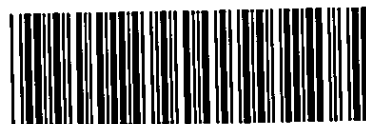


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WATER HALL (ENGLAND) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS 2010

Company number 02534209

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DIRECTORS' REPORT

The directors present their report and financial statements for the year ended 31 December 2010

Principal Activity

The company now has one continuing activity and business segment, waste management, based at the Water Hall Complex near Hertford and trades as SQ Environmental. The principal operation in that segment over recent years has been Bunkers Hill ("Bunkers"), a 50 acre landfill site licensed to be filled with inert waste. On 29 October 2010 the company entered into a contract with Frank Lyons Plant Services ("FLPS") for the sale of the freehold of Bunkers and the waste management activity at Bunkers ceased from that date.

Following the sale of Bunkers, the company's continuing waste management operations include the following interests and potential revenue generating activities:

- An 8 acre Materials Recovery Facility ("MRF"), not currently in operation, but which has planning consent until 2014 and could be reactivated should there be a suitable opportunity.
- Energy from Waste ("EFW") through the contract with CLP Envirogas Limited ("CLP"), expected to provide revenues from the generation of electricity by the utilisation of gas from Southfield Wood ("SFW") from April 2011 onwards. CLP have made a significant investment in this project, which includes the installation by CLP of gas pipe work required for the restoration of SFW.

Additionally the company has option rights, which run to 2018, over areas of land adjacent to Bunkers containing sand and gravel reserves and the benefit of inert waste restoration post the sand and gravel extraction. These areas are known as Broad Green, where the company owns the freehold mineral and infill rights with an option, subject to planning consent being granted, to purchase the surface rights, and Bunkers South, where the company has an option to purchase the surface rights, subject to planning consent, and to operate the reserves under a royalty agreement with the landowner.

Having regard for the length of time required to complete the gas tests and to secure consent for planning applications for the option areas, at best the company's future revenues from these activities is expected to be minimal until 2012.

Results and Dividends

Sales for the year from continuing operations were £1,435,000 (2009 - £1,528,000). Cost of sales were £837,000 (2009 - £917,000) and the resultant gross profit was £598,000 (2009 - £611,000). Administrative expenses for the year were £974,000 (2009 - £1,218,000) and there was a gain on the disposal of plant and equipment of £48,000 (2009 - £2,000) resulting in an operating loss for the year from continuing operations of £328,000 (2009 - loss £605,000).

Net finance costs were £91,000 (2009 - £58,000) and after a nil tax charge (2009 - £nil) the loss for the year from continuing operations was £419,000 (2009 - £663,000). The directors do not recommend the payment of a dividend (2009 - £nil).

Review of Business and Future Developments

I am pleased to report that the board's strategy of the past few years of accelerating cash generation from quarry and waste management and the disposal of certain non core assets is progressing.

The acceleration of cash generation has been achieved through the disposal to Frank Lyons Plant Services ("FLPS") on 29 October 2010 of Bunkers Hill landfill ("Bunkers") for £474,500 before associated expenses. In accordance with the terms of the sale £325,000 was paid on 29 October 2010 and the deferred element of £149,500 received on 31 March 2011. Plant and equipment no longer required was sold for £45,000 in November 2010. As advised in the previous Directors' Report, Hertfordshire County Council decided in June 2010 to grant planning consent for a revised restoration scheme for the Group's Southfield Wood.

DIRECTORS' REPORT (continued)

("SFW") landfill within the Water Hall Complex ("Complex") The revised scheme added approximately 187,000 m³ of void space at the Complex

While a separate issue, as part of the same contract as the Bunkers sale, FLPS is required to complete at its expense the restoration of SFW to pre-seeding and planting level thereby reducing the cash impact of the restoration costs to be met by the Group by approximately £500,000 The restoration work commenced in April 2011 and is expected to be completed in 2012 in preparation for seeding and planting

Since the year end the freehold of the previously restored Pollards freehold quarry has also been sold for £237,000, before related costs and expenses, on 8 March 2011

Although economic conditions impacted the timing of the sale of the property-related assets the more significant delays have been caused by the board's desire to ensure all regulatory and compliance issues were in order thereby enabling the sales to be made for the best possible prices consistent with the previous uses of these assets and with the minimum of warranties being given

As previously advised, on 31 March 2010 the gas generated from SFW was granted a single Renewable Obligation Certificate ("ROC") for its use for the generation of 1MW/Hour of electricity Agreement was subsequently reached with CLP, a specialist firm operating in the renewable energy sector, for it to enhance and operate the gas management system for the generation of electricity for transmission into the Grid I am pleased to report that on 16 February 2011 CLP established an operational connection to the Grid and electricity is now being fed into it meeting the timetable required to qualify for the ROC

While electricity generation was initially in the region of 900kw/hour the anticipated sustainable level of electricity generation will not be known for several months pending CLP determining the gas levels and their composition as it seeks to balance the gas fields Present indications are that the sustainable level might be lower than that initially experienced Revenue from the CLP contract is determined by a variable royalty based upon the level of electricity generated and the revenue received by CLP In addition, the Group has benefitted from CLP having installed a gas gathering system and undertaking related monitoring costs, representing a saving in previously anticipated restoration and aftercare costs

The board is presently evaluating the merit of submitting a planning application for the development of part of the land held under option for gravel extraction, with processing taking place at the Group's existing gravel plant, followed by restoration infilling with inert waste A successful planning application would result in the Group having access to an estimated 500,000 tonnes of gravel for extraction and processing Such a planning application would work on the premise that the timing for the extraction of gravel would be in tandem with the planning consent applicable to Bunkers where infilling is required to be completed by November 2014 and final restoration by 2015 Gravel processing would need to be completed by 2017 in accordance with the planning consent for the Group's existing gravel plant

The board is also considering various options for the development of the Materials Recycling Facility area and adjacent land north of the B158 which extend to c3 34 hectares (8 25 acres) While the site falls within the 'Green Belt' it contains a number of buildings having permanent planning consents which might give rise to their further and possibly alternative uses following cessation in 2014 and 2017 of current consented activities

The board continues to seek inclusion for the Complex as part of Hertfordshire's Local Waste Development Plan ("LWDP") The board believes that the site would be suitable for an EfW plant with the generated electricity being delivered to the Grid The resultant thermal energy, in accordance with best current practice, could be used for the purposes of co- and tri-generation to nearby local authority properties and those of the local community, who would benefit from a low price assured source of energy The fuel source for such a scheme would be likely to be supplemented by the co-mingling of suitable energy crops grown on Group owned farmland thereby ensuring continuity of supply and protection from the vagaries of market forces Should such a scheme not ultimately be included in the LWDP, which in any event would need to

DIRECTORS' REPORT (continued)

be followed by a planning application, the board would consider alternative forms of development based upon the utilisation of the existing planning consents

Going Concern

The directors are required to consider whether or not to adopt the financial statements on the basis that the company is a going concern. As part of its normal business practice the company prepares annual and longer term plans. In considering this information for both Water Hall Group plc, the company's controlling party, and the company (together the "Group") for 2011 and 2012 and having regard to existing cash resources, listed investments and the absence of any external borrowings within the Group, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, a period not less than twelve months from the date of this report. The directors have received confirmation that the parent company does not intend to recall the inter-company debt for a period of at least twelve months from the date of these accounts unless the company has sufficient funds to repay the debt. For this reason they continue to adopt the going concern basis in preparing the Financial Statements.

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 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 company's operations expose it to a variety of financial risks: market risks (interest rates), liquidity risks and credit risks.

- Market risk - The company is exposed to changes in interest rates on its interest bearing bank deposits.
- Liquidity risk - The company together with its ultimate parent undertaking manage liquidity risk by continuously monitoring forecast and actual cash flows to ensure that sufficient funds are available for ongoing operations and future developments.
- Credit risk - The company is exposed to credit risks in respect of its cash and cash equivalents, including short term deposits with banks, trade and other receivables.

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 2010 and 2009 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

The company made no charitable donations during the year (2009 - £nil).

DIRECTORS' REPORT (continued)

Auditors


Each of the persons who is a director at the date of approval of this annual 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 s418 of the Companies Act 2006

Deloitte 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


RM Abdullah
Chairman
31 August 2011

Registered Office
Parallel House
32 London Road
Guildford
GU1 2AB

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information, and
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance, and
- make an assessment of the company's ability to continue as a going concern

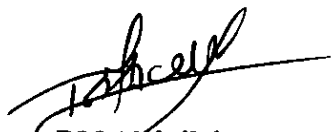
The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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.

Responsibility statement

We confirm that to the best of our knowledge

- the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company, and
- the management report, which is incorporated in the Directors' Report, includes a fair review of the development and performance of the business and the position of the company

By order of the Board



RM Abdullah

Chairman

31 August 2011

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 2010 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2010 and of the company's loss for the year then ended,
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union, and have been prepared in accordance with the requirements of the Companies Act 2006
- the financial statements and, as regards the group financial statements, Article 4 of the IAS Regulation

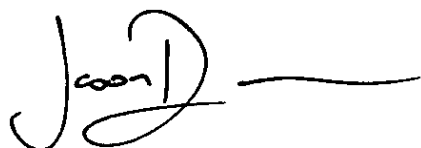
Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

A handwritten signature in black ink, appearing to read 'Jason Davies', followed by a horizontal line.

Jason Davies (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
Reading, United Kingdom
31 August 2011

INCOME STATEMENT**For the year ended 31 December 2010**

	Note	2010 £000	2009 £000
Continuing operations			
Revenue	5	1,435	1,528
Cost of sales		(837)	(917)
Gross profit		598	611
Administrative expenses		(974)	(1,218)
Other gains	6	48	2
Operating loss	6	(328)	(605)
Finance costs	10	(91)	(58)
Loss before income tax		(419)	(663)
Income tax expense	11	-	-
Loss for the year	19	(419)	(663)

There were no recognised gains or losses other than those shown above and therefore no separate statements of recognised income and expense and comprehensive income have been presented

BALANCE SHEET
as at 31 December 2010

		2010	2009
Assets	Note	£000	£000
Non-current assets			
Property, plant and equipment	12	462	961
Investments	13	124	124
		<u>586</u>	<u>1,085</u>
Current assets			
Trade and other receivables	14	204	854
Cash - escrow deposits	15	1,356	1,349
Cash and cash equivalents		-	21
Assets held-for-sale	16	719	-
		<u>2,279</u>	<u>2,224</u>
Total assets		<u>2,865</u>	<u>3,309</u>
Equity and liabilities			
Share capital	17	-	-
Share premium	18	24,938	24,938
Retained earnings	19	(27,067)	(26,648)
Total equity		<u>(2,129)</u>	<u>(1,710)</u>
Liabilities			
Non-current liabilities			
Provision for liabilities and charges	20	1,004	1,631
		<u>1,004</u>	<u>1,631</u>
Current liabilities			
Bank overdraft		1	-
Trade and other payables	21	3,124	3,277
Provision for liabilities and charges	20	161	111
Liabilities associated with assets classified as held-for-sale	16	704	-
		<u>3,990</u>	<u>3,388</u>
Total liabilities		<u>4,994</u>	<u>5,019</u>
Total equity and liabilities		<u>2,865</u>	<u>3,309</u>

The financial statements of Water Hall (England) Limited, registered company number 02534209, were approved by the board of directors and authorised for issue on 31 August 2011. They were signed on its behalf by


R M Abdullah
 Director

CASH FLOW STATEMENT

For the year ended 31 December 2010

		2010	2009
	Note	£000	£000
Cash flows from operating activities			
Loss from continuing operations		(328)	(605)
Adjustments for:			
Depreciation of property, plant and equipment	12	147	97
Gain on disposal of property, plant and equipment	6	(48)	(2)
Decrease in provisions	20	(231)	(283)
Operating cash outflows before movements in working capital		(460)	(793)
Decrease in receivables		381	243
(Decrease)/increase in payables		(153)	596
Cash (used in)/from operations		(232)	46
Cash flows from investing activities			
Purchase of property, plant and equipment	12	(98)	(11)
Proceeds from sale of property, plant, equipment and assets held-for-sale		358	2
Interest (paid)/received	10	(43)	6
Amounts added to Environment Agency escrow accounts	15	(7)	(23)
Net cash from/(used in) investing activities		210	(26)
Net (decrease)/increase in cash and cash equivalents		(22)	20
Cash and cash equivalents at beginning of year		21	1
(Bank overdraft)/cash and cash equivalents at end of year		(1)	21

NOTES TO THE FINANCIAL STATEMENTS**For the year ended 31 December 2010****1. GENERAL INFORMATION**

The company has taken advantage of section 400 of the Companies Act 2006 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 financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared under the historical cost convention. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. The principal accounting policies adopted are set out in note 3 below.

The directors are required to consider whether or not to adopt the financial statements on the basis that the company is a going concern. As part of its normal business practice the company prepares annual and longer term plans. In considering this information for both Water Hall Group plc, the company's controlling party, and the company (together the "Group") for 2011 and 2012 and having regard to existing cash resources, listed investments and the absence of any borrowings within the Group, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, a period not less than twelve months from the date of this report. The directors have received confirmation that the parent company does not intend to recall the inter-company debt for a period of at least twelve months from the date of these accounts unless the company has sufficient funds to repay the debt. For this reason they continue to adopt the going concern basis in preparing the Financial Statements.

2. ADOPTION OF NEW AND REVISED STANDARDS

The following new and revised standards and interpretations have been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in these financial statements but may impact the accounting for future transactions and arrangements.

IFRS 3 (2008)	<i>Business Combinations</i>
IAS 27 (2008)	<i>Consolidated and Separate Financial Statements</i>
IAS 28 (2008)	<i>Investment in Associates</i>
IFRS 2 (amended)	<i>Share-based payment (amended as part of Improvements to IFRSs (2009))</i>
IFRIC 17	<i>Distributions of Non-Cash Assets to Owners</i>
IFRS 2 (amended)	<i>Group Cash-settled Share-based Payment Transactions</i>
IAS 17 (amended)	<i>Leases</i>
IAS 39 (amended)	<i>Financial Instrument Recognition and Measurement</i>

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU)

IAS 24 (amended)	<i>Related Party Disclosures</i>
IAS 32 (amended)	<i>Classification of Rights Issues</i>
IFRS 9	<i>Financial Instruments</i>
IFRIC 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i>
IFRIC 14 (amended)	<i>Prepayments of a Minimum Funding Requirement</i>
Improvements to IFRSs (May 2010)	

The directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the company but may impact the accounting for future transactions and arrangements.

NOTES TO THE FINANCIAL STATEMENTS**For the year ended 31 December 2010**

3. ACCOUNTING POLICIES

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements. Judgements made by the directors in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are disclosed in note 4.

Property, plant and equipment

The landfill resources are held at cost less depreciation. Landfill resources are amortised over the life of each site in proportion to the rate of landfilling.

Other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Where parts of an item of property, plant or equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is charged to the income statement on a straight line basis so as to write off the cost of assets less their residual values over their useful lives. The estimated useful lives are as follows:

Buildings	-	2 - 10 years
Plant and equipment	-	1 - 10 years

No depreciation is provided on freehold land.

The carrying values of property, plant and equipment are reviewed at each balance sheet date to determine whether there is any indication of impairment. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Investments in subsidiary undertakings

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

Trade and other receivables

Trade and other receivables are stated at their nominal amount (discounted if material) less impairment losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

NOTES TO THE FINANCIAL STATEMENTS**For the year ended 31 December 2010**

3. ACCOUNTING POLICIES (continued)**Landfill engineering costs**

Landfill engineering costs are recognised as the expenditure is incurred in 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 landfill and the costs not yet amortised are carried forward as a debtor.

Assets held-for-sale

Assets are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for sale in its present condition. The anticipated disposal should be expected to qualify for recognition as a completed sale within one year from the date of classification. Assets classified as held-for-sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

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 property, plant and equipment. 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.

Revenue

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

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Income from investing activities

Interest income is recognised in the income statement as it accrues, using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS**For the year ended 31 December 2010**

3.ACCOUNTING POLICIES (continued)**Taxation**

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred taxation is provided in full on timing differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes 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. The following timing differences are not provided for:

- the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and
- differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

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. A deferred tax asset is recognised only to the extent that it is regarded probable that future taxable profits will be sufficient to utilise the available relief. Deferred tax assets and liabilities are not discounted.

Pension costs

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The company makes estimates and assumptions concerning the future, which by definition will seldom result in actual results that match the accounting estimate. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial period are set out below.

Restoration and post-closure monitoring costs (aftercare)

The company makes provisions for restoration and post-closure monitoring costs in accordance with its accounting policy. These costs are estimated based on advice from external consultants and the estimates and assumptions are reviewed on an ongoing basis.

Income taxes

The company has significant carried forward tax losses and judgement is required in determining deferred tax assets based on an assessment of the probability that taxable profits will be available against which carried forward losses can be utilised.

Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income statement in the period in which such a determination is made.

5. REVENUE FROM CONTINUING OPERATIONS

The company currently has one continuing activity and business segment, this is waste management.

	2010 £000	2009 £000
Continuing operations		
Waste management	<u>1,435</u>	<u>1,528</u>
Total Revenue	<u>1,435</u>	<u>1,528</u>

Information about major customers

Included in revenue is £329,000 (2009 £241,000) and £328,000 (2009 £175,000) which arose from sales to each of the company's two largest customers.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

6. LOSS FOR THE YEAR IS STATED AFTER CHARGING /(CREDITING)

	2010	2009
	£000	£000
Depreciation of property, plant and equipment (note 12)		
owned assets	147	97
Operating lease payments		
plant and equipment (including short term hire)	207	258
relating to equipment utilised in the continuing waste management operation		
Gain on the disposal of property, plant and equipment	(48)	(2)

The audit fees of the company are paid by its parent and the fees payable were £16,000 (2009 - £15,000)

7. EMPLOYEE BENEFIT EXPENSE

	2010	2009
	£000	£000
Staff costs:		
Wages and salaries	266	318
Social security costs	34	38
Pension costs - defined contribution	4	6
Redundancy and termination costs	57	11
	<u>361</u>	<u>373</u>

The average number of employees of the company during the year was

	2010	2009
Waste management	4	5
Administration	3	4
	<u>7</u>	<u>9</u>

	2010	2009
	£000	£000
Key management compensation:		
Salaries	64	64
Pension costs	2	2
Social security costs	8	7
	<u>74</u>	<u>73</u>

NOTES TO THE FINANCIAL STATEMENTS**For the year ended 31 December 2010****8. RELATED PARTY TRANSACTIONS**

The company has taken advantage of the exemption in IAS24 from disclosing transactions with related parties which are part of the Water Hall Group plc group or investees of the group

9. 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 £206,000 (2009 - £165,000)

10. FINANCE INCOME AND COSTS

	2010	2009
	£000	£000
Interest on escrow deposits	<u>7</u>	<u>17</u>
Unwinding of discount on provisions	(48)	(64)
Interest on intercompany loan	<u>(50)</u>	<u>(11)</u>
	<u>(98)</u>	<u>(75)</u>
Net finance costs	<u>(91)</u>	<u>(58)</u>

The charge in respect of unwinding of discount on 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 2011 and 2071. The discount is charged to the profit and loss account as interest but is not a cash outflow during the year.

NOTES TO THE FINANCIAL STATEMENTS**For the year ended 31 December 2010****11. INCOME TAX EXPENSE**

	2010	2009
	£000	£000
Tax charged in the income statement	-	-

The tax charge for the year is £nil (2009 - £nil) The standard rate of tax for the year is 28% (2009 - 28%)
 The actual tax assessed for the year differs from the standard rate for the reasons set out in the following reconciliation

	2009	2009
	£000	£000
Loss on ordinary activities before taxation	(419)	(663)
At standard rate of corporation tax of 28% (2009 - 28%)	117	186
Effect of:		
Profits chargeable as capital gains (relieved by utilisation of capital losses)	13	-
Group relief	(226)	(26)
Utilisation of trading losses	117	(152)
Short-term timing differences	2	2
Non-deductible expenses	2	
Depreciation in excess of capital allowances	(25)	(10)
	-	-

A deferred tax asset of £624,000 (2009 - £781,000) in respect of timing differences relating to tax losses carried forward and differences between capital allowances and depreciation has not been recognised as there is no certainty that the asset will be recovered The potential asset is recoverable against future taxable profits

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

12. PROPERTY, PLANT AND EQUIPMENT

	Landfill Resources	Land and Buildings	Plant and equipment	Total
Cost	£000	£000	£000	£000
At 1 January 2009	5,916	678	2,130	8,724
Additions	-	-	11	11
At 31 December 2009	5,916	678	2,141	8,735
Additions	94	-	4	98
Reclassified as held-for-sale	(1,996)	(119)	(153)	(2,268)
Disposals	-	-	(229)	(229)
At 31 December 2010	4,014	559	1,763	6,336
Depreciation and impairment				
At 1 January 2009	5,436	111	2,130	7,677
Depreciation charge	87	8	2	97
At 31 December 2009	5,523	119	2,132	7,774
Depreciation charge	144	-	3	147
Reclassified as held-for-sale	(1,653)	(19)	(146)	(1,818)
Disposals	-	-	(229)	(229)
At 31 December 2010	4,014	100	1,760	5,874
Net book value 2010	-	459	3	462
Net book value 2009	393	559	9	961

Landfill resources include costs of £1,076,000 (2009 - £1,438,000) and accumulated depreciation of £1,076,000 (2009 - £1,314,000) arising from the capitalisation of the IAS37 asset. Following the reclassification of certain landfill resources as assets held-for-sale there are no unexpended portions of the company's future restoration costs (2009 - £124,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

13. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

	2010	2009
	£000	£000
Cost		
At 1 January and 31 December	6,023	6,023
Provision for diminution in value		
At 1 January and 31 December	(5,899)	(5,899)
Carrying value		
At 31 December	<u>124</u>	<u>124</u>

The principal subsidiary undertakings are shown in note 24. 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.

14. TRADE AND OTHER RECEIVABLES

	2010	2009
	£000	£000
Current assets		
Trade receivables	148	338
Other receivables	56	53
Landfill engineering costs	-	463
	<u>204</u>	<u>854</u>
	2010	2009
	£000	£000
Trade receivables, net of allowances		
Trade receivables	160	361
Allowance for doubtful debts	(12)	(23)
	<u>148</u>	<u>338</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

14. TRADE AND OTHER RECEIVABLES (continued)**Trade receivables, net of allowances**

Total trade receivables (net of allowances) at 31 December 2010 amounted to £148,000 (2009 - £338,000)

The average credit period taken on sales is 100 days (2009 - 71 days) No interest is charged on the receivables An allowance has been made for estimated irrecoverable amounts from sales of £12,000 (2009 - £23,000) This allowance has been made by reference to past default experience Before accepting any new customer, the company uses an external credit scoring system to assess the potential customer's credit quality and defines credit limits by customer Limits attributed to customers are reviewed every time a customer places a new order All trade receivables that are neither past due nor impaired have received satisfactory credit scores under the external credit scoring systems used Clients that are deemed to present a credit risk are required to make up front payment or credit is refused

Included in the trade receivable balance are debtors with a carrying amount of £151,000 (2009 - £220,000) which are past due at the reporting date for which the company has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable The company does not hold any collateral over these balances The average age of these receivables is 83 days (2009 - 53 days) and substantially all have been collected since the year end

	2010	2009
	£000	£000
Ageing of past due debt but not impaired receivables		
30-60 days	-	175
60-90 days	110	34
Over 90 days	38	11
Total	148	220
Weighted average (days)	83	53

	2010	2009
	£000	£000
Movement in the allowance for doubtful debts		
At 1 January	23	93
Impairment losses recognised	7	8
Receivables written off	(18)	(78)
At 31 December	12	23

In determining the recoverability of a trade receivable the company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date The concentration of credit risk is limited due to the customer base being large and unrelated Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts All impaired trade receivables are over 90 days old

The directors consider that the carrying amount of trade and other receivables approximates their fair value

NOTES TO THE FINANCIAL STATEMENTS**For the year ended 31 December 2010****15. CASH – ESCROW DEPOSITS**

Cash at bank – escrow deposit comprises £1,356,000 (2008 - £1,349,000) deposited by Water Hall (England) Ltd in five (2009 – five) bank accounts held jointly with the Environment Agency in escrow. These escrow accounts are to be used specifically for restoration and aftercare purposes.

16. ASSETS HELD-FOR-SALE

The major classes of assets and liabilities comprising the operations classified as held-for-sale are as follows:

	2010	2009
	£000	£000
Property, plant and equipment	450	-
Landfill engineering costs	269	-
Total assets classified as held-for-sale	719	-
Provisions for liabilities and charges	394	-
Payment received on account, net of professional costs	310	-
Total liabilities associated with assets classified as held-for-sale	704	-
Net assets of disposal group	15	-

On 29 October 2010 the company entered into an agreement with Frank Lyons Plant Services for the sale of the freehold of Bunkers Hill, the company's 50-acre operating landfill site licensed to be filled with inert waste. The proceeds of sale are £474,500 in cash, of which £325,000 was received on exchange of contracts and the balance was received on 31 March 2011. The sale was completed in May 2011.

On 8 March 2011 the company sold the freehold of Pollards Quarry ("Pollards") and the proceeds of sale were £237,000 in cash. Pollards is a site of approximately 46 acres which prior to completion of its restoration in 2005 had been operated as an inert landfill site and since restoration has been used for agricultural purposes.

Both Bunkers and Pollards have been classified as a disposal group held for sale and presented separately in the balance sheet. The operations are included in the waste management activity in the segmental analysis in note 5. The proceeds of sale substantially exceed the book value of the related net assets and accordingly no impairment losses have been recognised on the classification of these operations as held-for-sale.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2010

17. SHARE CAPITAL

	2010	2009
	£	£
Authorised		
100 Ordinary shares of £1 each	<u>100</u>	<u>100</u>
Allotted, called up and fully paid		
At 31 December 2009 and 2010	<u>100</u>	<u>100</u>

18. SHARE PREMIUM

	2010	2009
	£000	£000
At 31 December 2009 and 2010	<u>24,938</u>	<u>24,938</u>

19. RETAINED EARNINGS

	2010	2009
	£000	£000
At 1 January	(26,648)	(25,985)
Loss for the year	<u>(419)</u>	<u>(663)</u>
At 31 December	<u>(27,067)</u>	<u>(26,648)</u>

NOTES TO THE FINANCIAL STATEMENTS**For the year ended 31 December 2010****20. PROVISIONS FOR LIABILITIES AND CHARGES**

	2010	2009
	£000	£000
At 1 January	1,742	1,961
Charged/(credited) to the income statement		
Additional provisions	7	5
Unused amounts reversed	(108)	-
Utilised during the year	(130)	(288)
Unwinding of discount	48	64
Liabilities associated with assets classified as held-for-sale	(394)	-
At 31 December	1,165	1,742
	2010	2009
	£000	£000
Analysis of total provisions:		
Current	161	111
Non-current	1,004	1,631
	1,165	1,742

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 2011 and 2071.

21. TRADE AND OTHER PAYABLES

	2010	2009
	£000	£000
Current liabilities:		
Trade payables	129	247
Amounts owed to ultimate parent undertaking and fellow subsidiary undertaking	2,840	2,849
Amounts owed to subsidiary undertaking	124	124
Other taxation and social security	11	30
Accruals and deferred income	20	27
	3,124	3,277

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 92 days (2009 – 100 days). It is the company's policy that payments to suppliers are made substantially in accordance with those terms and conditions agreed between the company and its suppliers, provided all trading terms and conditions have been complied with. The directors consider that the carrying amount of trade payables approximates to their fair value.

NOTES TO THE FINANCIAL STATEMENTS**For the year ended 31 December 2010****22. RETIREMENT BENEFIT OBLIGATIONS**

The company contributes to defined contribution personal pension schemes and defined contribution stakeholder pensions. The pension cost charged during the year in respect of these schemes was £4,000 (2009 £6,000). The Group does not operate any defined benefit pension schemes.

23. COMMITMENTS**(a) Operating lease commitments**

Future minimum lease payments under non-cancellable operating leases as at 31 December 2010 are as follows

	2010 £000	2009 £000
No later than 1 year	5	9
Later than 1 year and no later than 5 years	-	5
	<u>5</u>	<u>14</u>

During the year £207,000 (2009 - £258,000) was recognised as an expense in the income statement in respect of operating leases and short term hire of plant and equipment, most of which relates to equipment utilised in the waste management operation.

(b) Capital commitments

At 31 December 2010 the company had no commitments not provided for in the accounts (2009 - £nil).

24. PRINCIPAL SUBSIDIARY UNDERTAKINGS

Company	Activity
Star Quarry Products Limited	Dormant
Warecrete Limited	Dormant

The undertakings are registered in England and Wales. They are wholly owned and their shares are fully paid.

25. CONTINGENT LIABILITIES

A further payment of £10,900 is due to be paid into the escrow accounts in 2011 (2009- £4,400 was due to be paid into the escrow accounts in 2010).

26. 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. The accounts can also be accessed at the Water Hall Group plc web site www.waterhallgroupplc.com