Registered no: 3528745

HLC (NEATH PORT TALBOT) LIMITED

Annual report
for the year ended 31 December 2003

HLC (NEATH PORT TALBOT) LIMITED

Annual report
for the year ended 31 December 2003

Report of the directors for the year ended 31 December 2003

The directors present their report and the audited financial statements for the year ended 31 December 2003.

Principal activities

The profit and loss account for the financial year is set out on page 6.

The principal activity of the company is that of the design, construction and operation of an integrated materials recycling and energy centre.

Review of business and future developments

The company is engaged in the management and processing of waste and the generation of electricity from refuse derived fuel. Commissioning of the plant has been delayed as a result of a number of technical and other issues. This was exacerbated by a major fire at the plant in August 2003.

The company is working with the principal supplier of waste (the local authority) to rectify issues arising in relation to meeting contractual terms which resulted from delays in commissioning and technical difficulties. The delays in commissioning have resulted in increased expenditure against plan, which has been funded by the company's secured lenders. Following apparent breaches by the company of certain obligations in the facilities' agreement, relating to the secured borrowings, the company is in regular discussions with its secured lenders who have granted a series of conditional short-term waivers, the current waiver extends until 31 December 2004.

The company is currently in discussions with the local authority as regards future operations. As part of those discussions, agreement is expected to be reached with the secured lenders and unsecured lenders that should lead to a rescheduling and restructuring of the company's indebtedness. Accordingly, given the degree of uncertainty the directors are unable to assess the future cash flows that will be generated by the plant and the repayments to the providers of finance. As a result, they cannot form an opinion as to the extent to which the carrying value of the fixed assets has been impaired.

The directors are confident that agreement can be reached with the local authority, secured lenders and unsecured lenders to ensure that the company has sufficient funds to remain in operational existence. This will be dependent on the outcome of negotiations currently taking place. Since the directors expect that the negotiations will reach a satisfactory conclusion, the directors believe it is appropriate to prepare the financial statements on a going concern basis.

Dividends

The directors recommend that no dividend is payable in respect of the year ended 31 December 2003 (2002: £Nil).

Directors

The directors of the company at 31 December 2003, and for the whole of the year then ended, except where indicated, are listed below:

HL Carvalho
M C De Sousa
S W Evans
J R Evans (appointed 12 September 2003)

During the financial year J S Burnett resigned as a director on 17 June 2003, F J Bluck resigned as a director on 12 February 2003, A H Roberts resigned as a director on 24 June 2003, S Penny resigned as a director on 24 June 2003, B Harding was appointed as a director on 17 June 2003 and resigned as a director on 16 September 2003. Subsequent to the end of the financial year, J R Evans resigned as a director on 22 June 2004, R G Ellis was appointed as Chairman and a director of the company on 26 February 2004 and D Pattle appointed on 24 August 2004.

Directors' interests in shares of the company

None of the directors held any interest in the share capital of the company during the year ended 31 December 2003. The company is a wholly owned subsidiary company of HLC (Neath Port Talbot) Holdings Limited.

Directors' interests in contracts with the company

Except for the matters set out in note 21 to the financial statements, the directors had no interest in any of the contracts undertaken by the company.

Changes in fixed assets

The movements in tangible fixed assets during the financial year are set out in note 8 to the financial statements.

Insurance of directors

The group maintains insurance for the directors in respect of their duties as directors of the company.

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and of the profit or loss and total recognised gains or losses of the company for that year. The directors are required to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made, in preparing the financial statements for the year ended 31 December 2003 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that 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 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the annual general meeting.

By order of the board

D. Patt

Director

14 October 2004

Independent auditors' report to the members of HLC (NEATH PORT TALBOT) LIMITED

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cash flow statement and the related notes which have been prepared under the historical cost convention and the accounting policies set out in note 1 to the financial statements.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

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 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 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. However, as explained in note 1, the evidence available to us was limited as we have been unable to confirm the level of finance to be made available to, and the funding requirements of, the company for the foreseeable future from the date of this report. In the absence of such information, we have been unable to form an opinion on whether or not it is appropriate to prepare the financial statements on a going concern basis.

As explained in note 1, the company is in ongoing negotiations with the principal supplier of waste. Given the degree of uncertainty, the directors are unable to assess the future cash flows generated by the plant with any accuracy. The evidence available to us was therefore also limited in that the directors of the company have not provided adequate evidence to confirm that there is no impairment to the carrying value of tangible fixed assets, which at 31 December 2003 amounted to £30,014,418. There are no other satisfactory audit procedures that we could adopt to quantify the magnitude of any impairment of the tangible fixed assets.

In addition, the company is in negotiations with its secured and unsecured lenders. As there are no agreed terms of repayment, the existing classification, as regards repayment of borrowings, may not be appropriate.

Independent auditors' report to the members of HLC (NEATH PORT TALBOT) LIMITED (continued)

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion: disclaimer on view given by financial statements

Because of the possible effect of the limitation in evidence available to us we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of the company's affairs at 31 December 2003 and of its loss for the year then ended.

In our opinion, the cash flow statement gives a true and fair view of the company's cash flows for the year ended 31 December 2003 and in all other respects the financial statements have been prepared in accordance with the Companies Act 1985.

In respect of the limitation in our work relating to the going concern basis of preparation, the carrying value of tangible fixed assets, the classification of borrowings and any potential impact on liabilities, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

PricewaterhouseCoopers

Chartered Accountants and Registered Auditors
Swansea, 14 October 2004

Profit and loss account for the year ended 31 December 2003

	Notes	2003 £	2002 £
Turnover	2	**1,504,309**	177,466
Net operating expenses	3	**(5,707,718)**	(2,026,340)
Operating loss	4	**(4,203,409)**	(1,848,874)
Interest receivable and similar income		**2,993**	11,858
Interest payable and similar charges	6	**(532,874)**	(1,553)
Loss for the financial year	14	**(4,733,290)**	(1,838,569)

Statement of accumulated losses			
Accumulated losses at 1 January		**(2,780,666)**	(942,097)
Loss for the year		**(4,733,290)**	(1,838,569)
Accumulated losses at 31 December		**(7,513,956)**	(2,780,666)

The company has no recognised gains and losses other than the losses above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the operating loss and the loss for the financial year stated above, and their historical cost equivalents.

The turnover and operating loss for the year are derived from the continuing operations of the company.

Balance sheet at 31 December 2003

	Notes		2003		2002
		£	£	£	£
Fixed assets					
Tangible assets	8		**30,014,418**		29,867,419
Current assets					
Debtors	9	**728,368**		702,549	
Cash at bank and in hand		**150,240**		471,295	
		878,608		1,173,844	
Creditors: amounts falling due within one year	10	**(12,018,091)**		(7,433,038)	
Net current (liabilities)			**(11,139,483)**		(6,259,194)
Total assets less current liabilities			**18,874,935**		23,608,225
Creditors: amounts falling due in more than one year	11		**(26,387,891)**		(26,387,891)
Net liabilities			**(7,512,956)**		(2,779,666)
Capital and reserves					
Called up share capital	13		**1,000**		1,000
Profit and loss account			**(7,513,956)**		(2,780,666)
Equity shareholders' (deficit)	14		**(7,512,956)**		(2,779,666)

The financial statements on pages 6 to 16 were approved by the board of directors on 14 October 2004 and were signed on its behalf by:

D. Patt

Director

Cash flow statement
for the year ended 31 December 2003

	Notes	2003 £	2002 £
Net cash inflow from operating activities	15	**287,746**	2,675,699
Returns on investments and servicing of financing			
Interest received		**2,993**	11,858
Interest paid		**(2,373,107)**	(2,198,389)
Net cash outflow for returns on investments and servicing of finance		**(2,370,114)**	(2,186,531)
Capital expenditure and financial investment			
Purchase of tangible fixed assets (net)		**45,127**	(4,712,174)
Net cash outflow before financing		**(2,037,241)**	(4,223,006)
Financing			
Bank loans received	16	**-**	3,600,590
Net cash inflow from financing		**-**	3,600,590
Decrease in cash in the year	17	**(2,037,241)**	(622,416)

Notes to the financial statements for the year ended 31 December 2003

1 Accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention.

Basis of preparing the financial statements – going concern

During the financial year the company has incurred losses of £4,733,290 (2002: £1,838,569) and has been dependent upon the support of the company's bankers.

The financial statements have been prepared on a going concern basis, which assumes that the company will continue in operational existence for the foreseeable future.

There are a number of issues between the company, the construction contractor and the principal supplier of waste (the local authority). The directors' opinion is that the resolution of these issues may lead to net liquidated damages or recoveries being received by the company, however, the quantum and timing of these net recoveries cannot be reliably estimated.

The company currently meets its day-to-day working capital requirements through operational cash flow and additional facilities afforded by the secured lender. Following breaches by the company of certain obligations in the facilities agreements relating to the secured borrowings, the company is in regular discussions with its secured lenders, who have granted a series of conditional short-term waiver letters. The discussions are continuing, and the directors expect them to lead to a rescheduling or reorganisation of the company's indebtedness so as to remedy the breaches in the facilities agreements relating to the secured borrowings.

The directors expect the discussions with the secured lender and the unsecured loan providers to lead to a rescheduling or reorganisation of the company's indebtedness so as to remedy the breaches in the facilities agreements relating to the secured borrowings. In addition, the directors consider that the company will reach a satisfactory resolution of contractual issues and its technical difficulties which will lead to operational stability. Accordingly, the directors believe it is appropriate to prepare the financial statements on the going concern basis.

If the company were unable to continue in operational existence for the foreseeable future, adjustments would have to be made to reduce the balance sheet values of assets to their recoverable amounts, to provide for further liabilities that might arise and to reclassify tangible fixed assets and long term liabilities as current assets and liabilities.

Tangible fixed assets

Tangible fixed assets are stated at cost, which include interest costs accruing over the year from initial expenditure to completion of material capital projects. Costs that are directly attributable to the development, and which are incurred prior to the date the integrated materials recycling and energy centre is placed into operational use, are capitalised. External costs and internal costs are capitalised to the extent they enhance the future economic benefit of the business.

Capitalisation of interest

Interest and costs payable on borrowings related to major construction or development projects are included as part of the capital cost up to the start of commercial operations.

Depreciation

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight-line basis over the expected useful economic lives of the assets concerned (20 years). Assets in the course of construction and payments made on account are not depreciated until the asset is brought into use.

Turnover

Turnover, which excludes value added tax and trade discounts, represents the invoiced value of goods and services supplied.

Borrowings

All borrowings are initially stated at the fair value of the consideration received after deduction of financing costs. Financing costs are charged to the profit and loss account over the term of the borrowings and represent a constant proportion of the balance of capital repayments outstanding.

Financial instruments

The company has adopted the "matched" approach to balance sheet management, and interest rate contracts are used solely for hedging purposes. All interest related contracts are classified at the balance sheet date as hedging contracts and are valued, and income and expenditure recognised, on an equivalent basis to the assets, liabilities or positions being hedged.

Deferred taxation

Provision is made for deferred taxation in respect of all material timing differences that have originated but not reversed by the balance sheet date. Timing differences represent differences between gains and losses recognised for tax purposes in periods different from those in which they are recognised in the financial statements. No deferred tax is recognised on permanent timing differences between the company's taxable gains and losses and its results, as stated in the financial statements. Deferred tax assets and liabilities are included without discounting.

Foreign currency

Foreign currency transactions are recorded in sterling at the exchange rates prevailing at the dates of the transactions. Assets and liabilities denominated in foreign currencies are translated to sterling at rates of exchange prevailing at the balance sheet date. Exchange gains or losses are included in the determination of operating profit.

2 Turnover

The turnover of the company is wholly attributable to the company's principal activity and arose entirely in the United Kingdom.

3 Net operating expenses

	2003	2002
	£	£
Continuing operations		
Distribution costs	**1,270,320**	208,924
Administrative expenses	**4,437,398**	1,817,416
	5,707,718	2,026,340

4 Operating loss

Operating loss is stated after charging:

	2003	2002
	£	£
Depreciation	**1,579,706**	-
Auditors' remuneration	**7,700**	7,330

5 Employee information

The average weekly number of persons (including directors) employed by the company during the financial year is analysed below:

	2003	2002
Directors	7	7

	2003	2002
	£	£
Staff costs for the above persons		
Wages and salaries	47,955	-
Social security costs	5,990	-
	53,945	-

Management charges are accrued by the company for the services of the directors and these are set out in note 21 to the financial statements.

6 Interest payable and similar charges

	2003	2002
	£	£
Interest and charges payable on bank overdrafts	39,405	1,553
Interest payable on bank loans repayable in more than five years	2,333,702	2,196,836
Transfer to assets in course of construction (see note 8)	(1,840,233)	(2,196,836)
	532,874	1,553

7 Tax on loss on ordinary activities

In view of the losses incurred during the financial year, there is no liability required for corporation tax and no provision required for deferred tax. Due to the doubt over the recoverability no deferred tax asset has been recognised in these financial statements.

The tax assessed for the period is higher than the standard rate applying in the UK (30%). The differences are explained below:

	2003	2002
	£	£
Loss on ordinary activities before tax	(4,733,290)	(1,838,569)
Loss on ordinary activities at the UK tax rate of 30%	(1,419,987)	(551,571)
Effects of:		
Expenses not deductible for tax purposes	23,314	52,724
Accelerated capital allowances / other timing differences	(1,277,762)	498,847
Utilisation of losses	2,674,435	-
Total current tax charge	-	-

8 Tangible fixed assets

	Leasehold Land and buildings	Plant and machinery	Total
	£	£	£
Cost			
At 1 January 2003	12,596,102	17,271,317	29,867,419
Additions	542,037	1,253,069	1,795,106
Disposals	-	(68,401)	(68,401)
At 31 December 2003	**13,138,139**	**18,455,985**	**31,594,124**
Depreciation			
At 1 January 2003	-	-	-
Charge for the year	656,907	922,799	1,579,706
At 31 December 2003	**656,907**	**922,799**	**1,579,706**
Net book amount			
At 31 December 2003	**12,481,232**	**17,533,186**	**30,014,418**
At 31 December 2002	12,596,102	17,271,317	29,867,419

Interest capitalised on assets in the course of construction, included in additions during the financial year, amounted to £1,840,233 (2002: £2,196,836). The cumulative amount of interest capitalised to the end of the financial year amounts to £5,399,888 (2002: £3,559,655).

As explained in note 1, the company is currently in negotiation with the principal supplier of waste. Given the degree of uncertainty as regards the outcome of these negotiations, the directors are unable to assess the future cash flows generated by the plant with any accuracy. As a result, they cannot form an opinion as to the extent to which the carrying value of fixed assets has been impaired.

9 Debtors

	2003	2002
	£	£
Amounts falling due within one year		
Trade debtors	**10,860**	142,294
Other debtors	**291,114**	53,880
Prepayments and accrued income	**187,679**	61,375
Amounts owed by related companies (see below and note 21)	**238,715**	445,000
	728,368	702,549

The amounts owed by related companies are interest-free, unsecured and have no fixed terms for their repayment.

10 Creditors: amounts falling due within one year

	2003	2002
	£	£
Bank overdraft (secured)	**1,716,186**	-
Trade creditors	**6,377,407**	3,518,915
Taxation and social security	**10,375**	-
Loans from shareholders (see below)	**3,914,123**	3,914,123
	12,018,091	7,433,038

The loans from the shareholders of HLC (Neath Port Talbot) Holdings Limited (the parent company) are interest free, unsecured and have no fixed terms for their repayment.

11 Creditors: amounts falling due in more than one year

	2003 £	2002 £
Bank loan (see (a) below)	**27,613,663**	27,613,663
Financing costs (see (b) below)	**(1,225,772)**	(1,225,772)
	26,387,891	26,387,891

(a) The bank loan is provided by the Bank of Scotland Plc in the form of a draw down loan, including interest. The bank loan will be drawn down during the construction period and has preference over all other debts. Repayment of the bank loan will commence six months after commencement of operation of the integrated materials recycling and energy centre. The company has entered into a 15 year interest rate swap with the Bank of Scotland Plc for the full amount of the loan. The fixed rate of interest is 6.72%. The bank loans are secured on the assets of the company.

(b) Financing costs of £1,225,772 were incurred by the company during previous financial years in relation to the bank loan referred to in note (a) above. These financing costs will be amortised over the period of the repayment of the bank loan after repayment commences.

12 Provision for liabilities and charges

Deferred taxation provided in the financial statements and the amount unprovided are as follows:

	Amount provided		Amount unprovided	
	2003 £	2002 £	2003 £	2002 £
Tax effect of timing differences because of:				
Accelerated capital allowances and short term timing differences	**2,355,000**	1,078,000	-	-
Losses	**(2,355,000)**	(1,078,000)	**(2,136,000)**	(692,000)
	-	-	**(2,136,000)**	(692,000)

No deferred tax asset has been recognised in the financial statements at 31 December 2003 in view of the doubts over its recoverability.

13 Called up share capital

	2003	2002
Authorised		
1,875,000 ordinary shares of £1 each	**1,875,000**	1,875,000
Allotted, called up and fully paid		
1,000 ordinary shares of £1 each	**1,000**	1,000

14 Reconciliation of movements in shareholders' deficit

	2003 £	2002 £
Opening shareholders' deficit	**(2,779,666)**	(941,097)
Loss for the financial year	**(4,733,290)**	(1,838,569)
Closing shareholders' deficit	**(7,512,956)**	(2,779,666)

15 Reconciliation of operating loss to net cash inflow from operating activities

	2003	2002
	£	£
Continuing operating activities		
Operating loss	**(4,203,409)**	(1,848,874)
Depreciation	**1,579,706**	-
Loss on disposal of fixed assets	**68,401**	-
Increase in debtors	**(25,819)**	(209,901)
Increase in creditors	**2,868,867**	4,734,474
Net cash inflow from continuing operating activities	**287,746**	2,675,699

16 Analysis of changes in financing during the year

	2003	2002
	£	£
At 1 January 2003	**27,613,663**	24,013,073
Bank loans received	**-**	3,600,590
At 31 December 2003	**27,613,663**	27,613,663

17 Analysis of changes in cash during the year

	Cash at bank	Bank overdraft	Total
	£	£	£
At 1 January 2003	471,295	-	471,295
Net cash outflow	(321,055)	(1,716,186)	(2,037,241)
At 31 December 2003	**150,240**	**(1,716,186)**	**(1,565,946)**

18 Capital commitments

The company has committed to future capital expenditure of £Nil which has not been provided for at the end of the financial year (2002: £Nil).

19 Contingent assets and liabilities

The company complies with all current legislation as regards environmental issues relating to the management of the company's integrated materials recycling and energy centre.

The company has received claims from the contractors who have constructed the materials recycling and energy centre. The company is currently trying to resolve these claims and none of these claims have been included in creditors at 31 December 2003. Any claims which are deemed to be payable by the company will be capitalised in the financial statements for the year ended 31 December 2004 after they have been determined.

20 Ultimate parent undertaking

The company is a wholly owned subsidiary company of HLC (Neath Port Talbot) Holdings Limited. The ultimate parent undertaking of the group is HLC Environmental Holdings Limited, whose financial statements can be obtained from 4th floor, 15 Berkeley Street, London, W1J 8DG

21 Related party transactions

The company undertook the following transactions with related parties during the financial year, which are part of the HLC Group of companies:

HLC Engenharia e Gestao de Projectos SA	**2003**	2002
	£	£
Capitalised costs	**23,101,595**	23,335,584
Retentions and amounts due included in trade creditors	**1,597,010**	1,642,136
Amounts due from and included in debtors	**79,465**	79,465
Provision against amount due from	**-**	(79,465)
Release of provision against amount due from (see below)	**79,465**	-
HLC Environmental Projects Limited		
Loans received included in creditors: amounts falling due within one year	**2,000,703**	2,000,703
Management charges accrued	**259,730**	259,730
Amounts due from and included in debtors	**159,250**	159,250
Provision against amount due from	**-**	(159,250)
Release of provision against amount due from (see below)	**159,250**	-
Amounts included in creditors	**51,297**	-
HLC Waste Management Service Limited		
Amounts due included in creditors	**312,369**	615,315
Amounts due from and included in debtors: amounts falling due within one year	**-**	445,000
Management fees receivable and included in prepayments and accrued income at 31 December	**-**	21,000

In view of the confirmation of the amounts of £79,465 due from HLC Engenharia e Gestao de Projectos SA and £159,250 due from HLC Environmental Projects Limited and the offset that will occur of the amounts against the amount of £259,730 due to HLC Environmental Projects Limited, the directors of the company have released the provision against the debts due to the profit and loss account.

The company has accrued management charges of £80,000 due to Neath Port Talbot Waste Management Company Limited, a company in which A H Roberts is a director and S Penny is company secretary. During the financial year the company has made sales of £Nil (2002: £173,435) to Neath Port Talbot Waste Management Company Limited. The company has received loans of £778,360 from Neath Port Talbot Waste Management Company Limited which are included in creditors: amounts falling due within one year at 31 December 2003.