

**REPORT OF THE DIRECTORS  
FOR THE PERIOD ENDED 31 DECEMBER 1997**



1 The directors present their report and financial statements for the period ended 31 December 1997.

**Review of activities**

2 On 25 November 1997 the whole of the issued share capital of Leigh Interests plc, the company's immediate parent company, was acquired by Onyx Environmental Group PLC (formerly General Utilities Waste Services PLC). Following the change in ownership, the year end of Leigh Interests plc and its subsidiaries was changed from 31 March to 31 December.

3 The principal activities of the company are environmental services including collection, treatment, recycling and disposal of waste materials.

4 With effect from 1 April 1997, the trades of Leigh Industrial Services Limited and Progressive Technical Services Limited were transferred to the company. These businesses have not been separately identified in the profit and loss account for the period since they immediately became an integral part of the company's on-going business.

5 With effect from 1 January 1998, the company's clinical waste operations were transferred to fellow group companies. This business has been shown as discontinued in the profit and loss account.

**Future developments**

6 The directors expect that the present level of activity will be sustained for the foreseeable future.

**Dividends**

7 The directors do not propose the payment of a dividend in respect of the period ended 31 December 1997 (year to 31 March 1997: £Nil).

**Fixed Assets**

8 Details of fixed assets are set out in note 10 on page 11.

**Directors**

9 The directors of the company at 31 December 1997, all of whom have been directors for the whole of the period ended on that date, except where noted, are shown below:

S M P Bowden	(resigned 20 November 1997)
M S Ryder	(resigned 28 March 1998)
S J Eastwood	(resigned 31 March 1998)
E J Dupont-Madinier	(appointed 5 November 1997)
J Kutner	(appointed 5 November 1997)

The directors' beneficial interests in the company's shares are referred to in note 6 to the financial statements.

**Pensions**

10 The Leigh Pension Scheme provides pensions and life assurance cover for eligible employees electing to join the scheme. Details are given in note 20 to the financial statements.

**REPORT OF THE DIRECTORS  
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11 Throughout the year the company continued its declared policy of keeping all employees aware of the company's progress and development. In addition, managers of operating units are developing appropriate systems for the communication to employees of any matters concerning them, particularly through the introduction of 'works councils'.

12 It is the company's policy to provide, wherever possible, a working environment which offers equal employment opportunities to disabled persons with appropriate skills and qualifications.

**Income and Corporation Taxes Act 1988**

13 In the opinion of the directors the company is not a close company within the provisions of this Act, and there has been no change in this respect since the end of the period.

**Creditor payment policy**

14 The company's current policy concerning the payment of its trade creditors is to settle the terms of payment with those suppliers when agreeing the terms of each transaction. The payment policy applies to all payments to creditors for revenue and capital supplies of goods and services without exception. Trade creditors of £2,434,732 reported in note 13 on page 12 represent 25 days of average daily purchases.

**Directors' responsibilities**

15 The directors are required by UK company law to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit and loss of the company for that period.

16 The directors confirm that suitable accounting policies have been applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the period ended 31 December 1997. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

17 The directors are responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

**Auditors**

18 A resolution to reappoint Coopers & Lybrand as the company's auditors will be proposed at the annual general meeting.

**By order of the Board**



C J Horton  
Secretary

3 July 1998

**REPORT OF THE AUDITORS TO THE MEMBERS OF  
EFFLUENT DISPOSAL LIMITED**

We have audited the financial statements on pages 4 to 15.

**Respective responsibilities of directors and auditors**

As described on page 2, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

**Basis of 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 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 of the state of the company's affairs at 31 December 1997 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



Coopers & Lybrand  
Chartered Accountants and Registered Auditors  
Birmingham

3 July 1998

**PROFIT AND LOSS ACCOUNT  
FOR THE PERIOD ENDED 31 DECEMBER 1997**

	Note	31 December 1997 Before exceptional items £	31 December 1997 Exceptional items £	31 December 1997 Total £	31 March 1997 Total £
<b>Turnover</b>					
Continuing operations		25,541,499	-	25,541,499	26,483,034
Discontinued operations		3,039,039	-	3,039,039	4,855,278
Total turnover		28,580,538	-	28,580,538	31,338,312)
Cost of sales	4	(25,093,324)	(5,898,004)	(30,991,328)	(26,679,279)
Gross (loss)/profit		3,487,214	(5,898,004)	(2,410,790)	4,659,033
Administration and selling expenses	4	(5,056,435)	(3,237,541)	(8,293,976)	(6,752,227)
Other operating income		-	-	-	28,000
<b>Operating loss</b>					
Continuing operations		1,661,638	(5,898,004)	(4,236,366)	(1,279,895)
Discontinued operations		(3,230,859)	(3,237,541)	(6,468,400)	(785,299)
Total operating loss	5	(1,569,221)	(9,135,545)	(10,704,766)	(2,065,194)
Interest payable and similar charges	8	(934,630)	-	(934,630)	(968,268)
Loss on ordinary activities before taxation		(2,503,851)	(9,135,545)	(11,639,396)	(3,033,462)
Tax on loss on ordinary activities	9	3,601,000	-	3,601,000	502,622
Loss retained for the period		1,097,149	(9,135,545)	(8,038,396)	(2,530,840)
<b>STATEMENT OF RETAINED LOSSES</b>					
Retained loss brought forward				(5,957,810)	(3,426,970)
Loss retained for the period				(8,038,396)	(2,530,840)
Retained loss carried forward				(13,996,206)	(5,957,810)

The reconciliation of movements in shareholders' funds is set out in note 17.

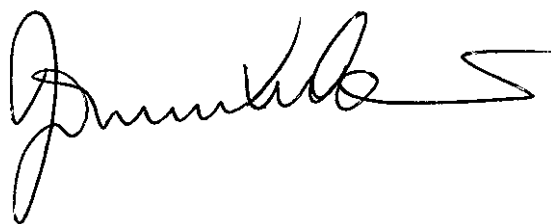
The company has no recognised gains and losses other than those included in the profit and loss account above, and therefore no separate statement of recognised gains and losses has been presented.

There is no difference between the loss on ordinary activities before taxation and the loss for the period stated above, and their historical cost equivalents.

**BALANCE SHEET**  
**AT 31 DECEMBER 1997**

	Notes	31 December 1997 £	31 March 1997 £
<b>Fixed assets</b>			
Tangible assets	10	20,681,401	23,972,943
<b>Current assets</b>			
Stocks	11	322,030	172,937
Debtors	12	15,994,994	11,820,812
Cash at bank and in hand		19,010	18,430
		<u>16,336,034</u>	<u>12,012,179</u>
<b>Creditors: amounts falling due within one year</b>	13	<u>(35,035,554)</u>	<u>(26,550,239)</u>
<b>Net current liabilities</b>		<u>(18,699,520)</u>	<u>(14,538,060)</u>
<b>Total assets less current liabilities</b>		1,981,881	9,434,883
<b>Creditors: amounts falling due after more than one year</b>	14	(12,005,087)	(12,795,953)
Provision for liabilities and charges	15	<u>(3,972,000)</u>	<u>(2,595,740)</u>
<b>Net liabilities</b>		<u><u>(13,995,206)</u></u>	<u><u>(5,956,810)</u></u>
<b>Capital and reserves</b>			
Called up share capital	16	1,000	1,000
Profit and loss account		<u>(13,996,206)</u>	<u>(5,957,810)</u>
<b>Equity shareholders' funds</b>	17	<u><u>(13,995,206)</u></u>	<u><u>(5,956,810)</u></u>

The financial statements on pages 4 to 15 were approved by the board on 3 July 1998 and were signed on its behalf by:



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 31 DECEMBER 1997**

**1 Accounting policies**

**(a) Basis of accounting**

The accounts have been prepared in accordance with applicable Accounting Standards in the United Kingdom, and under the historical cost convention.

**(b) Turnover**

This comprises invoice values for sales of goods and services including sales of mineral sites and landfill sites no longer required by the company, including landfill tax but excluding value added tax.

**(c) Fixed assets**

Freehold land is not depreciated. Freehold buildings are depreciated by equal instalments over 50 years. Leasehold land and buildings are depreciated over the life of the lease.

Other fixed assets are depreciated by equal instalments over the following periods - plant and office equipment, between 3 and 20 years; motor vehicles, five years. The charge commences with the asset being brought into use.

**(d) Stocks and work in progress**

Stocks and work in progress are valued at the lower of cost or net realisable value.

**(e) Taxation**

The charge for taxation is based on the results for the year as adjusted for disallowable items. Tax deferred or accelerated is accounted for in respect of all material timing differences to the extent that it is probable that a liability or asset will crystallise. Timing differences arise from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the accounts. Provision is made at the rate which is expected to be applied when the liability or asset is expected to crystallise. The amount of unprovided deferred tax is calculated at the current corporation tax rate, and is analysed into its major components.

**(f) Hire of plant and equipment**

This comprises the cost of hiring for long term use in the business of the company.

## NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 1997 CONTINUED

**Accounting policies (continued)****(g) Foreign currencies**

Assets and liabilities expressed in foreign currencies and the results of foreign subsidiaries are translated to sterling at rates of exchange ruling at the end of the financial year. Differences on exchange are taken to the profit and loss account during the year that they arise.

**(h) Leases and hire purchase**

Assets held under finance leases and hire purchase contracts are integrated with owned tangible fixed assets and the obligations relating thereto, excluding finance charges, are included in creditors. Costs in respect of operating leases are charged in arriving at the operating profit.

**(i) Cash flow statement**

A cash flow statement has not been prepared on the grounds that the company, as a wholly owned subsidiary, is exempt from the requirement to prepare such a statement in accordance with Financial Reporting Standard number 1 (Revised), "Cashflow statements".

**(j) Related party transactions**

The company is a wholly owned subsidiary of Compagnie Générale des Eaux S.A. The company is therefore exempt from disclosing transactions with other owned subsidiaries and investors in the group under the terms of Financial Reporting Standard No. 8 'Related Party Disclosures'.

**(k) Pensions**

Contributions are charged against profits so as to spread the cost of pensions over employees working lives (see note 20).

**(l) Goodwill**

Purchased goodwill on acquisition is written off directly to reserves.

**2 Turnover**

The company's turnover has arisen entirely within the United Kingdom.

## NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 1997 CONTINUED

## 3 Cost of sales and other operating income and expenses

	31 December 1997			31 March 1997		
	Continuing £	Discontinued £	Total £	Continuing £	Discontinued £	Total £
Turnover	25,541,499	3,039,039	28,580,538	26,483,034	4,855,278	31,338,312
Cost of sales						
- ordinary	(19,257,314)	5,836,010	(25,093,324)	(21,594,555)	(5,084,724)	(26,679,279)
- exceptional	(5,898,004)	-	(5,898,004)	-	-	-
Gross (loss)/profit	386,181	(2,795,971)	(2,410,790)	4,888,479	(229,446)	4,659,033
Administration and selling expenses						
- ordinary	(4,622,547)	(433,888)	(5056,435)	(6,168,374)	(583,853)	(6,752,227)
- exceptional	-	(3,237,541)	(3,237,541)	-	-	-
Other operating income	-	-	-	-	28,000	28,000
Operating loss	(4,236,366)	(6,468,400)	(10,704,766)	(1,279,895)	(785,299)	(2,065,194)

## 4 Exceptional items

## (a) Exceptional cost of sales

The exceptional charge represents the effect of adjustments made to the carrying value of the company's assets of £2,733,338 (see note 10) together with costs of reorganisation and upgrade of facilities within the business of £3,164,666 (note 15(b)).

## (b) Exceptional administration and selling expenses

The exceptional charge relates to the costs of terminating the lease on the company's clinical incinerator.

## 5 Operating loss

## (a) Operating loss is stated after charging:-

	31 December 1997 £	31 March 1997 £
Auditors' remuneration	62,000	59,800
Hire of plant and machinery	849,367	913,321
Depreciation of tangible fixed assets - ordinary	2,761,172	3,969,978
- exceptional (note 4a)	2,733,338	-



## NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 1997 CONTINUED

**6 Directors' emoluments and interests**

Directors' emoluments during the period comprise:

	31 December 1997 £	31 March 1997 £
Aggregate emoluments	98,483	150,030
Compensation for loss of office	134,000	149,745
	<u>232,483</u>	<u>299,775</u>

Retirement benefits are accruing to two directors under the group defined benefit pension scheme.

The directors had no beneficial interests in the shares of the company as it is a wholly owned subsidiary of Onyx Environment Group PLC nor in the shares of any other subsidiary of Onyx Environmental Group PLC.

At 31 March 1997 M S Ryder and S J Eastwood held respectively ordinary shares of nil and 5000 and ordinary shares under option of 51,835 and 20,000 in Leigh Interests plc. Following the acquisition of the whole of the issued share capital of Leigh Interests plc on 25 November 1997, the shares and options of the directors were purchased at market value.

**7 Employee information**

The average number of persons employed by the company including executive directors during the period is analysed below:

	31 December 1997 £	31 March 1997 £
Environmental Services	644	576

Employment costs of all employees included above:

	31 December 1997 £	31 March 1997 £
Wages and salaries	8,708,124	10,002,532
Social security costs	752,387	889,113
Pension costs	389,484	461,834
	<u>9,849,995</u>	<u>11,353,479</u>

## NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 1997 CONTINUED

## 8 Interest payable and similar charges

	31 December 1997 £	31 March 1997 £
On borrowings due for repayment within five years:		
Bank loans and overdrafts	626,795	524,710
Finance leases	307,835	443,329
Other interest payable	-	229
	<u>934,630</u>	<u>968,268</u>

## 9 Tax on profit on ordinary activities

	31 December 1997 £	31 March 1997 £
United Kingdom corporation tax at 31% (year to 31 March 1997 : 33%):		
United Kingdom corporation tax: prior year	-	100,884
Transfer from deferred taxation	(1,027,000)	871,000
Group relief receivable	(2,574,000)	(1,474,506)
	<u>(3,601,000)</u>	<u>(502,622)</u>

## NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 1997 CONTINUED

## 10 Tangible fixed assets

	Freehold land and buildings £	Long leasehold land and buildings £	Short leasehold land and buildings £	Plant and equipment £	Total £
<b>Cost:</b>					
At 1 April 1997	9,030,562	-	529,557	40,415,392	49,975,511
Additions	148,615	-	-	1,297,571	1,446,186
Transfers from group undertakings	220,092	409,636	-	8,971,726	9,601,454
Disposals	-	-	(23,667)	(6,384,944)	(6,408,611)
Transfers to group undertakings	-	(409,636)	-	(3,387)	(413,023)
Reclassification	(54,770)	470,101	(415,331)	-	-
<b>At 31 December 1997</b>	<b>9,344,499</b>	<b>470,101</b>	<b>90,559</b>	<b>44,296,358</b>	<b>54,201,517</b>
<b>Depreciation:</b>					
At 1 April 1997	1,122,172	-	462,579	24,417,817	26,002,568
Charge for period - ordinary	160,283	-	86,989	2,513,900	2,761,172
- exceptional	-	-	-	2,733,338	2,733,338
Transfers from group undertakings	70,144	118,085	-	8,321,844	8,510,073
Disposals	-	-	(23,667)	(6,344,835)	(6,368,502)
Transfers to group undertakings	-	(118,085)	-	(448)	(118,533)
Reclassification	344,841	10,502	(435,342)	79,999	-
<b>At 31 December 1997</b>	<b>1,697,440</b>	<b>10,502</b>	<b>90,559</b>	<b>31,721,615</b>	<b>33,520,116</b>
<b>Net book value</b>					
At 31 December 1997	7,647,059	459,599	-	12,574,743	20,681,401
At 31 March 1997	7,908,390	-	66,978	15,997,575	23,972,943

Included within plant and equipment are assets with a net book value of £2,035,603 (year to 31 March 1997 : £5,413,888) held under finance lease agreements. Depreciation of £957,399 (and accelerated depreciation of £2,733,338 (year to 31 March 1997 : £1,198,409) has been charged on these assets in the period.

## 11 Stocks

	31 December 1997 £	31 March 1997 £
Consumable stores and spares	322,030	172,937

## NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 1997 CONTINUED

## 12 Debtors

	31 December 1997 £	31 March 1997 £
Trade debtors	8,047,715	7,180,003
Amounts owed by group undertakings	4,592,841	4,319,412
Other debtors	203,243	56,971
Prepayments and accrued income	577,195	264,426
Corporation tax recoverable	2,574,000	-
	<u>15,994,994</u>	<u>11,820,812</u>

## 13 Creditors: amounts falling due within one year

	31 December 1997 £	31 March 1997 £
Bank loans and overdrafts	14,312,102	6,343,862
Obligations under finance leases	1,239,788	1,168,961
Trade creditors	2,434,732	3,757,939
Amounts owed to group undertakings	14,667,379	13,032,327
Other creditors	433,144	845,348
Taxation	13,982	16,245
Social Security	141,076	198,289
Accruals and deferred income	1,793,351	1,187,268
	<u>35,035,554</u>	<u>26,550,239</u>

## 14 Creditors: amounts falling due after more than one year

	31 December 1997 £	31 March 1997 £
Amounts owed to group undertakings	9,007,584	8,975,679
Obligations under finance leases	2,997,503	3,820,274
	<u>12,005,087</u>	<u>12,795,953</u>

The amounts owed to group undertakings represent a current account which will not be called for repayment in preference to the company's other liabilities.

## NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 1997 CONTINUED

## 14 Creditors: amounts falling due after more than one year (continued)

The obligations under finance leases are repayable as follows:

	31 December 1997 £	31 March 1997 £
In one year or less	1,239,788	1,168,961
Between one and two years	1,055,456	1,145,940
Between two and five years	1,942,047	2,674,334
	<u>4,237,291</u>	<u>4,989,235</u>

## 15 Provision for liabilities and charges

	31 December 1997 £	31 March 1997 £
Deferred taxation (see (a) below)	72,000	1,099,000
Other provision (see (b) below)	3,900,000	1,496,740
	<u>3,972,000</u>	<u>2,595,740</u>

(a) Movements on the provision for deferred taxation are:

	31 December 1997 £	31 March 1997 £
At 1 April 1997	1,099,000	1,099,000
Transfer to profit and loss account	(1,027,000)	-
At 31 December 1997	<u>72,000</u>	<u>1,099,000</u>

Analysis of the provision and the full potential liability:

	31 December 1997		31 March 1997	
	Full potential liability £	Amount provided £	Full potential liability £	Amount provided £
Accelerated capital allowances and other timing differences	<u>92,000</u>	<u>72,000</u>	<u>1,376,609</u>	<u>1,099,000</u>

## NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 1997 CONTINUED

## 15 Provision for liabilities and charges (continued)

(b) Movements on the other provision which relates to reorganisation and upgrade of facilities is:

	£
At 1 April 1997	1,496,740
Provided in period (note 4(a))	3,164,666
Utilised in period	(761,406)
At 31 December 1997	<u>3,900,000</u>

## 16 Called up share capital

	31 December 1997 £	31 March 1997 £
Authorised, allotted, called up and fully paid: 1,000 ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>

## 17 Reconciliation of movements in shareholders' funds

	31 December 1997 £	31 March 1997 £
Loss for the financial period	(8,038,396)	(2,530,840)
Opening shareholders' funds	<u>(5,956,810)</u>	<u>(3,425,970)</u>
Closing shareholders' funds	<u>(13,995,206)</u>	<u>(5,956,810)</u>

## 18 Financial and capital commitments

The company has financial commitments in respect of operating leases in the next year as follows:

	Plant and equipment £	Land and buildings £
On leases where the commitments expires:		
Within one year	122,710	-
Between two and five years	626,621	-
After five years	62,280	-
	<u>811,611</u>	<u>-</u>

The company has capital commitments authorised and contracted for at 31 December 1997 of £120,909 (year to 31 March 1997 : £317,154).

## NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 1997 CONTINUED

**19 Contingent liabilities**

The company has guaranteed the bank borrowings of certain fellow group undertakings which, at 31 December 1997, amounted to £26,199,000 (year to 31 March 1997 : £23,789,000). It is not expected that any liability will be incurred by the company in respect of these guarantees.

Performance bonds and indemnities totalling £215,000 have been given by banks on behalf of, and with recourse to Effluent Disposal Limited. It is not expected that any liability will be incurred under these performance bonds and indemnities.

**20 Pensions**

Leigh Interests plc operates a pension scheme covering the majority of company employees. The charge is included in the employment costs disclosed in these financial statements. The scheme is administered externally and is of the defined benefit type.

The pension charges in respect of the scheme are calculated by independent qualified actuaries in compliance with the requirements of SSAP 24.

The scheme is valued triennially using the attained age method and kept under review by actuaries in the intervening years. The actuarial valuation at 1 April 1995 confirmed that the scheme was adequately funded to meet its current and anticipated future pension liabilities. The most important actuarial assumptions were:

Assumed long-term rate of:

Investment returns	10.0%
Salary increases	7.5%
Dividend increases	5.0%

At the date of the actuarial valuation referred to above, the market value of the assets of the scheme was £16,087,000 which was sufficient to cover 108% of the actuarial value of liabilities.

The next actuarial valuation will be as at 1 April 1998.

**21 Ultimate parent undertaking**

The directors regard Compagnie Générale des Eaux S.A., a company registered in France, as the ultimate parent undertaking and the ultimate controlling party. Copies of the parent's consolidated financial statements may be obtained from The Secretary, 52, Rue d'Anjou, 75384 Paris Cedex 08.