporated in Great Britain and registered in England and Wales