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Surrey Aquatechnology Limited
Report and accounts
for the year ended 31 December 2009

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Surrey Aquatechnology Limited

Contents

	Page
Company information	2
Directors' report	3
Statement of directors' responsibilities	4
Independent auditors' report to the members of Surrey Aquatechnology Limited	5
Profit and loss account	6
Balance sheet	7
Notes to the financial statements	8

Surrey Aquatechnology Limited Company information

**Principal business address
and registered office:**

Bramley House
The Guildway
Old Portsmouth Road
Guildford
Surrey
GU3 1LR

Independent auditors:

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

Surrey Aquatechnology Limited Directors' report

The directors present their report and the audited financial statements of Surrey Aquatechnology Limited ('the company') for the year ended 31 December 2009. The directors' report has been prepared taking advantage of the small companies' exemption in accordance with s415A of the Companies Act 2006.

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

The profit and loss account is set out on page 6. The loss for the financial year was £452,844 (2008 £444,003). The directors are unable to recommend the payment of a dividend (2008 £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 6 to 9 of the Annual Report of Modern Water plc, which does not form part of this report.

Going concern

The directors have received confirmation that the parent company, Modern Water plc, will continue to support the company for at least a year following the date of this report and hence believe that the going concern assumption of the basis of preparation of the accounts remains appropriate, notwithstanding the net current liabilities position of the company.

Directors

The directors in office in the year and up to the date of signing the financial statements, were as follows:

Prof A O Sharif (resigned 8 June 2009)
K Robson (resigned 3 June 2009)
N McDougall (resigned 8 June 2009)
S Humphrey
P Bristow (appointed 8 June 2009)

Directors' liability insurance

The company's immediate and ultimate parent company, Modern Water plc, maintains liability insurance for the directors and officers of the company.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at 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



S Humphrey
Director
20 April 2010

Surrey Aquatechnology Limited Statement of directors' responsibilities

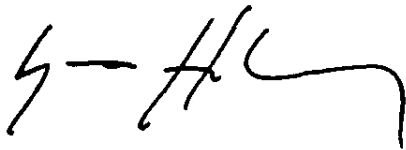
The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They 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.

Signed on behalf of the board

A handwritten signature in black ink, appearing to be 'S Humphrey', written over a horizontal line.

S Humphrey
Director
20 April 2010

Surrey Aquatechnology Limited

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 2009 which comprise the profit and loss account, the balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Rosemary Shapland (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Gatwick
20 April 2010

Surrey Aquatechnology Limited
Financial statements
Profit and loss account for the year ended 31 December 2009

	Note	2009 £	2008 £
Administrative expenses		(452,866)	(447,095)
Operating loss	3	(452,866)	(447,095)
Interest receivable and similar income	4	22	3,092
Loss on ordinary activities before taxation		(452,844)	(444,003)
Tax on loss on ordinary activities	5	-	-
Loss for the financial year	11	(452,844)	(444,003)

All results derive from continuing operations

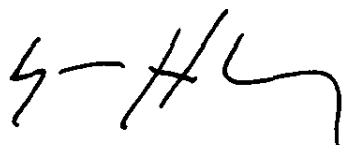
There is no difference between the loss on ordinary activities before taxation and the loss for the financial year stated above, and their historical equivalents

The company has no recognised gains and losses other than the losses above and therefore no statement of total recognised gains and losses has been presented

Surrey Aquatechnology Limited
Financial statements
Balance sheet as at 31 December 2009

	Note	2009 £	2008 £
Fixed assets			
Intangible assets	6	412,527	471,632
Tangible assets	7	367,559	395,136
		<u>780,086</u>	<u>866,768</u>
Current assets			
Debtors	8	13,611	12,168
Cash at bank and in hand		1,242	2,363
		<u>14,853</u>	<u>14,531</u>
Creditors : amounts falling due within one year	9	(1,087,200)	(720,716)
Net current liabilities		<u>(1,072,347)</u>	<u>(706,185)</u>
Total assets less current liabilities		<u>(292,261)</u>	<u>160,583</u>
Capital and reserves			
Called up share capital	10	100	100
Share premium	11	1,011,612	1,011,612
Profit and loss account	11	(1,303,973)	(851,129)
Total shareholders' (deficit)/funds	12	<u>(292,261)</u>	<u>160,583</u>

The financial statements on pages 6 to 11 were approved by the board of directors on 20 April 2010 and signed on its behalf by



S Humphrey

Director

20 April 2010

Registered number 05698169

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

a) 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 2006 and applicable accounting standards in the United Kingdom

The directors have received confirmation that the parent company, Modern Water plc, will continue to support the company for at least a year following the date of this report and hence believe that the going concern assumption of the basis of preparation of the accounts remains appropriate, notwithstanding the net liabilities position of the company

b) Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Cost includes expenditure that is attributable to the acquisition of the items. Depreciation is provided on all tangible fixed assets on a straight line basis 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 to 4 years
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c) Intangible fixed assets

Patents

Acquired patents 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 over their estimated useful economic lives of 20 years from filing date

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

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

Useful economic life

The useful economic life of all intangible assets is reviewed at the balance sheet date

Impairment

Assets that are subject to amortization are tested for impairment when events or a change in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying value exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and the value in use

Surrey Aquatechnology Limited
Financial statements
Notes to the financial statements (continued)

1. Accounting policies (continued)

d) 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 tax 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 substantively 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 (revised 1996), 'Cash flow statements'.

3. Operating loss

The operating loss is stated after charging

	2009	2008
	£	£
Depreciation	61,654	5,755
Amortisation of intangible fixed assets	137,272	131,265
Research and development	237,893	211,333
Fees paid to the company's auditors and their associates		
- other services - taxation	-	11,175

The audit fee for the year has been borne by Modern Water Services Limited (another 100% owned company within the Modern Water plc group). Directors' remuneration during the year has been borne by other companies within the Modern Water plc group.

4. Interest receivable and similar income

	2009	2008
	£	£
Bank deposit interest	22	3,092

5. Tax on loss on ordinary activities

(a) Analysis of tax charge in year

	2009	2008
	£	£
Total current tax	-	-

The tax on the company's loss before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the company as follows:

(b) Reconciliation of the current tax charge

	2009	2008
	£	£
Loss on ordinary activities before taxation	(452,844)	(444,003)
Loss on ordinary activities multiplied by the standard UK corporate tax rate of 28% (2008: 28.5%)	(126,796)	(126,541)
Expenses not deductible for tax purposes	-	48
Depreciation in excess of capital allowances	17,263	1,640
Adjustment in respect of prior years	(33,540)	-
Losses not utilised	143,073	124,853
Current tax charge for the year	-	-

The standard rate of corporation tax in the UK changed from 30% to 28% with effect from 1 April 2008. Accordingly, the company's losses for this financial year are taxed at a rate of 28%.

Surrey Aquatechnology Limited
Financial statements
Notes to the financial statements (continued)

5. Tax on loss on ordinary activities (continued)

Deferred tax assets of £374,480 (2008 £231,407) on losses and short term timing differences have not been recognised, since their future utilisation is not yet sufficiently certain. No future tax benefits resulting from capital allowances have been included in this deferred tax asset. Deferred tax assets not recognised at 31 December 2009 will reduce the tax charge in future periods if subsequently recognised.

6. Intangible assets

	Know-how £	Development costs £	Patent costs £	Total £
Cost				
At 1 January 2009	377,657	130,966	196,242	704,865
Additions	-	-	78,167	78,167
At 31 December 2009	377,657	130,966	274,409	783,032
Accumulated amortisation				
At 1 January 2009	157,357	43,761	32,115	233,233
Charge for the year	75,532	43,650	18,090	137,272
At 31 December 2009	232,889	87,411	50,205	370,505
Net book value				
At 31 December 2009	144,768	43,555	224,204	412,527
At 31 December 2008	220,300	87,206	164,127	471,632

7. Tangible assets

	Plant and machinery £
Cost	
At 1 January 2009	402,428
Additions	34,077
At 31 December 2009	436,505
Accumulated depreciation	
At 1 January 2009	7,292
Charge for the year	61,654
At 31 December 2009	68,946
Net book value	
At 31 December 2009	367,559
At 31 December 2008	395,136

8. Debtors

	2009 £	2008 £
Other debtors	13,611	12,168

9. Creditors: amounts falling due within one year

	2009 £	2008 £
Trade creditors	23,903	77,190
Amounts due to parent and group undertakings	982,631	538,693
Accruals	80,666	104,833
	1,087,200	720,716

Amounts due to parent and group undertakings are non interest bearing, repayable on demand and have no securities attached to them.

Surrey Aquatechnology Limited
Financial statements
Notes to the financial statements (continued)

10. Called up share capital

	Number of shares	2009 £	2008 £
Authorised ordinary £0.001 shares	100,000	100	100
Allotted and fully paid ordinary £0.001 shares	100,000	100	100

11. Reserves

	Share premium account £	Profit and loss account £
At 1 January 2009	1,011,612	(851,129)
Loss for the financial year	-	(452,844)
At 31 December 2009	1,011,612	(1,303,973)

12. Reconciliation of movements in shareholders' (deficit)/funds

	2009 £	2008 £
Opening shareholders' funds	160,583	604,586
Loss for the financial year	(452,844)	(444,003)
Closing shareholders' (deficit)/funds	(292,261)	160,583

13. Related party transactions

The company has taken advantage of the exemption under Financial Reporting Standard 8 (revised), 'Related party disclosures', in not disclosing details of transactions with other companies which are 100% owned by Modern Water plc

14. Ultimate controlling party

The immediate and ultimate controlling party is Modern Water plc, a company registered in England and 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, Surrey GU3 1LR.