

Registered no: 3595980

HLC WASTE MANAGEMENT SERVICES LIMITED

**Annual report
for the year ended 31 December 2003**



HLC WASTE MANAGEMENT SERVICES LIMITED

Annual report for the year ended 31 December 2003

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**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 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 under the terms of a management services contract. 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 reliant upon a management services contract with HLC (Neath Port Talbot) Limited (HLCNPT), a related company. HLCNPT is working with the principal supplier of waste to rectify issues arising in relation to meeting contractual terms which resulted from delays in commissioning. HLCNPT is also working with the contractor to rectify technical difficulties. The delay in commissioning has resulted in increased expenditure in HLCNPT against plan, which is being funded by its secured lenders. Following apparent breaches by HLCNPT of certain obligations in the facilities' agreement relating to the secured borrowings, HLCNPT is in regular discussions with its secured lenders who have granted a series of conditional short-term waivers, the current waiver extended until 31 December 2004.

HLCNPT is currently in discussions with the local authority as regards future operations. As part of those discussions, agreement is expected to be reached with its secured lenders and unsecured lenders that should lead to a rescheduling and restructuring of HLCNPT's indebtedness. Given the degree of uncertainty, the directors are unable to assess the future cash flows that will be generated by the plant.

The directors are confident that HLCNPT can reach agreement with the local authority and its lenders to ensure that the company has sufficient funds to remain in operational existence. This will be dependent on the outcome of negotiations 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 ended on that date, except where indicated, are listed below:

H L Carvalho

J R Evans (appointed 12 September 2003)

During the financial year A H Roberts and S Penny both resigned as directors on 24 June 2003, A N D P M Ferro resigned as a director on 18 August 2003, B Harding was appointed 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 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 interests of the directors in the share capital of the holding company will be shown in the directors' report on that company.

Directors' interests in contracts with the company

Except for the matters set out in note 18 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 9 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
Director

14 October 2004



**Independent auditors' report to the members of
HLC WASTE MANAGEMENT SERVICES LIMITED**

We have audited the financial statements which comprise the profit and loss account, the balance sheet 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.

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

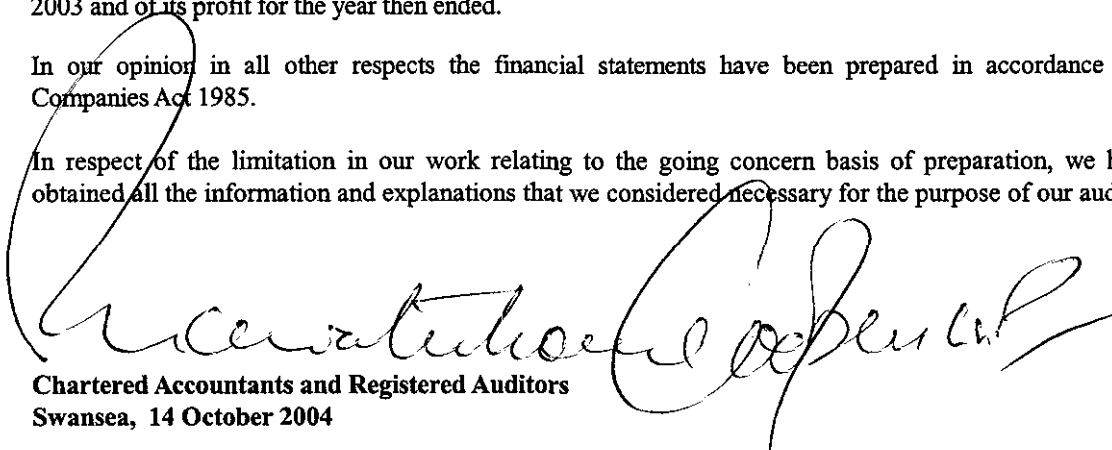
**Independent auditors' report to the members of
HLC WASTE MANAGEMENT SERVICES LIMITED (continued)**

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 profit for the year then ended.

In our opinion 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, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.



**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	1,914,873	612,747
Cost of sales		(1,134,275)	(460,383)
Gross profit		780,598	152,364
Net operating expenses	3	(744,289)	(31,084)
Operating profit	4	36,309	121,280
Interest payable and similar charges	7	-	(153)
Profit on ordinary activities before taxation		36,309	121,127
Tax on profit on ordinary activities	8	-	-
Profit for the financial year	14	36,309	121,127
Statement of retained profits/(accumulated losses)			
Accumulated losses at 1 January		(29,700)	(150,827)
Profit for the year		36,309	121,127
Retained profits/(accumulated losses) at 31 December		6,609	(29,700)

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

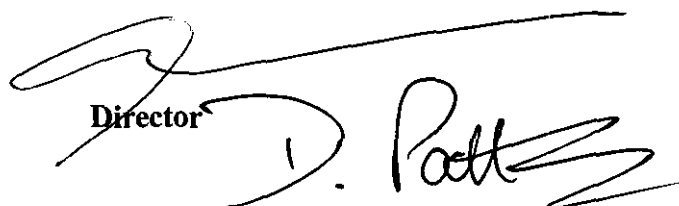
There is no difference between the operating profit and the profit for the year stated above, and their historical cost equivalents.

The turnover and operating profit 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	9		37,498		27,359
Current assets					
Debtors	10	318,341		624,653	
Cash at bank and in hand		3,025		24,623	
		321,366		649,276	
Creditors: amounts falling due within one year	11	(202,255)		(556,335)	
Net current assets			119,111		92,941
Total assets less current liabilities			156,609		120,300
Net assets			156,609		120,300
Capital and reserves					
Called-up share capital	13		150,000		150,000
Profit and loss account			6,609		(29,700)
Equity shareholders' funds	14		156,609		120,300

The financial statements on pages 6 to 13 were approved by the board of directors on 14 October 2004 and were signed on its behalf by:



 Director

**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 preparing the financial statements - going concern

During the year ended 31 December 2003 the company has achieved profits of £36,309. During the financial year the plant which the company operates experienced a fire in August 2003 and is currently not operational. The directors expect the plant to become operational during 2004.

The company relied on its related company, HLC (Neath Port Talbot) Limited, for its operational existence. At 31 December 2003 the company was owed £312,369 by the related company.

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 related 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 related company, however, the quantum and timing of these net recoveries cannot be reliably estimated.

The related company currently meets its day-to-day working capital requirements through operational cash flow and additional facilities afforded by the secured lenders. Following breaches by the related company of certain obligations in the facilities agreements relating to the secured borrowings, it 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 related company's indebtedness so as to remedy the breaches in the facilities agreements relating to the secured borrowings.

Since the directors expect the discussions with the secured and unsecured lenders to lead to a rescheduling or reorganisation of the related company's indebtedness so as to remedy the breaches in the facilities agreements relating to the secured borrowings, and the directors consider that the related company will reach a satisfactory resolution of its technical difficulties which will lead to operational stability, 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.

Basis of accounting

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

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation.

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. The principal annual rates used for this purpose on all tangible fixed assets is 20%.

Turnover

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

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.

Cash flow statement

The company is a small company and is therefore exempt under FRS 1 from preparing a cash flow statement.

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

Turnover consists entirely of sales arising from the principal activity and arose entirely in the United Kingdom.

3 Net operating expenses

	2003 £	2002 £
Continuing operations		
Administrative expenses	744,289	189,789
Amounts due to related companies written off (see note 5)	-	(158,705)
	744,289	31,084

4 Operating profit

Operating profit is stated after charging:

	2003 £	2002 £
Auditors' remuneration	5,000	5,000
Depreciation of tangible fixed assets	7,055	2,645
Hire of plant and machinery	47,235	12,023
And crediting:		
Amounts due to related companies written off (see note 5)	-	158,705

5 Amounts due to related companies written off

During the previous financial year the company received waivers from fellow related companies of amounts of £158,705 (see note 18). These amounts due were written off in the prior years financial statements.

6 Employee information

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

	2003	2002
Directors	4	4
Administration	11	11
Production	40	31
	55	46

	2003 £	2002 £
Staff costs for the above persons		
Wages and salaries	973,791	420,652
Social security costs	89,733	36,545
Pension costs	2,058	1,781
	1,065,582	458,978

There was no remuneration paid by the company to the directors during the financial year or the previous financial year.

7 Interest payable and similar charges

	2003 £	2002 £
On bank overdrafts and other loans	-	153

8 Tax on profit on ordinary activities

	2003 £	2002 £
Current tax:		
UK corporation tax on profit for the year	-	-
Deferred tax:		
Origination and reversal of timing differences	-	-
Tax on profit on ordinary activities	-	-

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

	2003 £	2002 £
Profit on ordinary activities before tax	36,309	121,127
Profit on ordinary activities at the UK tax rate of 30%	10,893	36,338
Effects:		
Expenses not deductible for tax purposes	9,000	8,718
Accelerated capital allowances / other timing differences	(972)	(45,056)
Utilisation of losses	(18,921)	-
Total current tax charge	-	-

The company has not provided for the deferred tax asset of £28,000 (2002:£1,000) on the grounds that the future recoverability is uncertain.

9 Tangible fixed assets

	Fixtures, fittings and equipment £	Plant and machinery £	Total £
Cost			
At 1 January 2003	21,376	8,628	30,004
Additions	8,501	8,693	17,194
At 31 December 2003	29,877	17,321	47,198
Depreciation			
At 1 January 2003	1,967	678	2,645
Charge for the year	4,810	2,245	7,055
At 31 December 2003	6,777	2,923	9,700
Net book amount			
At 31 December 2003	23,100	14,398	37,498
At 31 December 2002	19,409	7,950	27,359

10 Debtors

	2003 £	2002 £
Amounts falling due within one year		
Amounts owed by related companies (see note 18)	312,369	2,568
Other debtors	358	9,338
Prepayments and accrued income	5,614	612,747
	318,341	624,653

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

11 Creditors: amounts falling due within one year

	2003 £	2002 £
Trade creditors	110,098	35,126
Taxation and social security	30,860	28,968
Other creditors	-	10,195
Accruals and deferred income	61,297	37,009
Amounts due to related companies (see note 18)	-	445,037
	202,255	556,335

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:				
Excess of capital allowances over depreciation	2,000	1,000	-	-
Losses	(2,000)	(1,000)	(28,000)	(1,000)
	-	-	(28,000)	(1,000)

13 Called up share capital

	2003 £	2002 £
Authorised 500,000 ordinary shares of £1 each	500,000	500,000
Allotted, called up and fully paid 150,000 ordinary shares of £1 each	150,000	150,000

14 Reconciliation of movements in shareholders' funds

	2003 £	2002 £
Opening shareholders' funds/(deficit)	120,300	(120,827)
Profit for the financial year	36,309	121,127
Issue of shares	-	120,000
Closing shareholders' funds	156,609	120,300

15 Capital commitments

The directors of the company have not approved or committed to any capital expenditure at 31 December 2003.

16 Contingent liabilities

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

17 Ultimate parent undertaking and control

The company is a subsidiary company of HLC Environmental Projects Limited which owns 80.1% of the issued ordinary shares. The remaining 19.9% of the issued ordinary shares are owned by Neath Port Talbot Waste Management Company Limited. The directors of the company consider that 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.

18 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:

	2003 £	2002 £
HLC Engenharia e Gestao de Projectos SA		
<u>Amount due from included in debtors</u>	<u>19,195</u>	<u>19,195</u>
<u>Provision against amount due from (see below)</u>	<u>(19,195)</u>	<u>(19,195)</u>
HLC Henly Burrows Limited		
<u>Amounts due from included in debtors</u>	<u>9,966</u>	<u>9,966</u>
<u>Provision against amount due from (see below)</u>	<u>(9,966)</u>	<u>(9,966)</u>
HLC (Neath Port Talbot) Limited		
<u>Amounts due from included in debtors : amounts falling due within one year</u>	<u>312,369</u>	<u>2,568</u>
<u>Amounts due to included in creditors: amounts falling due within one year</u>	<u>-</u>	<u>445,000</u>
<u>Accrued income due included in prepayments and accrued income at 31 December</u>	<u>-</u>	<u>612,747</u>
<u>Accrued charge due included in accruals and deferred income at 31 December</u>	<u>-</u>	<u>21,000</u>
HLC Environmental Projects Limited		
<u>Amounts due to included in creditors: amounts falling due within one year</u>	<u>-</u>	<u>37</u>

In view of the doubts over the recoverability of the amounts of £19,195 due from HLC Engenharia e Gestao de Projectos SA and £9,966 due from HLC Henly Burrows Limited which have not been paid to the company since the end of the financial year the directors of the company have made provisions against the debts due.

The following amounts were due to related companies and were waived by these related companies (see note 5) and written off to the profit and loss account during the previous financial year:

	2003 £	2002 £
<u>HLC Environmental Projects Limited</u>	<u>-</u>	<u>158,705</u>