WATER HALL (ENGLAND) LIMITED

REPORT AND ACCOUNTS 2006

Company number 2534209

CONTENTS

DIRECTORS' REPORT

The directors present their report and accounts for the year ended 31 December 2006

Principal Activity

The Company is principally engaged in quarrying and waste management and trades as SQ Environmental.

Review of Business, Results and Future Developments

Sales for the year were £8,769,000 (2005 - £7,223,000) After cost of sales of £6,402,000 (2005 - £5,389,000), the resultant gross profit was £2,367,000 (2005 - £1,834,000) Administrative expenses for the year were £1,715,000 (2005 - £1,496,000) resulting in an operating profit for the year of £652,000 (2005 - £338,000)

After a net interest charge of £1,134,000 (2005 - £1,123,000) the loss before tax for the year was £482,000 (2005 – £785,000). No tax is payable in respect of either year

The directors do not recommend the payment of a dividend (2005 – nil)

Voidspace in the Southfield Wood landfill was all but exhausted during the first quarter of 2007 and infilling there is now effectively complete This will result in a substantial reduction in turnover and contribution The landfill at Bunker's quarry has an estimated life of approximately 5 years at current rates of tipping although the remaining gravel extraction will be completed shortly. The Board is conscious of the benefits of increasing the life of this landfill in accordance with existing planning consents, and to this end is now operating a soil recycling facility. The ultimate additional life of Bunker's landfill will depend upon the nature of the waste input and the level of recovery from soil recycling.

The Board is keeping under review the status of the Hertfordshire Local Minerals Plan Review and Hertfordshire County Council's statutory obligation to maintain a seven year planning consented land bank A decision to make a planning application for the Group's non-consented mineral reserves will be taken should the Board consider there to be a reasonable chance of its success In addition, the Board is exploring alternative uses for the freehold land north of the B158

Internal Control

The Board of Directors is responsible for the Company's system of internal control While internal control systems are designed to meet the particular needs of a business and to manage the risks to which it is exposed they cannot eliminate the risk of failure to achieve business objectives. By its nature, any system of internal control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

Financial Instruments

The company's policy in respect of financial instruments is as set out below

The Company's principal financial instruments during the year comprised cash and escrow accounts The main purpose of these instruments is to maximize returns for shareholders and to meet the Environment Agency's financial provisioning requirements for the cost of restoration and aftercare. The Company has various other financial instruments such as debtors and creditors that arise directly from its operations The main risks from the Company's financial instruments are interest rate risks

Directors

The directors who held office at the date of signing and throughout the year were as follows

R M Abdullah
R D Musson

Directors' Interests

At 31 December 2006 and 2005 the directors were also directors of Water Hall Group plc, the ultimate parent undertaking, in whose accounts their interests in the share capital of that company are disclosed

Donations

As permitted by government regulations, the Company contributed £53,000 (2005 – £45,000) of its Landfill Tax liability to the SQ Environmental *Trust* Ltd, an ENTRUST registered environmental body, to fund environmental and other qualifying projects in the Company's area of operation.

Post Balance Sheet Events

See note 23.

Auditors

Each of the persons who is a director at the date of approval of this report confirms that:

(1) so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and

(2) the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

By order of the board

N Christy
Company Secretary
11th June 2007

Registered Office
Parallel House
32 London Road
Guildford
GU1 2AB

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report including the financial statements The directors have chosen to prepare the financial statements for the company in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP).

Company law requires the directors to prepare such financial statements for each financial year which give a true and fair view, in accordance with UK GAAP, of the state of affairs of the company and of the profit or loss of the company for that period and comply with UK GAAP and the Companies Act 1985 In preparing those financial statements, the directors are required to:

(a) select suitable accounting policies and then apply them consistently,

(b) make judgements and estimates that are reasonable and prudent,

(c) state whether applicable accounting standards have been followed; and

(d) 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 are also responsible for the system of internal control and for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF WATER HALL (ENGLAND) LIMITED

We have audited the financial statements of Water Hall (England) Limited for the year ended 31 December 2006 which comprise the profit and loss account, the balance sheet and the related notes 1 to 24 These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with the relevant financial reporting framework and are properly prepared in accordance with the Companies Act 1985 We also report to you 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 explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed We read the directors' report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

Opinion

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2006 and of its loss for the year then ended, and 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

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Reading, United Kingdom
11th June 2007

Profit and Loss Account
For the year ended 31 December 2006

	Note	2006 £000	2005 £000
Turnover	2	**8,769**	7,223
Cost of sales		**(6,402)**	(5,389)
Gross profit		**2,367**	1,834
Administrative expenses		**(1,715)**	(1,496)
Profit on ordinary activities before interest and taxation	3	**652**	338
Net interest payable	7	**(1,134)**	(1,123)
Loss on ordinary activities before taxation		**(482)**	(785)
Taxation on loss on ordinary activities	8	**-**	-
Loss for the year	19	**(482)**	(785)

All profits and losses relate to continuing activities. There were no recognised gains or losses other than those shown above and therefore no separate statement of total recognised gains and losses has been presented

Balance Sheet
as at 31 December 2006

	Note	2006 £000	2005 £000
Fixed assets			
Tangible assets	9	**1,100**	1,772
Investments	10	**124**	124
		1,224	1,896
Current assets			
Stocks	11	**56**	162
Debtors	12	**1,389**	1,490
Cash at bank - escrow deposit	13	**1,185**	1,035
Cash at bank		**55**	-
		2,685	2,687
Creditors: amounts falling due within one year	14	**(1,464)**	(2,482)
Net current assets		**1,221**	205
Total assets less current liabilities		**2,445**	2,101
Creditors: amounts falling due after more than one year	15	**22,997**	22,997
Provision for liabilities and charges	17	**2,215**	1,388
Capital and reserves			
Called up share capital	18	-	-
Profit and loss account	19	**(22,767)**	(22,284)
Shareholder's funds		**(22,767)**	(22,284)
		2,445	2,101

Approved by the Board on 11th June 2007 and signed on its behalf by:

R M Abdullah
Director

NOTES TO THE ACCOUNTS

For the year ended 31 December 2006

1. ACCOUNTING POLICIES

The principal accounting policies are summarised below They have all been applied consistently throughout the year and the preceding year

Basis of preparation

The accounts have been prepared under the historical cost convention and in accordance with the Companies Act 1985 and applicable United Kingdom accounting standards

Group accounts

The Company has taken advantage of section 228 of the Companies Act 1985 and has not prepared group accounts. These accounts present information about the Company as an individual undertaking and not about its group Group results are consolidated in the ultimate parent undertaking, Water Hall Group plc.

The Company has also taken advantage of the exemption in paragraph 5(a) of FRS1 from including a cash flow statement on the basis that its cash flows are included in the consolidated cash flow statement of its parent, Water Hall Group plc. These accounts are available from the Company Secretary at the address included in note 24

Turnover

Turnover, all of which arises in the United Kingdom, represents the amounts charged to third parties including landfill tax, net of value added tax.

Mineral reserves and landfill resources

The landfill resources are held at cost less depreciation A valuation completed by Gerald Eve, Chartered Surveyors, of the market value as at 31 December 2002 confirmed the historical cost net book value of mineral reserves and landfill resources included in the accounts at that date

Other tangible fixed assets and depreciation

Landfill resources are amortised over the life of each site in proportion to the rate of extraction or landfill respectively

Other tangible fixed assets are held at cost less depreciation and, with the exception of freehold land, are depreciated on a straight line basis calculated to write off the cost or valuation, less estimated residual value, of each asset over its expected useful life The rates used are as follows

Freehold buildings	-	10% to 20% p a
Plant and equipment	-	10% to 100% p a.

No depreciation is provided on freehold land. An additional charge arises when, in the opinion of the directors, there has been an impairment of the carrying value of the related fixed asset.

Investments

Investments are carried at cost less any amounts written off to reflect any impairment in value.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2006

Accounting policies (continued)

Stocks

Stocks are stated at the lower of cost and net realisable value The cost of finished goods comprises direct materials and labour together with the relevant proportion of attributable overheads Due allowance is made for obsolete or slow moving items

Landfill engineering costs

Landfill engineering costs are recognised as the costs are incurred in preparation for the removal of aggregates and preparing a particular landfill cell prior to the commencement of landfill operations These costs are amortised over the life of each site in proportion to the rate of extraction or landfill respectively.

Restoration and post closure monitoring costs (aftercare)

Full provision has been made for the net present value (NPV) of the Company's estimated costs, in respect of restoration liabilities at the Company's landfill sites, the unexpended portion of which has been capitalised in tangible fixed assets The Company continues to provide for all aftercare costs over the life of its landfill sites, in proportion to the rate at which each site is filled, 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 expected future costs, discounted at 5% per annum The effect of the unwinding of the discount element on existing provisions is reflected as a financial item

Taxation

Current tax is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax at a future date, at rates expected to apply when they crystallise based on current tax rates and law Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted

Leasing and hire purchase contracts

Assets acquired under finance leases and hire purchase contracts, which are those where substantially all the risks and rewards of ownership of the asset have passed to the Company, are included in tangible fixed assets and the obligations to pay future instalments are included in creditors. The total finance charge under finance leases and hire purchase contracts is allocated to accounting periods during the contract term so as to produce a constant periodic rate of charge on the remaining balance of the obligation Operating lease rentals are charged to the profit and loss account on a straight-line basis over the term of the lease.

Pension costs

The Company contributes to personal pension schemes. Pension costs in respect of these schemes are charged to the profit and loss account as they fall due

NOTES TO THE ACCOUNTS
For the year ended 31 December 2006

2. TURNOVER

	2006	2005
	£000	£000
Quarry products	965	1,013
Waste management	7,804	6,210
	8,769	7,223

3. PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST AND TAXATION

	2006	2005
	£000	£000
Profit on ordinary activities before interest and taxation is stated after charging / (crediting):		
Depreciation of tangible fixed assets		
Owned assets	1,196	974
Leased assets	23	339
Operating leases - plant and equipment	348	444
Profit on disposal of fixed assets	(19)	(10)

The audit fees of the Company are paid by its parent.

4. RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption in paragraph 3(c) of FRS8 from disclosing transactions with related parties which are part of the Water Hall Group plc group or investees of the group.

5. EMPLOYEES AND STAFF COSTS

	2006	2005
(a) Employment costs	£000	£000
Wages and salaries	1,396	1,275
Social security	145	145
Other pension costs	4	4
	1,545	1,424

(b) Average number of persons employed by the Group during the year		
Quarry products and waste management	46	40
Administration	8	10
	54	50

NOTES TO THE ACCOUNTS
For the year ended 31 December 2006

6. DIRECTORS' EMOLUMENTS

The directors were also directors of the ultimate parent company, Water Hall Group plc Their emoluments are disclosed in the parent company's accounts The directors do not believe that it is practical to apportion this amount between services as directors of the Company and services as directors of the ultimate holding company The total emoluments of both directors during the year for services provided to the Group were £189,000 (2005 - £148,000).

7. NET INTEREST PAYABLE

	2006	2005
	£000	£000
Interest receivable		
Interest on escrow deposits	49	35
Interest payable and similar charges		
Interest on intercompany loan	(1,144)	(1,086)
Finance leases and hire purchase contracts	-	(30)
Loan	-	(3)
	(1,144)	(1,119)
Other finance charges		
Unwinding of discount on provisions	(39)	(39)
Net interest payable	(1,134)	(1,123)

The charge in respect of unwinding of provisions arises on the provisions for future restoration and aftercare costs as they are shown at their net present value, calculated by discounting at 5% per annum the costs expected to be incurred between 2007 and 2069 As each year passes the discount reduces and is charged to the profit and loss account as interest but is not a cash outflow during the year

NOTES TO THE ACCOUNTS

For the year ended 31 December 2006

8. TAXATION ON LOSS ON ORDINARY ACTIVITIES

	2006	2005
	£000	£000
Tax on loss on ordinary activities	-	-

The tax charge for the year is £nil (2005 - £nil) The standard rate of tax for the year is 30% (2005 – 30%). The actual tax assessed for the year differs from the standard rate for the reasons set out in the following reconciliation:

	2006	2005
	£000	£000
Loss on ordinary activities before taxation	**(482)**	(785)
Tax at 30% thereon	**145**	236
Effects of		
Short-term timing differences	**3**	(21)
Depreciation in excess of capital allowances	**(173)**	(208)
Recognition / (Utilisation) of losses	**25**	(7)
	-	-

At 31 December 2006 a deferred tax asset of £435,000 (2005 - £246,000) was not recognised in respect of timing differences relating to revenue losses, accelerated capital allowances and provisions, as there was no certainty that the asset would be recovered The asset will be recoverable if the Company makes sufficient future taxable profits.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2006

9. TANGIBLE FIXED ASSETS

	Landfill Resources £'000	Land and Buildings £'000	Plant and Equipment £'000	Total £'000
Cost				
At 1 January 2006	10,488	441	4,045	14,974
Additions	247	-	304	551
Disposals	-	-	(315)	(315)
at 31 December 2006	**10,735**	**441**	**4,034**	**15,210**
Depreciation				
At 1 January 2006	9,646	101	3,455	13,202
Provided in year	445	-	774	1,219
Disposals	-	-	(311)	(311)
at 31 December 2006	**10,091**	**101**	**3,918**	**14,110**
Net book value				
at 31 December 2006	**644**	**340**	**116**	**1,100**
At 31 December 2005	**842**	**340**	**590**	**1,772**

The Company's mineral reserves and landfill resources were valued at 31 December 2002 on the basis of market value by Gerald Eve, Chartered Surveyors The valuation was undertaken in accordance with the Appraisal and Valuation Standards of the Royal Institution of Chartered Surveyors This valuation accorded with the historical cost net book value of the Company's mineral reserves and landfill resources included in the accounts at that date

Landfill resources include costs of £1,438,000 (2005 - £1,191,000) and accumulated depreciation of £1,236,000 (2005 - £1,033,000) arising from the capitalisation of the FRS12 asset being the unexpended portions of the Company's future restoration costs

Plant and equipment include assets held under finance leases and hire purchase contracts with a net book value of £nil (2005 - £8,000) Depreciation on these assets of £8,000 (2005 - £339,000) was charged in the profit and loss account.

NOTES TO THE ACCOUNTS
For the year ended 31 December 2006

10. INVESTMENTS

Shares in subsidiary undertakings	**£000**
Cost	
At 1 January and 31 December 2006	6,023
Provision for diminution in value	
At 1 January and 31 December 2006	(5,899)
Net Book Value	
At 1 January and 31 December 2006	**124**

The principal subsidiary undertaking is shown in note 20 In the opinion of the directors, the aggregate value of investments in subsidiary undertakings is not less than the amount at which they are stated above

11. STOCKS

	2006	2005
	£000	£000
Raw materials and consumables	**25**	121
Finished goods and goods for resale	**31**	41
	56	162

There is no material difference between the balance sheet value of stocks and their replacement cost

12. DEBTORS

	2006	2005
	£'000	£'000
Amounts falling due in less than one year		
Trade debtors	**1,239**	1,129
Other debtors	**42**	38
Landfill engineering costs	**108**	323
	1,389	1,490

13. CASH AT BANK – ESCROW DEPOSIT

Cash at bank – escrow deposit comprises £1,185,000 (2005 - £1,035,000) deposited by Water Hall (England) Ltd in five (2005 – five) bank accounts held jointly with the Environment Agency in escrow These accounts are to be used specifically for restoration and aftercare purposes.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2006

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2006	2005
Amounts falling due within one year	**£000**	£000
Bank overdraft (secured)	-	12
Obligations under finance leases and hire purchase contracts	-	16
Trade creditors	**280**	171
Amounts owed to ultimate parent undertaking and fellow subsidiary undertaking	**398**	1,597
Amounts owed to subsidiary undertakings	**174**	174
Other taxation and social security	**341**	293
Landfill tax	**43**	55
Other creditors	**26**	20
Accruals and deferred income	**202**	144
	1,464	2,482

The bank overdraft was secured by first charge over the assets (other than the trade and other debtors) of the Company The obligation under finance lease was secured on its related asset

15. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2006	2005
	£000	£000
Parent company loan	**22,997**	22,997

The parent company loan is unsecured and bears interest at between base rate and base rate plus 5% and is repayable on 1 January 2008 or thereafter on a date to be agreed between the Company and its parent

NOTES TO THE ACCOUNTS
For the year ended 31 December 2006

16. OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS

	2006	2005
Amounts payable	**£000**	£000
Within one year	-	16
	-	16
Less finance charges allocated to future periods	-	-
	-	16

The maturity of these amounts is as follows

Finance leases and hire purchase contracts are analysed as follows		
Current obligations (note 14)	-	16

17. PROVISIONS FOR LIABILITIES AND CHARGES

	Restoration and aftercare £000
At 1 January 2006	1,388
Arising in year	1,037
Unwinding of discount	39
Utilised	(249)
At 31 December 2006	**2,215**

The restoration and aftercare provisions relate to the costs of restoring and reinstating land from which the mineral resources are extracted, addressing environmental issues at quarry and landfill sites and planning and related matters These costs are expected to be incurred between 2007 and 2069

NOTES TO THE ACCOUNTS
For the year ended 31 December 2006

18. CALLED UP SHARE CAPITAL

	2006	2005
	£	£
Authorised		
100 Ordinary shares of £1 each	**100**	100
Allotted, called up and fully paid		
2 Ordinary shares of £1 each	**2**	2

19. MOVEMENT IN RESERVES

	Profit and loss account
	£000
At 1 January 2006	(22,284)
Loss for the year	(482)
At 31 December 2006	**(22,767)**

20. PRINCIPAL SUBSIDIARY UNDERTAKING

Company	**Activity**
Star Quarry Products Limited	Dormant

The undertaking is registered in England and Wales. It is wholly owned and its shares are fully paid

21. CAPITAL COMMITMENTS

At 31 December 2005 and 2006, the Company had no capital commitments not provided for in the accounts

22. CONTINGENT LIABILITIES

A further payment of £136,000 is due to be paid into the escrow accounts in 2007

23. POST BALANCE SHEET EVENTS

In March 2007 filling of the Group's active waste landfill at the Water Hall Complex was effectively completed Accordingly, turnover arising from the receipt of active waste or skip collections will consequently be significantly reduced. Turnover from these sources in 2006 amounted to £6 59m (2005 – £5 87m) Net closure costs are expected to be minimal Ongoing waste management turnover at the Complex arises from the receipt of inert waste

NOTES TO THE ACCOUNTS
For the year ended 31 December 2006

24. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

In the directors' opinion, the Company's immediate parent company and controlling party is Water Hall Group plc, a company which is registered in England and Wales This is also the parent company of the largest and smallest group of which the company is a member and for which group accounts are published Accounts for that company are available from the Company Secretary, Water Hall Group plc, Parallel House, 32 London Road, Guildford, GU1 2AB