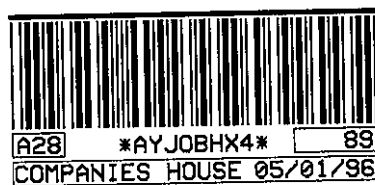


PCI MEMBRANE SYSTEMS LIMITED

DIRECTORS' REPORT AND ACCOUNTS

FOR THE YEAR ENDED 31ST MARCH 1995

REGISTERED NO. 2249185



PCI MEMBRANE SYSTEMS LIMITED**REPORT OF THE DIRECTORS**

The Directors have pleasure in submitting their annual report, together with the accounts of the Company for the year ended 31st March 1995.

Business Review

The principal activity of the Company continues to be the supply of membrane separation systems for the food, effluent, pharmaceutical and allied industries. No significant change in the Company's activities is expected.

Results

The profit/(loss) retained for the period amounted to £157,006 (1994: (£141,004)), after payment of a dividend of £443,447 (1994 : £584,451), and has been transferred to reserves.

Directors

The Directors serving during the year were:

D.L. Banfield (Chairman)
C. P. Millington

Directors' Interests

The Directors have no interests in the share capital of the Company. C. P. Millington had the following interest in the shares of the ultimate holding company:

Ordinary Shares in Thames Water Plc

	<u>Shares held</u>		<u>Options to Subscribe</u>		
	<u>31.3.95</u>	<u>31.3.94</u>	<u>31.3.95</u>	<u>Granted</u>	<u>31.3.94</u>
C. P. Millington	NIL	NIL	10,948	5,000	5,948

The shareholdings of D. L. Banfield in the ultimate holding company (Thames Water Plc) are dealt with in the accounts of the company's immediate holding company (Thames Water Products & Services Ltd.).

No Director had a material interest in any contract entered into by the Company during the year.

Changes in Fixed Assets

The movements in fixed assets during the year are set out in Note 8. to the financial statements.

Arrangements for Health, Safety and Welfare of Employees

The Company operates a health and safety policy as required under the terms of the Health and Safety at Work Act 1974. The Company is aware of its responsibilities and seeks to pursue policies to maximise the welfare and safety of employees.

Research and Development

The Company carries out, directly and indirectly, research and development consistent with its activities.

Auditors

A resolution to re-appoint the auditors, Coopers and Lybrand, will be proposed at the Annual General Meeting.

By order of the Board



D. Gathergood
Secretary

15.6.95

Laverstoke Mill
Whitchurch
Hampshire

Directors' Responsibility Statement

Company law requires the Directors to prepare financial statements for each financial year which 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 those financial statements, the Directors are required to:

- (a) select suitable accounting policies and then apply them consistently;
- (b) make judgements and estimates that are reasonable and prudent;
- (c) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- (d) 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 which disclose with reasonable accuracy at any time the financial position of 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 Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the Auditors
To the Members of PCI Membrane Systems Limited

We have audited the accounts on pages 5 to 14.

Respective responsibilities of Directors and Auditors.

As described on page 3, the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

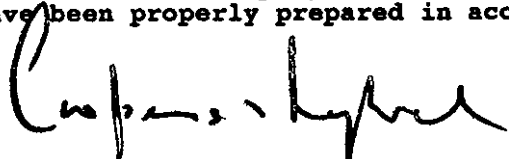
Basis of Opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the Company at 31st March 1995, and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


COOPERS & LYBRAND
Chartered Accountants and Registered Auditors
Southampton

16 June 1995

PCI MEMBRANE SYSTEMS LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31ST MARCH 1995

	<u>Note</u>	<u>31 March 1995</u>	<u>31 March 1994</u>
Turnover	2	8,392,033	5,578,777
Cost of Sales		<u>(5,143,957)</u>	<u>(3,291,085)</u>
Gross Profit		3,248,076	2,287,692
Marketing, selling and distribution expenses		(570,203)	(430,142)
Administration expenses		<u>(1,768,853)</u>	<u>(1,309,790)</u>
Net operating profit		909,020	547,760
Interest receivable and similar income	3	34,881	13,326
Interest payable		<u>(528)</u>	<u>(0)</u>
Profit on ordinary activities before tax	4	943,373	561,086
Taxation on profit on ordinary activities	7	<u>(342,920)</u>	<u>(117,639)</u>
Profit on ordinary activities after tax		600,453	443,447
Dividends paid	8	<u>(443,447)</u>	<u>(584,451)</u>
Retained profit/(loss) for the period	15	<u>£157,006</u>	<u>£(141,004)</u>

The above results relate entirely to the continuing activities of the company.

The company has no recognised gains or losses other than those included in the results above, and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between profit on ordinary activities before tax and retained profit/(loss) for the years stated above and their historical cost equivalents.

The notes on pages 7-14 form an integral part of these accounts. Auditors' Report - page 4.

PCI MEMBRANE SYSTEMS LIMITED
BALANCE SHEET AS AT 31ST MARCH 1995

	<u>Note</u>	<u>1995</u> £	<u>1994</u> £
<u>FIXED ASSETS</u>			
Tangible assets	9	604,988 -----	557,489 -----
<u>CURRENT ASSETS</u>			
Stocks	10	1,401,473	1,260,388
Debtors	11	2,006,208	1,739,671
Cash at bank and in hand		819,829 -----	859,010 -----
		4,227,510	3,859,069
<u>CREDITORS</u>			
Amounts falling due within one year	12	(3,252,072)	(3,228,138)
NET CURRENT ASSETS		975,438 -----	630,931 -----
TOTAL ASSETS LESS CURRENT LIABILITIES		1,580,426	1,188,420
PROVISIONS FOR LIABILITIES AND CHARGES	13	(411,400) -----	(176,400) -----
NET ASSETS		£1,169,026 =====	£1,012,020 =====
<u>CAPITAL AND RESERVES</u>			
Called up share capital	14	250,000	250,000
Profit and loss account	15	919,026 -----	762,020 -----
Equity shareholders' funds	16	£1,169,026 =====	£1,012,020 =====

Director:  G. P. MILLINGTON

The accounts were approved by the Board of Directors on 15 JUN 1995.

The notes on pages 7-14 form an integral part of the accounts. Auditors' report - page 4.

PCI MEMBRANE SYSTEMS LIMITED**NOTES TO THE ACCOUNTS****1. ACCOUNTING POLICIES****Accounting Convention**

The accounts have been prepared under the historical cost accounting rules and in accordance with applicable accounting standards.

Turnover

Turnover comprises the amounts derived from the provision of goods and services.

Stock and Work in Progress

Stock and work in progress has been consistently valued at the lower of cost and estimated net realisable value. Cost includes the direct cost of materials and labour and an appropriate proportion of production overheads.

Depreciation

Depreciation of fixed assets is provided on a straight line basis over the estimated economic lives of individual assets, based on their cost. The rates generally applied range from 10% pa to 33% pa.

Research and Development

Research and development expenditure is written off in the period during which it is incurred.

Contributions to Pension Schemes

Contributions to pension schemes at rates recommended by independent actuaries are charged to the profit and loss account on a consistent annual basis. Pension costs are accounted for on the basis of charging the expected cost of providing pensions over the period during which the company benefits from the employees' services.

Interest

Interest payable is written off to the profit and loss account as it is incurred.

Deferred Taxation

Deferred taxation has been calculated on the liability method on:

- (a) the excess of the cost less depreciation of those fixed assets qualifying for taxation allowances over their written down value for taxation purposes in respect of those timing differences which are expected to crystallise in the foreseeable future. Provision is made at the rate which is expected to be applied when the liability or asset is expected to crystallise.
- b) expenditure charged in the accounts not immediately allowable for taxation and income assessable to taxation in future years.

Rates of Exchange

Assets and liabilities in foreign currencies have been translated into sterling at rates of exchange ruling at 31st March 1995.

PCI MEMBRANE SYSTEMS LIMITEDNOTES TO THE ACCOUNTS CONTINUEDCash Flow Statement

The Company is a wholly-owned subsidiary of Thames Water Plc, and the cash flows of the Company are included in the consolidated Group Cash Flow Statement of Thames Water Plc. Consequently the Company is exempt under the terms of Financial Reporting Standard No. 1 from publishing a Cash Flow Statement.

2. Turnover

	<u>31 March 1995</u>	<u>31 March 1994</u>
	£	£
Geographical distribution by market		
United Kingdom	940,323	801,862
Continental Europe	6,243,529	3,599,378
Americas	812,410	966,316
Other	395,771	211,221
	<u>£8,392,033</u>	<u>£5,578,777</u>

3. Interest Receivable and Similar Income

	<u>31 March 1995</u>	<u>31 March 1994</u>
	£	£
On bank and money market deposits and similar income	NIL	NIL
On intra-group loans	34,881	13,326
	<u>£34,881</u>	<u>£13,326</u>

PCI MEMBRANE SYSTEMS LIMITEDNOTES TO THE ACCOUNTS CONTINUED**4. Profit Before Taxation**

Profit on ordinary activities before taxation is stated after charging:

	<u>Note</u>	<u>31 March 1995</u> £	<u>31 March 1994</u>
Depreciation and diminution in value of tangible assets	8	159,694	183,100
Directors' remuneration	6	74,602	52,985
Auditor's remuneration		20,842	9,756
Profit on disposal of fixed assets		(7,302)	(12,890)
Research and development		289,381	282,514
		=====	=====

5. Employees

Average number		Aggregate payroll cost	
<u>1995</u>	<u>1994</u>	<u>31 March 1995</u>	<u>31 March 1994</u>
		£	£
44	38	Production	818,521
13	18	Marketing, selling and distribution	680,822
		325,255	382,581
<u>43</u>	<u>41</u>	<u>Administration</u>	<u>945,282</u>
			<u>743,628</u>
100	97	£2,089,058	£1,807,031
====	====	=====	=====

Aggregate payroll costs comprise:-

Wages and salaries	1,815,164	1,531,179
Social security costs	146,509	136,076
Contributions to pension schemes (Note 19).	127,385	139,776
	£2,089,058	£1,807,031
	=====	=====

PCI MEMBRANE SYSTEMS LIMITEDNOTES TO THE ACCOUNTS CONTINUED6. Directors' Remuneration

	<u>1995</u> £	<u>1994</u> £
Emoluments		
Contributions to pension schemes	5,093	2,017
Other emoluments	<u>69,509</u>	<u>50,968</u>
	<u>£74,602</u>	<u>£52,985</u>
	=====	=====
Emoluments excluding pension contributions	<u>1995</u> £	<u>1994</u> £
Chairman	NIL	NIL
Highest paid director	<u>69,509</u>	<u>30,625</u>
	=====	=====
Number of directors within the following ranges of emoluments excluding pension scheme contributions:	<u>No.</u>	<u>No.</u>
Up to £5,000	1	1
£15,000-£20,000	-	1
£30,000-£35,000	-	1
£65,001-£70,000	1	-

7. Taxation on Profit on Ordinary Activities

	<u>1995</u> £	<u>1994</u> £
United Kingdom corporation tax at 33%(1994: 33%)		
Provision for group relief payable	348,000	117,639
Adjustments of prior years	<u>(5,080)</u>	<u>-</u>
	<u>£342,920</u>	<u>£117,639</u>
	=====	=====

8. Dividends

An equity dividend of £443,447 (1994 : £584,451) was paid during the year.

PCI MEMBRANE SYSTEMS LIMITEDNOTES TO THE ACCOUNTS CONTINUED9. Tangible Assets

Movements during the year

	Plant and machinery	Motor Vehicles	Fixtures & Fittings Equipment	Total
	£	£	£	£
Cost at 1st April 1994	787,829	342,078	323,550	1,453,457
Additions at cost	120,728	26,164	76,809	223,701
Disposals	<u>(6,000)</u>	<u>(60,771)</u>	<u>(3,306)</u>	<u>(70,077)</u>
At 31st March 1995	<u>902,557</u>	<u>307,471</u>	<u>397,053</u>	<u>1,607,081</u>
Aggregate depreciation at 1st April 1994	552,961	161,293	181,714	895,968
Provided during year	33,064	66,954	59,676	159,694
Disposals	<u>(3,983)</u>	<u>(47,273)</u>	<u>(2,313)</u>	<u>(53,569)</u>
At 31st March 1995	<u>582,042</u>	<u>180,974</u>	<u>239,077</u>	<u>1,002,093</u>
Net book value at 31st March 1995	<u>£320,515</u>	<u>£126,497</u>	<u>£157,976</u>	<u>£604,988</u>
At 31st March 1994	<u>£234,868</u>	<u>£180,785</u>	<u>£141,836</u>	<u>£557,489</u>

PCI MEMBRANE SYSTEMS LIMITEDNOTES TO THE ACCOUNTS CONTINUED10. Stocks

	<u>1995</u> £	<u>1994</u> £
Raw materials and consumables	465,335	489,441
Work in progress	770,820	145,929
Finished goods and goods for resale	<u>165,318</u>	<u>625,018</u>
	<u>£1,401,473</u>	<u>£1,260,388</u>

11. Debtors

	<u>1995</u> £	<u>1994</u> £
Trade debtors	1,626,088	1,321,468
Amounts owed by group undertakings:-		
-Holding company	159	9,401
-Fellow subsidiary undertakings	227,442	157,710
Taxation recoverable	50,515	199,960
Other debtors	15,558	19,242
Prepayments	<u>86,446</u>	<u>31,890</u>
	<u>£2,006,208</u>	<u>£1,739,671</u>

12. Creditors: Amounts falling due within one year

	<u>1995</u> £	<u>1994</u> £
Progress claims and advance payments	767,142	1,181,711
Trade creditors	499,133	706,202
Taxation	386,480	185,813
Amounts owed to group undertakings		
-Fellow subsidiary undertakings	455,381	592,324
Social security contributions	29,573	48,564
Other creditors	371,280	218,078
Accruals and deferred income	<u>743,083</u>	<u>295,446</u>
	<u>£3,252,072</u>	<u>£3,228,138</u>

PCI MEMBRANE SYSTEMS LIMITEDNOTES TO THE ACCOUNTS CONTINUED13. Provisions for Liabilities and Charges

	<u>Deferred Taxation</u> £	<u>Other Provisions</u> £	<u>Total</u> £
At 1st April 1994	NIL	176,400	176,400
Release of provisions no longer required	-	(59,084)	(59,084)
Utilised during the year	-	(80,578)	(80,578)
Provided during the year	-	<u>374,662</u>	<u>374,662</u>
At 31st March 1995	<u>£ NIL</u>	<u>£411,400</u>	<u>£411,400</u>

The provision for deferred taxation is:-

	<u>Amount Provided</u>	
	<u>1995</u> £	<u>1994</u> £
Excess of capital allowances over depreciation	3,302	21,301
Expenditure charged in the accounts not immediately allowed for taxation	(39,401)	(24,252)
Deferred tax credit not provided	<u>36,099</u>	<u>2,951</u>
	<u>£ NIL</u>	<u>£ NIL</u>

Other provisions consist of reserves for warranty claims and further costs which may be incurred on specific closed contracts.

14. Share Capital

	<u>Authorised</u>		<u>Allotted, called up and fully paid</u>	
	<u>1995</u> £	<u>1994</u> £	<u>1995</u> £	<u>1994</u> £
Ordinary shares of £1 per share	<u>£250,000</u>	<u>£250,000</u>	<u>£250,000</u>	<u>£250,000</u>

15. Profit and loss account

	<u>1995</u> £	<u>1994</u> £
At 1st April 1994	762,020	903,024
Retained profit/(loss) for the period	<u>157,006</u>	<u>(141,004)</u>
At 31st March 1995	<u>£919,026</u>	<u>£762,020</u>

PCI MEMBRANE SYSTEMS LIMITED**NOTES TO THE ACCOUNTS CONTINUED****16. Reconciliation of Movements in Equity Shareholders' Funds**

	<u>1995</u> £	<u>1994</u> £
Profit for the financial year	600,453	443,447
Dividends	<u>(443,447)</u>	<u>(584,451)</u>
Net addition/(reduction) to equity shareholders' funds	157,006	(141,004)
Opening equity shareholders' funds	<u>1,012,020</u>	<u>1,153,024</u>
Closing equity shareholders' funds	<u>£1,169,026</u>	<u>£1,012,020</u>

17. Contracts for Capital Expenditure

Capital expenditure contracted for, and authorised but not contracted for, at 31st March 1995, for which no provision has been made in these accounts was:

	<u>1995</u> £	<u>1994</u> £
Contracted for	13,000	NIL
Authorised but not contracted for	<u>92,000</u>	<u>33,000</u>
	<u>£105,000</u>	<u>£33,000</u>

18. Guarantees

There are contingent liabilities in respect of guarantees for plants installed or under construction and other engagements in the ordinary course of business amounting to £198,000 (1994 £234,369). No security has been given for any contingent liability and no contingent liability is expected to result in any material financial loss.

19. Holding Company

The ultimate holding company is Thames Water Plc, a company incorporated in Great Britain, and registered in England. Copies of the holding company's Consolidated Financial Statements may be obtained from Thames Water Plc, 14 Cavendish Place, London W1M 9DJ (registered office).

20. Pensions and Similar Obligations

Pension arrangements for the majority of the Company's employees are of the defined benefit type funded through the Thames Water (PWT) Pension Scheme whose assets are held separately from those of the Company in an independently administered fund. The Thames Water (PWT) Pension Scheme also provides pension benefits for employees of other companies within the Thames Water group.

The total pension cost for the Company was £127,385 (1994:£139,776). The pension cost relating to the Thames Water (PWT) Pension Scheme is assessed in accordance with advice received relating to the scheme as a whole, from Bacon & Woodrow, the consulting actuaries to the scheme.

Details of the actuarial valuation of the Thames Water (PWT) Pension Scheme are disclosed in the financial statements of Thames Water Plc.