

REGISTERED NO 2534209

WATER HALL (ENGLAND) LIMITED

REPORT AND ACCOUNTS

31 DECEMBER 2001



WATER HALL (ENGLAND) LIMITED

DIRECTORS' REPORT

The directors present their report and accounts for the year ended 31 December 2001.

PRINCIPAL ACTIVITY

The company is principally engaged in landfill and quarrying and trades as SQ Environmental.

ACCOUNTS AND RESULTS

The loss for the year was £716,000 (2000 – profit after tax £56,000).

REVIEW OF BUSINESS

The company achieved improved trading results at the sales and gross profit levels which, together with the successful Placing & Open offer of shares in the parent company in April 2002, places the board in a position to look forward to the future with confidence.

Dealing with the key issues of trading for the year to 31 December 2001: sales at £7,131,000 (2000 - £5,760,000) including Landfill Tax of £2,217,000 (2000 - £1,700,000) produced a gross profit of £1,626,000 (2000 - £1,202,000). The increase in administrative expenses to £2,209,000 (2000 - £861,000) is a result of a management charge from the parent company.

DIRECTORS

At 31 December 2001, the directors of the company were as follows:

J L Leach	(Appointed on 5 June 2001)
A R Barlow	(Appointed 5 June 2001)
R M Abdullah	
R D Musson	(Appointed 27 April 2001)
B E Ward	(Appointed 9 August 2001)

CV Barker Benfield held office from 1 January 2001 until his resignation 29 June 2001.

DIRECTORS' INTERESTS

At 31 December 2001 all 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.

WATER HALL (ENGLAND) LIMITED

DIRECTORS' REPORT

DONATIONS

The Company contributed £474,000 (2000 – £253,000) of its Landfill Tax liability to the SQ Environmental Trust Ltd, an ENTRUST registered environmental body, as permitted by government regulations, to fund environmental and waste recycling projects in the Company's area of operation.

AUDITORS

A resolution to re-appoint Ernst & Young LLP as the company's auditor will be put to the forthcoming Annual General Meeting.

On behalf of the board

N Christy

Secretary

2 July 2002



Registered Office:

Hadleigh House

232 High Street

Guildford

Surrey GU1 3JF

WATER HALL (ENGLAND) LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those accounts, the directors are required to:

- * select suitable accounting policies and then apply them consistently;
- * make judgements and estimates that are reasonable and prudent; and
- * prepare the accounts 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 accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT OF THE AUDITORS TO THE MEMBERS OF

WATER HALL (ENGLAND) LIMITED

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

We have audited the Company's financial statements for the year ended 31 December 2001 which comprise the Profit and Loss Account, Balance Sheet, and the related notes 1 to 24. These financial statements have been prepared on the basis of the accounting policies set out therein.

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 United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed. We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of Audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 December 2001 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP *Ernst & Young LLP*
Registered Auditors
Southampton
5 July 2002

WATER HALL (ENGLAND) LIMITED**PROFIT AND LOSS ACCOUNT****FOR THE YEAR ENDED 31 DECEMBER 2001**

	Note	2001 £'000	2000 £'000
Turnover	2	7,131	5,760
Cost of sales		(5,505)	(4,558)
Gross profit		1,626	1,202
Administrative expenses		(2,209)	(861)
Operating (loss) / profit	2/3	(583)	341
Profit/(loss) on sale of fixed assets		1	(2)
(Loss) / profit on ordinary activities before interest and taxation		(582)	339
Interest payable	7	(134)	(283)
(Loss) / profit on ordinary activities before taxation		(716)	56
Taxation	8	-	-
Transferred to reserves		(716)	56

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.

WATER HALL (ENGLAND) LIMITED

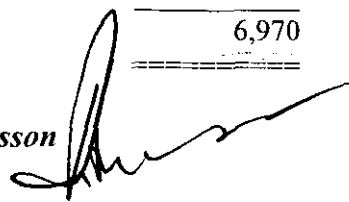
BALANCE SHEET

AT 31 DECEMBER 2001

	Note	£'000	2001 £'000	As Restated £'000	2000 £'000
Fixed assets					
Tangible assets	9		7,538		7,933
Investment in subsidiary undertakings	10		124		124
Current assets					
Stocks	11	40		85	
Debtors	12	1,892		1,599	
Cash at bank held in escrow	13	694		536	
		<u>2,626</u>		<u>2,220</u>	
Creditors: amounts falling due within one year	14	(4,113)		(3,307)	
Net current liabilities			<u>(1,487)</u>		<u>(1,087)</u>
Total assets less current liabilities			<u><u>6,175</u></u>		<u><u>6,970</u></u>
Creditors: amounts falling due after more than one year					
	15		23,169		23,143
Provisions for liabilities and charges	17		1,007		1,112
Capital and reserves - Equity					
Called up share capital	18		1		1
Profit and loss account	19		(18,002)		(17,286)
Shareholders funds			<u>(18,001)</u>		<u>(17,285)</u>
			<u><u>6,175</u></u>		<u><u>6,970</u></u>

Approved by the board on 2 July 2002 and signed on its behalf by: **R D Musson**

Director



WATER HALL (ENGLAND) LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2001

1. ACCOUNTING POLICIES

BASIS OF PREPARATION

The accounts have been prepared under the historical cost convention, modified to include the revaluation of certain tangible fixed assets, and in accordance with applicable accounting standards. The accounts have been prepared on a going concern basis as the position of net liabilities arises from balances owing to other group companies and its parent. The parent company confirms that it will continue to support the company throughout the coming year.

CHANGE OF PRESENTATION

Having regard for the nature and materiality of the principal component of "Creditors: amounts falling due after more than one year", namely the parent company loan, the amounts relating both to this balance sheet heading and "Provisions for liabilities and charges" have been added to share capital and reserves in arriving at the relevant balance sheet total.

In the previous year the amounts relating to the first two balance sheet headings referred to above were deducted from "Total assets less current liabilities". As the major portion of the amount due to the parent company shown as a current liability in 2000 has subsequently become due after more than one year and for comparability purposes, figures for 2000 have been restated in the same way as those for the current year.

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 also chooses not to prepare 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 in note 24.

WATER HALL (ENGLAND) LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2001

1. ACCOUNTING POLICIES (continued)

TURNOVER

Turnover represents the amounts charged to third parties including Landfill Tax, net of value added tax.

MINERAL RESOURCES AND LANDFILL RESOURCES

The mineral and landfill resources are held as at 31 December 2001 under the transitional arrangements of FRS15 – “Tangible Fixed Assets”, at 1994 independent valuation plus subsequent additions at cost less depreciation. This valuation was based upon market value (or existing use valuation) provided by professional advisers in December 1994. The directors intend to record all future additions at cost and do not intend to adopt a policy of revaluations in the future. The resultant net book values will be retained subject to the requirements to test assets for impairment in accordance with FRS11 – “impairment of tangible fixed assets”.

TANGIBLE FIXED ASSETS AND DEPRECIATION

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

Other tangible fixed assets, 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	-	2% p.a.
Short leasehold properties	-	over the lease term
Plant and equipment	-	5% to 25% p.a.

No depreciation is provided on freehold land.

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.

WATER HALL (ENGLAND) LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2001

1. ACCOUNTING POLICIES (Continued)

LANDFILL ENGINEERING COSTS

Landfill engineering costs are recognised as costs are incurred in preparing a particular landfill cell prior to the commencement of any mineral extraction or landfill operations respectively; these costs are amortised on a tonnage basis from the date the landfill operations commence on each cell, or, where no landfill consent exists, from the date extraction operations commence.

RESTORATION AND POST-CLOSURE MONITORING COSTS

Full provision has been made for the net present value (NPV) of the company's estimated minimum unavoidable costs, in respect of restoration liabilities at the company's landfill sites, 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%. The effect of the unwinding of the discount element on existing provisions is reflected as a financial item.

DEFERRED TAXATION

Deferred taxation is provided using the liability method on timing differences where it is anticipated that a liability will arise within the foreseeable future. Provision is not made for taxation which may arise in the event of any tangible fixed assets which are included in the accounts at an amount in excess of their original book value being realised at that higher amount, as such assets are held for the purpose of the company's business, and provision is made for such taxation, where liability is expected, on the realisation of assets for resale.

LEASING AND HIRE PURCHASE

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.

WATER HALL (ENGLAND) LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2001

1. ACCOUNTING POLICES (Continued)

RESEARCH AND DEVELOPMENT

Expenditure on research and development is written off in the year in which it is incurred.

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.

WATER HALL (ENGLAND) LIMITED

NOTES TO THE ACCOUNTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2001

2. TURNOVER AND SEGMENTAL ANALYSIS

Segmental analysis of the company's business is available as part of the accounts of its parent company, Water Hall Group Plc. There is no material difference between the nature of the company's business and that of its parent.

3. OPERATING (LOSS) / PROFIT

Operating (loss)/profit is stated after charging:

	2001	2000
	£,000	£,000
Operating leases - plant and equipment	210	244
Audit fees	-	-
Depreciation	1,200	793
Management charge payable to parent company	1,495	-
	=====	=====

The audit fees of the company are paid by its parent. The comparative figure for operating leases (previously reported as £12,000) has been re-stated to include short-term hire costs which were not previously included.

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.

WATER HALL (ENGLAND) LIMITED

NOTES TO THE ACCOUNTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2001

5. EMPLOYEES AND STAFF COSTS

	2001 £'000	2000 £'000
a) Employment Costs		
Wages and salaries	766	825
Social security costs	68	77
Other pension costs	4	4
	<u>838</u>	<u>906</u>
b) The average number of persons employed by the company during the year was 43 (2000 - 43).		
c) The company contributes to defined contribution personal pension schemes and the pension cost charged for the year in respect of these schemes was £4,000 (2000 - £4,000).		

6. DIRECTORS' EMOLUMENTS

	2001 £'000	2000 £'000
Management remuneration	-	-

The Directors are also directors of the ultimate parent company, Water Hall Group plc, and fellow subsidiaries. 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 and fellow subsidiaries.

WATER HALL (ENGLAND) LIMITED

NOTES TO THE ACCOUNTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2001

7. INTEREST PAYABLE

	2001	2000
	£'000	£'000
Bank overdrafts, loans and other loans repayable within 5 years	73	169
Finance leases and hire purchase contracts repayable within 5 years	46	81
Unwinding of discount	36	43
Other interest	---	11
	155	304
Interest receivable	(21)	(21)
	134	283

In 2000 the interest charge for the Group's overdraft was borne by the company. In 2001 it was borne by its parent company.

8. TAX ON ORDINARY ACTIVITIES

The tax charge for the year is £nil (2000 - £nil).

WATER HALL (ENGLAND) LIMITED

NOTES TO THE ACCOUNTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2001

9. TANGIBLE FIXED ASSETS

	Landfill Resources £'000	Mineral Resources £'000	Land & Buildings £'000	Plant & Equipment £'000	Total £'000
Cost or valuation					
At 31 December 2000	9,964	1,793	410	2,566	14,733
Additions	195	26	260	387	868
Disposals	---	---	---	(141)	(141)
At 31 December 2001	10,159	1,819	670	2,812	15,460
Depreciation					
At 31 December 2000	5,199	436	40	1,125	6,800
Provided during the year	628	115	65	392	1,200
Disposals	---	---	---	(78)	(78)
At 31 December 2001	5,827	551	105	1,439	7,922
Net book value					
At 31 December 2001	4,332	1,268	565	1,373	7,538
At 31 December 2000	4,765	1,357	370	1,441	7,933

The aggregate cost and accumulated depreciation of tangible fixed assets determined under the historical cost accounting rules are the same as shown above.

Land and buildings include freehold land of £129,000 (2000 - £129,000) which is not depreciated.

The company's landfill and mineral resources were revalued in 1994 by the directors based upon an open market value for existing use valuation provided by professional advisors in December 1994. Gerald Eve, Chartered Surveyors, carried out a further valuation on an open market value for existing use basis as at 10 February 1999. Having regard for this latest valuation, and subsequent valuations for bank security purposes, the directors are of the opinion that there is no material change in the carrying value of the unamortised resources since the valuation carried out in 1994.

The aggregate cost and accumulated depreciation of tangible fixed assets determined under the historical cost accounting rules are the same as shown above.

WATER HALL (ENGLAND) LIMITED

NOTES TO THE ACCOUNTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2001

9. TANGIBLE FIXED ASSETS continued

Hire purchase and finance leases

Plant and equipment includes assets held under finance leases and hire purchase contracts with a net book value of £928,000 (2000 - £945,000). Depreciation on these assets of £230,000 (2000 - £197,000) was charged in the profit and loss account.

10. INVESTMENTS

	£
Shares in subsidiary undertakings	
Cost:	
At 31 December 2001 and 2000	6,023
Provision for diminution in value:	
At 31 December 2001 and 2000	5,899
Net book value	
At 31 December 2001 and 2000	124

The principal subsidiary undertakings are shown in note 21. 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

	2001 £'000	2000 £'000
Raw materials	15	31
Finished goods and goods for resale	25	54
	<u>40</u>	<u>85</u>

The purchase price or production cost of stocks and their replacement cost are not materially different.

WATER HALL (ENGLAND) LIMITED

NOTES TO THE ACCOUNTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2001

12. DEBTORS

	2001 £'000	2000 £'000
Trade debtors	1,169	981
Fellow subsidiary undertakings	-	18
Other debtors	19	10
Prepayments and accrued income	46	44
Landfill engineering costs	658	546
	<u>1,892</u>	<u>1,599</u>

13. CASH AT BANK AND IN HAND

	2001 £'000	2000 £'000
Environment Agency Escrow accounts	694	535
Cash	---	1
	<u>694</u>	<u>536</u>

Cash at bank and in hand includes £694,000 (2000 - £535,000) deposited by Water Hall (England) Ltd in three bank accounts held jointly with the Environment Agency in escrow. These accounts are to be used specifically for restoration and aftercare purposes.

WATER HALL (ENGLAND) LIMITED

NOTES TO THE ACCOUNTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2001

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2001 £'000	As Restated 2000 £'000
Bank overdraft (secured)	5	73
Other loan (secured)	840	623
Obligations under finance leases and hire purchase contracts	182	254
Trade creditors	713	418
Ultimate parent undertaking and fellow subsidiary undertakings	1,417	1,055
Subsidiary undertakings	174	174
Landfill Tax	530	395
Other taxation and social security	161	136
Other creditors	3	6
Accruals	88	173
	<u>4,113</u>	<u>3,307</u>

The bank overdraft is secured by first charge over the assets (other than the trade and other debtors, see below) of the company and the group. The other loan is secured by first charge over the trade and other debts of the company and a second charge over the assets of the group.

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

	2001 £'000	As Restated 2000 £'000
Parent company loan	22,873	22,873
Obligations under finance leases and hire purchase contracts payable:		
between one and two years	143	145
between two and five years	153	125
	<u>23,169</u>	<u>23,143</u>

The parent company loan is interest free and repayable on 1 January 2003 or thereafter. In the 2000 accounts this balance was treated as a current liability.

WATER HALL (ENGLAND) LIMITED

NOTES TO THE ACCOUNTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2001

16. OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS

the maturity of these amounts is as follows

	2001 £'000	2000 £'000
Amounts payable:		
within one year	229	285
in two to five years	374	291
	<hr/> 603	<hr/> 576
Less: finance charges allocated to future periods	125	52
	<hr/> 478	<hr/> 524
	<hr/> <hr/>	<hr/> <hr/>
Finance leases and hire purchase contracts are analysed as follows:		
current obligations (note 14)	182	254
non-current obligations (note 15)	296	270
	<hr/> 478	<hr/> 524
	<hr/> <hr/>	<hr/> <hr/>

WATER HALL (ENGLAND) LIMITED

NOTES TO THE ACCOUNTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2001

17. PROVISIONS FOR LIABILITIES AND CHARGES

	Restoration and other £'000
At 31 December 2000	1,112
Arising in year	38
Unwinding of discount	36
Utilised in year	(129)
Amounts reversed during the year	(50)
At 31 December 2001	1,007

The restoration and other provision relates 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 2002 and 2037.

Deferred taxation (assets) / liabilities provided in the accounts and the amounts unprovided are as follows:

	Provided in the accounts		Unprovided	
	2001 £'000	2000 £,000	2001 £'000	2000 £'000
Timing differences arising from:				
Capital allowances	---	---	(318)	(70)
Short-term timing differences	---	---	(4)	(4)
	---	---	(322)	(74)

WATER HALL (ENGLAND) LIMITED

NOTES TO THE ACCOUNTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2001

18. SHARE CAPITAL

	2001 £	2000 £
Authorised 100 ordinary shares of £1 each	<u>100</u>	<u>100</u>
Allotted, called up and fully paid 2 ordinary shares of £1 each	<u>2</u>	<u>2</u>

19. PROFIT AND LOSS ACCOUNT

	£'000
At 1 January 2001	(17,286)
Loss for the year	(716)
At 31 December 2001 - deficit	<u>(18,002)</u>

20. OPERATING LEASE COMMITMENTS

	2001 £'000	2000 £'000
Commitments for next year in respect of operating leases which expire:		
Within one year	<u>12</u>	<u>12</u>

WATER HALL (ENGLAND) LIMITED

NOTES TO THE ACCOUNTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2001

21. PRINCIPAL SUBSIDIARY UNDERTAKINGS

<u>Company</u>	<u>Activity</u>
Star Quarry Products Limited	Quarrying and marketing of quarry products
Best Value Partnerships Ltd	Local Authority Partnerships

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

22. CAPITAL COMMITMENTS

At 31 December 2001, the company has no capital commitments (2000 - £232,000).

23. CONTINGENT LIABILITIES

At 31 December 2001, the company had guaranteed the bank overdraft of its parent under an omnibus arrangement with its bankers, Lloyds TSB Bank plc. The total amount drawn by the parent company under this facility at 31 December 2001 was £2,032,000 (2000 - £1,902,000).

24. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

In the directors' opinion, the company's ultimate parent company and controlling party is Water Hall Group plc, a company which is registered in England and Wales. Accounts for that company are available from the Company Secretary, Water Hall Group plc, Hadleigh House, 232 High Street, Guildford, Surrey GU1 3JF.