

Castle Waste Services Limited
(formerly Kenal Services Limited)
**Directors' report and financial
statements**
Registered number 1359619
30 September 1999

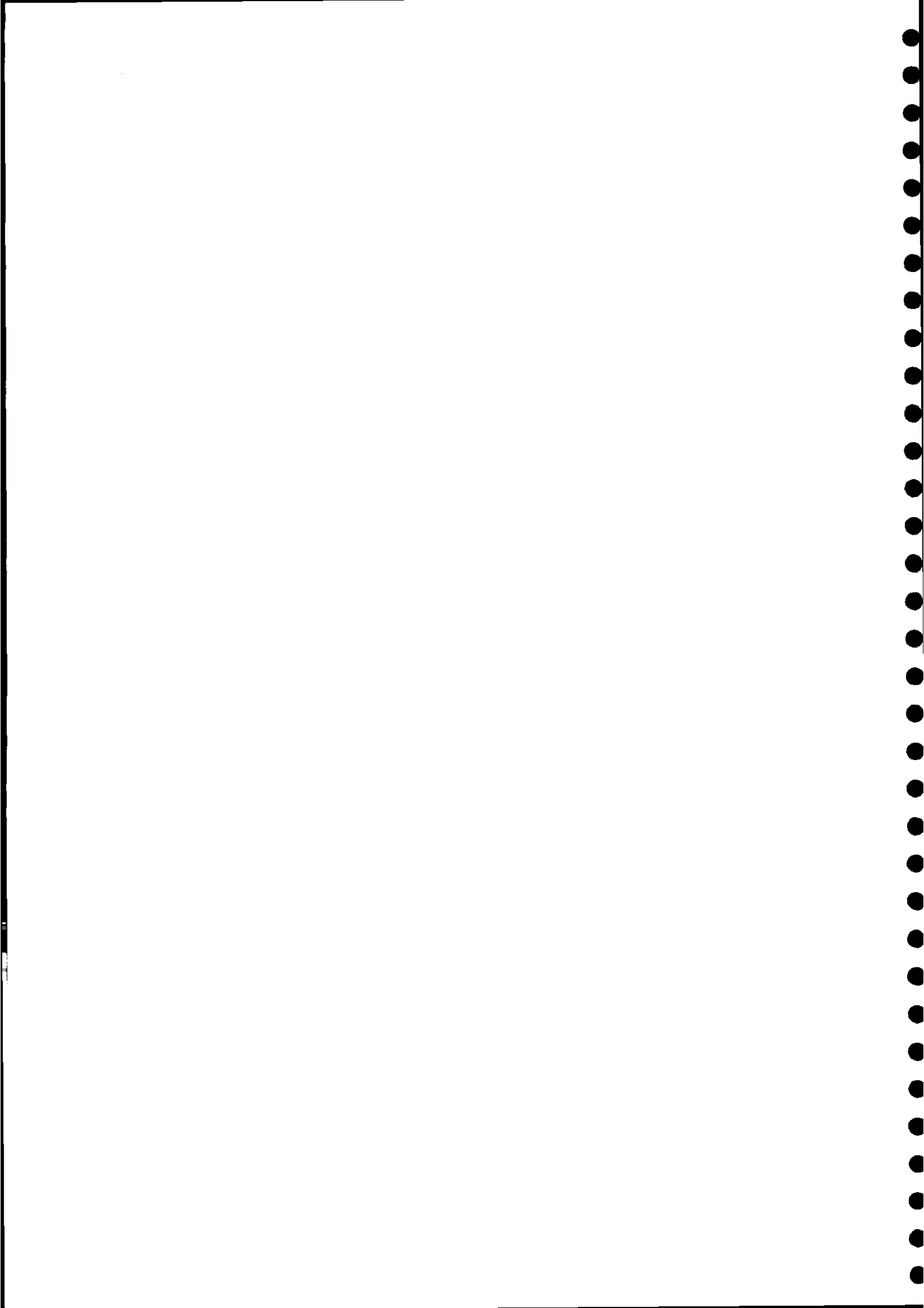


Contents

Company information	1
Directors' report	2
Statement of directors' responsibilities	4
Report of the auditors to the members of Castle Waste Services Limited	5
Profit and loss account	6
Balance sheet	7
Statement of total recognised gains and losses	8
Notes	9

Company information

Directors	MR Hewitt PK Meister PG Blackler AM Elliott
Secretary	PK Meister
Registered office	Treatment Centre Crompton Road Ilkeston Derbyshire DE7 4BG
Bankers	National Westminster Bank plc PO Box 13 5 Market Place Chesterfield Derbyshire S40 1TJ
Auditors	KPMG Norfolk House Silbury Boulevard Central Milton Keynes MK9 2HA



Directors' report

The directors present their report and the audited financial statements for the year ended 30 September 1999.

Principal activity

The principal activity of the company is waste disposal.

The principal activity of the company's subsidiary undertaking is oil reclamation and waste disposal.

Business review

The company changed its name on 1 November 1999 and was formerly known as Kenal Services Limited. The company trades as Castle Environmental.

Considerable work has continued to be carried out in improving the management of all areas of activity of the company. The management team has continued to be strengthened and progress has continued to be made in improving the underlying trading position of the company. The company's status within the industry has also continued to improve and its relationship with both its client base and regulators has been markedly enhanced. The company continues to pursue developments in technology that should enable material growth to be achieved in the future, particularly in areas associated with sustainable waste management.

Dividends and transfers to reserves

The results for the year are shown in the profit and loss account on page 6.

The directors do not propose the payment of a dividend (1998:£ Nil).

Market value of land and buildings

In the opinion of the directors there is no significant difference between the present market value of the company's properties and the amounts at which they are stated in the accounts.

Year 2000

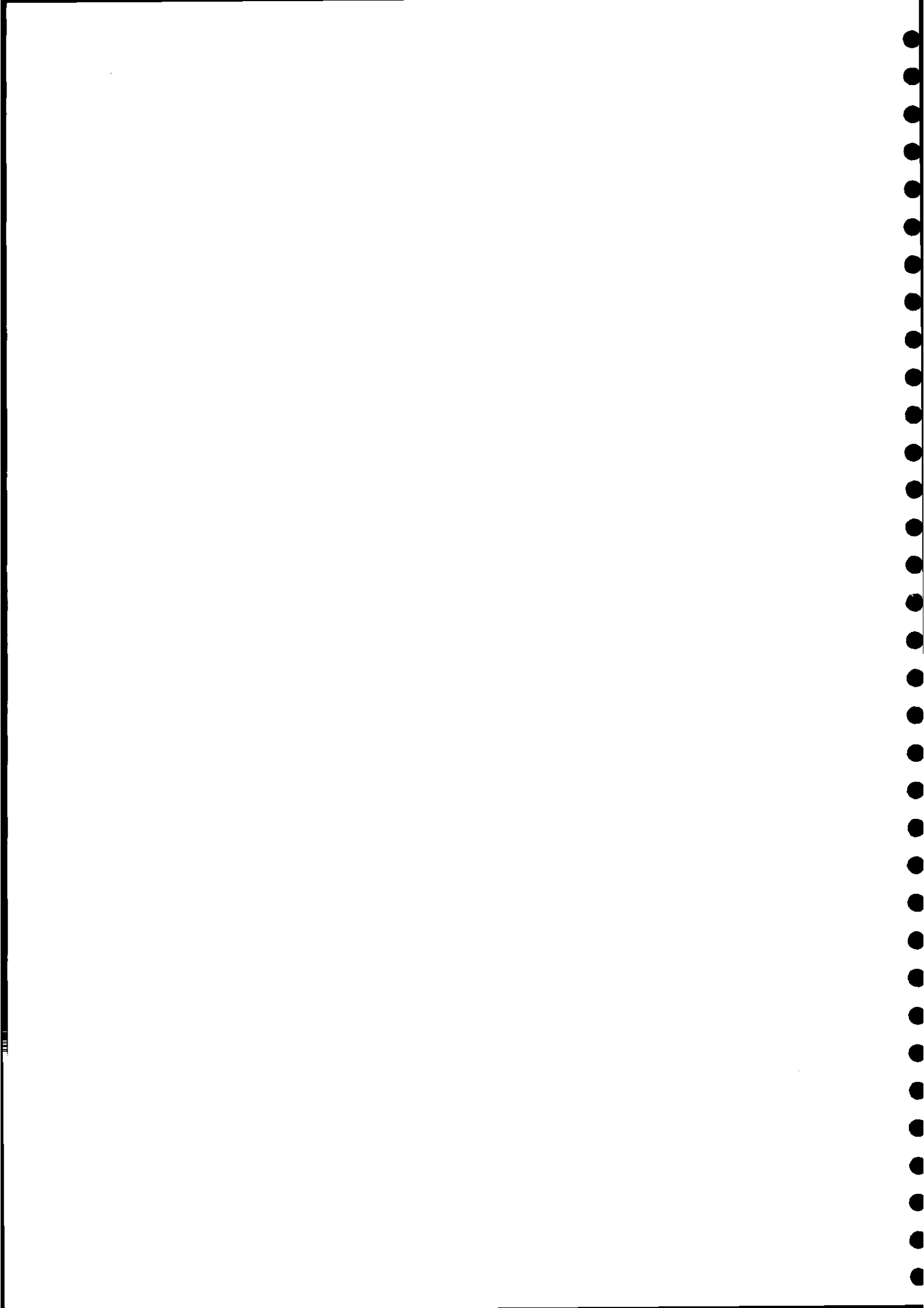
The company has not encountered any significant events, errors or failure arising as a result of the millennium date change. It is still possible that error or failure may arise and the company has actions in hand for ensuring that any future events, errors or failures will be identified and resolved. The directors do not anticipate that any future effect of the date change will have a significant impact on the company, although given the complexities of the issue, complete certainty on this is not possible. Any costs incurred in addressing these issues will be charged directly to the profit and loss account.

Directors and directors' interests

None of the directors hold an interest in the shares of the company as it is a wholly owned subsidiary of Castle Environmental Limited, which in turn is a wholly owned subsidiary of Hillbridge Investments Limited. The directors and their interests in the shares of that company are as follows:

	At beginning of year (or date of appointment) and end of year	
	'A' ordinary shares of	'B' ordinary shares of
	£0.01 each Number	£0.01 each Number
MR Hewitt	-	291,675
PK Meister	-	-
PG Blackler (appointed 13 January 1999)	-	-
AM Elliott	-	-

According to the register of directors' interests, no rights to subscribe for shares in or debentures of the company or any other group company, were granted to any of the directors or their immediate families, or exercised by them, during the financial year.



Directors' report *(continued)*

Auditors

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

By order of the board

A handwritten signature in black ink, appearing to be 'PK Meister', written in a cursive style.

PK Meister
Secretary

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;
- 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.



Norfolk House
Silbury Boulevard
Central Milton Keynes
MK9 2HA

Report of the auditors to the members of Castle Waste Services Limited

We have audited the financial statements on pages 6 to 17.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of 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 30 September 1999 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Chartered Accountants
Registered Auditors*

24 October 2000

Profit and loss account

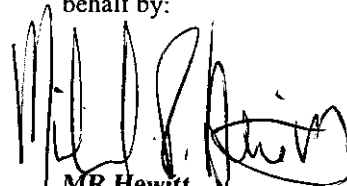
for the year ended 30 September 1999


	Note	Year to 30 September 1999 £	18 months to 30 September 1998 £
Turnover - continuing operations	2	5,745,795	10,495,225
Cost of sales (including exceptional costs in 1998 of £635,358)		(3,413,081)	(5,440,480)
Gross profit		2,332,714	5,054,745
Administrative expenses (including exceptional costs in 1998 of £1,195,079)		(3,481,422)	(6,627,125)
Other operating income (including exceptional income in 1998 of £200,000)		129,264	200,000
Operating loss	3	(1,019,444)	(1,372,380)
Interest receivable and similar income	4	1,910	24,046
Interest payable and similar charges	5	(340,806)	(500,548)
Loss on ordinary activities before taxation		(1,358,340)	(1,848,882)
Taxation on loss on ordinary activities	6	(117,396)	212,681
Loss for the financial period	16	(1,475,736)	(1,636,201)

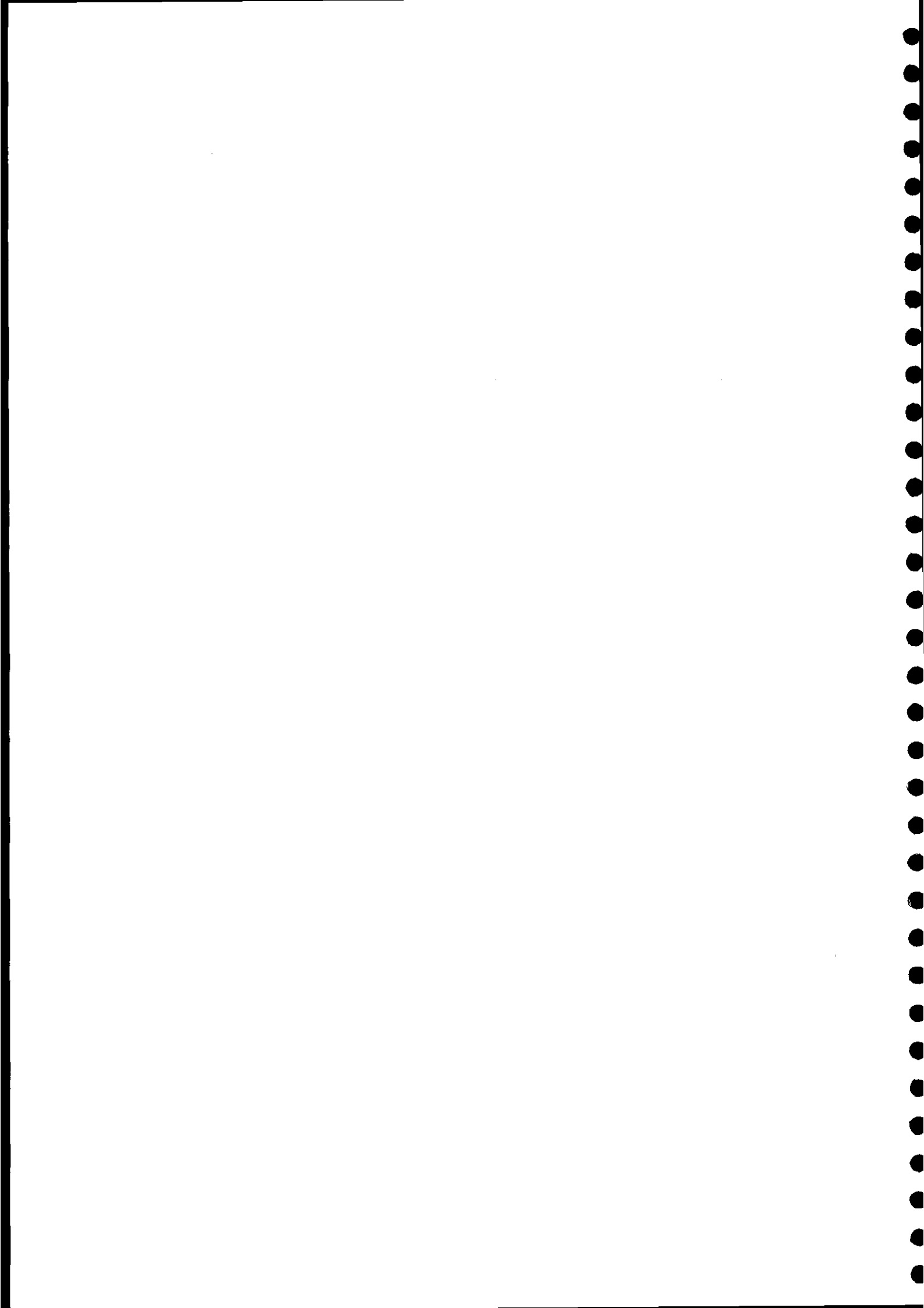
Balance sheet
at 30 September 1999

	Note	1999	1998
		£	£
Fixed assets			
Tangible assets	8	1,262,819	1,189,294
Investments	9	1,079,539	1,079,539
		<u>2,342,358</u>	<u>2,268,833</u>
Current assets			
Stocks	10	16,400	5,478
Debtors	11	1,595,207	1,385,670
Cash at bank and in hand		516	55,439
		<u>1,612,123</u>	<u>1,446,587</u>
Creditors: amounts falling due within one year	12	<u>(1,858,761)</u>	<u>(3,618,756)</u>
Net current liabilities		<u>(246,638)</u>	<u>(2,172,169)</u>
Total assets less current liabilities		<u>2,095,720</u>	<u>96,664</u>
Creditors: amounts falling due after more than one year	13	<u>(3,496,677)</u>	<u>-</u>
Provisions for liabilities and charges	14	<u>(364,115)</u>	<u>(386,000)</u>
Net liabilities		<u>(1,765,072)</u>	<u>(289,336)</u>
Capital and reserves			
Called up share capital	15	100	100
Investment revaluation reserve	16	659,539	659,539
Profit and loss account	16	(2,424,711)	(948,975)
		<u>(1,765,072)</u>	<u>(289,336)</u>
Shareholders' funds - equity interests		<u>(1,765,072)</u>	<u>(289,336)</u>

These financial statements were approved by the board of directors on 20 October 2000 and were signed on its behalf by:


MR Hewitt
Director


P Meister
Director



Statement of total recognised gains and losses

for the year ended 30 September 1999

	Year to 30 September 1999 £	18 months to 30 September 1998 £
Loss for the financial period	(1,475,736)	(1,636,201)
Unrealised surplus on revaluation of investment	-	659,539
Total recognised gains and losses relating to the financial period	(1,475,736)	(976,662)

Reconciliation of movements in shareholders' funds

for the year ended 30 September 1999

	Year to 30 September 1999 £	18 months to 30 September 1998 £
Loss for the financial period	(1,475,736)	(1,636,201)
Revaluation surplus	-	659,539
Net reduction in shareholders' funds	(1,475,736)	(976,662)
Opening shareholders' funds	(289,336)	687,326
Closing shareholders' funds	(1,765,072)	(289,336)

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 except that investments in subsidiaries are included at valuation.

The company is exempt by virtue of s228 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the company as an individual undertaking and not about its group.

Going concern

Having prepared projected cash flow information for the period ending 12 months from the date of their approval of these accounts, the directors, whilst recognising that cash flows cannot be predicted with absolute certainty, consider that the company will continue to operate within its currently agreed facilities. Accordingly, the accounts have been prepared on the going concern basis which the directors believe to be appropriate. The company's parent company has indicated that it will continue to provide financial support for the foreseeable future.

Cash flow statement

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that the ultimate parent undertaking includes the cash flows of the company in its consolidated cash flow statement.

Depreciation

Depreciation of fixed assets is calculated to write off their cost less any residual value over the estimated useful lives as follows:

Freehold buildings	-	2-6% on cost
Motor vehicles	-	25% on net book value
Plant and machinery	-	15% on net book value
Fixtures and fittings	-	15% on net book value
Office equipment	-	25% on cost

Freehold land is not depreciated.

Investments in subsidiaries

Investments in subsidiaries are stated at directors' valuation.

Leases and hire purchase contracts

Tangible fixed assets acquired under finance leases and hire purchase contracts are capitalised at the estimated fair value at the date of inception of each lease or contract. The total finance charges are allocated over the period of the lease in such a way as to give a constant charge on the outstanding liability.

Operating lease rentals are charged to the profit and loss account on a straight line basis over the term of the lease.

Notes (continued)

1 Accounting policies (continued)

Deferred taxation

Deferred taxation is provided on the liability method in respect of the taxation effect of all timing differences to the extent that tax liabilities are likely to crystallise in the foreseeable future.

Goodwill

Prior to 31 March 1997, goodwill arising on the acquisition of a trade was written off immediately to the profit and loss account. When a subsequent disposal occurs any related goodwill previously written off to reserves is written back through the profit and loss account as part of the profit or loss on disposal.

Pensions

The cost of contributing to the personal pension schemes of certain employees is charged to the profit and loss account in the period in which the contributions become payable.

2 Turnover

Turnover represents the amount derived from the provision of goods and services which fall within the company's ordinary activities, entirely within the United Kingdom, stated net of value added tax.

3 Operating loss

	Year to 30 September 1999 £	18 months to 30 September 1998 £
<i>Operating loss is stated after charging:</i>		
Exceptional items (see below)	-	1,630,437
Auditors' remuneration	12,000	7,000
Loss on sale of assets	18,331	34,600
Depreciation of tangible fixed assets (excluding impairment write-downs)		
- owned assets	216,169	514,175
- leased assets	20,882	88,339
Hire of plant and machinery - rentals payable under operating leases	6,529	11,169
Hire of other assets - operating leases	188,631	397,021

Exceptional items

Immediately following the acquisition of the company's holding company during 1998, the directors appointed a firm of independent chemical engineering consultants to quantify the cost of processing the waste held on site and to review the state of repair of certain fixed assets (excluding buildings). In addition, a firm of independent civil engineering consultants was appointed to carry out a survey of the businesses' premises. The work carried out and the various findings were summarised in formal reports and financial estimates made of the asset impairments and processing costs required. Also set out in the report was the additional expenditure required to replace and upgrade fixed assets. The directors used this information to determine the fair values of the assets and liabilities acquired by Hillbridge Investments Limited and hence the write downs and provisions required in Kenal Services Limited's (now Castle Waste Services Limited) accounts. Other adjustments have been made where appropriate. No adjustment has been made for the replacement or upgrading of fixed assets.

Settlement has now been reached with the vendors of Kenal Services Holdings Limited on the value of net assets acquired and other matters which were subject to litigation and the resulting favourable financial impact on the group is set out in the financial statements of Hillbridge Investments Limited, the company's parent company.

Notes (continued)

3 Operating loss (continued)

Exceptional items for the period ended 30 September 1998 can be summarised as follows:

	£
Cost of processing waste on site	(514,179)
Rectification costs for vehicle fleet	(121,179)
Contribution to company by vendor on disposal	200,000
Asset impairment write downs (additional depreciation)	(680,258)
Changes in management structure (other provisions)	(386,000)
Other restructuring costs associated with change in ownership	(128,821)
	<hr/>
Impact on operating results	(1,630,437)
Taxation on above	132,999
	<hr/>
Post tax effect	(1,497,438)
	<hr/>

4 Interest receivable and similar income

	Year to 30 September 1999 £	18 months to 30 September 1998 £
Bank interest	1,910	23,970
Interest on corporation tax	-	76
	<hr/>	<hr/>
	1,910	24,046
	<hr/>	<hr/>

5 Interest payable and similar charges

	Year to 30 September 1999 £	18 months to 30 September 1998 £
On bank loans and overdrafts	25,190	10
On all other loans	296,606	399,557
Hire and lease purchase interest	19,010	59,190
Factoring interest	-	41,791
	<hr/>	<hr/>
	340,806	500,548
	<hr/>	<hr/>

Notes (continued)

6 Taxation

	Year to 30 September 1999 £	18 months to 30 September 1998 £
Group relief on loss on ordinary activities at 30% (1998:31%)	-	(117,396)
Adjustment to prior year UK corporation tax charge	117,396	34,895
Deferred taxation		
- current year	-	(105,935)
- prior years	-	(24,245)
	<u>117,396</u>	<u>(212,681)</u>

The 1998 net credit includes a tax credit of £132,999 relating to exceptional items (see note 3).

7 Directors and employees

Staff costs including directors' emoluments

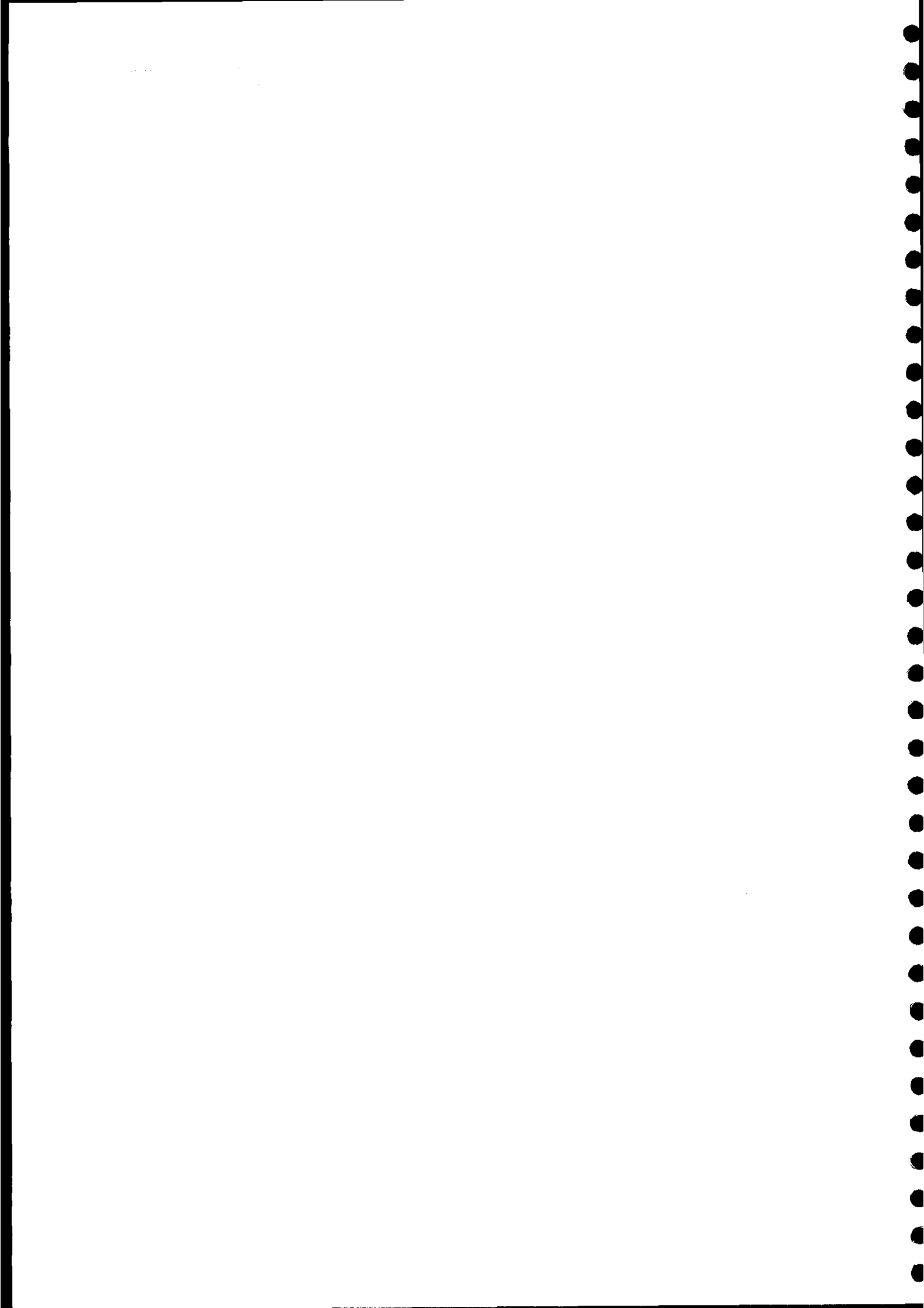
	Year to 30 September 1999 £	18 months to 30 September 1998 £
Wages and salaries	1,700,702	2,831,958
Social security costs	175,936	298,698
Pension costs	11,250	8,050
	<u>1,887,888</u>	<u>3,138,706</u>

Average number employed including executive directors

	Year to 30 September 1999 Number	18 months to 30 September 1998 Number
Production and sales	49	53
Office and management	23	28
	<u>72</u>	<u>81</u>

Directors' emoluments

	Year to 30 September 1999 £	18 months to 30 September 1998 £
As directors excluding pension contributions	208,215	332,309
Contributions to personal pension scheme of one director	11,250	6,563
	<u>60,299</u>	<u>169,857</u>
Emoluments of the highest paid director	60,299	169,857
Pension contributions on behalf of highest paid director	11,250	-



Notes (continued)

8 Tangible fixed assets

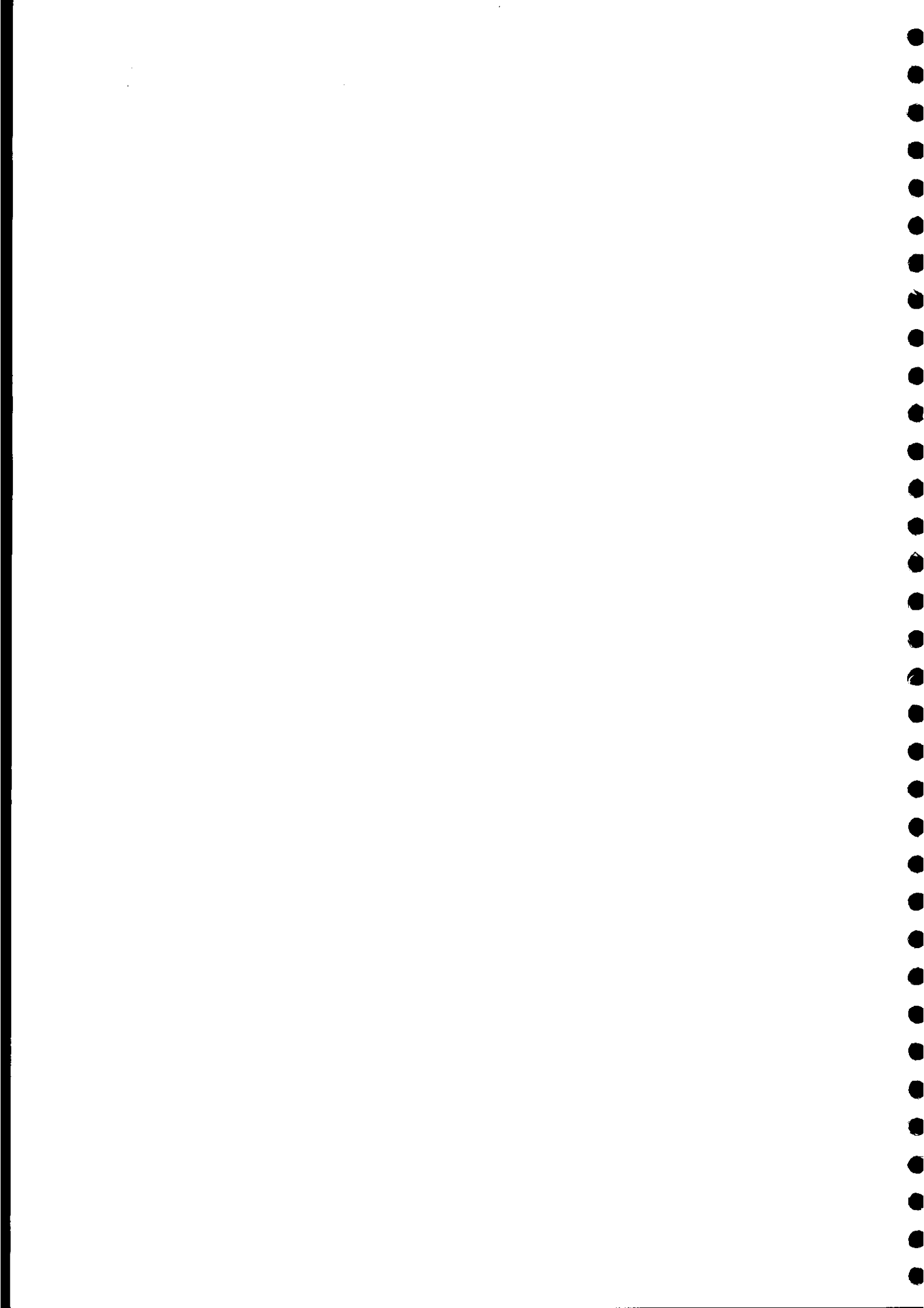
	Freehold land and buildings £	Motor vehicles £	Plant and machinery £	Fixtures and fittings £	Total £
<i>Cost</i>					
At 1 October 1998	939,233	1,362,656	979,582	191,310	3,472,781
Additions	35,033	26,666	290,322	57,191	409,212
Disposals	-	(248,245)	(19,250)	-	(267,495)
At 30 September 1999	974,266	1,141,077	1,250,654	248,501	3,614,498
<i>Depreciation</i>					
At 1 October 1998	578,837	919,407	685,972	99,271	2,283,487
Charge for year	23,821	89,001	91,119	33,110	237,051
Disposals	-	(160,996)	(7,863)	-	(168,859)
At 30 September 1999	602,658	847,412	769,228	132,381	2,351,679
<i>Net book value</i>					
At 30 September 1999					
Owned assets	371,608	278,225	410,179	96,525	1,156,537
Leased assets	-	15,440	71,247	19,595	106,282
	371,608	293,665	481,426	116,120	1,262,819
At 30 September 1998					
Owned assets	360,396	347,490	208,285	92,039	1,008,210
Leased assets	-	95,759	85,325	-	181,084
	360,396	443,249	293,610	92,039	1,189,294

Included within freehold land and buildings is land with a value of £240,000 (1998: £240,000) which is not depreciated.

9 Investments

	1999 £	1998 £
<i>At valuation</i>		
Shares in subsidiary company	1,079,539	1,079,539

The company's investment is in the entire ordinary share capital of its wholly owned subsidiary, Castle Oils Limited, a company engaged in oil reclamation and waste disposal, which is incorporated and operates in Great Britain. The investment is carried at directors' valuation at 30 September 1999, to take account of the subsidiary's underlying net asset value, which gave rise to a revaluation surplus of £Nil during the year (1998: £659,539). The historical cost is £420,000.



Notes (continued)

10 Stock

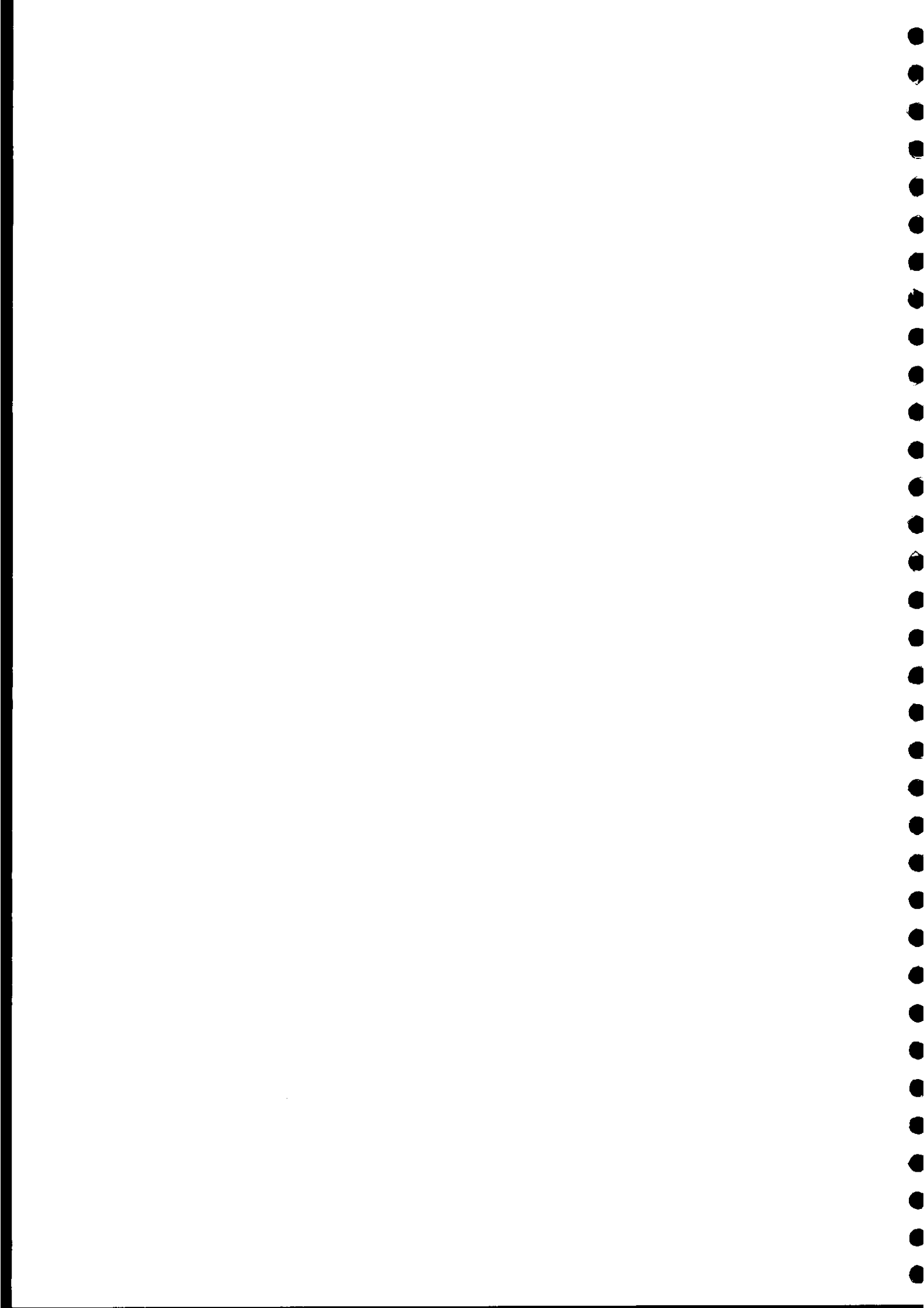
	1999 £	1998 £
Raw materials and consumables	16,400	5,478

11 Debtors

	1999 £	1998 £
Trade debtors	1,500,013	1,168,252
Other debtors	-	119,396
Prepayments and accrued income	95,194	98,022
	<u>1,595,207</u>	<u>1,385,670</u>

12 Creditors: amounts falling due within one year

	1999 £	1998 £
Bank overdraft	46,458	-
Obligations under finance leases and hire purchase contracts	22,333	35,916
Trade creditors	866,104	998,752
Amounts owed to group companies	-	1,368,642
Other taxation and social security	109,458	60,263
Other creditors	13,170	48,736
Accruals and deferred income	801,238	1,106,447
	<u>1,858,761</u>	<u>3,618,756</u>



Notes (continued)

13 Creditors: amounts falling due after more than one year

	1999 £	1998 £
Amounts owed to group companies	3,486,084	-
Obligations under finance leases and hire purchase contracts	10,593	-
	<u>3,496,677</u>	<u>-</u>

Amounts owed to group companies comprise balances owed to the company's parent company which has indicated that it will continue to provide financial support for the foreseeable future. There are no formal repayment terms and the balance carries no interest charge.

Obligations under finance leases and hire purchase contracts are repayable over varying periods by monthly instalments as follows:

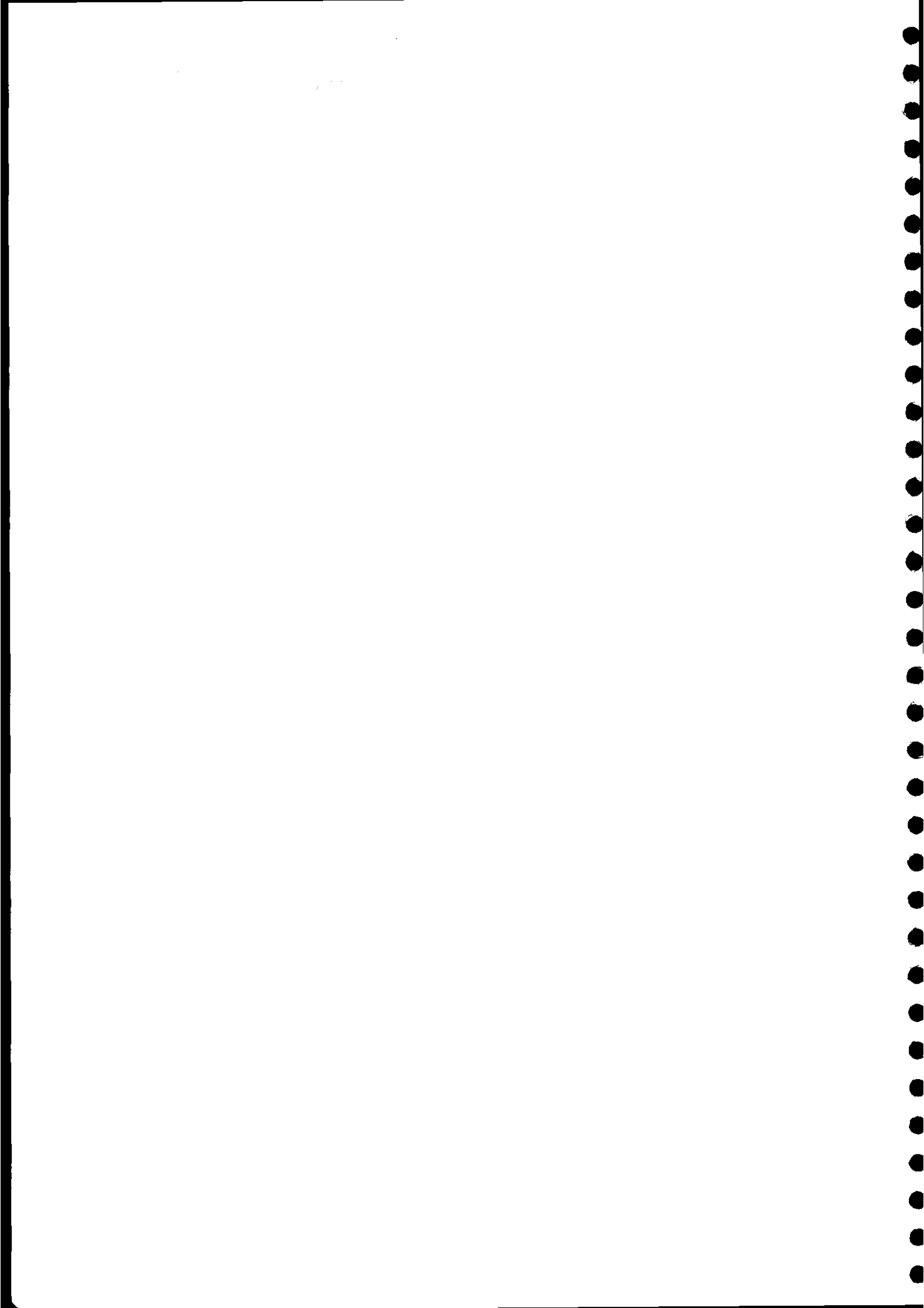
	1999 £	1998 £
In less than one year	22,333	-
In two to five years	10,593	-
	<u>32,926</u>	<u>-</u>

14 Provisions for liabilities and charges

	Deferred taxation £	Other provisions (see note 3) £	Total £
At beginning of year	-	386,000	386,000
Utilised during year	-	(21,885)	(21,885)
	<u>-</u>	<u>-</u>	<u>-</u>
At end of year	-	364,115	364,115

The amounts provided for deferred taxation and the amounts not provided are set out below:

	1999 Provided £	Unprovided £	1998 Provided £	Unprovided £
Difference between accumulated depreciation and capital allowances	-	(33,355)	-	(184,859)
Other timing differences	-	(145,235)	-	(62,930)
Unrelieved tax losses	-	(259,973)	-	(8,678)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Asset	-	(438,563)	-	(256,467)



Notes (continued)

15 Called up share capital

	1999 £	1998 £
<i>Authorised</i>		
Ordinary shares of £1 each	100	100
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £1 each	100	100

16 Reserves

	Investment revaluation reserve £	Profit and loss account £
At 1 October 1998	659,539	(948,975)
Loss for the year	-	(1,475,736)
At 30 September 1999	659,539	(2,424,711)

17 Ultimate parent company and controlling party

The immediate parent company is Castle Environmental Limited, a company incorporated in Great Britain and registered in England and Wales.

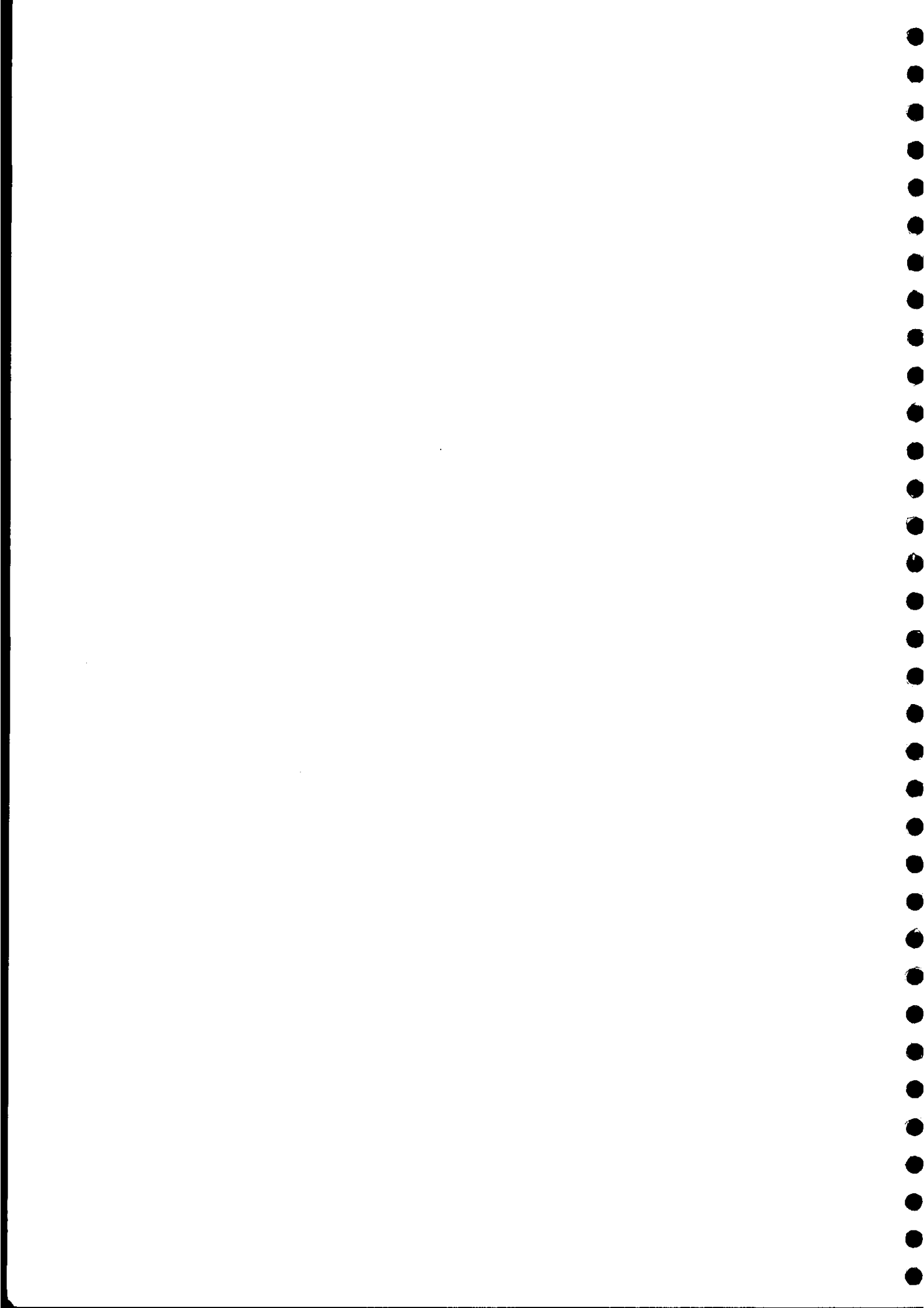
The ultimate parent company and only group in which the results of the company are consolidated is Hillbridge Investments Limited, a company incorporated in Great Britain and registered in England and Wales.

The consolidated accounts of Hillbridge Investments Limited are available to the public and may be obtained from Companies House, Crown Way, Cardiff CF4 3UZ.

The ultimate controlling party is Bridgepoint Capital Limited.

18 Related party disclosures

The company has taken advantage of the exemption contained in FRS8 which applies to subsidiary undertakings and has not disclosed details of transactions with group companies which are included in the consolidated accounts of Hillbridge Investments Limited.



Notes (continued)

19 Commitments

Annual commitments under non-cancellable operating leases are as follows:

	1999 £	1998 £
<i>Operating leases which expire:</i>		
Within one year	22,683	175,994
In the second to fifth years inclusive	120,632	80,650
	<hr/>	<hr/>
	143,315	256,644
	<hr/>	<hr/>

At 30 September 1999, the company had £48,816 of contracted capital commitments (1998: £Nil).

