Darrington Quarries Limited

Directors' report and financial statements

Registered number 579409

31 December 2003

Contents

Officers

Directors
RJ Meredith
LJD Cassells
SN Hardman

Company secretary

A Waterhouse

Registered office

3 Sidings Court
White Rose Way
Doncaster
DN4 5NU

Auditors

KPMG LLP
1 Puddle Dock
London
EC4V 3PD

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2003.

Principal activities

The principal activities are stone quarrying, landfill management and electricity generation. The directors regard these activities as a single class of business.

Review of developments and future prospects

Both the level of business and the year-end financial position were satisfactory, and the directors expect that the present level of activity will be sustained for the foreseeable future.

Developments in the year

On 29 July 2003, the company's ultimate parent company and controlling party changed as a result of the acquisition of the entire issued share capital of Waste Recycling Group plc by Cholet Acquisitions Limited. The directors now consider that Terra Firma Capital Partners Holdings Limited is the company's ultimate controlling party and ultimate parent entity.

Results and dividends

The loss for the financial year amounted to £16,851,000 *(2002: profit £1,003,000)*. The directors do not recommend the payment of a dividend *(2002: £3,000,000)* and thus the deficit retained of £16,851,000 (*2002: 1,997,000*) has been withdrawn from reserves.

Directors and their interests

The directors who held office during the year and since the year end were as follows:

NDA Sandy	(resigned 31 July 2003)
HC Etheridge	(resigned 31 July 2003)
KA Bird	(resigned 31 July 2003)
RJ Binstead	(resigned 31 July 2003)
B Howarth	(resigned 31 July 2003)
PW Burns	(appointed 31 July 2003, resigned 30 September 2003)
QR Stewart	(appointed 31 July 2003, resigned 30 September 2003)
R Prior	(appointed 8 September 2003, resigned 15 January 2004)
RJ Meredith	(appointed 8 September 2003)
LJD Cassells	(appointed 15 January 2004)
SN Hardman	(appointed 16 August 2004)

None of the directors held an interest in the share capital of the company during the year.

Directors' report *(continued)*

Charitable and political donations

The company did not make any charitable donations in either the current or previous financial year.

During the year the company has contributed £1,025,000 *(2002: £1,410,000)* of its landfill tax liability to approved environmental bodies, as permitted by government regulations.

Auditors

On 31 July 2003, Deloitte & Touche resigned as auditor to the company. On 31 July 2003 KPMG LLP were appointed by the directors in their place to fill the casual vacancy.

By order of the board

A Waterhouse
Company Secretary

25 October 2004

Statement of directors' responsibilities

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 and of the profit or loss 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 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

KPMG LLP
1 Puddle Dock
London
EC4V 3PD
United Kingdom

Report of the independent auditors to the members of Darrington Quarries Limited

We have audited the financial statements on pages 6 to 18.

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 are responsible for preparing the directors' report and, as described on page 4, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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 with the company is not disclosed.

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 as at 31 December 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

26 October 2004

Profit and loss account
year ended 31 December 2003

	Note	2003 £000	Restated 2002 £000
Turnover	2	**20,952**	19,212
Cost of sales (including exceptional charge of (7,022,000 (2002: £382,000) – see note 3)		**(14,979)**	(14,760)
Gross profit		**5,973**	4,452
Administrative expenses		**(12,607)**	(2,125)
Operating (loss)/profit	4	**(6,634)**	2,327
(Loss)/profit on disposal of tangible fixed assets	4	**(11,362)**	2
Interest payable and similar charges	5	**(228)**	(127)
(Loss)/profit on ordinary activities before taxation		**(18,224)**	2,200
Tax on (loss)/profit on ordinary activities	6	**1,373**	(1,197)
(Loss)/profit on ordinary activities after taxation		**(16,851)**	1,003
Dividend	7	**-**	(3,000)
Retained deficit for the financial year	16	**(16,851)**	(1,997)

All results are derived from continuing operations.

Statement of total recognised gains and losses
year ended 31 December 2003

	2003 £000	Restated 2002 £000
(Loss)/profit for the financial year	**(16,851)**	1,003
Prior year adjustment (note 20)	**573**	
Total losses recognised since last financial statements	**(16,278)**	

Reconciliation of movements in shareholders' funds
year ended 31 December 2003

	2003 £000	Restated 2002 £000
(Loss)/profit for the financial year	**(16,851)**	1,003
Dividends	**-**	(3,000)
Net reduction in shareholders' funds	**(16,851)**	(1,997)
Opening shareholders' funds (2003: originally £15,646,000 before adding prior year adjustment of £573,000)	**16,219**	18,216
Closing shareholders' funds	**(632)**	16,219

Note of historical cost profits and losses
Year ended 31 December 2003

	2003 £000	Restated 2002 £000
(Loss)/profit before taxation	**(18,224)**	2,200
Difference between historical cost depreciation charge and the actual depreciation charge calculated on the revalued amounts	**41**	71
Historical cost (loss)/profit on ordinary activities before taxation	**(18,183)**	2,271
Historical cost profit for the year retained after taxation and dividends	**(16,800)**	(2,068)

Balance sheet
at 31 December 2003

	Note	2003 £000	Restated 2002 £000
Fixed assets			
Intangible assets	8	**5,142**	5,329
Tangible assets	9	**11,087**	18,773
Investments	10	**1**	1
		16,230	24,103
Current assets			
Debtors: amounts due within one year	11	**-**	1,949
Debtors: amounts due after more than one year	12	**2,130**	1,476
Cash at bank and in hand		**39**	-
		2,169	3,425
Creditors: amounts falling due within one year	13	**(6,713)**	(7,250)
Net current liabilities		**(4,544)**	(3,825)
Total assets less current liabilities		**11,686**	20,278
Provisions for liabilities and charges	14	**(12,318)**	(4,059)
		(632)	16,219
Capital and reserves			
Called up share capital	15	**10**	10
Share premium account	16	**26**	26
Revaluation reserve	16	**1,906**	9,115
Profit and loss account	16	**(2,574)**	7,068
Equity shareholders' funds		**(632)**	16,219

These financial statements were approved by the board of directors on 25 October 2004 were signed on its behalf by:

LJD Cassells
Director

Notes
(forming part of the financial statements)

1 Accounting policies

These financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies applied consistently in relation to items which are considered material to the company's financial statements are described below. The company has followed the transitional arrangements of FRS17 'Retirement Benefits' in these financial statements.

Accounting convention

The financial statements are prepared under the historical cost convention, as modified by the revaluation of certain freehold and leasehold land.

Cash flow statement

The company has taken advantage of the exemption, conferred by Financial Reporting Standard 1 (Revised) from presenting a cash flow statement as it is a wholly owned subsidiary of a group which has prepared a consolidated cash flow statement.

Consolidation

The company has claimed exemption from the preparation of consolidated financial statements under section 228 of the Companies Act 1985 as it is a subsidiary of a group which has prepared consolidated financial statements. Accordingly, these financial statements present information about the company and not the group.

Related party transactions

As the company is a wholly owned subsidiary of Cholet Holdings Limited, the company has taken advantage of the exemption contained in FRS8 and has therefore not disclosed transactions or balances with entities that form part of the group. The consolidated financial statements of Cholet Holdings Limited, within which this company is included, can be obtained from the address given in note 18.

Turnover

Turnover represents invoiced sales of goods and services including landfill tax, but excluding value added tax.

Goodwill

Purchased goodwill, representing the excess of purchase price over the fair value of the assets acquired, is capitalised and is being written off on a straight-line basis over its estimated useful life up to a maximum of 20 years. The directors regard 20 years as a reasonable maximum for the estimated useful life of goodwill.

Tangible fixed assets

Tangible fixed assets are stated at cost. Depreciation is provided on tangible fixed assets in use at rates calculated to write off the cost less residual value of each asset as follows:

Freehold buildings	- over 25 to 50 years
Freehold landfill sites, leasehold properties and licence agreements	- based on the void used in the period as a proportion of total void
Plant and equipment	- over 3 to 20 years
Motor vehicles	- over 4 years

No depreciation is provided for on freehold land.

Expenditure on freehold landfill sites and leasehold properties includes engineering costs. Elements of these costs are classified according to their expected economic life and depreciated accordingly in proportion to the rate that waste is deposited. All other assets are depreciated on a straight-line basis.

On adoption of FRS 15, the transitional provisions were applied and therefore previous valuations will be maintained.

Notes *(continued)*

1 Accounting policies *(continued)*

Investments

Investments are stated at cost less provision for any impairment.

Stock

Stocks consist of spare parts and fuel for the company motor vehicles and plant and machinery. These are stated at the lower of cost and net realisable value.

Post Retirement Benefits

The company participates in two pension schemes providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company. The company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS17 'Retirement Benefits', accounts for the scheme as if it were 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.

Restoration and after-care costs

Full provision has been made for the net present value (NPV) of the company's minimum unavoidable costs, in respect of restoration liabilities at the company's landfill sites, which has been capitalised in fixed assets. The company continues to provide for all aftercare costs over the life of its landfill sites, based on the volumes of waste deposited in the year, since liabilities in relation to these costs increase as waste is deposited.

All long term provisions for restoration and aftercare costs are calculated based on the NPV of estimated future costs. Current cost estimates are inflated at 2.5 per cent and discounted at 5 per cent to calculate the NPV. The effects of the unwinding of the discount element on existing provisions are reflected as a financial item.

Taxation

The charge 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 with discounting in respect of all timing differences between the treatment of certain items of taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS19.

2 Turnover

Turnover represents amounts receivable in respect of the quarrying, processing and sale of stone, and receipts from landfill and electricity generation including Landfill Tax and excluding Value Added Tax.

Turnover arises in the United Kingdom and relates to the company's principal activities.

Notes *(continued)*

3 Information regarding directors and employees

None of the directors received any remuneration or other benefits through Darrington Quarries Limited during the year. They are all remunerated as directors or employees of the ultimate parent company.

	2003	2002
	£000	£000
Staff costs during the year (excluding directors)		
Wages and salaries	1,564	1,672
Social security costs	152	148
Other pension costs	25	38
	1,741	1,858

	No.	No.
The average weekly number of employees (excluding directors) during the year was:		
Selling and distribution	3	3
Administration	10	16
Production	65	65
	78	84

4 (Loss)/profit on ordinary activities before taxation

	2003	2002
	£000	£000
(Loss)/profit on ordinary activities before taxation is after charging exceptional items:		
Included in cost of sales		
- Increase in restoration and aftercare provisions on revision of estimation basis (note a)	6,823	-
- Impairment of tangible fixed assets (note b)	199	-
- Other assets impairments and related costs	-	382
	7,022	382

Loss)/profit on ordinary activities before taxation is after charging:		
Depreciation of tangible fixed assets	2,827	1,771
Impairment of tangible fixed assets	199	-
Amortisation of goodwill	189	271
Hire of plant and machinery	439	447
Loss/(profit) on disposal of tangible fixed assets	(11,362)	2

(a) reassessment (following the acquisition of the group by Cholet Acquisitions Limited) of the group's obligation for restoration and after-care costs in respect of landfill and quarry sites and the recognition of other specific liabilities

(b) adjustment to certain asset values to reflect their continuing value to the business

Loss on disposal of tangible fixed assets of £11,362,000 (2002: profit £2,000) represents the loss realised following a detailed review by management of assets no longer in use in the business.

Auditors' remuneration in respect of audit fees has been met by the company's parent undertaking.

Notes *(continued)*

5 Interest payable

	2003 £000	2002 £000
Interest payable and similar charges		
Unwinding of discount (note 14)	228	111
Bank interest payable	-	16
	228	127

6 Tax on profit on ordinary activities

	2003 £000	2002 £000
Corporation tax		
United Kingdom corporation tax at 30% *(2002: 30%)* based on profits for the year	-	1,038
Adjustments relating to prior periods	(1,038)	-
Total current tax charge	(1,038)	1,038
Deferred tax		
Timing differences, origination and reversal	(335)	159
Adjustments in respect of prior years		-
Tax on profit on ordinary activities	(1,373)	1,197

The total current tax credit (*2002: charge*) for the current year is less than *(2002: greater than)* the standard rate of 30% for the reasons set out in the following reconciliation:

	2003 £000	Restated 2002 £000
Profit on ordinary activities before tax	(18,224)	2,200
Tax on profit on ordinary activities at standard rate	(5,467)	660
Factors affecting charge:		
Expenses not deductible for tax purposes	3,903	452
Depreciation in excess of capital allowances	434	118
Utilisation of tax losses	722	-
Utilisation of general provisions	772	(73)
Amortisation of goodwill	57	81
Site preparation relief	(405)	(200)
Adjustments in respect of prior years	(1,038)	-
	(1,022)	1,038

Notes *(continued)*

7 Dividends

	2003 **£000**	2002 £000
Final proposed dividend of £nil per ordinary share *(2002: £287.60)*	-	3,000
	-	3,000

8 Intangible fixed assets

	Goodwill **£'000**
Cost or valuation	
At 1 January 2003 and at 31 December 2003	5,689
Amortisation	
At 1 January 2003	360
Charge for the year	187
At 31 December 2003	547
Net book value	
At 31 December 2003	**5,142**
At 31 December 2002	5,329

Notes *(continued)*

9 Tangible fixed assets

	Land fill sites £000	Other freehold property £000	Plant and machinery £000	Motor vehicles £000	Total £000
Cost					
At 1 January 2003	21,104	-	8,637	60	29,801
Additions	3,643	-	1,779	39	5,461
Disposals	-	(11,040)	(1,937)	-	(12,977)
Transfers between group companies and reclassification	(18,664)	15,949	4,547	51	1,883
At 31 December 2003	6,083	4,909	13,026	150	24,168
Depreciation					
At 1 January 2003	4,369	-	6,606	53	11,028
Charge for the year	1,432	82	1,287	26	2,827
Impairment	-	199	-	-	199
Disposals	-	-	(1,665)	-	(1,665)
Transfers between group companies and reclassification	(2,621)	1,417	1,882	14	692
At 31 December 2003	3,180	1,698	8,110	93	13,081
Net book value					
At 31 December 2003	**2,903**	**3,211**	**4,916**	**57**	**11,087**
At 31 December 2002	16,735	-	2,031	7	18,773
Cost or valuation at 31 December 2003 is represented by:					
Valuation	2,498	-	-	-	2,498
Cost	3,585	4,909	13,026	150	21,670
	6,083	4,909	13,026	150	24,168

The cost of freehold land and buildings included land of £1,341,000 (*2002: £1,341,000*), which is not depreciated.

The cost and depreciation amounts for certain assets have been reclassified following a detailed review by management of the fixed asset records.

Notes *(continued)*

10 Fixed asset investments

	2003 £000	2002 £000
Cost		
Investment in subsidiary undertaking	**1**	1

The company owns 100% of the share capital of Waste Recycling Group (Yorkshire) Limited (formerly Darrington Waste Management Limited), a company which is registered in England and Wales. Waste Recycling Group (Yorkshire) Ltd commenced trading in January 2001 and its principal activity is the handling, recycling and disposal of waste materials.

11 Debtors: amounts due within one year

	2003 £000	2002 £000
Amounts owed from fellow subsidiary undertakings	**-**	1,949

12 Debtors: amounts due after more than one year

	2003 £000	2002 £000
Prepayments and accrued income	**2,130**	1,476
	2,130	1,476

13 Creditors: amounts falling due within one year

	2003 £000	Restated 2002 £000
Bank loans and overdrafts	**-**	534
Amounts owed to parent and fellow subsidiary undertakings	**6,713**	5,678
Current corporation tax	**-**	1,038
	6,713	7,250

For details of the restated comparatives see note 14.

Notes *(continued)*

14 Provisions for liabilities and charges

	Deferred taxation £000	Other provision £000	Landfill restoration £000	Landfill aftercare £000	Total £000
At 1 January 2003 (as previously stated)	335	-	1,515	1,499	3,349
Transferred from Intercompany	-	1,283	-	-	1,283
Prior year adjustment (note 21)	-	(573)	-	-	(573)
At 1 January 2003 (as restated)	335	710	1,515	1,499	4,059
(Credited)/charged to profit and loss account	(335)	376	-	402	443
(Credited)/charged to profit and loss account following a revision of estimation basis	-	-	3,121	3,702	6,823
New provisions capitalised in tangible fixed assets	-	602	211	-	813
Unwinding of discount (note 5)	-	-	102	126	228
Expended in year	-	(77)	31	(2)	(48)
At 31 December 2003	-	1,611	4,980	5,727	12,318

The company provides for the estimated cost of restoring its landfill sites at the end of their operational life and for their subsequent after-care. The after-care period is generally expected to be 30 years. All provisions are discounted from the date on which the expenditure is expected to occur.

Other provisions include the estimated cost of discharging environmental liabilities, including current capping of open landfill areas and the disposal of leachate, which arise during the operational phase of its landfill sites.

Deferred taxation

	Provided		Unprovided	
	2003 £000	2002 £000	**2003 £000**	2002 £000
Capital allowances in excess of depreciation	**314**	162	-	-
Short term timing differences	**(314)**	173	**(804)**	(160)
	-	335	**(804)**	(160)

The company has unprovided deferred tax assets as there is insufficient certainty as to whether events will materialise to crystallise the deferred tax.

15 Called up share capital

	2003 £000	2002 £000
Authorised		
25,000 ordinary shares of £1 each – equity	**25**	25
Called up, allotted and fully paid		
10,431 ordinary shares of £1 each – equity	**10**	10

Notes *(continued)*

16 Movement in reserves

	Share premium account £000	Revaluation reserve £000	Profit and loss account £000
At 1 January 2003	26	9,115	6,495
Prior year adjustment (note 21)	-	-	573
At 1 January 2003 (restated)	26	9,115	7,068
Transfer from revaluation reserve to profit and loss account	-	(7,209)	7,209
Retained deficit for the financial year	-	-	(16,851)
At 31 December 2003	26	1,906	(2,574)

The transfer from the revaluation reserve to the profit and loss account relates to the excess depreciation charge based on the revalued amount over the historic cost.

17 Contingent liabilities

a) The company has entered into unlimited cross-guarantees with its bankers relating to the borrowings of other group companies.

b) The company is a member of a group VAT registration and as such has contingent liabilities for VAT in respect of other members of the group.

18 Capital commitments

	2003 £000	2002 £000
Commitments on capital contracts placed at 31 December	-	13

19 Operating lease commitments

At 31 December 2003, the company had the following annual commitments in respect of operating leases:

	Land and buildings		**Plant and machinery**	
	2003 £000	2002 £000	**2003 £000**	2002 £000
Which expire:				
Within one year	-	-	-	-
In two to five years	-	-	**112**	127
In over five years	**15**	15	-	-
	15	15	**112**	127

Notes *(continued)*

20 Pension contributions

The company participates in the defined contribution schemes operated by Waste Recycling Group Limited on behalf of its eligible employees. The assets of these schemes are held separately from those of the company in independently administered funds.

Certain employees of the company are members of the LAWDC's Pension Scheme in which Waste Recycling Group Limited is a participating employer. This is a defined benefit multi-employer scheme, the assets of which are held independently of the group. The company is unable to identify its share of the underlying assets and liabilities of the scheme. Further details regarding the scheme are provided in the financial statements of Waste Recycling Group plc.

Contributions to the scheme for the period are stated below and the agreed contribution rate commencing from 1 January 2003 is 16%.

An actuarial valuation of the scheme at 31 March 2000 indicated that the scheme was 106% funded based upon the minimum funding requirement basis. At 31 December 2003 the deficit on the group section of the scheme, calculated on an FRS 17 basis, was £4,946,000 *(2002: £5,620,000)*. There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

The contributions made by the company under the different schemes during the year were as follows:

	2003	2002
	£000	£000
Defined contribution schemes	**25**	24
LAWDC pension scheme	**-**	14
	25	38

21 Prior year adjustment

Other provisions have been restated to include the estimated cost of discharging environmental obligations relating to the disposal of excess leachate at all landfill sites (where applicable). This represents a change in accounting policy. The comparative figures have been restated accordingly. The impact has been to increase cost of sales in 2002 by £378,000. The opening net assets have been increased by £573,000.

22 Related party transactions

In the ordinary course of business, the company has also traded with fellow subsidiaries of Cholet Holdings Limited. The company has taken advantage of the exemption conferred by FRS8 from disclosing details of these transactions.

23 Ultimate parent company

The company's immediate parent company is Finstop Limited, a company which is registered in England and Wales.

The directors regard Terra Firma Capital Partners Holdings Limited, a company registered in Guernsey, as the ultimate controlling party and the ultimate parent entity.

Cholet Holdings Limited is the parent company of the largest group of which the company is a member and for which group accounts are drawn up. Copies of Cholet Holdings Limited financial statements are available from 3 Sidings Court, White Rose Way, Doncaster DN4 5NU.