Churngold Remediation Holdings Limited and its subsidiary undertakings

Financial statements

For the year ended 31 May 2007

Grant Thornton

Company No. 4736181

Company information

Company registration number	4736181
Registered office	St Andrews House St Andrews Road Avonmouth Bristol BS11 9DQ
Directors	J R Ancell (Chairman) C A Sillars (Managing Director) J R Henderson (Non-Executive) R N Tredwin (Finance Director)
Secretary	R N Tredwin
Bankers	Lloyds TSB Bank plc 61 Gloucester Road Bristol BS34 5JH
Solicitors	Osborne Clarke 2 Temple Back East Temple Quay Bristol BS1 6EG
Auditor	Grant Thornton UK LLP Chartered Accountants Registered Auditors 43 Queen Square BRISTOL BS1 4QR

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Report of the directors

The directors present their report and the financial statements of the group for the year ended 31 May 2007.

Principal activities and business review

The principal activity of the group continues to be the remediation of contaminated sites throughout the UK. The principal activity of the company is to act as a holding company.

This year has been characterised by project delays, with clients and contracts continuing to face planning, environmental and funding issues. Additionally, the results reflect a significant provision against future losses on one contract that will complete next year. The directors are disappointed with the outcome for the year. However they are pleased with the significant progress made in the utilisation of steam and other technologies as a means of treating contamination.

Future developments

Three significant contracts have been secured, with turnover totalling in excess of £5m and, most encouragingly, project starts in the first 6 months of next year. The larger nature and longevity of these contracts, coupled with a favourable trading environment will assist the business in returning to profitability. Profits going forward will be retained to strengthen the balance sheet position and provide a platform for sustained growth and cash generation.

Results and dividends

The loss for the year amounted to £381,000. The directors have not recommended a dividend.

Key performance indicators

		2007	2006	Change in the year
Financial metrics				
Group revenue	£000	**4,948**	5,258	- 6%
Group earnings before interest, tax, depreciation, amortisation, central management charges and other one off costs	£000	**(255)**	347	-602
Average days turnover in amounts recoverable on contracts and trade debtors	Days	**87**	92	-5
People				
Staff as at 31 May	No	**27**	26	+ 4%

Funding and risk management objectives and policies

The main risks arising are liquidity, credit and interest rate risks. The directors review and agree policies for managing each of these risks and they are summarised below. These policies have remained unchanged from previous years.

Liquidity

The group uses loan stock funds provided by the Directors, overdraft facilities provided by Lloyds Bank and preference shares to fund the business. At the year end the group had access to undrawn committed borrowing facilities of £500,000. The maturity profile of committed banking facilities is regularly reviewed and such facilities are extended or replaced well in advance of their expiry. The group does not enter into speculative financial transactions and uses financial instruments (e.g. Trade Credit Insurance) for certain risk management purposes.

Credit Risk

The group's principal financial assets are cash, trade debtors and amounts recoverable on contracts. The group limits deposits to short term deposits with its bankers. The principal credit risk arises therefore from its debtors/amounts recoverable on contracts.

In order to manage this risk all jobs and customers are credit checked at contract stage and credit insurance is arranged on the majority of debts.

Interest Rate Risk

The group reduces exposure to interest rates through a mixture of fixed rate loan stock and variable rates for overdraft facilities.

Directors

The directors who served the company during the year were as follows:

J R Ancell
C A Sillars
J R Henderson
R N Tredwin

Directors' responsibilities

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 United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The financial statements are required by law to give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the group 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 group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the directors are aware:

- there is no relevant audit information of which the group's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Auditor

A resolution to re-appoint Grant Thornton UK LLP as auditor for the ensuing year will be proposed at the annual general meeting in accordance with section 385 of the Companies Act 1985.

BY ORDER OF THE BOARD

R N Tredwin
Secretary
10 August 2007

Grant Thornton

Report of the independent auditor to the members of Churngold Remediation Holdings Limited and its subsidiary undertakings

We have audited the group and parent company financial statements ("the financial statements") of Churngold Remediation Holdings Limited for the year ended 31 May 2007 which comprise the principal accounting policies, consolidated profit and loss account, consolidated balance sheet, company balance sheet and notes 1 to 25. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's 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 auditor

The directors' responsibilities for preparing the Report of the Directors and the financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Report of the Directors is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Report of the Directors and consider the implications for our report if we become aware of any apparent misstatements within it.

Report of the independent auditor to the members of Churngold Remediation Holdings Limited and its subsidiary undertakings (continued)

Basis of opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 May 2007 and of the group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the financial statements.

GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS

Bristol
10 August 2007

Principal accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention.

Going concern

Despite having net liabilities at 31 May 2007 of £619,000 the directors consider that the group has sufficient resources available in terms of both bank and related party funding to justify preparing the financial statements on a going concern basis.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and all group undertakings. These are adjusted, where appropriate, to conform to group accounting policies.

Acquisitions are accounted for under the acquisition method and goodwill on consolidation is capitalised and written off over its estimated useful economic life. The results of companies acquired or disposed of are included in the consolidated profit and loss account after or up to the date that control passes respectively. As a consolidated profit and loss account is published, a separate profit and loss account for the parent company is omitted from the group financial statements by virtue of section 230 of the Companies Act 1985.

Cash flow statement

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (Revised 1996): from including a consolidated cash flow statement in the financial statements on the grounds that the group is small.

Turnover

Turnover is the total amount receivable for goods and services provided, net of VAT and trade discounts. In the case of long term contracts, turnover represents the sales value of work done in the year.

Goodwill

Goodwill arising on the acquisition of subsidiary undertakings is capitalised and amortised over the period during which the company is expected to benefit.

Fixed assets

All fixed assets are initially recorded at cost.

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Plant & Machinery	-	over 3 to 7 years

Investments

Investments in subsidiary undertakings are included in the company accounts valued at the lower of cost and the directors' estimate of net realisable value.

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

Pension costs

The group contributes to the personal pensions of all employees and directors. Contributions are charged to the profit and loss account as incurred.

Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

Financial instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

Long-term contracts

Turnover and related costs on each long-term contract are recorded in the profit and loss account as contract activity progresses. Turnover is calculated on the basis of the value of the work done. Attributable profit is calculated on a prudent basis for each contract by reference to the contract's cumulative turnover, total contract value and total profit estimated for the completed contract. Full provision is made for losses on a contract immediately they can be foreseen. Work in progress is included in amounts recoverable on long-term contracts.

Share-based payment

This is the first accounting period to which FRS 20 'Share-Based Payment (IFRS 2)' applies.

Equity-settled share-based payment

All material share-based payment arrangements granted after 7 November 2002 that had not vested prior to 1 January 2006 are recognised in the financial statements.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets).

All equity-settled share-based payments are ultimately recognised as an expense in the profit and loss account with a corresponding credit to "other reserve".

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are revised subsequently if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options that have vested are not exercised.

Upon exercise of share options, the proceeds received net of attributable transaction costs are credited to share capital, and where appropriate share premium.

In the opinion of the directors the potential charge arising under FRS 20 is not material to these financial statements so no change has been recognised.

Consolidated profit and loss account

	Note	**2007 £000**	2006 £000
Group turnover	1	**4,948**	5,258
Cost of sales		**(4,203)**	(4,039)
Gross profit		**745**	1,219
Other operating charges	2	**(1,067)**	(1,056)
Operating (loss)/profit	3	**(322)**	163
Interest receivable and similar income	6	**1**	3
Interest payable and similar charges	7	**(61)**	(69)
(Loss)/profit on ordinary activities before taxation		**(382)**	97
Tax on (loss)/profit on ordinary activities	8	**1**	(33)
(Loss)/profit for the financial year	22	**(381)**	64

All of the activities of the group are classed as continuing.
The group has no recognised gains or losses other than the results for the year as set out above.

The company has taken advantage of section 230 of the Companies Act 1985 not to publish its own Profit and Loss Account.

Consolidated balance sheet

	Note	2007 £000	2006 £000
Fixed assets			
Intangible assets	10	**237**	277
Tangible assets	11	**10**	33
		247	310
Current assets			
Debtors	13	**1,285**	1,594
Cash at bank and in hand		**50**	73
		1,335	1,667
Creditors: amounts falling due within one year	14	**1,959**	1,961
Net current liabilities		**(624)**	(294)
Total assets less current liabilities		**(377)**	16
Creditors: amounts falling due after more than one year	15	**242**	254
		(619)	(238)
Capital and reserves			
Called-up share capital	21	**150**	150
Profit and loss account	22	**(769)**	(388)
Deficiency	23	**(619)**	(238)

These financial statements were approved by the directors on 10 August 2007 and are signed on their behalf by:

J R Ancell
Director

Company balance sheet

	Note	2007 £000	2006 £000
Fixed assets			
Investments	12	**405**	405
Current assets			
Debtors	13	**31**	71
Creditors: amounts falling due within one year	14	**28**	59
Net current assets		**3**	12
Total assets less current liabilities		**408**	417
Creditors: amounts falling due after more than one year	15	**242**	254
		166	163
Capital and reserves			
Called-up share capital	21	**150**	150
Profit and loss account	22	**16**	13
Shareholders' funds		**166**	163

These financial statements were approved by the directors on 10 August 2007 and are signed on their behalf by:

J R Ancell
Director

Notes to the financial statements

1 Turnover

The turnover and loss before tax are attributable to the one principal activity of the group.
An analysis of turnover is given below:

	2007	2006
	£000	£000
United Kingdom	**4,935**	5,258
Overseas	**13**	-
	4,948	5,258

2 Other operating charges

	2007	2006
	£000	£000
Administrative expenses	**1,067**	1,056

3 Operating (loss)/profit

Operating (loss)/profit is stated after charging/(crediting):

	2007	2006
	£000	£000
Amortisation	**40**	40
Depreciation of owned fixed assets	**27**	39
Auditor's remuneration:		
Audit fees	**7**	7
Non-audit fees	**3**	3
Operating lease costs:		
Plant and equipment	**1,013**	638
Other	**61**	52
Net loss on foreign currency translation	**3**	1

4 Directors and employees

The average number of staff employed by the group during the financial year amounted to:

	2007 No	2006 No
Administration and managerial	**5**	5
Technical and service	**22**	20
	27	25

The aggregate payroll costs of the above were:

	2007 £000	2006 £000
Wages and salaries	**1,017**	930
Social security costs	**125**	94
Other pension costs	**46**	45
	1,188	1,069

5 Directors

Remuneration in respect of directors was as follows:

	2007 £000	2006 £000
Fees and emoluments receivable	**92**	96
Value of company pension contributions to money purchase schemes	**5**	5
	97	101

The number of directors who accrued benefits under company pension schemes was as follows:

	2007 No	2006 No
Money purchase schemes	**1**	1

Share options have been issued to certain directors which will be satisfied from existing share capital. No directors exercised share options during the year (2006 - nil).

6 Interest receivable and similar income

	2007 £000	2006 £000
Other interest receivable	**1**	3

7 Interest payable and similar charges

	2007 £000	2006 £000
Interest payable on bank borrowing	**20**	38
Loan stock interest	**23**	24
Other loan interest	**18**	7
	61	69

8 Taxation on ordinary activities

(a) Analysis of charge in the year

	2007 £000	2006 £000
Current tax:		
UK Corporation tax based on the results for the year at 30% (2006 - 30%)	**-**	33
Over provision in prior year	**(1)**	-
Total current tax	**(1)**	33

(b) Factors affecting current tax charge

The tax assessed on the (loss)/profit on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 30% (2006 - 30%).

	2007 £000	2006 £000
(Loss)/profit on ordinary activities before taxation	**(382)**	97
Loss/(profit) on ordinary activities multiplied by rate of tax	**(114)**	29
Expenses not deductible for tax purposes	**19**	41
Depreciation for period in excess of capital allowances	**1**	2
Marginal relief	**-**	(3)
Over provision in previous year	**(1)**	-
Losses carried forward	**95**	-
Use of losses	**(1)**	(36)
Total current tax (note 8(a))	**(1)**	33

9 Profit attributable to members of the parent company

The profit dealt with in the accounts of the parent company was £3,000 (2006 - £11,000).

10 Intangible fixed assets

Group	Goodwill £000
Cost	
At 1 June 2006 and 31 May 2007	397
Amortisation	
At 1 June 2006	120
Charge for the year	40
At 31 May 2007	160
Net book value	
At 31 May 2007	**237**
At 31 May 2006	277

Goodwill arising on the acquisition of Churngold Remediation Limited is being amortised over its estimated useful economic life of 10 years.

11 Tangible fixed assets

Group	Plant & Machinery £000
Cost	
At 1 June 2006	288
Additions	4
At 31 May 2007	292
Depreciation	
At 1 June 2006	255
Charge for the year	27
At 31 May 2007	282
Net book value	
At 31 May 2007	**10**
At 31 May 2006	33

The company held no tangible fixed assets during the year.

12 Investments

Company	Group companies £000
Cost	
At 1 June 2006 and 31 May 2007	**405**
Net book value	
At 31 May 2007	**405**
At 31 May 2006	405

At 31 May 2007 the company held more than 20% of the allotted share capital of the following undertakings:

	Class of share capital held	Nature of business	Proportion held
Churngold Remediation Limited	Ordinary	Remediation of contaminated sites	100%

13 Debtors

	The group		The company	
	2007 £000	2006 £000	**2007 £000**	2006 £000
Trade debtors	**497**	1,144	**–**	–
Amounts owed by group undertakings	**–**	–	**31**	65
Amounts recoverable on contracts	**754**	411	**–**	–
Other debtors	**1**	6	**–**	6
Prepayments and accrued income	**33**	33	**–**	–
	1,285	1,594	**31**	71

14 Creditors: amounts falling due within one year

	The group		The company	
	2007 £000	2006 £000	**2007 £000**	2006 £000
Loan stock	**20**	–	**20**	–
Trade creditors	**883**	927	**–**	–
Corporation tax	**–**	33	**–**	32
Other taxation and social security	**60**	80	**–**	–
Other creditors	**24**	23	**–**	–
Amounts owed to related parties	**422**	426	**–**	14
Accruals and deferred income	**550**	472	**8**	13
	1,959	1,961	**28**	59

The bank overdraft facility is secured by a cross guarantee from Churngold Construction Holdings Limited.

15 Creditors: amounts falling due after more than one year

	The group		The company	
	2007	2006	**2007**	2006
	£000	£000	**£000**	£000
Loan stock	**242**	254	**242**	254

16 Loans

Creditors include finance capital which is due for repayment as follows:

	The group		The company	
	2007	2006	**2007**	2006
	£000	£000	**£000**	£000
Amounts repayable:				
In one year or less or on demand	**20**	–	**20**	–
In more than one year but not more than two years	**20**	20	**20**	20
In more than two years but not more than five years	**222**	234	**222**	234
	262	254	**262**	254

	2007	2006	**2007**	2006
	£000	£000	**£000**	£000
Wholly repayable within five years:				
9% fixed rate loan stock	**262**	254	**262**	254

The loan stock is repayable in annual instalments, being the higher of 20% of retained profits (pre-dividend) or £20,000 commencing on 1 October 2007. Interest accrues and is payable in arrears at a rate of 6% in quarterly instalments and in addition a 3% accrual is made, which is payable on final loan redemption.

17 Pensions

The company operates a defined contribution scheme for the benefit of all employees. The assets of the scheme are administered by trustees in a fund independent from those of the company.

18 Commitments under operating leases

At 31 May 2007 the group had annual commitments under non-cancellable operating leases as set out below.

The group	**2007**		2006	
	Land and buildings £000	**Other items £000**	Land and Buildings £000	Other items £000
Operating leases which expire:				
Within 1 year	**10**	**13**	-	18
Within 2 to 5 years	**28**	**51**	52	42
	38	**64**	52	60

19 Contingent liabilities

There are contingent liabilities in respect of performance guarantees entered into in the normal course of business amounting to £214,000 within the group as at 31 May 2007 (2006 - £nil). The bond provider holds a letter of cross guarantee between the company and its subsidiary. Additionally, the bank holds a letter of cross guarantee and debenture between the company and its subsidiary undertakings in respect of bank borrowings.

20 Related party transactions

The company has taken advantage of the exemption in FRS 8 from disclosing transactions with related parties that are part of the Churngold Remediation Holdings Limited group of companies for the year.

During the year the group undertook the following transactions and had amounts owing to/from members of the Churngold Construction Holdings Limited group and Churngold Recycling Limited, entities where J R Ancell is both a director and has an interest in more than 20% of the voting rights:

	Purchases £000	**Sales £000**	**Owed to £000**	**Owed by £000**
2007				
Churngold Construction Limited	**130**	**340**	**422**	–
Churngold Construction Holdings Limited	**86**	**–**	**–**	–
Churngold Recycling Limited	**26**	**–**	**–**	–
Churngold Surfacing Limited	**–**	**5**	**–**	–
2006				
Churngold Construction Limited	139	144	410	–
Churngold Construction Holdings Limited	102	–	9	–
Churngold Recycling Limited	101	–	7	–
Churngold Surfacing Limited	–	4	–	–

Included within loan stock balances (note 16) as at 31 May 2006 are amounts owed to directors and related parties as follows:

	2007	2006
	£000	£000
G E Henderson (Director's spouse)	**262**	254

21 Share capital

Authorised share capital:

	2007	2006
	£000	£000
600 'A' Ordinary shares of £0.10 each	**-**	-
9,361 'B' Ordinary shares of £0.10 each	**1**	1
1 'C' Ordinary shares of £0.10 each	**-**	-
190 'D' Ordinary shares of £0.10 each	**-**	-
210 'E' Ordinary shares of £0.10 each	**-**	-
1 Deferred shares of £0.10 each	**-**	-
150,000 Preference shares of £1 each	**150**	150
	151	151

Allotted, called up and fully paid:

	2007		2006	
	No	**£000**	No	£000
'A' Ordinary shares of £0.10 each	**600**	**-**	600	-
'D' Ordinary shares of £0.10 each	**190**	**-**	190	-
'E' Ordinary shares of £0.10 each	**210**	**-**	210	-
Deferred shares of £0.10 each	**1**	**-**	1	-
Preference shares of £1 each	**150,000**	**150**	150,000	150
	151,001	**150**	151,001	150

The company has the right to buy back the preference shares at face value at any point in time.

22 Reserves

Group	**Profit and loss account £000**
At 1 June 2006	**(388)**
Loss for the year	**(381)**
At 31 May 2007	**(769)**

Company	**Profit and loss account £000**
At 1 June 2006	**13**
Profit for the year	**3**
At 31 May 2007	**16**

23 Reconciliation of movements in shareholders' equity funds

	2007 £000	2006 £000
(Loss)/profit for the financial year	**(381)**	64
Opening shareholders' deficit	**(238)**	(452)
Preference shares issue	**–**	150
Closing shareholders' deficit	**(619)**	(238)

24 Capital commitments

The directors have confirmed that there were no capital commitments at 31 May 2007 or 31 May 2006.

25 Controlling related party

The directors consider that J R Ancell (Chairman) is the company's controlling related party by virtue of his majority beneficial shareholding.