



# Annual report and financial statements 2006

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**Registered office:** Valpak Ltd, Stratford Business Park,  
Banbury Road, Stratford-upon-Avon, CV37 7GW

**Registered number:** 3331057

# Board of directors

As at 31 December 2006

## **The Rt Hon John Gummer MP**

Chairman, Valpak Ltd

## **Steve Gough**

Chief Executive, Valpak Ltd

## **Philip Gale**

Finance Director and Company Secretary, Valpak Ltd

## **Manufacturer sectoral representatives**

### **Michael Stone**

Representing D S Smith plc

### **David Williams**

Corus (UK) Ltd

## **Converter sectoral representatives**

### **Andrew Green**

British Polythene Industries plc

### **Michael Loynes**

N Smith & Co Ltd

## **Packer/filler sectoral representatives**

### **Paul Smith**

Coca-Cola Enterprises Ltd

### **Mike Coe**

Representing Unilever plc

## **Seller sectoral representatives**

### **Steven Taylor**

B&Q plc

### **Alan Wingrove**

3663 Ltd

## **Non-sectoral representatives**

### **John Green**

Rentokil Initial plc

### **John Scouler**

Tesco Stores Ltd

## **Other producer responsibility representative**

### **Tony Stephens**

Miele UK (appointed 2 January 2007)

## **Appointed non-executive directors**

### **Gerald Orbell**

(Chairman of the audit committee)

MEO Ltd

### **George Chadfield**

George Chadfield Associates

### **Martin Webb**

(Chairman of the remuneration committee)

Martin Webb Associates Ltd

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## **The Executive Management Team**

### **Steve Gough**

Chief Executive

### **Philip Gale**

Finance Director and Company Secretary

### **Adrian Hawkes**

Director of Policy

## **Advisors**

### **Auditors**

Ernst & Young LLP  
No. 1 Colmore Square  
Birmingham B4 6HQ

### **Bankers**

Barclays Bank PLC  
Level 28, 1 Churchill Place  
Canary Warf  
London E14 5HP

### **Solicitors**

Hammonds  
Rutland House  
148 Edmund Street  
Birmingham B3 2JR

# Chairman's statement

I am pleased to report that Valpak has successfully managed your obligations under Packaging Waste Regulations for 2006 and that we continue to make good progress with our diversification programme. This programme has helped Valpak create a business better able to meet the current and future needs of its membership, in terms of competitive and assured compliance and in dealing with new producer responsibility legislation.

2006 was a challenging year for our core compliance business as the cost of Packaging Waste Recovery Notes (PRNs) fell sharply in the second half. Our long term contractual relationships with the reprocessing industry helped us to continue to deliver a high level of service and at a competitive cost to our members. We procured over three million tonnes of PRNs during the year for a membership which has remained stable.

The growth in our business units has helped reduce operating costs by 13% during the year. This is the fourth successive year operating costs have fallen.

Valient Recycling Limited (VRL) now handles over 250,000 tonnes of recyclable material and its turnover has increased by over 80% to £18 million per annum. To complement this activity, on 30th June 2006 we acquired 100% of the issued share capital of Waste Management Group, a business which processes and grades over 50,000 tonnes of domestic and industrial dry recyclables per annum.

Data Solutions, which provides a hassle-free way of handling the collection and submission of packaging waste data for clients, now has over 60 clients (40% increase over last year) and holds over a quarter of a million packaging weights in its packaging data warehouse.

Our consultancy service is delivering practical solutions to complex recycling and producer responsibility problems, advising on collection and sorting systems and helping businesses understand what contribution recycling can make to Corporate Social Responsibility. During 2006 DEFRA contracted Valpak Consultancy to assess the economic feasibility of collecting waste agricultural plastics from the UK's 120,000 farms and to propose a system of producer responsibility to support the activity. We, in partnership with the agricultural consultancy ADAS, are undertaking operational visits of various collection techniques and are advising a government steering group on how to provide a sustainable collection infrastructure.

We are also working with J. Sainsbury on front of store

recycling. The initial project, funded by the Waste and Resource Action Programme (WRAP) involved installing our acclaimed Valpak rescape banks in six London stores and assessing public participation rates and the increase in customer loyalty. Following this successful trial we hope to install rescape banks in over 30 stores within the M25 area during 2007.

On 2nd January 2007 the UK Waste Electrical and Electronic Equipment (WEEE) regulations became law. On 5th February, we were approved by the Environment Agency to become a Producer WEEE compliance scheme. I believe that our success, for over 10 years as the leading provider, in delivering highly competitive packaging compliance and recycling solutions puts us in a strong position to deliver a similar service under the WEEE regulations. Testament to this was our WEEE pre compliance scheme which had over 500 members.

In addition, Valpak won the tender to operate the WEEE Distributor Take Back Scheme on behalf of the Department of Trade and Industry (DTI) and the British Retail Consortium (BRC).

During 2006 we changed our Memorandum and Articles of Association to, inter alia, introduce four non executive director positions for Other Producer Responsibility initiatives. I am pleased to report that Tony Stephens, Administration and Facilities Director at Miele UK has joined the Board as an Other Producer Responsibility director for WEEE.

I would also like to take this opportunity to thank retiring directors John May (Corus (UK) Ltd), Doug Mercer (Frank Mercer & Sons Ltd) and Malcolm Vernon (Rockware Glass Ltd) for their valuable contributions to the success of Valpak. At the same time, I am pleased to welcome John Scouler (Tesco Stores Ltd), John Green (Rentokil Initial plc), Alan Wingrove (3663 Ltd) and David Williams (Corus (UK) Ltd) who join the Board as member representatives. We also appointed Philip Gale as Finance Director during the year.

Valpak continues to deliver a competitive packaging compliance solution aided by a successful diversification programme which has seen operating costs charged to members fall for the fourth consecutive year. None of this would have been possible without the hard work, dedication and enthusiasm of our staff. On behalf of the board, I would like to thank them all for a successful 2006.



Rt. Hon. John Gummer  
Chairman  
22 March 2007

# Directors' report

The directors present their report and financial statements for the year ended 31 December 2006.

## Results and dividends

Members' obligations for the year 2006 were fully discharged in accordance with the requirements of the Packaging Waste Regulations.

A surplus after taxation of £30,000 (2005 £7,000) on a total income of £64.8 million (2005 £62.3 million) has been recorded for the year. This ensures, in line with group policy, that the net assets position is not eroded.

In accordance with the company's Articles of Association, the directors are not permitted to recommend or pay any dividends to members.

## Principal activities

The group's principal activity continued to be the provision of a nationwide compliance scheme, approved and registered with the Environment Agency, the Scottish Environment Protection Agency and the Environment & Heritage Service in accordance with The Producer Responsibility Obligations (Packaging Waste) Regulations 1997, and the discharging of members' responsibilities under the regulations.

The group's key financial and other performance indicators (excluding Waste Management Group Ltd) during the year were as follows:

	2006 £000	2005 £000	Change %
Turnover	62,741	62,271	+1
Indirect costs	8,080	7,102	+14
Gross contribution	1,614	1,326	+22
Surplus after tax	30	7	
Members funds	647	617	+5
PRN obligation (k ton)	3,173	3,078	+3
Operating cost levy (£/ton)	0.60	0.75	-20
Member Audits	301	269	+12

The group has maintained its position as the UK's leading packaging compliance scheme, providing members with cost effective compliance and the assurance that their legal obligations will be met to the highest standards.

In ensuring that these standards were met in 2006 and ensure data accuracy;

- we conducted over 300 members audits (12% above 2006 levels)
- expanded our Data Solutions packaging waste data business,
- to ensure both the quality of dry recyclate being exported and the suitability of end markets we have increased our presence in mainland China and introduced a dedicated quality team in the UK.

Our business units continue to play an important part in the group's development. Gross contribution from this

source has increased by 22% to £1.6 million.

A 20% reduction in the direct cost of procuring compliance evidence resulted in a 15% reduction in turnover from our core business in 2006. However, a strong performance from all other business units, where turnover increased by 78%, resulted in group turnover (before acquisitions) 1% above last year at £62.7 million.

On 30th June 2006 we acquired Waste Management Group Limited to complement Valient Recycling Limited (VRL). Together these businesses will handle over 300,000 tonnes of dry recyclate per annum. WMG contributed £2 million to group turnover in 2006.

Indirect costs (before acquisitions) increased by £1.0 million to £8.1 million in 2006 reflecting an increase in staff costs (average headcount increased by 23% to 86) during the year to support our business diversification programme. However, following the strong performance from our business units, we were able to reduce the operating costs levy charged to our members by 13% to £2.5 million.

## Risks and Uncertainties

The key risks and uncertainties facing the group are grouped as: strategic, legislative, competitive and financial risk.

### - Strategic Risks

Our strategy is based upon maintaining our position as the leading provider of Producer Responsibility compliance and to become a successful provider of dependable, innovative and ethical recycling solutions. As the business continues to diversify and enter into new areas of compliance the overall risk of the group reduces by avoiding reliance on our core packaging compliance business. However, by its very nature, diversification also introduces new risks to be managed. The executive management team reviews these risks on a continuous basis to ensure that the group continues to pursue the right strategy.

### - Legislative

Valpak's compliance business is regulated by the UK's Environment Agencies and our waste recycling businesses have to comply with exacting standards from UK government and the Chinese authorities. These standards are subject to continuous revision and any new Directive may have a material impact on the ability of the group to operate. We have a policy department which is in regular contact with central and local government departments ensuring that the views of our members are represented and to contribute to changes in regulations and statutory guidance.

### - Competitive

We compete in the relatively mature packaging compliance market based upon price, quality, service, reputation and reliability. We regularly communicate with our members to ensure that we remain competitive and are meeting their expectations.

The waste recycling industry is highly competitive with new players entering the market all the time. We aim to differentiate ourselves from the competition by offering a quality service ensuring a full audit trail of dry recycle to the end markets in continental Europe and China. This service, which is matched by few of our competitors, comes at a cost. A cost well spent to protect our reputation and that of our members and customers.

#### - Financial

The main financial risks of the group relate to the availability of funds to ensure sufficient working capital exists, exposure to counterparty defaults and fluctuations in interest and foreign exchange rates.

To mitigate our exposure to these risks we have arranged a £5 million short term committed facility from our bankers, arranged credit insurance and use forward foreign currency contracts to reduce exposure to the variability of foreign exchange rates.

#### - Employees

Key to our success is ensuring that we attract, retain and motivate the best people with the right skill sets throughout the organisation. We have a personal development programme which helps individuals achieve their full potential. We also offer our staff a highly competitive pay and benefits package which includes a variable incentive bonus plan.

#### - Going concern

After making appropriate enquiries, the directors consider that the group has adequate resources to continue in operation for the foreseeable future. In forming this view the directors have reviewed budgets and other financial information. For this reason, they continue to adopt the going concern basis in preparing the accounts.

#### Future developments

The directors aim to maintain the management policies which have resulted in a highly cost effective compliance business allied with an increasingly important business diversification programme.

In February 2007 Valpak was approved as a Producer WEEE compliance scheme and we also won the tender to operate the WEEE Distributor Take Back Scheme on behalf of the Department of Trade and Industry and the British Retail Consortium.

These WEEE initiatives will strengthen Valpak's growing reputation in both the compliance and recycling arenas.

#### Political and charitable contributions

The group has not made any political or charitable contributions during the year.

#### Directors and their interests

There are no directors' interests requiring disclosure under the Companies Act 1985.

#### Employee Involvement

It is the group's policy to keep employees fully informed

of developments. Regular briefing meetings are held to ensure all members of staff are aware of current group activities and able to participate in policy development.

#### Corporate Governance

Valpak is committed to high standards of corporate governance, as befits a not-for-distribution organisation that is accountable to its members. During 2006 the group's internal controls and risk management systems have been maintained and have been further developed to meet the demands of a growing and changing business. The risk assurance function monitors the effectiveness of these processes, advising on and facilitating improvements where necessary.

#### Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the group's auditors, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

#### Re-appointment of auditors

In accordance with s.385 of the Companies Act 1985, a resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting in June 2007.



#### By order of the Board

**Philip Gale**

Company Secretary

22 March 2007

# Statement of directors' responsibilities in respect of the financial statements

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 Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the group and the company and of the surplus or deficit of the group for that period. In preparing those 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;
- state whether applicable UK Accounting Standards have been followed; subject to any material departures disclosed and explained in the financial statements;
- 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 group and the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Independent auditors' report to the members of Valpak Ltd

We have audited the group and parent company financial statements for the year ended 31 December 2006 which comprise the group income and expenditure account, the group statement of total recognised gains and losses, the group and company balance sheets, the group statement of cash flows and the related notes 1 to 22. 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 auditors

The directors' responsibilities for the preparation of the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards (United Kingdom Generally Accepted Accounting Practice) as 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 if, in our opinion, the Directors' report 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 transactions is not disclosed.

We read the Directors' report and consider the implications for our report if we become aware

of any apparent misstatements within it.

## Basis of audit opinion

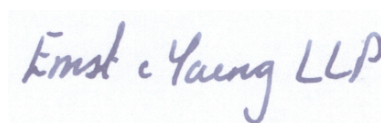
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the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

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

## Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the group's and the parent company's affairs as at 31 December 2006 and of the surplus of the group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985;
- the information given in the Directors' report is consistent with the financial statements.



## Ernst & Young LLP

Registered Auditor  
Birmingham  
22 March 2007

# Group income and expenditure account

For the year ended 31 December 2006

	Note	2006 £000	2005 £000
<b>Turnover</b>			
Ongoing		62,741	62,271
Acquisitions		2,039	-
	2	<b>64,780</b>	62,271
Direct costs		<b>(55,039)</b>	(55,598)
Gross surplus		<b>9,741</b>	6,673
Indirect costs		<b>(9,907)</b>	(7,102)
<b>Operating deficit</b>	3		
Ongoing		(107)	(429)
Acquisitions		(59)	-
Deficit on ordinary activities before interest and taxation		<b>(166)</b>	(429)
Bank interest receivable		<b>285</b>	480
Interest payable and similar charges	6	<b>(29)</b>	-
Surplus on ordinary activities before taxation		<b>90</b>	51
Tax on surplus on ordinary activities	7	<b>(60)</b>	(44)
<b>Surplus on ordinary activities after taxation</b>	18	<b>30</b>	7

## Group statement of total recognised gains and losses

The group has no recognised gains or losses other than the result shown in the income and expenditure account.

# Group balance sheet

At 31 December 2006

	Note	2006 £000	2005 £000
<b>Fixed assets</b>			
Intangible assets	8	3,257	-
Tangible assets	9	4,466	2,265
Investments		-	-
		<b>7,723</b>	2,265
<b>Current assets</b>			
Stocks	11	826	921
Debtors: amounts falling due within one year	12	4,380	6,421
Cash at bank and in hand and short term deposits	22 (iii)	3,373	7,793
		<b>8,579</b>	15,135
<b>Creditors: amounts falling due within one year</b>	14	<b>(15,155)</b>	(16,783)
Net current liabilities		<b>(6,576)</b>	(1,648)
Total assets less current liabilities		<b>1,147</b>	617
<b>Creditors: amounts falling due after more than one year</b>	15	<b>(500)</b>	-
<b>Net assets</b>		<b>647</b>	617
<b>Total members' funds</b>			
Capital	17	-	-
Income and expenditure account	18	647	617
Revaluation reserve	18	-	-
		<b>647</b>	617



**J Gummer** Director  
22 March 2007



**S Gough** Director

# Company balance sheet

At 31 December 2006

	Note	2006 £000	2005 £000
<b>Fixed assets</b>			
Intangible assets		-	-
Tangible assets	9	2,265	2,225
Investments	10	577	236
		<b>2,842</b>	2,461
<b>Current assets</b>			
Stocks		-	-
Debtors: amounts falling due within one year	12	6,939	4,162
Cash at bank and in hand and short term deposits		4,590	7,761
		<b>11,529</b>	11,923
<b>Creditors: amounts falling due within one year</b>	14	<b>(13,724)</b>	(13,767)
Net current liabilities		<b>(2,195)</b>	(1,844)
Total assets less current liabilities		<b>647</b>	617
<b>Creditors: amounts falling due after more than one year</b>		-	-
<b>Net assets</b>		<b>647</b>	617
<b>Total members' funds</b>			
Capital	17	-	-
Income and expenditure account	18	70	381
Revaluation reserve	18	577	236
		<b>647</b>	617



**J Gummer** Director  
22 March 2007



**S Gough** Director

# Group statement of cash flows

For the year ended 31 December 2006

	Note	2006 £000	2006 £000	2005 £000
<b>Net cash outflow from operating activities</b>	22 (i)		<b>(547)</b>	(1,031)
<b>Return on investments and servicing of finance</b>				
Interest received			<b>285</b>	480
Interest element of finance leases rentals payments			<b>(29)</b>	-
<b>Taxation</b>				
Corporation tax paid			<b>(606)</b>	32
<b>Capital expenditure &amp; financial investment</b>				
Payments to acquire tangible fixed assets			<b>(522)</b>	(196)
<b>Acquisitions and disposals</b>				
Purchase of subsidiary undertaking		<b>(4,144)</b>		
Net cash acquired with subsidiary undertaking		<u><b>1,311</b></u>		
			<b>(2,833)</b>	-
<b>Net cash outflow before management of liquid resources and financing</b>			<b>(4,252)</b>	(715)
<b>Management of liquid resources</b>				
Decrease in short-term deposits			<b>4,070</b>	1,500
<b>Financing</b>				
Repayments of capital element of finance leases and hire purchase contracts			<b>(168)</b>	-
<b>(Decrease) / increase in cash</b>			<b>(350)</b>	785

# Notes to the accounts

At 31 December 2006

## 1 Accounting policies

### Basis of preparation

The group financial statements are prepared under the historical cost convention, except for investments as noted below, and in accordance with UK Generally Accepted Accounting Practice.

The group, having reviewed its cash requirements for the next twelve months, believes that it has sufficient resources to meet its liabilities as and when they fall due.

The group accounts consolidate the accounts of Valpak Ltd and its subsidiary undertakings. No income and expenditure account is presented for Valpak Limited as permitted by Section 230 of the Companies Act 1985. The deficit for the period dealt with in the accounts of the company was £311,000.

### Goodwill

Positive goodwill arising on acquisitions is capitalised, classified as an asset on the balance sheet and amortised on a straight-line basis over its useful economic life up to a maximum of 20 years. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

If a subsidiary, associate or business is subsequently sold or closed, any goodwill arising on acquisition that has not been amortised through the income and expenditure account is taken into account in determining the profit or loss on sale or closure.

### Turnover

Turnover, which is stated net of value added tax, represents the amounts invoiced to members for material levies, operating recovery and joining fees along with services provided to members and prospective members.

### Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward foreign currency contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

### Leasing and hire purchase commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the assets have passed to the group, and hire purchase contracts are capitalised in the balance sheet and are depreciated over the shorter of the lease term and the assets' useful lives.

The capital elements of future obligations under leases and hire purchase contracts are included as liabilities in the balance sheet.

The interest elements of the rental obligations are charged in the income and expenditure account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding. Rentals payable under operating leases are charged in the income and expenditure account on a straight line basis over the term of the lease.

### Packaging Waste Recovery Notes (PRNs)

Prepaid packaging waste recovery notes are carried forward at the lower of cost and net realisable value.

### Investments

The parent company's investments in subsidiary undertakings are accounted for on the equity basis, whereby such investments are stated at underlying net asset values. Any surplus or deficit is transferred to the revaluation reserve unless there is a deficit below original cost, or its reversal is expected to be permanent, in which case it is recognised in the income and expenditure account for the year.

### Fixed assets

All fixed assets are initially recorded at cost.

### Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life as follows:

Freehold buildings	50 years
Plant and machinery	5 to 10 years
Fixtures and fittings	5 years
Office equipment	4 years
Computer equipment	3 years

# Notes to the accounts (cont)

At 31 December 2006

## Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition as follows:

Raw Materials and consumables are carried at purchase cost on a first in, first out basis.

Work in progress and finished goods are carried at cost of direct materials and labour plus attributable overheads based on a normal level of activity.

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal

## Cash and cash equivalents

Cash in the balance sheet comprises cash in hand and current balances with banks and similar institutions. Short-term deposits have an original maturity of three months or less which are subject to insignificant risks of changes in value.

For the purposes of the consolidated cash flow statement, cash is as defined above and excludes short-term deposits.

## Pensions

The company provides a group personal pension scheme under which defined contributions are made to the administered funds. Contributions are charged in the income and expenditure account as they become payable in accordance with the rules of the scheme.

## Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or a right to pay less tax in the future have occurred, with the exception that deferred taxation assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

# Notes to the accounts (continued)

At 31 December 2006

## 2 Turnover and segmental analysis

Turnover represents the amounts derived from the provision of services which fall within the group's ordinary activities. These services include the provision of a nationwide packaging waste compliance scheme and the provision of recycling services. All business is from continuing operations and is derived from the UK.

Turnover by destination	Asia £000	Continental Europe £000	UK £000	Total £000
2006	12,350	1,994	50,436	64,780
2005	5,651	1,064	55,556	62,271

## 3 Operating deficit

	2006 £000	2005 £000
Operating deficit is stated after charging:		
Operating lease rentals		
Land & buildings	111	20
Plant & machinery	173	70
Auditors' remuneration*		
Audit services	53	49
Taxation	19	19
Amortisation of goodwill	84	-
Depreciation of owned assets	374	375
Depreciation of assets held under finance lease and hire purchase contracts	168	-
Relocation and redundancy costs	69	65
Environment agency fees	1,800	1,880

\*During the year £12,000 (2005: £17,000) was also paid to the auditors for other non audit services provided.

## 4 Staff costs

	2006 £000	2005 £000
Wages & salaries	4,214	3,234
Social security costs	436	388
Pension and other costs	292	228
	4,942	3,850

	Number	Number
Monthly average number of employees during the period	122	70

## 5 Directors' emoluments

	2006 £000	2005 £000
Remuneration including performance related bonuses	514	386
Highest paid director	269	238

Two directors (2005: one) are members of the company defined contribution pension scheme. Pension contributions of £34,000 (2005: £17,000) were made during the year.

## 6 Interest payable and similar charges

Finance charges payable under finance leases and hire purchase contracts	29	-
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# Notes to the accounts (continued)

At 31 December 2006

## 7 Tax on surplus on ordinary activities

	2005 £000	2005 £000
i) Tax charge for the year		
<b>UK Corporation tax</b>		
UK Corporation tax on surplus for the year	97	49
Adjustments in respect of previous periods	(3)	(21)
<b>Current tax charge for the year (note 7ii)</b>	<b>94</b>	<b>28</b>
<b>Deferred tax</b>		
Origination and reversal of timing differences (note 13)	(34)	16
	<b>60</b>	<b>44</b>

ii) Factors affecting the tax charge for the year

The tax assessed on the surplus on ordinary activities for the year is higher than the standard rate of corporation tax in the UK. The differences are explained below:

Surplus on ordinary activities before tax	90	51
Surplus on ordinary activities multiplied by standard rate of Corporation tax in the UK of 30% (2005: 30%)	33	15
Effect of:		
Disallowed expenses and non-taxable income	45	21
(Capital allowances in excess of depreciation)/Depreciation in excess of capital allowances	(2)	5
Short-term timing differences	29	11
Adjustments in respect of previous years	(3)	(21)
Unrelieved tax losses	(8)	(3)
<b>Current tax charge for the year (note 7i)</b>	<b>94</b>	<b>28</b>

## 8 Intangible Fixed Assets

Group	Goodwill £000
Cost:	
At 1 January 2006	-
Acquisition of subsidiary undertaking	3,341
At 31 December 2006	3,341
Amortisation:	
At 1 January 2006	-
Provided during the year	84
At 31 December 2006	84
<b>Net book value at 31 December 2006</b>	<b>3,257</b>
Net book value at 1 January 2006	-

Goodwill arising on the acquisition of Waste Management Group Limited is being amortised evenly over its presumed useful economic life of 20 years.

# Notes to the accounts (continued)

At 31 December 2006

## 9 Tangible fixed assets

Group	Freehold Land & buildings £000	Leasehold Land & buildings £000	Plant & machinery £000	Furniture & fittings £000	Office equipment £000	Total £000
Cost:						
As at 1 January 2006	2,000	-	-	421	1,508	3,929
Acquisition of subsidiary undertaking	-	352	1,697	-	9	2,058
Additions	-	67	257	96	268	688
Disposals	-	-	(14)	-	(739)	(753)
At 31 December 2006	2,000	419	1,940	517	1,046	5,922
Depreciation:						
As at 1 January 2006	149	-	-	314	1,204	1,667
Charge for the period	40	11	205	86	200	542
Disposals	-	-	(14)	-	(739)	(753)
At 31 December 2006	189	11	191	400	665	1,456
<b>Net book value at 31 December 2006</b>	<b>1,811</b>	<b>408</b>	<b>1,749</b>	<b>117</b>	<b>381</b>	<b>4,466</b>
Net book value at 31 December 2005	1,851	-	-	106	308	2,265

Company	Freehold Land & buildings £000	Furniture & fittings £000	Office equipment £000	Total £000
Cost:				
At 1 January 2006	2,000	404	1,378	3,782
Additions	-	96	237	333
Disposals	-	-	(739)	(739)
At 31 December 2006	2,000	500	876	3,376
Depreciation:				
At 1 January 2006	149	299	1,111	1,559
Charge for the period	40	85	166	291
Disposals	-	-	(739)	(739)
At 31 December 2006	189	384	538	1,111
<b>Net book value at 31 December 2006</b>	<b>1,811</b>	<b>116</b>	<b>338</b>	<b>2,265</b>
Net book value at 31 December 2005	1,851	105	269	2,225

Included in the amounts for plant and machinery above are the following amounts related to leased assets and assets acquired under hire purchase contracts.

Group	£000
Cost:	
At 1 January 2006	-
Additions	166
Acquisition of subsidiary undertaking	779
At 31 December 2006	945
Depreciation:	
At 1 January 2006	-
Charge for the period	168
At 31 December 2006	168
<b>Net book value at 31 December 2006</b>	<b>777</b>
Net book value at 1 January 2006	-

# Notes to the accounts (continued)

At 31 December 2006

## 10 Investments

Company	2006 £000	2005 £000
At 31 December	577	236

The increase in the year principally relates to the revaluation of the Company's investment in Valient Recycling Ltd which made a surplus of £334,000 in 2006.

Interests were as follows:

Name of Company	Principal activity	Description of shares held	Proportion of voting rights & shares
Valpak (UK) Ltd	Green Dot licensing	Ordinary	100%
Pro-Vides Ltd	Dormant	Ordinary	100%
Valpak Scotia Ltd	Dormant	Ordinary	100%
Valient Holdings Ltd	Holding company	Ordinary	100%
Valient Procurement Ltd *	Procurement of packaging waste recovery notes	Ordinary	100%
Valient Recycling Ltd *	Waste recovery services	Ordinary	100%
Valpak WEEE Services Ltd*	Dormant	Ordinary	100%
Valpak Retail WEEE Services Ltd*	Operator of Distributor Takeback Scheme	Ordinary	100%
Recycling Compliance Services Ltd*	Dormant	Ordinary	100%
Retail Compliance Services Ltd*	Dormant	Ordinary	100%
Waste Management Group Ltd*	Waste recovery services	Ordinary	100%
Total Waste Solutions Ltd*	Dormant	Ordinary	100%

\* held indirectly by a wholly owned subsidiary

On 30 June 2006 the group acquired Waste Management Group Limited for a cash consideration of up to £4.7 million. Of this consideration £0.6 million is payable over the two year period to June 2008. The investment in Waste Management Group Limited has been included in the group's balance sheet at its provisional fair value at the date of acquisition.

Analysis of the acquisition of Waste Management Group Limited:

Net assets at acquisition:	£000
Tangible fixed assets	2,058
Stock	135
Debtors	1,141
Cash	1,311
Creditors due within one year	(2,322)
Finance leases	(779)
Deferred tax	(140)
Net assets	1,404
Goodwill arising on acquisition	3,341
Purchase price	4,745
Cash consideration	4,000
Costs associated with acquisition	144
Deferred consideration	601
	4,745

There were no fair value adjustments at acquisition.

# Notes to the accounts (continued)

At 31 December 2006

## 10 Investments (continued)

Waste Management Group Limited contributed £339,000 to the group's net operating cash flows, paid £159,000 in respect of servicing of finance, paid £591,000 in respect of taxation and utilised £149,000 for capital expenditure and financial investments.

During the six month period to 30th June 2006, Waste Management Group Limited was a holding company with limited transactions. It recorded an operating loss for the period of £258,000. The retained loss, after a tax credit of £70,000, for the period was £188,000.

## 11 Stocks

<b>Group</b>	<b>2006</b> <b>£000</b>	2005 £000
Raw materials and consumables	<b>668</b>	921
Finished goods	<b>158</b>	-
	<b>826</b>	921

The difference between the purchase price of stocks and their replacement cost is not material.

## 12 Debtors: amounts falling due within one year

<b>Group</b>	<b>2006</b> <b>£000</b>	2005 £000
Trade debtors	<b>2,240</b>	2,016
Other debtors	<b>1,045</b>	1,915
Prepayments & accrued income	<b>1,013</b>	2,302
Deferred tax (see note 13)	<b>82</b>	188
	<b>4,380</b>	6,421

<b>Company</b>	<b>2006</b> <b>£000</b>	2005 £000
Trade debtors	<b>728</b>	1,253
Amounts owed by group undertakings	<b>4,869</b>	658
Corporation tax	-	37
Other debtors	<b>1,030</b>	1,905
Prepayments & accrued income	<b>118</b>	136
Deferred tax (see note 13)	<b>194</b>	173
	<b>6,939</b>	4,162

# Notes to the accounts (continued)

At 31 December 2006

## 13 Deferred Tax

<b>Group</b>	<b>2006 £000</b>	<b>2005 £000</b>
As at 1 January	188	204
Acquisition of subsidiary undertaking	(140)	-
Income & expenditure account (note 7i)	24	18
Adjustment in respect of prior years (note 7i)	10	(34)
<b>As at 31 December</b>	<b>82</b>	<b>188</b>
<b>The deferred tax consists of:</b>		
Depreciation in excess of capital allowances	49	129
Other timing differences	33	59
<b>Total deferred tax assets</b>	<b>82</b>	<b>188</b>
<b>Company</b>		
At 1 January	173	194
Income & expenditure account	11	19
Adjustment in respect of prior years	10	(40)
<b>At 31 December</b>	<b>194</b>	<b>173</b>
<b>The deferred tax consists of:</b>		
Depreciation in excess of capital allowances	123	124
Other timing differences	71	49
<b>Total deferred tax assets</b>	<b>194</b>	<b>173</b>

For the group and the company, there was no unprovided deferred tax at 31 December 2006 (2005: nil).

## 14 Creditors: amounts falling due within one year

<b>Group</b>	<b>2006 £000</b>	<b>2005 £000</b>
Trade creditors	7,173	11,805
Corporation tax	97	11
Other taxes and social security	198	173
Other creditors and accruals	7,410	4,794
Obligations under finance lease and hire purchase contracts	277	-
	<b>15,155</b>	<b>16,783</b>
<b>Company</b>		
Trade creditors	579	482
Amounts owed to group undertakings	10,905	9,330
Other tax and social security	165	173
Other creditors and accruals	2,075	3,782
	<b>13,724</b>	<b>13,767</b>

# Notes to the accounts (continued)

At 31 December 2006

## 15 Creditors: amounts falling due after one year

<b>Group</b>	<b>2006 £000</b>	<b>2005 £000</b>
Obligations under finance leases and hire purchase contracts	<b>500</b>	-

The company had no creditors: amounts falling due after one year.

## 16 Obligations under leases and hire purchase contracts

Amounts due under finance leases and hire purchase contracts:

<b>Group</b>	<b>2006 £000</b>	<b>2005 £000</b>
Amounts payable:		
Within one year	<b>306</b>	-
In two to five years	<b>555</b>	-
	<b>861</b>	-
Less: finance charges allocated to future periods	<b>84</b>	-
	<b>777</b>	-

Annual commitments under non-cancellable operating leases are as follows:

	<b>Land &amp; buildings £000</b>		<b>Other £000</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
<b>Group</b>				
Operating leases which expire:				
Within one year	-	28	<b>26</b>	64
In two to five years	<b>21</b>	20	<b>149</b>	13
Over 5 years	<b>180</b>	-	-	-
	<b>201</b>	48	<b>175</b>	77
<b>Company</b>				
Operating leases which expire:				
Within one year	-	28	<b>26</b>	64
In two to five years	<b>21</b>	20	<b>54</b>	13
Over 5 years	-	-	-	-
	<b>21</b>	48	<b>80</b>	77

# Notes to the accounts (continued)

At 31 December 2006

## 17 Capital

The company is limited by guarantee. The obligation on a member to contribute to the assets of the company in the event that the company is wound up is limited to £1.

## 18 Reserves

<b>Group</b>	<b>Income &amp; expenditure account £000</b>	<b>Revaluation Reserve</b>	<b>Total Members Funds £000</b>
At 1 January 2005	610		610
Retained surplus	7		7
At 31 December 2005	617		617
Retained surplus	30		30
<b>At 31 December 2006</b>	<b>647</b>		<b>647</b>

<b>Company</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
At 1 January 2005	546	64	610
Retained deficit	(165)	-	(165)
Revaluation of investment in subsidiary undertaking	-	172	172
At 31 December 2005	381	236	617
Retained deficit	(311)	-	(311)
Revaluation of investment in subsidiary undertaking	-	341	341
<b>At 31 December 2006</b>	<b>70</b>	<b>577</b>	<b>647</b>

## 19 Commitments

In order to meet its' 2007 members recovery obligations, the company has at 31 December 2006 entered into various contracts for the purchase of Packaging Waste Recovery Notes (PRNs) in 2006.

## 20 Capital Commitments

Amounts contracted for but not provided in the financial statements amounted to £328,000 (2005: nil) for the group and nil for the company (2005:nil).

## 21 Related Party Transactions

During the year there are no transactions requiring disclosure under FRS8 Related Party Transactions (2005:nil).

The Board of Directors includes ten directors who are appointed by the members of Valpak. These directors, whilst employed by a member company, represent the interests of the members and not that of their company. Accordingly, procurement contracts transacted with such companies are not disclosed as related party transactions.

# Notes to the accounts (continued)

At 31 December 2006

	2006 £000	2005 £000
22 Notes to the statement of cash flows		
(i) Reconciliation of operating deficit to net cash outflow from operating activities		
Operating deficit	(166)	(429)
Depreciation	542	375
Amortisation of goodwill	84	-
Loss on disposal of fixed assets	-	4
Decrease / (increase) in stocks	95	(730)
Add brought in on acquisition of Waste Management Group	135	-
Decrease / (increase) in debtors	1,935	(3,053)
Add brought in on acquisition of Waste Management Group	1,141	-
(Increase) / decrease in creditors	(1,991)	2,802
Less brought in on acquisition of Waste Management Group	(2,322)	-
<b>Net cash outflow from operating activities</b>	<b>(547)</b>	<b>(1,031)</b>

(ii) Reconciliation of net cash flow to movement in net funds

(Decrease) / increase in cash for the period	(350)	785
(Decrease) / increase in short-term deposits	(4,070)	1,500
<b>Net movement in cash funds at 31 December</b>	<b>(4,420)</b>	<b>(715)</b>
Cash used to repay capital element of finance leases	168	-
Change in net debt resulting from cash flows	(4,252)	(715)
New finance leases	(945)	-
Movement in net funds	(5,197)	(715)
Net funds at 1 January	7,793	8,508
Net funds at 31 December	2,596	7,793

	At 1/1/06 £000	Cash Flow £000	Other Changes £000	At 31/12/06 £000
(iii) Analysis of net funds				
Cash at bank and in hand	1,293	(350)	-	943
Short-term deposits	6,500	(4,070)	-	2,430
Cash	7,793	(4,420)	-	3,373
Finance leases	-	168	(945)	(777)
	7,793	(4,252)	(945)	2,596