Fountains Forestry Limited

Directors' report and financial statements

Registered number 4090138

For the period ended 31 August 2010

Contents

Directors' report	1
Statement of directors' responsibilities in respect of the directors' report and the financial statements	3
Independent auditors' report to the members of Fountains Forestry Limited	4
Profit and loss account	6
Balance sheet	7
Reconciliation of movements in equity shareholders' funds	8
Notes	9

Directors' report

The directors present their annual report and the audited financial statements for the 11 month period ended 31 August 2010

Principal activities and business review

The principal activity of the company is woodland management and related services

Company performance

The period under review has seen an unprecedented level change, as a result of the group being sold to Connaught plc in September 2009, its integration into the Connaught group, and the subsequent administration of Connaught plc in September 2010 On 7 March 2011, the company reached agreement with the administrators of Connaught Plc to sell the company to a group of financial institutions The company is now totally independent from the Connaught group Further information in respect of events after the balance sheet date can be found in note 19

Fountains Forestry turnover and margins in 2010 were increasingly dominated by the activities of commercial forest management and consultancy services The strategic focus continues to be on delivering consultancy led services and the proportion of forestry contracting continued to diminish in 2010 to 20% in total activity

The forestry property and timber markets remained relatively stable in 2010 The forward order book for consultancy services has grown year on year, based on repeat business under long term contracts, increasing timber harvesting activity and associated establishment operations Notable new customers include a leading UK based forestry investment partnership and also developers seeking to enter the emerging market for renewable energy and heat, though burning of forest derived biomass

Results and dividends

The profit for the financial year was £489,000 *(year ended 30 September 2009 £448,000)* The directors do not recommend the payment of a dividend for the year *(year ended 30 September 2009 £Nil)*

Directors

The directors of the company were as follows

S Hill	(resigned 3 September 2010)
AJ Sandels	
I Carlisle	(resigned 14 October 2010)
J Cavanagh	(resigned 31 December 2010)
D Wells	(resigned 14 October 2010)
MJ Turnock	(resigned 14 October 2010)

Employee involvement

The directors recognise the importance of good communications with employees and their involvement in the business This is achieved by regular meetings with employees and management

Employment of disabled persons

The policy of the company is to provide employment for disabled persons, including those who may become disabled in the company's employment, commensurate with their skills and, where appropriate, to make available training facilities to enable better use of their skills

Auditors

Subsequent to the period end, KPMG LLP were appointed as Administrators of the ultimate parent company Connaught Plc and certain of its subsidiaries, but not any of the Fountains group companies, which are not material to Connaught Having regard to applicable ethical standards KPMG LLP has advised, and the directors have concurred, that KPMG LLP can be regarded as independent for the purposes of signing their opinion on the financial statements of the company for the period ended 31 August 2010

Directors' report *(continued)*

Statement of disclosures to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information

The report of the directors has been prepared in accordance with the special provisions relating to companies subject to the small companies regime within Part 15 of the Companies Act 2006

Approved by the board on 1 June 2011 and signed on its behalf by

AJ Sanders
Director

Blenheim Court
George Street
Banbury
Oxfordshire
OX16 5RA

Statement of directors' responsibilities in respect of the directors' report and the financial statements

The directors are responsible for preparing the directors' 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and 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 2006 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities

KPMG LLP
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

Independent auditors' report to the members of Fountains Forestry Limited

We have audited the financial statements of Fountains Forestry Limited for the period ended 31 August 2010 set out on pages 6 to 18 The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 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 auditors' 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 auditors

As explained more fully in the directors' responsibilities statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www frc org uk/apb/scope/UKNP.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 August 2010 and of its profit for the period then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements

Independent auditors' report to the members of Fountains Forestry Limited *(continued)*

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if in our opinion

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

GA Watts

GA Watts (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

1 June 2011

Profit and loss account
for the period ended 31 August 2010

	Note	**Period ended 31 August 2010 £000**	Year ended 30 September 2009 £000
Turnover	*2*	**3,023**	3,467
Operating expenses	*3*	**(2,539)**	(3,032)
Operating profit	*4*	**484**	435
Interest receivable and similar income	*5*	**1**	2
Interest payable and similar charges	*6*	**(3)**	-
Profit on ordinary activities before taxation		**482**	437
Taxation on profit on ordinary activities	*8*	**7**	11
Profit for the financial period	*16*	**489**	448

The company's activities all derive from continuing operations

There are no recognised gains and losses other than the profit for the current period and preceding year

Balance sheet
at 31 August 2010

	Note	2010		2009	
		£000	**£000**	£000	£000
Fıxed assets					
Intangıble fixed assets	*9*		**86**		96
Tangıble assets	*10*		**41**		78
			127		174
Current assets					
Debtors	*11*	**4,855**		4,357	
Cash		**1,055**		443	
		5,910		4,800	
Credıtors: Amounts fallıng due wıthın one year	*13*	**(3,209)**		(2,635)	
Net current assets			**2,701**		2,165
Net assets			**2,828**		2 339
Capıtal and reserves					
Called up share capıtal	*15*		**-**		-
Profit and loss account	*16*		**2,828**		2,339
Equıty shareholders' funds			**2,828**		2,339

These financıal statements were approved by the board of dırectors on 1 June 2011 and were sıgned on ıts behalf by

AJ Sanders
Dırector

Company number 4090138

Reconciliation of movements in equity shareholders' funds
for the period ended 31 August 2010

	Period ended 31 August 2010 £000	Year ended 30 September 2009 £000
Opening shareholders' funds	**2,339**	1,899
Profit for the financial period	**489**	448
Modification of equity share based payments	**-**	(8)
Closing shareholders' funds	**2,828**	2,339

Notes
(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom and in accordance with the historical cost convention

Going concern

The company's parent company has confirmed that it will continue to provide financial support to the company if needed The directors consider that this should enable the company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment However, as with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue but they have no reason to believe that a material uncertainty exists that may cast doubt about the ability of the company to continue as a going concern

The financial statements of Fountains Limited for the period ended 31 August 2010 disclose the basis under which these financial statements have been prepared The directors of Fountains Limited conclude in those financial statements that they believe the going concern basis of preparation continues to be appropriate

Turnover

Turnover, which excludes value added tax, represents the value of the goods and services supplied Turnover is attributable to one continuing activity, the provision of woodland management and related services

Intangible fixed assets

Research and development in the research phase is expensed immediately and when in development the costs may be capitalised if the following conditions are met

- it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise,
- the cost of the asset can be measured reliably

Tangible fixed assets

The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition

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 their expected useful economic lives which are considered to be

Motor vehicles	-	2 to 5 years
Computer equipment	-	2 to 5 years
Plant, machinery, fixtures and fittings	-	2 to 10 years

Share-based payment

The share option programme allowed employees to acquire shares of the parent company, fountains Limited The fair value of options granted after 7 November 2002 and those not yet vested at the year end, was previously recognised as an employee expense in the profit and loss account The fair value was measured at grant date and spread over the period during which the employees became unconditionally entitled to the options The fair value of the options granted was measured using an option pricing model, taking into account the terms and conditions upon which the options were granted The amount recognised as an expense was adjusted to reflect the actual number of share options which vest

In 2009 the scheme was modified and became a cash settled scheme All cumulative amounts charged to equity were reallocated to creditors The creditor was then remeasured at fair value prior to settlement of the arrangement Further details of this modification are set out in the Fountains Limited financial statements

Notes *(continued)*

1 Accounting policies *(continued)*

Operating leases

Rental charges for operating leases are charged against profit in the year to which they relate

Amounts recoverable on contracts

The value of amounts recoverable on contracts represents the value of work performed, including attributable profit, but not yet invoiced to the customer Fees received on account in excess of amounts recoverable are shown separately within creditors Losses are provided for in full as soon as they are recognised These amounts are assessed through detailed monthly contract reviews

Taxation

The charge for taxation is based on the result for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes, which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19

Pension costs

The company operates a defined contribution pension scheme The assets of the scheme are held separately from those of the company in an independently administered fund The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period

The company participates in a group wide pension scheme providing benefits based on final pensionable pay The assets of the scheme are held separately from those of the company The company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 "Retirement benefits", accounts for the scheme as if it were a defined contribution scheme As a result, the amount charged to the profit and loss account represents contributions payable to the scheme in respect of the accounting period

Cash flow statement

The company is a wholly owned subsidiary of Fountains Limited and its cash flows are included in the consolidated financial statements of Fountains Limited, which are publicly available Consequently, the company has taken advantage of the exemption from producing a cash flow statement under the terms of FRS 1 (revised 1996)

Related party disclosures

As a wholly owned subsidiary of Fountains Limited, the company has taken advantage of the exemption contained within FRS8 not to provide information on related party transactions with other undertakings within the Fountains Limited group

The company is not able to take advantage of the exemption with regards to undertakings within the Connaught Plc group as a set of consolidated financial statements will not be produced for Connaught Plc, however this company has no transactions to disclose

Notes *(continued)*

2 Turnover

The company's activities comprise one business segment All turnover originates in, and has an ultimate destination of, the United Kingdom

3 Operating expenses

	Period ended 31 August 2010 £000	Year ended 30 September 2009 £000
Materials	**47**	31
Other external charges	**837**	1,603
Staff costs	**1,021**	971
Depreciation and amortisation	**44**	23
Other operating charges	**590**	404
	2,539	3,032

4 Operating profit

	Period ended 31 August 2010 £000	Year ended 30 September 2009 £000
Operating profit is stated after charging/(crediting)		
(Profit)/loss on disposal of tangible fixed assets	**(48)**	9
Depreciation and amortisation of fixed assets	**22**	23
Operating leases		
Hire of plant and machinery	**60**	75
Hire of other assets	**48**	51
Fees payable to the company's auditor in respect of		
Audit of these financial statements pursuant to legislation	**-**	5
Taxation services	**1**	1

The auditor's remuneration for audit services for the period ended 31 August 2010 was £10,000 and was borne by a fellow group company

5 Interest receivable and similar income

	Period ended 31 August 2010 £000	Year ended 30 September 2009 £000
Bank interest	**1**	2

6 Interest payable and similar charges

	Period ended 31 August 2010 £000	Year ended 30 September 2009 £000
Bank charges	**3**	-

Notes *(continued)*

7 Staff numbers and costs

The average number of persons employed by the company (including directors) during the period was as follows

	Number of employees	
	Period ended 31 August 2010	Year ended 30 September 2009
Production	**35**	34
Administration	**9**	9
	44	43

The aggregate payroll costs of these persons were as follows

	£000	£000
Wages and salaries	**911**	861
Social security costs	**87**	89
Share-based payment expense	**-**	13
Other pension costs	**23**	64
	1,021	1,027

Aggregate emoluments paid to directors in the year amounted to £70,000 *(30 September 2009 £79,000)* Retirement benefits accrued to one director under defined benefit schemes during the year *(30 September 2009 one director)*

8 Taxation

Analysis of credit in period

	Period ended 31 August 2010 £000	Year ended 30 September 2009 £000
UK corporation tax		
Adjusted in respect of prior year	**9**	(21)
Total current tax	**9**	(21)
Deferred tax (see note 12)		
Origination and reversal of timing differences	**(10)**	10
Effect of decreased tax rate	**1**	-
Adjustment in respect of prior years	**(7)**	-
Total deferred tax	**(16)**	10
Tax on profit on ordinary activities	**(7)**	(11)

Notes *(continued)*

8 Taxation *(continued)*

Factors affecting the tax charge for the current period

The current tax charge for the period is lower *(2009 lower)* than the standard rate of corporation tax in the UK of 28% *(2009 28%)* The differences are explained below

	Period ended 31 August 2010 £000	Year ended 30 September 2009 £000
Current tax reconciliation		
Profit on ordinary activities before tax	**482**	437
Current tax at 28% *(2009 28%)*	**135**	122
Effects of		
Expenses not deductible for tax purposes	**30**	34
Depreciation for the year in excess of capital allowances	**10**	(4)
Group relief claimed not paid for	**(175)**	(152)
Prior year adjustments	**9**	(21)
Total current tax charge/(credit) (see above)	**9**	(21)

The Budget on 23 March 2011 announced that the UK corporation tax rate will reduce from 28% to 23% over a period of 4 years from 2011 The first reduction in the UK corporation tax rate from 28% to 27% was substantively enacted on 20 July 2010 and will be effective from 1 April 2011 As such, the deferred tax balances outstanding at the balance sheet date are stated at 27% It has not yet been possible to quantify the full anticipated effect of the announced further 4% rate reduction, although this will further reduce the Company's future current tax charge and reduce the Company's deferred tax liabilities accordingly

9 Intangible assets

	Development costs £000
Cost	
At beginning and end of period	110
Amortisation	
At beginning of period	14
Charge for the period	10
At end of period	24
Net book value	
At 31 August 2010	**86**
At 30 September 2009	96

Development costs are amortised over a period of five years once development ceases

Notes *(continued)*

10 Tangible fixed assets

	Freehold land and buildings	Plant and machinery, motor vehicles, fixtures and fittings	Total
	£000	£000	£000
Cost			
At beginning of period	41	420	461
Additions	-	14	14
Disposals	(41)	(11)	(52)
At end of period	-	423	423
Depreciation			
At beginning of period	2	381	383
Charge for the period	-	12	12
Disposals	(2)	(11)	(13)
At end of period	-	382	382
Net book value			
At 31 August 2010	**-**	**41**	**41**
At 30 September 2009	39	39	78

11 Debtors

	31 August 2010	30 September 2009
	£000	£000
Trade debtors	**667**	493
Amounts recoverable on contracts	**2,599**	2,129
Amounts owed by group undertakings	**1,489**	1,520
Other debtors	**65**	129
Prepayments and accrued income	**11**	78
Deferred tax (see note 12)	**24**	8
	4,855	4,357

12 Deferred tax asset

Full provision for deferred taxation has been made at 27% *(30 September 2009 28%)* analysed as follows

	£000
At beginning of period	8
Deferred tax credited to profit and loss account	16
At end of period	**24**

Notes *(continued)*

12 Deferred taxation *(continued)*

	Period ended 31 August 2010 £000	Year ended 30 September 2009 £000
Accelerated capital allowances	**21**	4
Other timing differences	**3**	4
	24	8

13 Creditors: Amounts falling due within one year

	31 August 2010 £000	30 September 2009 £000
Payments on account	**2,740**	2,076
Trade creditors	**133**	84
Corporation tax	**-**	9
Other taxation and social security	**76**	12
Other creditors	**51**	16
Accruals and deferred income	**209**	438
	3,209	2,635

14 Contingent liabilities

At 31 August 2010, the company is party to a guarantee given in respect of bank borrowings of its ultimate parent undertaking, Connaught Plc and its subsidiaries At 31 August 2010, the company had a contingent liability of £220 million *(2009 £Nil)* in respect of this A liability has not been recognised in the financial statements as the directors best estimate of the settlement amount is £0, as demonstrated in note 20 which sets out details of all subsequent events

At 31 August 2010, the company was also party to a cross guarantee in respect of various bond liabilities of its parent undertaking, Connaught Plc and its subsidiaries At 31 August 2010, the company had a contingent liability of £8 8 million *(2009 £Nil)* in respect of this Subsequent to the period end the directors of Fountains Limited reached agreement with the various parties to remove these guarantees in exchange for £2,250,000 of cash This liability has been settled by the group's bankers with no recourse to the Fountains group of companies and therefore no provision has been made

At 31 August 2010, the company was also party to a cross guarantee in respect of VAT and PAYE liabilities of its parent undertaking, Connaught Plc and its subsidiaries At 31 August 2010, the company had a contingent liability of £11 8 million *(2009 £Nil)* in respect of this Subsequent to the period end the directors of Fountains Limited reached agreement with HMRC to remove these guarantees in exchange for the agreement of a repayment plan in respect of existing liabilities within the group No further provision was required in addition to amounts already provided

15 Share capital

	31 August 2010 £	30 September 2009 £
Issued, called up and fully paid:		
1 ordinary share of £1	**1**	1

Notes *(continued)*

16 Reserves

	Profit and loss account £000
At beginning of period	2,339
Profit for the financial period	489
At end of period	**2,828**

17 Financial commitments

The company had annual commitments under non-cancellable operating leases as follows

		Other
	31 August 2010 £000	30 September 2009 £000
Operating leases which expire		
Within one year	**15**	70
Within two to five years inclusive	**31**	43
After more than five years	**-**	10
	46	123

18 Pension schemes

The company participates in defined contribution schemes, the assets of which are held separately from those of the company and are invested with an insurance company and external fund managers

The pension cost charged represents contributions payable by the company in respect of

	Period ended 31 August 2010 £000	Year ended 30 September 2009 £000
Defined contribution schemes	**23**	40

Contributions of £Nil were accrued at the balance sheet date *(30 September 2009 £Nil)*

The company also participates in a defined benefit pension scheme operated for the group The company's share of the underlying assets and liabilities of the scheme cannot be determined on a consistent and reasonable basis due to multiple companies contributing to the scheme for their respective members Consequently, under FRS 17, the accounting and disclosure of pension costs and balances for defined benefit pension arrangements will be the same as for defined contribution schemes The most recent actuarial information of the scheme is detailed below

At 31 August 2010, the scheme had a net deficit after deferred tax on an FRS 17 basis of £1,666,000 *(30 September 2009 £1,690,000)*

The disclosure for the group is included in the financial statements of the parent company, Fountains Limited

Notes *(continued)*

18 Pension schemes *(continued)*

The defined benefit scheme assets are held separately from those of the company The scheme is closed to new entrants and therefore, under the projected unit method, the current service cost will increase as the members of the scheme approach retirement

Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees working lives with the company The contributions are determined by an independent qualified actuary on the basis of triennial valuations using the projected unit method The most recent full actuarial valuation was at 30 September 2006

19 Post balance sheet event

On 7 March 2011 the company and the group of companies of which this company is part of, reached agreement with the administrators of Connaught Plc and its syndicate of lenders with regards to the cross guarantees that existed at the balance sheet date which materialised on 8 September 2010 when Connaught Plc entered into administration

A summary of the various transactions surrounding this agreement are set out below

- The syndicate of lenders incorporate a new company, Fountains Holdings 1 Limited which in turn acquires another new company, Fountains Holdings 2 Limited
- Fountains Holdings 2 Limited acquires 100% of the share capital of Fountains Limited and Fountains Environmental Limited from Connaught Plc for a total of £2 Fountains Limited retains ownership of Fountains Support Services Limited and Fountains Forestry Limited
- Connaught Partnerships releases its £0 1 million intercompany receivable due from Fountains Environmental Limited (the balance is settled in cash)
- Connaught Plc assigns its intercompany receivable from Fountains Support Services Limited to Fountains Environmental Limited
- The syndicate of lenders provide Fountains Limited with £7 5 million of working capital through an on demand overdraft facility which is subsequently lent on to Fountains Environmental Limited and used to repay the Connaught Partnerships creditor and an existing Natwest overdraft facility
- The syndicate of lenders novate £55 million of bank loan into Fountains Environmental Limited and Fountains Limited (£29 million and £26 million respectively) in exchange for a repayable on demand debt due from Connaught Plc and an agreement to waive all cross guarantees in place over each company within the group
- The directors of both companies consider the receivable from Connaught Plc to be unrecoverable
- The administrators of Connaught Plc agree to waive the intercompany debt totalling £14 8 million owed to it by Fountains Environmental Limited
- The bank loans novated into Fountains Environmental Limited and Fountains Limited totalling £55 million along with the £7 5 million new overdraft facility are novated into Fountains Holdings 2 Limited in exchange for intercompany debt totalling £62 5 million
- The bank loans novated into Fountains Holdings 2 Limited are novated into Fountains Holdings 1 Limited in exchange for intercompany debt
- All intercompany balances are capitalised in exchange for share capital
- The syndicate of lenders agree to capitalise the novated bank loans in exchange for share capital

Notes *(continued)*

20 Ultimate holding company

As the holder of all the company's share capital, the company's immediate holding company is Fountains Limited, a company incorporated in England and Wales

Copies of the financial statements of Fountains Limited are available to the public from the company's registered office at

Blenheim Court
George Street
Banbury
Oxfordshire
OX16 5RA

The ultimate holding company at the period end was Connaught Plc

From 7 March 2011, the ultimate holding company is Fountains Holdings 1 Limited