

Churngold Recycling Limited
Financial statements
For the year ended 31 May 2007

Grant Thornton 

Company No. 4739487

Company information

Company registration number	4739487
Registered office	St Andrews House St Andrews Road Avonmouth Bristol BS11 9DQ
Directors	J R Ancell (Chairman) J D Barcham (Managing Director) R N Tredwin (Finance Director)
Secretary	R N Tredwin
Bankers	Bank of Scotland 21 Prince Street Bristol BS99 7JG
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 company for the year ended 31 May 2007.

Principal activities and business review

The principal activities of the company continue to be the supply of tipper lorries and plant, the operation of inert landfill sites and waste and recycling activities.

Further investment has been made into the 4 acre yard in Avonmouth, now supported by a full waste management licence, exemptions for crushing / screening hardcore, processing waste materials and non hazardous soils.

The joint venture with Tarmac plc, Tarmac and Churngold Recycled Aggregates Limited is trading in line with expectations and we have moved the business to freehold sites to expand the business and reduce the cost base.

This year has seen further growth throughout our core business with improved margins across all business streams. Continued investment into health and safety, training, people and capital continues to strengthen and support growth in our company and assist us in managing and controlling risk.

Future developments

The company's waste and recycling activities are seen as offering considerable potential for development. The business will be strengthened with the appointment of a dedicated Environmental Manager who will help underpin growth in the waste and inert landfill site activities.

Efforts will continue to be made to increase the company's inert void space and waste and recycling activities supported by a planned enlargement in HGV vehicle fleet.

Results and dividends

The trading results for the year and the company's financial position at the end of the year are shown in the attached financial statements. The directors have not recommended a dividend.

Key performance indicators

		2007	2006	Change in the year
Financial metrics				
Revenue	£000	11,070	10,138	+ 9%
Earnings before interest, tax, depreciation, amortisation and central management charges	£000	1,426	979	+ 46%
Average debtor days	Days	61	58	+ 3
People				
Staff as at 31 May	No	66	59	+ 12%
Vehicles				
HGV tipper and waste lorries	No	39	34	+ 15%
Controlled void (inert) consented	m ³	920,000	1,040,000	- 12%
Controlled void (inert) unconsented	m ³	435,000	300,000	+ 45%
	m ³	<u>1,355,000</u>	<u>1,340,000</u>	<u>+ 1%</u>

Funding and risk management objectives and policies

The main risks arising are liquidity, credit, interest rate and environmental 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 company uses loan stock funds provided by the Directors, hire purchase facilities provided by a selection of major high street lenders and overdraft facilities provided by Bank of Scotland to fund the business. At the year end the company has access to undrawn committed borrowing facilities of £814,000. The maturity profile of committed banking facilities is regularly reviewed and such facilities are extended or replaced well in advance of their expiry. The company does not enter into speculative financial transactions and uses financial instruments (e.g. Trade Credit Insurance) for certain risk management purposes.

Credit Risk

The company's principal financial assets are cash and trade debtors. The company limits deposits to short term deposits with its bankers. The principal credit risk arises therefore from its debtors. In order to manage this risk, certain major customer accounts are credit insured.

The remaining credit risks are assessed through a mixture of payment history, third party credit references and an internet based credit system. Credit limits are regularly reviewed by the credit controller in conjunction with debt ageing and collection history.

Interest Rate Risk

The company reduces exposure to interest rates through a mixture of fixed rate loan stock and hire purchase contracts and variable rate interest rates for the overdraft facilities. The mortgage loan interest rate is hedged for periods of between 3 and 12 months.

Environmental Risk

The business operates in an area where environmental regulation is constantly changing. In addition to the wealth of experience within the company, third party qualified advisers are utilised for chemical testing, planning submissions, Health and Safety and licence/exemption applications to ensure that risks are controlled.

Directors

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

J R Ancell
J D Barcham
R N Tredwin
J R Henderson (Resigned as a director on 1 June 2007).

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 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 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 company 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 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.

In so far as the directors are aware:

- there is no relevant audit information of which the company'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

Report of the independent auditor to the members of Churngold Recycling Limited

We have audited the financial statements of Churngold Recycling Limited for the year ended 31 May 2007 which comprise the principal accounting policies, profit and loss account, balance sheet, cash flow statement, statement of total recognised gains and losses and notes 1 to 28. 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.

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 company's circumstances, consistently applied and adequately disclosed.

Report of the independent auditor to the members of Churngold Recycling Limited (continued)

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 company's affairs as at 31 May 2007 and of its profit 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, modified to include the revaluation of certain fixed assets.

Turnover

Turnover is the total amount receivable for goods and services provided, net of VAT and trade discounts.

Fixed assets

All fixed assets are initially recorded at cost.

Depreciation

Depreciation is calculated so as to write off the cost of an asset over the useful economic life of that asset as follows:

Freehold Property	-	over 40 years (straight line)
Plant & Machinery	-	over 1 to 7 years (straight line)
Motor Vehicles	-	over 4 to 6 years (straight line)
Leasehold Improvements	-	over the life of the lease (straight line)

Hire purchase agreements

Assets held under hire purchase agreements are capitalised and disclosed under tangible fixed assets at their fair value. The capital element of the future payments is treated as a liability. The interest element represents a constant proportion of the capital balance outstanding and is charged to the profit and loss account over the period of the agreement.

Finance lease agreements

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated in accordance with the above depreciation policies. Future instalments under such leases, net of finance charges, are included with creditors. Rentals payable are apportioned between the capital element which reduces the outstanding obligation for future instalments, and the finance element, which represents a constant proportion of the outstanding obligation for future instalments and is charged to the profit and loss account over the period of the lease.

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 company contributes to the personal pensions of all employees. 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 company 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.

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.

Joint ventures

In the opinion of the directors, the company is exempt from preparing consolidated financial statements and has therefore included the joint venture at cost, less amounts written off in accordance with FRS 9.

Government grants

Government grants in respect of capital expenditure are credited to provisions for liabilities and other charges and released to the profit and loss account by equal annual instalments over the expected useful lives of the relevant assets.

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.

Profit and loss account

	Note	2007 £000	2006 £000
Turnover	1	11,070	10,138
Cost of sales		(8,979)	(8,696)
Gross profit		2,091	1,442
Other operating charges	2	(1,316)	(1,074)
Operating profit	3	775	368
Interest receivable	6	4	3
Interest payable and similar charges	7	(175)	(178)
Profit on ordinary activities before taxation		604	193
Tax on profit on ordinary activities	8	(184)	(91)
Profit for the financial year	25	420	102

All of the activities of the company are classed as continuing.

Balance sheet

	Note	2007 £000	2006 £000
Fixed assets			
Tangible assets	10	3,316	2,902
Investments	11	12	12
		<u>3,328</u>	<u>2,914</u>
Current assets			
Debtors	12	2,544	1,985
Cash at bank and in hand		–	113
		<u>2,544</u>	<u>2,098</u>
Creditors: amounts falling due within one year	13	3,198	2,608
Net current liabilities		<u>(654)</u>	<u>(510)</u>
Total assets less current liabilities		<u>2,674</u>	<u>2,404</u>
Creditors: amounts falling due after more than one year	14	1,581	1,854
		<u>1,093</u>	<u>550</u>
Provisions for liabilities and charges			
Deferred taxation	18	38	53
Government grants	19	37	51
		<u>1,018</u>	<u>446</u>
Capital and reserves			
Share capital	23	–	–
Revaluation reserve	24	278	126
Profit and loss account	25	740	320
Shareholders' funds	26	<u>1,018</u>	<u>446</u>

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

J R Ancell (Chairman)

Cash flow statement

	Note	2007 £000	2006 £000
Net cash inflow from operating activities	27	1,256	948
Returns on investments and servicing of finance	27	(211)	(137)
Taxation	27	(134)	(13)
Capital expenditure and financial investment	27	(208)	(425)
Acquisitions and disposals			
Acquisition of shares in joint ventures		—	(12)
Net cash outflow from acquisitions and disposals		<u>—</u>	<u>(12)</u>
Equity dividends paid		(-)	(70)
Cash inflow before financing		<u>703</u>	<u>291</u>
Financing	27	(827)	(123)
(Decrease)/increase in cash	27	<u>(124)</u>	<u>168</u>

The accompanying accounting policies and notes form part of these financial statements.

Other primary statements

Statement of total recognised gains and losses

	2007	2006
	£000	£000
Profit for the financial year	420	102
Unrealised profit on revaluation of freehold property	<u>152</u>	<u>126</u>
Total gains and losses recognised for the year	<u><u>572</u></u>	<u><u>228</u></u>

Notes to the financial statements

1 Turnover

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

	2007 £000	2006 £000
United Kingdom	11,070	10,138

2 Other operating charges

	2007 £000	2006 £000
Administrative expenses	1,316	1,074

3 Operating profit

Operating profit is stated after charging/(crediting):

	2007 £000	2006 £000
Amortisation of government grants re fixed assets	(14)	(14)
Depreciation of owned fixed assets	234	166
Depreciation of assets held under finance leases and hire purchase agreements	303	327
Profit on disposal of fixed assets	(13)	(6)
Auditor's remuneration:		
Audit fees	4	4
Non-audit fees	2	2
Operating lease costs:		
Plant and equipment	368	480
Other items	126	163

4 Directors and employees

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

	2007	2006
	No	No
Administration and managerial	13	12
Operatives	47	44
	<u>60</u>	<u>56</u>

The aggregate payroll costs of the above were:

	2007	2006
	£000	£000
Wages and salaries	1,606	1,349
Social security costs	146	126
Other pension costs	48	22
	<u>1,800</u>	<u>1,497</u>

5 Directors

Remuneration in respect of directors was as follows:

	2007	2006
	£000	£000
Emoluments receivable	136	101
Value of company pension contributions to money purchase schemes	35	12
	<u>171</u>	<u>113</u>

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

	2007	2006
	No	No
Money purchase schemes	<u>1</u>	<u>1</u>

Share options have been issued to certain directors which will be satisfied from existing share capital.
 One director exercised share options during the year (2006 - one).

6 Interest receivable and similar income

	2007	2006
	£000	£000
Interest receivable from related undertakings	<u>4</u>	<u>3</u>

7 Interest payable and similar charges

	2007	2006
	£000	£000
Interest payable on bank borrowing	105	74
Loan stock interest	26	57
Finance charges payable under finance lease and hire purchase agreements	44	47
	<u>175</u>	<u>178</u>

8 Taxation on ordinary activities

(a) Analysis of charge in the year

	2007	2006
	£000	£000
Current tax:		
In respect of the year:		
UK Corporation tax based on the results for the year at 30% (2006 - 30%)	201	78
(Over)/under provision in prior year	(2)	3
Total current tax	<u>199</u>	<u>81</u>
Deferred tax:		
Origination and reversal of timing differences	(15)	10
Tax on profit on ordinary activities	<u>184</u>	<u>91</u>

(b) Factors affecting current tax charge

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

	2007	2006
	£000	£000
Profit on ordinary activities before taxation	<u>604</u>	<u>193</u>
Profit on ordinary activities multiplied by rate of tax	181	58
Expenses not deductible for tax purposes	5	8
Capital allowances for period less than depreciation	15	12
(Over)/under provision in respect of prior years	(2)	3
Total current tax (note 8(a))	<u>199</u>	<u>81</u>

9 Dividends

Dividends on shares classed as equity

	2007	2006
	£000	£000
Paid during the year:		
Equity dividends on ordinary shares	–	70

10 Tangible fixed assets

	Freehold Land & Buildings £000	Plant & Machinery £000	Motor Vehicles £000	Leasehold Improvements £000	Total £000
Cost or valuation					
At 1 June 2006	1,650	898	1,348	21	3,917
Additions	114	299	418	–	831
Disposals	–	(94)	(30)	–	(124)
Revaluation	136	–	–	–	136
At 31 May 2007	<u>1,900</u>	<u>1,103</u>	<u>1,736</u>	<u>21</u>	<u>4,760</u>
Depreciation					
At 1 June 2006	–	414	580	21	1,015
Charge for the year	16	180	341	–	537
On disposals	–	(77)	(15)	–	(92)
Revaluation adjustment	(16)	–	–	–	(16)
At 31 May 2007	<u>–</u>	<u>517</u>	<u>906</u>	<u>21</u>	<u>1,444</u>
Net book value					
At 31 May 2007	<u>1,900</u>	<u>586</u>	<u>830</u>	<u>–</u>	<u>3,316</u>
At 31 May 2006	<u>1,650</u>	<u>484</u>	<u>768</u>	<u>–</u>	<u>2,902</u>

Included within the net book value of £3,316,000 is £1,147,000 (2006 - £971,000) relating to assets held under finance leases and hire purchase agreements. The depreciation charged to the financial statements in the year in respect of such assets amounted to £303,000 (2006 - £327,000).

The freehold property was revalued on 31st May 2007 by CB Richard Ellis Limited. The basis of the valuation used was existing use. The surplus has been transferred to the revaluation reserve.

The effect of the revaluation has been to increase the depreciation charge by £nil. If the freehold property had not been revalued, it would have been included on the historical cost basis at £1,622,000.

The directors consider that, were the property to be sold for its net book value, tax of £83,000 would be payable.

11 Investments

Joint venture

	£000
Cost	
At 1 June 2006 and 31 May 2007	<u>12</u>
Net book value	
At 1 June 2006 and 31 May 2007	<u>12</u>

The investment, a joint venture, represents a 50% stake in Tarmac and Churngold Recycled Aggregates Limited, a company registered in England and Wales and engaged in recycled aggregates. At 31 May 2007, based on unaudited management accounts, Tarmac and Churngold Recycled Aggregates Limited generated profit before tax for the year ended of £53,000 (4 months ended 31 May 2006: £6,000) and had net assets of £63,000 (2006: £10,000).

12 Debtors

	2007	2006
	£000	£000
Trade debtors	1,953	1,782
Amounts owed by related undertakings	456	64
Other debtors	40	12
Prepayments and accrued income	95	127
	<u>2,544</u>	<u>1,985</u>

Included in amounts owed by related undertakings is £28,000 (2006 - £32,000) due after more than one year.

13 Creditors: amounts falling due within one year

	2007	2006
	£000	£000
Loan notes	320	330
Bank loans and overdrafts	71	60
Trade creditors	1,496	1,349
Corporation tax	144	79
Other taxation and social security	155	143
Amounts due under finance leases and hire purchase agreements	313	279
Amounts owed to related undertakings	11	47
Accruals and deferred income	688	321
	<u>3,198</u>	<u>2,608</u>

14 Creditors: amounts falling due after more than one year

	2007	2006
	£000	£000
Loan notes	–	320
Bank loans	1,050	1,110
Amounts due under finance leases and hire purchase agreements	456	349
Other loans	75	75
	<u>1,581</u>	<u>1,854</u>

15 Loans

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

	2007	2006
	£000	£000
Amounts repayable:		
In one year or less or on demand	380	390
In more than one year but not more than two years	60	140
In more than two years but not more than five years	180	430
In more than five years	810	860
	<u>1,430</u>	<u>1,820</u>
	2007	2006
	£000	£000
Not wholly repayable within five years:		
Bank loan	1,110	1,170
Wholly repayable within five years:		
8% fixed rate loan stock (a)	320	400
8% fixed rate loan stock (b)	–	250
	<u>320</u>	<u>650</u>
	<u>1,430</u>	<u>1,820</u>

a) The original loan stock (£400,000 issued in 2004) was repayable in annual instalments of £80,000 commencing 1 June 2006. Interest was payable in quarterly instalments. The loan stock was fully repaid on 1 June 2007.

b) The new loan stock (£250,000 issued in 2005) was repayable in full within one year. Interest was payable on redemption. The loan stock was repaid during the year.

The loan notes are secured by mortgage debentures and a fixed charge on the property purchased on 31 May 2005.

The bank loan is repayable in monthly instalments of £5,000 commencing 30 June 2006 and bears interest at 1.4% above LIBOR. The bank loan and overdraft are secured by a fixed charge over the property purchased on the 31 May 2005 and a keyman life assurance policy.

16 Commitments under finance leases and hire purchase agreements

Future commitments under finance leases and hire purchase agreements are as follows:

	2007	2006
	£000	£000
Amounts payable within 1 year	346	305
Amounts payable between 2 to 5 years	536	413
	882	718
Less interest and finance charges relating to future periods	(113)	(90)
	769	628
Finance leases and hire purchase agreements are analysed as follows:		
Current obligations	313	279
Non-current obligations	456	349
	769	628

Amounts due under finance lease and hire purchase agreements are secured on the assets to which they relate.

17 Pensions

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

18 Deferred taxation

The movement in the deferred taxation provision during the year was:

	2007	2006
	£000	£000
Provision brought forward	53	43
Profit and loss account movement arising during the year	(15)	10
Provision carried forward	38	53

The provision for deferred taxation consists of the tax effect of timing differences in respect of:

	2007	2006
	£000	£000
Excess of taxation allowances over depreciation on fixed assets	38	53

19 Government grants

	2007	2006
	£000	£000
Received and receivable:		
At 1 June 2006	<u>87</u>	<u>87</u>
At 31 May 2007	<u>87</u>	<u>87</u>
Amortisation:		
At 1 June 2006	36	22
Credit to profit and loss account	<u>14</u>	<u>14</u>
At 31 May 2007	<u>50</u>	<u>36</u>
Net balance at 31 May 2007	<u>37</u>	<u>51</u>

A government grant was received during the year ended 31 May 2004 to subsidise the purchase of fixed assets for use in the business. The assets funded by the grant are considered to have an economic life of 6 years. The income has been spread over this period and is released to the profit and loss account each year to offset the depreciation charged on the relevant assets. The provision for this deferred income is therefore expected to be fully released by 31 May 2010.

20 Leasing commitments

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

	2007		2006	
	Land & Buildings £000	Other Items £000	Land & Buildings £000	Other Items £000
Operating leases which expire:				
Within 1 year	48	1	47	20
Within 2 to 5 years	-	-	70	-
	<u>48</u>	<u>1</u>	<u>117</u>	<u>20</u>

21 Contingent liabilities

There are contingent liabilities in respect of performance guarantees entered into in the normal course of business amounting to £52,000 as at 31 May 2007 (2006 - £26,000).

22 Ultimate controlling related party and related party transactions

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

During the year the company undertook the following transactions and had amounts owing to/from members of the Churngold Remediation Holdings Limited group, Churngold Construction Holdings Limited group and Lulsgate Properties Limited, entities where J R Ancell has an interest in more than 20% of the voting rights, and Tarmac and Churngold Recycled Aggregates Limited, an entity of which the company owns 50% of the ordinary share capital:

	Purchases £000	Sales £000	Owed to £ 000	Owed by £000
2007				
Churngold Construction Holdings Limited	114	–	11	–
Churngold Construction Limited	104	1,379	–	344
Churngold Surfacing Limited	2	9	–	1
Lulsgate Properties Limited	30	–	–	33
Churngold Remediation Limited	–	26	–	–
Tarmac and Churngold Recycled Aggregates Limited	2	429	–	78
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
2006				
Churngold Construction Holdings Limited	120	–	12	–
Churngold Construction Limited	106	1,190	35	–
Churngold Surfacing Limited	–	14	–	1
Lulsgate Properties Limited	28	–	–	36
Churngold Remediation Limited	–	101	–	7
Tarmac and Churngold Recycled Aggregates Limited	–	–	–	20
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Included within loan note balances as at 31 May 2007 are amounts owed to directors and related parties as follows:

	2007 £000	2006 £000
J R Henderson (Director)	200	250
G E Henderson (Director's spouse)	120	150
Bourse Trust Company Limited	–	250
	<u> </u>	<u> </u>

23 Share capital

Authorised share capital:

	2007	2006
	£	£
50,000 'A' ordinary shares of £0.01 each	500	500
50,000 'B' ordinary shares of £0.01 each	500	500
	<u>1,000</u>	<u>1,000</u>

Allotted, called up and fully paid:

	2007		2006	
	No	1p	No	1p
'A' ordinary shares of 1p each	70	70	70	70
'B' ordinary shares of 1p each	30	30	30	30
	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

24 Revaluation reserve

	2007	2006
	£000	£000
Balance brought forward	126	–
Revaluation of fixed assets	152	126
Balance carried forward	<u>278</u>	<u>126</u>

25 Profit and loss account

	2007	2006
	£000	£000
Balance brought forward	320	218
Profit for the financial year	420	102
Balance carried forward	<u>740</u>	<u>320</u>

26 Reconciliation of movements in shareholders' funds

	2007	2006
	£000	£000
Profit for the financial year	420	102
Other net recognised gains and losses	152	126
Net addition to shareholders' equity funds	572	228
Opening shareholders' equity funds	446	218
Closing shareholders' equity funds	<u>1,018</u>	<u>446</u>

27 Notes to the statement of cash flows

Reconciliation of operating profit to net cash inflow from operating activities

	2007	2006
	£000	£000
Operating profit	775	368
Depreciation	537	493
Profit on disposal of fixed assets	(13)	(6)
Amortisation of government grants	(14)	(14)
Increase in debtors	(559)	(402)
Increase in creditors	530	509
Net cash inflow from operating activities	<u>1,256</u>	<u>948</u>

Returns on investments and servicing of finance

	2007	2006
	£000	£000
Interest received	4	3
Interest paid	(171)	(93)
Interest element of finance leases and hire purchase	(44)	(47)
Net cash outflow from returns on investments and servicing of finance	<u>(211)</u>	<u>(137)</u>

Taxation

	2007	2006
	£000	£000
Taxation	<u>(134)</u>	<u>(13)</u>

Capital expenditure

	2007	2006
	£000	£000
Payments to acquire tangible fixed assets	(253)	(492)
Receipts from sale of fixed assets	45	67
Net cash outflow from capital expenditure	<u>(208)</u>	<u>(425)</u>

Financing

	2007	2006
	£000	£000
Repayment of loan stock	(330)	–
Receipt of bank loan	–	250
Repayment of bank loans	(60)	–
Capital element of finance leases and hire purchase	(437)	(448)
Receipt of other loan	–	75
Net cash outflow from financing	<u>(827)</u>	<u>(123)</u>

27 Notes to the statement of cash flows (continued)

Reconciliation of net cash flow to movement in net debt

	2007	2006
	£000	£000
(Decrease)/increase in cash in the period	(124)	168
Net cash outflow from loan stock	330	–
Net cash outflow from/(inflow) from bank loans	60	(250)
Cash outflow in respect of finance leases and hire purchase	437	448
Net cash (inflow) from other loans	–	(75)
Change in net debt resulting from cash flows	703	291
New finance leases and hire purchase arrangements	(578)	(79)
Net debt at 1 June 2006	(2,410)	(2,622)
Net debt at 31 May 2007	(2,285)	(2,410)

Analysis of changes in net debt

	At 1 Jun 2006 £000	Cash flows £000	Other non- cash items £000	At 31 May 2007 £000
Net cash:				
Cash in hand and at bank	113	(113)	–	–
Overdrafts	–	(11)	–	(11)
	<u>113</u>	<u>(124)</u>	<u>–</u>	<u>(11)</u>
Debt:				
Debt due within 1 year	(390)	10	–	(380)
Debt due after 1 year	(1,505)	380	–	(1,125)
Finance leases and hire purchase agreements	(628)	437	(578)	(769)
	<u>(2,523)</u>	<u>827</u>	<u>(578)</u>	<u>(2,274)</u>
Net debt	<u>(2,410)</u>	<u>703</u>	<u>(578)</u>	<u>(2,285)</u>

28 Capital commitments

Amounts contracted for but not provided in the financial statements amounted to £432,000 (2006 - £Nil).