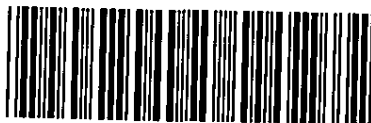


Registered number: 05698169
England and Wales

Surrey Aquatechnology Limited
Report and accounts
for the year ended 31 December 2007

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Surrey Aquatechnology Limited
Financial Statements
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Surrey Aquatechnology Limited
Financial Statements
Company information

**Principal business address
and registered office:**

Bramley House
The Guildway
Old Portsmouth Road
Guildford GU3 1LR

Registered auditors:

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
First Point, Buckingham Gate
Gatwick RH6 0PP

Surrey Aquatechnology Limited

Financial Statements

Directors' report

The directors present their report and the audited financial statements of the company for the year ended 31 December 2007

Principal activities

The company's principal activity is the development of technology to purify saltwater and other liquid in an efficient and cost-effective manner. During the year the company continued development of the technology.

Review of the business, research and development and future developments

On 12 June 2007 Modern Water plc increased its shareholding in the company from 30% to 100% by acquiring the remaining shares for a consideration of 10,763,600 ordinary shares in Modern Water plc.

The profit and loss account is set out on page 7. The loss for the year was £392,498 (period 4 February to 31 December 2006: loss of £14,628). The directors are unable to recommend the payment of a dividend (2006: £nil).

Further details of the company's performance for the year and future developments, including research and development activity, are set out in the Business Review on pages 4 to 7 of the Annual Report of Modern Water plc.

Directors

The directors in office in the year were as follows:

Dr A O Sharif

K Robson

N McDougall

IP2IPO Services Limited (resigned 12 June 2007)

S Humphrey (appointed 7 June 2007)

Auditors

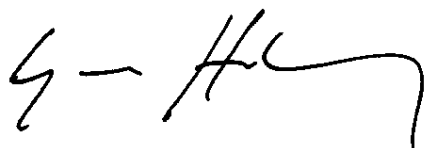
During the period under review PricewaterhouseCoopers LLP were appointed as company auditors. They have indicated their willingness to continue in office and, in accordance with Section 385 of the Companies Act 1985, a resolution to reappoint them will be put to the Annual General Meeting.

Directors' statement as to disclosure of information to auditors

Each of the persons who is a director at the date of approval of this report confirms that:

- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are unaware, and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information.

Signed on behalf of the board of directors



Simon Humphrey
24 October 2008

Surrey Aquatechnology Limited

Financial Statements

Directors' responsibilities

Statement of directors' responsibilities

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations

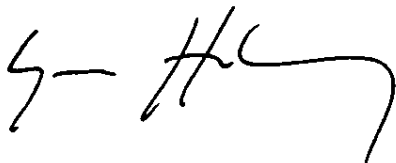
Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice ((United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company 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 and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business, in which case there should be supporting assumptions or qualifications as necessary

The directors confirm that they have complied with the above requirements in preparing the financial statements

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.



Simon Humphrey
24 October 2008

Surrey Aquatechnology Limited

Financial Statements

Independent auditors' report to the members of Surrey Aquatechnology Limited

We have audited the financial statements of Surrey Aquatechnology Limited for the year ended 31 December 2007 which comprise the profit and loss account, the balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom 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). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in 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 other 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 judgments 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 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 December 2007 and of its loss 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 directors' report is consistent with the financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Gatwick
28 October 2008

Surrey Aquatechnology Limited
Financial Statements
Profit and loss account for the year ended 31 December 2007

	Note	Year ended 31 December 2007	As restated Period from 4 February to 31 December 2006
		£	£
Administrative expenses		(416,127)	(16,294)
Operating loss	3	(416,127)	(16,294)
Interest receivable	5	23,946	1,666
Loss on ordinary activities before taxation		(392,181)	(14,628)
Tax on loss on ordinary activities	6	(317)	-
Loss on ordinary activities for the financial year	12	(392,498)	(14,628)

All activities derive from continuing operations

There is no difference between the loss on ordinary activities before taxation and the loss for the year stated above, and their historical equivalents

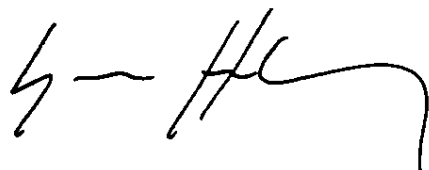
Statement of total recognised gains and losses

	Note	Year ended 31 December 2007	As restated Period from 4 February to 31 December 2006
		£	£
Loss for the financial year		(392,498)	(14,628)
Total recognised losses for the financial year		(392,498)	(14,628)
Prior year adjustments (see note 1)			
- patent costs		45,560	
- share based payments		(6,294)	
Total recognised losses since last annual report		(353,232)	

Surrey Aquatechnology Limited
Financial Statements
Balance sheet at 31 December 2007

	Note	2007 £	As restated 2006 £
Fixed assets			
Intangible fixed assets	7	470,633	416,923
Tangible fixed assets	8	15,730	-
		486,363	416,923
Current assets			
Debtors	9	35,476	1,500
Cash at bank and in hand		264,005	624,221
		299,481	625,721
Creditors : amounts falling due within one year	10	(181,258)	(45,560)
Net current assets		118,223	580,161
Net assets		604,586	997,084
Capital and reserves			
Called up share capital	11	100	100
Share premium	12	1,011,612	1,011,612
Profit and loss account	12	(407,126)	(14,628)
Shareholders' funds	13	604,586	997,084

Signed on behalf of the board of directors



Simon Humphrey
Director
24 October 2008

Surrey Aquatechnology Limited

Financial Statements

Notes to the financial statements

1. Accounting policies

The principal accounting policies, which have been applied consistently throughout the year, are set out below

Basis of accounting

These financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with the Companies Act 1985 and applicable accounting standards in the United Kingdom

Prior year adjustments

The 2006 financial statements were prepared in accordance with the special provisions relating to small companies within Part VII of the Companies Act 1985 and with the Financial Reporting Standard for Smaller Entities (effective 2007) (the "FRSSE") The 2007 financial statements have been prepared in accordance with full UK GAAP and therefore the results for 2006 have been restated as follows

- 1) Subscriptions for new shares by A Sharif and University of Surrey have been recognised at the fair value of the non-cash consideration received (scientific know how), as represented by a five year research and collaboration agreement between the parties This know-how has been recognised as a fixed asset and charged to the profit and loss account in accordance with the policy set out below These shares had previously been recognised at nominal value, as permitted by the FRSSE

The effect of this change is to increase intangible fixed assets at 31 December 2007 by £295,831 (31 December 2006 increase of £371,363) and to increase the loss for the year by £75,532 (increase for the period ended 31 December 2006 £6,294) and to increase the balance on the share premium account by £377,657 at both 31 December 2006 and 31 December 2007

- 2) Patent costs have been recognised as intangible fixed assets and amortised over their estimated useful economic lives, in accordance with the accounting policies set out below These costs had previously been charged to the profit and loss account as incurred, as permitted by the FRSSE

The effect of this change is to increase intangible fixed assets at 31 December 2007 by £174,802 (31 December 2006 increase of £45,560) and to reduce the loss for the year by £129,242 (decrease in loss for the period ended 31 December 2006 £45,560)

Tangible fixed assets

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost or valuation, less estimated residual value, of each asset over its expected useful life, as follows

Plant and Machinery	3 years
---------------------	---------

Intangible fixed assets

Patents, trademarks and licences

Acquired patents, trademarks and licences are initially recognised at historical cost They have a finite useful life and are subsequently carried at cost less accumulated amortisation Amortisation is calculated using the straight-line method to allocate the cost of patents, trademarks and licences over their estimated useful economic lives as follows

Patent costs	20 years
--------------	----------

Research and development

Expenditure on research activities is recognised as an expense in the year in which it is incurred

Any internally generated development intangible fixed asset is recognised only if all of the following are met

- The related expenditure is clearly identifiable and is part of a defined project
- Future economic benefits are reasonably certain to be generated by the project and
- Adequate resources exist, or are reasonably expected to exist, to enable the completion of the project

Where no internally generated intangible fixed asset can be recognised, development expenditure is recognised as an expense in the year in which it is incurred Internally generated intangible fixed assets are amortised on a straight line basis over three years

Surrey Aquatechnology Limited

Financial Statements

Know-how

The ordinary share capital subscribed for by the technology inventors (A Sharif and University of Surrey) has been fair valued based on the subscription price paid by third parties to acquire shares in the company at the same date. The difference between the fair value and the price paid has been recognised as know how, an intangible fixed asset to be amortised on a straight line basis over five years.

Deferred Taxation

Deferred tax 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 tax in the future or a right to pay less in the future have occurred at the balance sheet date. A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

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

2. Cash flow statement

As the results of the company are included in the accounts of Modern Water plc, the company is consequently exempt from the obligation to prepare a cash flow statement under the terms of Financial Reporting Standard 1

3. Loss on ordinary activities before tax is stated after charging

	Year ended 31 December 2007 £	As restated Period from 4 February to 31 December 2006 £
Depreciation	1,537	-
Amortisation of intangible fixed assets	95,674	6,294

The audit fee for the year has been borne by the parent company, Modern Water plc

4. Directors' emoluments and staff costs

	Year ended 31 December 2007 £	As restated Period from 4 February to 31 December 2006 £
Wages and salaries	27,750	-
Social security	2,660	-

The average number of persons comprising executive directors employed by the company during the year was 1 (2006: 0)

5. Interest receivable and similar income

	Year ended 31 December 2007 £	As restated Period from 4 February to 31 December 2006 £
Bank deposit interest	23,946	1,666

Surrey Aquatechnology Limited Financial Statements

6. Tax

	Year ended 31 December 2007 £	As restated Period from 4 February to 31 December 2006 £
Tax on loss on ordinary activities	-	-
Adjustment in respect of previous periods	317	-
Total current tax charge	317	-

Reconciliation of the current tax charge

	2007 £	2006 £
Loss from operations before taxation	(392,181)	(14,628)
Accounting loss multiplied by the standard UK corporation tax rate of 30%	(117,654)	(4,388)
Expenses not deductible for tax purposes	2,570	3,000
Accelerated capital allowances	(834)	-
Losses not utilised	115,918	1,888
Effect of small company tax rate	-	(183)
Undercharged in period	-	(317)
Adjustment in respect of previous periods	317	-
Total current tax charge reported in the profit and loss account	317	-

Deferred tax assets of £109,952 (2006 £1,762) have not been recognised since their future utilization is not yet sufficiently certain

7. Intangible fixed assets (as restated)

	Know how £	Develop- ment costs £	Patent costs £	Total £
Cost				
At 1 January 2007 as previously stated	-	-	-	-
Prior year adjustment (see note 1)	377,657	-	45,560	423,217
At 1 January 2007 as restated	377,657	-	45,560	423,217
Additions	-	57,298	92,086	149,384
At 31 December 2007	377,657	57,298	137,646	572,601
Depreciation				
At 1 January 2007 as previously stated	-	-	-	-
Prior year adjustment	6,294	-	-	6,294
At 1 January 2007 as restated	6,294	-	-	6,294
Charge for the year	75,532	3,183	16,959	95,674
At 31 December 2007	81,826	3,183	16,959	101,968
Net book value				
At 31 December 2007	295,831	54,115	120,687	470,633
At 31 December 2006 as restated	371,363	-	45,560	416,923

Surrey Aquatechnology Limited

Financial Statements

8. Tangible fixed assets

	Plant & machinery £
Cost	
At 1 January 2007	-
Additions	17,267
At 31 December 2007	<u>17,267</u>
Depreciation	
At 1 January 2007	-
Charge for the year	1,537
At 31 December 2007	<u>1,537</u>
Net book value	
At 31 December 2007	<u>15,730</u>
At 31 December 2006	<u>-</u>

9. Debtors

	2007 £	2006 £
Prepayments	18,265	-
Other debtors	17,211	1,500
	<u>35,476</u>	<u>1,500</u>

10. Creditors: amounts falling due within one year

	2007 £	2006 £
Trade creditors	-	45,560
Amounts due to parent and group undertakings	80,941	-
Accruals	100,000	-
Taxation and social security	317	-
	<u>181,258</u>	<u>45,560</u>

11. Share capital

	No of shares	2007 £	2006 £
Authorised share capital ordinary £0.001 per share	100,000	100	100
Allotted, called up fully paid share capital ordinary £0.001 per share	100,000	100	100

12. Reserves

	Share premium £	As restated Profit and loss account £
Brought forward as previously stated	633,955	(53,894)
Prior year adjustments (see note 1)		
- patent costs	-	45,560
- share based payments	377,657	(6,294)
Brought forward as restated	1,011,612	(14,628)
Loss for the financial year	-	(392,498)
	<u>1,011,612</u>	<u>(407,126)</u>

Surrey Aquatechnology Limited

Financial Statements

13. Reconciliation of movements in shareholders' funds

	Year ended 31 December 2007 £	As restated Period from 4 February to 31 December 2006 £
Opening shareholders' funds as previously stated	580,161	-
Prior year adjustments (see note 1)		
- patent costs	45,560	
- share based payments	371,363	
Opening shareholders' funds as restated	997,084	-
Proceeds from share issue	-	1,011,712
Loss for the financial year	(392,498)	(14,628)
Closing shareholders' funds	604,586	997,084

14. Related party transactions

The company has taken advantage of the exemption under paragraph 3c of FRS 8 in not disclosing details of transactions with other 90% owned members of the Modern Water plc group

15. Ultimate controlling party

The immediate and ultimate controlling party is Modern Water plc, a company registered in England & Wales. Modern Water plc holds 100% of the authorised ordinary share capital of the company.

The results of the company are included in the consolidated financial statements of Modern Water plc, copies of which are available from The Company Secretary, Modern Water plc, Bramley House, The Guildway, Old Portsmouth Road, Guildford GU3 1LR.