

SHANKS CHEMICAL SERVICES LIMITED
(Registered Number 934787)

REPORT AND ACCOUNTS

YEAR ENDED 4 APRIL 2000



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SHANKS CHEMICALS SERVICES LIMITED

DIRECTORS' REPORT

The Directors present their annual report and accounts for the year ended 4 April 2000.

PRINCIPAL ACTIVITY, BUSINESS REVIEW AND FUTURE PROSPECTS

The principal activity of the Company is the provision of waste management services to the Chemical and Pharmaceutical Industries. This service includes high temperature incineration.

Market conditions in the hazardous waste business were very competitive. The UK import/export plan banning imports of waste for disposal from EU/OECD countries came into full effect on 1 June 1999. In addition increased volumes of hazardous waste were routed to cement fuel blending.

The Company was during the year awarded a contract worth £16 million to dispose of 190,000 tonnes of Meat and Bonemeal arising from the Over Thirty Month Scheme which in turn has arisen from the BSE crisis. A new 60,000 tonnes per year fluidised bed incinerator is being constructed at Fawley to provide the additional processing capacity.

TRADING RESULTS AND DIVIDEND

The result on ordinary activities before taxation for the year ended 4 April 2000 was a loss of £1,454,000 (1999: £254,000 profit).

The Directors recommend that a dividend be paid of £248,000 in respect of the year ended 4 April 2000 (1999: £526,000). The retained loss transferred from reserves for the year was £1,102,000 (1999: £497,000).

INTRODUCTION OF THE EURO

The Company's trade outside the UK is reducing therefore, the impact of the introduction of the Euro is not significant.

DIRECTORS

The following were Directors of the Company during the entire year and up to the date of this report except as noted:

M C E Averill
C A Brown
D J Downes
A G Barton
R D Hilliard
A J Petyt (appointed 10 May 1999)

SHANKS CHEMICAL SERVICES LIMITED

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' INTERESTS

None of the Directors had a direct interest in the share capital of the Company. Those Directors who were not also Directors of Shanks Group plc had interests in that Company's share capital as follows:

	<u>As at 4 April 2000</u>			<u>As at 27 March 1999 *</u>		
	Ordinary Shares of 10p	Share Save	Executive Options	Ordinary Shares of 10p	Share Save	Executive Options
CA Brown	-	13,691	242,000	-	21,300	195,000
RD Hilliard	-	-	57,500	-	-	42,500
AG Barton	-	-	45,000	-	-	42,500
AJ Petyt	-	3,552	35,000	-	-	30,000

*or date of appointment if later

The share options held at the beginning of the year had the following exercise prices:

	<u>Share Save</u>		<u>Executive</u>	
	Number of Shares	Exercise Price	Number of shares	Exercise Price
CA Brown	8,363	82.5p	60,000 60,000 75,000	110.0p 135.0p 199.0p
RD Hilliard	-	-	12,500 15,000 15,000	110.0p 135.0p 199.0p
AG Barton	-	-	12,500 15,000 15,000	110.0p 135.0p 199.0p
AJ Petyt	-	-	10,000 10,000 10,000	110.0p 135.0p 199.0p

During the year ended 4 April 2000 the Directors were granted the following, Executive (E) and Savings related (S), share options:

	<u>Granted</u>	<u>Exercise Price</u>
CA Brown	47,000 (E) 5,328 (S)	233.5p 190.0p
RD Hilliard	15,000 (E)	233.5p
AG Barton	15,000 (E)	233.5p
AJ Petyt	15,000 (E) 3,552 (S)	233.5p 190.0p

The following options were exercised by the serving Directors during the year.

	<u>Exercised</u>	<u>Exercise Price</u>	<u>Market Price at Exercise Date</u>
CA Brown	12,937 (S)	80.0p	241.5p
AG Barton	12,500 (E)	110.0p	243.5p
AJ Petyt	10,000 (E)	110.0p	243.5p

The Directors had no interests in the shares of any other Company in the group.

SHANKS CHEMICAL SERVICES LIMITED

DIRECTORS' REPORT (CONTINUED)

HEALTH, SAFETY AND WELFARE AT WORK OF EMPLOYEES

The Board has continued with measures to ensure the health, safety and welfare at work of employees through training of staff, assessing the risks associated with substances hazardous to health and implementing appropriate safe working practices.

PAYMENT OF SUPPLIERS

It is the Company's payment policy for the year ending 4 April 2000, in respect of all suppliers to settle agreed outstanding accounts in accordance with the terms and conditions agreed with suppliers when placing orders. The Company will abide by these terms of payment. At the end 4 April 2000 the Company's creditor days were 30 (1999: 27).

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

Insurance cover for the Directors' and Officers' liability is maintained under a policy effected by the ultimate parent Company, Shanks Group plc.

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 of the Company for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at the time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS

PricewaterhouseCoopers have indicated their willingness to continue and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

By Order of the Board



D J Downes
Director
Registered Office:
Astor House
Station Road
Bourne End
Bucks
SL8 5YP

31 May 2000

AUDITORS' REPORT TO THE MEMBERS OF SHANKS CHEMICAL SERVICES LIMITED

We have audited the financial statements on pages 5 to 15, which have been prepared under the historical cost convention.

Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the Annual Report. As described on page 3, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and 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 United Kingdom Companies Act. 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 is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

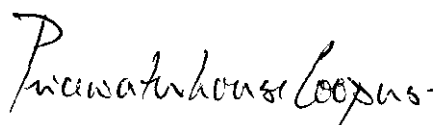
Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practises 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 affairs of the Company's affairs at 4 April 2000 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London
31 May 2000

SHANKS CHEMICAL SERVICES LIMITED**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 4 APRIL 2000**

	<u>2000</u> £'000	<u>1999</u> £'000
TURNOVER (Notes 1.2,2)	17,745	20,737
Cost of sales	(16,356)	(17,316)
GROSS PROFIT	1,389	3,421
Administrative expenses	(2,288)	(2,432)
OPERATING (LOSS)/ PROFIT	(899)	989
Net interest payable (Note 6)	(555)	(735)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION (Note 3)	(1,454)	254
Taxation (Note 7)	600	(225)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	(854)	29
Dividends (Note 8)	(248)	(526)
RETAINED LOSS FOR THE FINANCIAL YEAR (Note 17)	<u>(1,102)</u>	<u>(497)</u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 4 APRIL 2000

The Company has no recognised gains or losses other than the loss for the year shown above.

NOTE OF HISTORICAL COST PROFITS AND LOSSES FOR THE YEAR ENDED 4 APRIL 2000

There is no material difference between the reported losses for the year and those that would be reported under the historical cost convention.

SHANKS CHEMICAL SERVICES LIMITED

BALANCE SHEET – 4 APRIL 2000

	<u>2000</u> £'000	<u>1999</u> £'000
FIXED ASSETS		
Tangible assets (Note 9)	21,989	16,567
Investments (Note 10)	3,012	3,012
	<hr/>	<hr/>
	25,001	19,579
	<hr/>	<hr/>
CURRENT ASSETS		
Stocks (Note 11)	990	1,177
Debtors (Note 12)	4,461	3,628
Cash at bank and in hand	794	981
	<hr/>	<hr/>
	6,245	5,786
	<hr/>	<hr/>
CREDITORS - Amounts falling due within one year (Note 13)	(22,494)	(15,435)
	<hr/>	<hr/>
NET CURRENT LIABILITIES	(16,249)	(9,649)
	<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES	8,752	9,930
	<hr/>	<hr/>
PROVISION FOR LIABILITIES AND CHARGES (Note 14)	(2,813)	(2,889)
	<hr/>	<hr/>
NET ASSETS	5,939	7,041
	<hr/>	<hr/>
CAPITAL AND RESERVES		
Called up share capital (Note 15)	877	877
Share premium account (Note 16)	1,066	1,066
Profit and loss account (Note 16)	3,996	5,098
	<hr/>	<hr/>
EQUITY SHAREHOLDERS' FUNDS	5,939	7,041
	<hr/>	<hr/>

APPROVED BY THE BOARD ON
31 May 2000



D J Downes
DIRECTOR

SHANKS CHEMICAL SERVICES LIMITED

NOTES TO THE ACCOUNTS – 4 APRIL 2000

1 ACCOUNTING POLICIES

1.1 Basis of presentation

The financial statements have been prepared under the historical cost convention and in accordance with United Kingdom accounting standards.

The Company is exempt under Section 228 of the Companies Act 1985 from the requirement to prepare consolidated financial statements as it and its subsidiary undertaking are included by full consolidation in the consolidated financial statements of its ultimate parent, Shanks Group plc.

1.2 Turnover

Turnover represents the invoiced value of waste streams processed and other services provided excluding value added tax. Turnover is recognised when processing occurs or the service is provided.

1.3 Fixed assets

a) Owned assets

Depreciation is provided on assets other than land to write off their cost by equal annual instalments over their estimated useful economic lives. The estimated lives are:

Buildings	50 years
Plant and machinery	3 to 12 years

b) Leased assets

Where the Company has substantially all the risks and rewards of ownership of a leased asset, it is treated as a finance lease. Leased assets are included in tangible fixed assets as the total of the capital elements of payments during the lease term and the corresponding obligation is included in creditors. Depreciation is provided to write off the assets over the shorter of the lease term or expected useful life.

Rentals paid under operating leases are charged to the profit and loss account, as incurred over the term of the lease.

c) Capitalisation of interest

The gross interest attributable to the financing of separately identifiable major capital projects prior to their date of completion is capitalised as part of the cost of the asset.

1.4 Government grants

Capital grants are allocated to a deferred grants account and released to profit evenly over the estimated useful lives of the assets concerned.

1.5 Stocks

Stocks of consumables are valued at the lower of cost and estimated net realisable value.

SHANKS CHEMICAL SERVICES LIMITED

NOTES TO THE ACCOUNTS – 4 APRIL 2000

1 ACCOUNTING POLICIES (CONTINUED)

1.6 Deferred taxation

Provision is made for deferred taxation arising from timing differences between profits as computed for taxation purposes and profits as stated in the financial statements to the extent that the liability will crystallise in the foreseeable future. The timing differences are due primarily to the excess of tax allowances on tangible fixed assets over the corresponding depreciation charge in the accounts.

1.7 Pensions

The cost of providing retirement pensions and related benefits is charged to the profit and loss account over the expected working lives of the pension scheme members currently in service. Any differences between the actuarial valuation of the scheme and the value of assets in the scheme are also charged or credited to the profit and loss account over the expected working lives of the scheme members. Differences and payments to the scheme are treated as assets or liabilities in the balance sheet.

1.8 Research and development

Expenditure is written off in the period in which it is incurred.

1.9 Unprocessed waste

The provision for waste still to be processed is valued at sales price.

1.10 Foreign Currencies

Balance sheet items in foreign currencies are translated into sterling at the year end exchange rates or at the rate contracted if forward cover has been arranged. Exchange differences on these and any other trading transactions in foreign currency are dealt with in the profit and loss account.

2 SEGMENT INFORMATION

	<u>2000</u> £'000	<u>1999</u> £'000
Analysis of turnover by customer location:		
United Kingdom	14,868	18,367
Europe	1,388	1,789
Rest of World	1,489	581
	<hr/>	<hr/>
	17,745	20,737
	<hr/>	<hr/>

The turnover and operating profit are wholly attributable to the Company's business of waste management. All of the Company's turnover and operating profit relates to continuing operations and derives from the United Kingdom.

SHANKS CHEMICAL SERVICES LIMITED

NOTES TO THE ACCOUNTS – 4 APRIL 2000

3 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	<u>2000</u> £'000	<u>1999</u> £'000
The profit is stated after charging/(crediting):		
Depreciation of tangible fixed assets		
- owned	3,686	3,916
Operating leases		
- hire of plant and machinery	182	154
- property rentals	96	97
Management Charge from immediate parent company	-	300
Auditors' remuneration	25	20
Gain on sale of fixed assets	-	(11)
Government grant	(6)	(18)
Loss/(gain) on foreign exchange	66	(34)
	<u> </u>	<u> </u>

No amounts were paid to auditors in respect of non-audit services (1999: £Nil).

4 EMOLUMENTS OF DIRECTORS

The total emoluments of the Directors paid by the Company, including pension contributions, were as follows:

	<u>2000</u> £'000	<u>1999</u> £'000
Aggregate emoluments	180	122
	<u> </u>	<u> </u>

Retirement benefits are accruing to all Directors under a defined benefit scheme.

5 EMPLOYEES

The average number of persons employed by the Company during the year was as follows:

	<u>2000</u> Number	<u>1999</u> Number
Waste management	163	161
	<u> </u>	<u> </u>
Staff cost comprise	£'000	£'000
Wages and salaries	4,345	4,211
Social security costs	361	346
Other pension costs	380	364
	<u> </u>	<u> </u>
	5,086	4,921
	<u> </u>	<u> </u>

SHANKS CHEMICAL SERVICES LIMITED

NOTES TO THE ACCOUNTS – 4 APRIL 2000

6 NET INTEREST PAYABLE

	<u>2000</u> £'000	<u>1999</u> £'000
Interest payable on loans and bank borrowings repayable within 5 years	667	784
Interest receivable	(112)	(49)
	<u>555</u>	<u>735</u>

7 TAXATION

Taxation (credit)/ charge based on the profits of the year is made up as follows:

	<u>2000</u> £'000	<u>1999</u> £'000
Corporation tax at 30% (1999:31%) - current year	(497)	669
Deferred taxation	(43)	(444)
	<u>(540)</u>	<u>225</u>
Tax over provided in previous years	(60)	-
	<u>(600)</u>	<u>225</u>

8 DIVIDENDS

	<u>2000</u> £'000	<u>1999</u> £'000
Interim paid	83	174
Final proposed	165	352
	<u>248</u>	<u>526</u>

SHANKS CHEMICAL SERVICES LIMITED

NOTES TO THE ACCOUNTS – 4 APRIL 2000

9 TANGIBLE FIXED ASSETS

	<u>Long leasehold land & buildings</u> £'000	<u>Plant & Machinery</u> £'000	<u>Assets under Construction</u> £'000	<u>Total</u> £'000
Cost				
At 27 March 1999	1,251	44,134	-	45,385
Additions	-	2,304	6,804	9,108
	<hr/>	<hr/>	<hr/>	<hr/>
At 4 April 2000	1,251	46,438	6,804	54,493
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation				
At 27 March 1999	199	28,619	-	28,818
Charge for the year	48	3,638	-	3,686
	<hr/>	<hr/>	<hr/>	<hr/>
At 4 April 2000	247	32,257	-	32,504
	<hr/>	<hr/>	<hr/>	<hr/>
Net Book Value				
At 4 April 2000	1,004	14,181	6,804	21,989
	<hr/>	<hr/>	<hr/>	<hr/>
At 27 March 1999	1,052	15,515	-	16,567
	<hr/>	<hr/>	<hr/>	<hr/>

The net book amounts of assets held under finance leases is £Nil (1999:£Nil).

10 INVESTMENTS

Investments in subsidiary undertakings at cost	£'000
At 27 March 1999 and 4 April 2000	3,012
	<hr/>

The Company had the following investment in subsidiary undertakings:

<u>Name of Company</u>	<u>Country of registration</u>	<u>Type of shares</u>	<u>Type of business</u>	<u>Proportion of shares and voting rights held</u>
Lothian PLC	England	Ordinary	Holding company	100%

11 STOCKS

	<u>2000</u> £'000	<u>1999</u> £'000
Stocks of consumables	990	1,177
	<hr/>	<hr/>

SHANKS CHEMICAL SERVICES LIMITED

NOTES TO THE ACCOUNTS – 4 APRIL 2000

12 DEBTORS

	<u>2000</u> £'000	<u>1999</u> £'000
Trade debtors	2,512	2,852
Amounts owed by group undertakings	221	144
Other debtors	657	19
Prepayments and accrued income	732	613
Corporation tax receivable	339	-
	<u>4,461</u>	<u>3,628</u>

13 CREDITORS: Amounts falling due within one year

	<u>2000</u> £'000	<u>1999</u> £'000
Bank overdraft	16,157	8,846
Trade creditors	1,123	615
Amounts owed to group undertakings	2,279	2,268
Other creditors	1,585	1,430
Corporation tax payable	-	616
Other taxation and social security	50	59
Accruals and deferred income	1,135	1,249
Proposed dividend	165	352
	<u>22,494</u>	<u>15,435</u>

14 PROVISION FOR LIABILITIES AND CHARGES

	<u>Deferred</u> <u>Taxation</u> £'000	<u>Reorganisation</u> <u>Costs</u> £'000	<u>Total</u> £'000
At 27 March 1999	2,764	125	2,889
Net amount provided during the year	(43)	68	25
Utilised during the year	-	(101)	(101)
	<u>2,721</u>	<u>92</u>	<u>2,813</u>

SHANKS CHEMICAL SERVICES LIMITED

NOTES TO THE ACCOUNTS – 4 APRIL 2000

14 PROVISION FOR LIABILITIES AND CHARGES (CONTINUED)

The deferred tax position with the full potential liability for all timing differences is made up as follows:

		<u>2000</u>		<u>1999</u>
	Amount provided in accounts £'000	Potential liability £'000	Amount provided in accounts £'000	Potential liability £'000
Accelerated capital allowances	2,662	2,662	2,752	2,752
Other timing differences	59	59	12	12
	<hr/>	<hr/>	<hr/>	<hr/>
	2,721	2,721	2,764	2,764
	<hr/>	<hr/>	<hr/>	<hr/>

15 CALLED UP SHARE CAPITAL

	<u>2000</u> £'000	<u>1999</u> £'000
Authorised 934,830 ordinary shares of £1 each	935	935
	<hr/>	<hr/>
Allotted and fully paid 877,370 ordinary shares of £1 each	877	877
	<hr/>	<hr/>

16 RESERVES

	<u>Share Premium</u> £'000	<u>Profit and Loss</u> £'000
At 27 March 1999	1,066	5,098
Loss for the year	-	(854)
Dividends	-	(248)
	<hr/>	<hr/>
At 4 April 2000	1,066	3,996
	<hr/>	<hr/>

SHANKS CHEMICAL SERVICES LIMITED

NOTES TO THE ACCOUNTS – 4 APRIL 2000

17 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	<u>2000</u> £'000	<u>1999</u> £'000
Result for the financial year	(854)	29
Dividends	(248)	(526)
	<hr/>	<hr/>
Net reduction in shareholders' funds	(1,102)	(497)
Opening shareholders' funds	7,041	7,538
	<hr/>	<hr/>
Closing shareholders' funds	<u>5,939</u>	<u>7,041</u>

18 CAPITAL COMMITMENTS

The approximate amount of capital expenditure authorised by the Directors for which no provision has been made in the financial statements is:

	<u>2000</u> £'000	<u>1999</u> £'000
Expenditure contracted for	<u>8,270</u>	<u>30</u>
Expenditure not contracted for	<u>3,275</u>	<u>1,447</u>

19 COMMITMENTS UNDER OPERATING LEASES

	<u>Land and buildings</u> £'000	<u>2000</u> <u>Other</u> £'000	<u>Land and buildings</u> £'000	<u>1999</u> <u>Other</u> £'000
Leases expiring:				
Within 1 year	-	164	-	154
Between 2 and 5 years	-	113	-	97
Over 5 year	96	-	99	-
	<hr/>	<hr/>	<hr/>	<hr/>
	96	277	99	251
	<hr/>	<hr/>	<hr/>	<hr/>

SHANKS CHEMICAL SERVICES LIMITED

NOTES TO THE ACCOUNTS – 4 APRIL 2000

20 PENSION COMMITMENTS

The Company, along with other companies in the Shanks Group, participates in pension arrangements providing benefits based on final salary. The assets are held separately from those of the group companies and are invested by professional investment managers.

The contributions are determined by a qualified actuary on the basis of triennial valuation using the Projected Unit Method.

The pension charge for the year was £380,000 (1999: £364,000).

Details of the latest actuarial valuation of the scheme on 5 April 1997 are given in the accounts of Shanks Group plc.

21 CONTINGENT LIABILITIES

The Company has granted to its bankers an unlimited guarantee and a right of set off against amounts outstanding on advances to its parent and fellow subsidiary undertakings. The Company has in the normal course of business given guarantees and performance bonds relating to the Company's own contracts.

22 ULTIMATE PARENT COMPANY

The immediate parent company is Shanks (Environmental Services) Limited.

The ultimate parent Company is Shanks Group plc, a Company registered in Scotland. Copies of the Group accounts can be obtained from the Company Secretary, Shanks Group plc, Astor House, Station Road, Bourne End, Buckinghamshire, SL8 5YP.

23 CASH FLOW STATEMENT

The group financial statements for the year ended 4 April 2000 contains the consolidated cash flow statement. The Company has taken advantage of the exemption granted by FRS1 (Revised 1996) whereby it is not required to publish its own cashflow statement.

24 RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemptions of FRS8, whereby it is not required to disclose transactions with entities which are part of the Shanks Group plc, since consolidated financial statements are publicly available, as described in note 22.