

SURREY AQUATECHNOLOGY LIMITED
FINANCIAL STATEMENTS
31 DECEMBER 2010

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SURREY AQUATECHNOLOGY LIMITED
FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2010

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SURREY AQUATECHNOLOGY LIMITED

COMPANY INFORMATION

The board of directors	S Humphrey P Bristow
Company secretary	F O'Neill
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
Bankers	HSBC Bank plc HSBC House Mitchell Way Southampton Hampshire SO18 2XU
Solicitors	Norton Rose LLP 3 More London Riverside London SE1 2AQ

SURREY AQUATECHNOLOGY LIMITED

DIRECTORS' REPORT

YEAR ENDED 31 DECEMBER 2010

The directors present their report and the audited financial statements of the company for the year ended 31 December 2010

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 £440,074 (2009 loss of £452,844). The directors are unable to recommend the payment of a dividend (2009 £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 8 to 11 of the annual report of Modern Water plc, the immediate and ultimate parent company, which does not form part of this report.

GOING CONCERN

The directors have received confirmation that 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 who held office during the year and up to the date of signing the financial statements were as follows:

S Humphrey
P Bristow

DIRECTORS' LIABILITY INSURANCE

The company's immediate and ultimate parent company, Modern Water plc, has maintained liability insurance for the directors and officers of the company throughout the year and up to the date of approval of the financial statements.

SMALL COMPANY PROVISIONS

This report has been prepared in accordance with the special provisions for small companies under Part 15 of the Companies Act 2006.

Signed on behalf of the directors

S Humphrey
Director

Approved by the directors on 6 May 2011

SURREY AQUATECHNOLOGY LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES
YEAR ENDED 31 DECEMBER 2010

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 prepared 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 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,
- 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.

DIRECTORS' STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

In so far as the directors are aware

- there is no relevant audit information of which the company's auditor is unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Signed on behalf of the directors

S Humphrey
Director

Approved by the directors on 6 May 2011

SURREY AQUATECHNOLOGY LIMITED
INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
SURREY AQUATECHNOLOGY LIMITED
YEAR ENDED 31 DECEMBER 2010

We have audited the financial statements of Surrey Aquatechnology Limited for the year ended 31 December 2010 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 3, 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 (APB'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 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 2010 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 MATTERS 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.

SURREY AQUATECHNOLOGY LIMITED
INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
SURREY AQUATECHNOLOGY LIMITED *(continued)*
YEAR ENDED 31 DECEMBER 2010

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, or
- the directors were not entitled to take advantage of the small companies' exemption in preparing the directors' report

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

SURREY AQUATECHNOLOGY LIMITED

PROFIT AND LOSS ACCOUNT

YEAR ENDED 31 DECEMBER 2010

	Note	2010 £	2009 £
TURNOVER		—	—
Administrative expenses		<u>(440,074)</u>	<u>(452,866)</u>
OPERATING LOSS	2	(440,074)	(452,866)
Interest receivable and similar income	4	—	22
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>(440,074)</u>	<u>(452,844)</u>
Tax on loss on ordinary activities	5	—	—
LOSS FOR THE FINANCIAL YEAR		<u>(440,074)</u>	<u>(452,844)</u>

All of the activities of the company are classed as continuing

The company has no recognised gains and losses other than the losses for the financial years as set out above, and therefore no separate statement of total recognised gains and losses has been presented

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

The notes on pages 8 to 13 form part of these financial statements


SURREY AQUATECHNOLOGY LIMITED

BALANCE SHEET

31 DECEMBER 2010

	Note	2010 £	2009 £
FIXED ASSETS			
Intangible assets	6	353,975	412,527
Tangible assets	7	279,492	367,559
		<u>633,467</u>	<u>780,086</u>
CURRENT ASSETS			
Debtors	8	4,763	13,611
Cash at bank and in hand		1,112	1,242
		<u>5,875</u>	<u>14,853</u>
CREDITORS: Amounts falling due within one year	9	<u>(1,371,677)</u>	<u>(1,087,200)</u>
NET CURRENT LIABILITIES		<u>(1,365,802)</u>	<u>(1,072,347)</u>
NET LIABILITIES		<u>(732,335)</u>	<u>(292,261)</u>
CAPITAL AND RESERVES			
Called-up share capital	11	100	100
Share premium account	12	1,011,612	1,011,612
Profit and loss account	12	<u>(1,744,047)</u>	<u>(1,303,973)</u>
TOTAL SHAREHOLDERS' DEFICIT	13	<u>(732,335)</u>	<u>(292,261)</u>

These financial statements were approved by the directors and authorised for issue on 6 May 2011, and are signed on their behalf by


S HUMPHREY
Director

Company Registration Number 05698169

The notes on pages 8 to 13 form part of these financial statements

SURREY AQUATECHNOLOGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2010

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) 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'

(c) 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

(d) 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

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 time 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

SURREY AQUATECHNOLOGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2010

1. ACCOUNTING POLICIES *(continued)*

(e) Impairment

Assets that are subject to amortisation are tested for impairment when events or a change in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised 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.

(f) 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, less estimated residual value, of each asset over its expected useful life, as follows:

Plant and machinery 3 to 4 years

(g) 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 future reversal of underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis 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.

2. OPERATING LOSS

Operating loss is stated after charging

	2010 £	2009 £
Amortisation of intangible assets	147,987	137,272
Research and development expenditure written off	172,000	237,893
Depreciation of owned fixed assets	<u>88,067</u>	<u>61,654</u>

The audit fee for the year and the prior year has been borne by Modern Water Services Limited (another 100% owned company within the Modern Water plc group).

SURREY AQUATECHNOLOGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2010

3. PARTICULARS OF EMPLOYEES

There are no employees and the directors' remuneration during the year has been borne by other companies within the Modern Water plc group. Mr Humphrey is an executive director of the parent company, Modern Water plc, and a number of fellow subsidiaries. He is paid by Modern Water plc which makes no recharge to the company, and it is not possible to make an accurate apportionment of his emoluments in respect of each of the subsidiaries. Accordingly his total emoluments are included in the aggregate of directors' remuneration disclosed in the financial statements of Modern Water plc and the above details include no emoluments in respect of Mr Humphrey. Mr Bristow is paid by Modern Water Services Limited and his total emoluments are disclosed in the financial statements of that company. Modern Water Services Limited also makes no recharge to the company so there are no emoluments in respect of Mr Bristow in the above details.

4. INTEREST RECEIVABLE AND SIMILAR INCOME

	2010 £	2009 £
Bank interest	—	22

5. TAX ON LOSS ON ORDINARY ACTIVITIES

(a) Factors affecting current tax charge

The tax assessed on the loss on ordinary activities for the year is higher (2009 higher) than the standard effective rate of corporation tax in the UK for the year ended 31 December 2010 of 28% (2009 - 28%)

	2010 £	2009 £
Loss on ordinary activities before taxation	(440,074)	(452,844)
Loss on ordinary activities multiplied by standard rate in the UK 28% (2009 28%)	(123,221)	(126,796)
Depreciation in excess of capital allowances	24,659	17,263
Unrelieved tax losses	98,562	143,073
Adjustments to tax charge in respect of previous periods	—	(33,540)
Current tax charge for the year	—	—

There is no tax charge for the current or prior year

(b) Factors that may affect future tax charges

Due to the change in the UK main corporation tax rate from 28% to 27% from 1 April 2011, announced in the June 2010 budget, deferred tax assets have been calculated at the new rate of 27%. Deferred tax assets of £456,148 (2009 £374,480) in respect of losses 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 (2009 £nil). Deferred tax assets not recognised at 31 December 2010 will reduce the tax charge in future periods if subsequently recognised.

SURREY AQUATECHNOLOGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2010

6. INTANGIBLE ASSETS

	Know-how £	Development costs £	Patent costs £	Total £
COST				
At 1 January 2010	377,657	130,966	274,409	783,032
Additions	–	–	97,751	97,751
Disposals	–	–	(8,316)	(8,316)
At 31 December 2010	377,657	130,966	363,844	872,467
ACCUMULATED AMORTISATION				
At 1 January 2010	232,889	87,411	50,205	370,505
Charge for the year	75,531	40,474	31,982	147,987
At 31 December 2010	308,420	127,885	82,187	518,492
NET BOOK VALUE				
At 31 December 2010	69,237	3,081	281,657	353,975
At 31 December 2009	144,768	43,555	224,204	412,527

7. TANGIBLE ASSETS

	Plant and Machinery £
COST	
At 1 January 2010 and 31 December 2010	436,505
ACCUMULATED DEPRECIATION	
At 1 January 2010	68,946
Charge for the year	88,067
At 31 December 2010	157,013
NET BOOK VALUE	
At 31 December 2010	279,492
At 31 December 2009	367,559

8. DEBTORS

	2010 £	2009 £
Other debtors	4,763	13,611

SURREY AQUATECHNOLOGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2010

9. CREDITORS: Amounts falling due within one year

	2010	2009
	£	£
Trade creditors	9,708	23,903
Amounts owed to parent and group undertakings	1,238,304	982,631
Accruals	123,665	80,666
	<u>1,371,677</u>	<u>1,087,200</u>

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

10. 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

11. CALLED UP SHARE CAPITAL

Authorised share capital:

	2010	2009
	£	£
100,000 Ordinary shares of £0 001 each	<u>100</u>	<u>100</u>

Allotted and fully paid:

	2010		2009	
	No	£	No	£
Ordinary shares of £0 001 each	<u>100,000</u>	<u>100</u>	<u>100,000</u>	<u>100</u>

12. RESERVES

	Share premium account	Profit and loss account
	£	£
Balance brought forward	1,011,612	(1,303,973)
Loss for the financial year	—	(440,074)
Balance carried forward	<u>1,011,612</u>	<u>(1,744,047)</u>

13. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' (DEFICIT)/FUNDS

	2010	2009
	£	£
Loss for the financial year	(440,074)	(452,844)
Opening shareholders' (deficit)/funds	(292,261)	160,583
Closing shareholders' deficit	<u>(732,335)</u>	<u>(292,261)</u>

SURREY AQUATECHNOLOGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2010

14. ULTIMATE CONTROLLING PARTY

The immediate and ultimate controlling party is Modern Water plc, a company registered in England and Wales, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. Modern Water plc holds 100% of the allotted 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.