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Your attention is also drawn to Part II of this document, which sets out certain risk factors relating to any investment in Ordinary Shares. All statements regarding the Group's business, financial position and prospects should be viewed in light of such risk factors. Notwithstanding this prospective investors should read the whole text of this document.

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. Each AIM company is required pursuant to the AIM Rules for Companies to have a nominated adviser. The nominated adviser is required to make a declaration to London Stock Exchange on admission in the form set out in Schedule Two to the AIM Rules for Nominated Advisers. London Stock Exchange has not itself examined or approved the contents of this document.

This document, which comprises an admission document, has been drawn up in accordance with the AIM Rules. Any offer of Ordinary Shares is being made only to qualified investors for the purposes of, and as defined in section 86 FSMA and, accordingly, the Company is making an exempt offer to the public in accordance with the exemptions contained in Part VII of FSMA. Therefore, this document is not a prospectus for the purposes of the Prospectus Rules, has not been prepared in accordance with the requirements of the Prospectus Rules and has not been, and will not be, approved or filed with the UK Listing Authority or any other authority which could be a competent authority in any jurisdiction for the purposes of the Prospectus Directive.

Application has been made for the issued and to be issued Ordinary Shares to be admitted to trading on AIM. It is expected that Admission will become effective and dealings in the Ordinary Shares will commence on AIM on 12 June 2007. The Ordinary Shares are not dealt in, or on, any recognised investment exchange and no such other applications have been made. It is emphasised that no application is being made for admission of the Ordinary Shares to the Official List.

The Company and each of the Directors, whose names appear on page 3 of this document, accept responsibility for the information contained in this document. The Company and the Directors declare that, having taken all reasonable care to ensure that such is the case, the information contained in this document is, to the best of their knowledge, in accordance with the facts and does not omit anything likely to affect the import of such information. In connection with this document, no person is authorised to give any information or make any representation other than as contained in this document.

MODERN WATER PLC

(incorporated and registered in England and Wales under the Companies Act 1985 with registered number 5963927)

Admission to trading on AIM

and

Placing of 25,210,085 Ordinary Shares at 119 pence per Ordinary Share

by

KBC PEEL HUNT LTD

Nominated Adviser and Broker

The Placing is conditional, *inter alia*, on Admission taking place on or before 12 June 2007 (or such later date as the Company and KBC Peel Hunt may agree). The Placing Shares will, when issued, rank in full for all dividends or other distributions thereafter declared, made or paid on the Ordinary Shares and will rank *pari passu* in all other respects with all other Ordinary Shares in issue on Admission.

KBC Peel Hunt, which is regulated by the Financial Services Authority, is acting as the Company's Nominated Adviser in connection with the proposed admission of the Ordinary Shares to trading on AIM. KBC Peel Hunt's responsibilities as the Company's Nominated Adviser under the AIM Rules are owed solely to London Stock Exchange and are not owed to the Company or to any Director or to any other person in respect of his decision to acquire shares in the Company in reliance on any part of this document. No representation or warranty, express or implied, is made by KBC Peel Hunt as to any of the contents of this document (without limiting the statutory rights of any person to whom this document is issued). KBC Peel Hunt will not be offering advice and will not otherwise be responsible to anyone other than the Company for providing customer protections to recipients of this document in respect of the Placing or any acquisition of Ordinary Shares in the Company.

The distribution of this document outside the UK may be restricted by law and therefore persons outside the UK into whose possession this document comes should inform themselves about and observe any restrictions as to the Placing, the Ordinary Shares or the distribution of this document. The Ordinary Shares have not been, nor will be, registered in the United States under the United States Securities Act of 1933, as amended, or under the securities laws of Canada, Australia or Japan or any other jurisdiction and they may not be offered or sold directly or indirectly within the United States, Canada, Australia, or Japan or into any other jurisdiction where it would be unlawful to do so or to, or for the account or benefit of, US persons or any national, citizen or resident of the United States, Canada, Australia or Japan or any other jurisdiction where it would be unlawful to do so. This document does not constitute an offer to sell or issue or the solicitation of an offer to buy or subscribe for Ordinary Shares in any jurisdiction in which such offer or solicitation is unlawful.

The information contained in this document has been prepared solely for the purposes of Admission and is not intended to be relied upon by any subsequent purchaser of the Ordinary Shares and accordingly no duty of care is owed to or any such persons.

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DIRECTORS, SECRETARY AND ADVISERS

Directors	Neil Morton McDougall, <i>Executive Chairman</i> Simon Thomas Humphrey, <i>Chief Executive Officer and Finance Director</i> Gerald Melville Aubrey Jones, <i>Chief Scientific Officer</i> Richard Michael Gradon, <i>Senior Non-executive Director</i> Paul Welton Shepherd, <i>Non-executive Director</i> Trevor James Victor Jones, <i>Non-executive Director</i> Michael Charles Nettleton Townend, <i>Non-executive Director</i> <i>all of:</i>
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DEFINITIONS

The following definitions apply throughout this document, unless the context requires otherwise:

“Act”	the Companies Act 1985, as amended and, to the extent effective, superseded by the Companies Act 2006
“Admission”	the admission of the Enlarged Issued Share Capital to trading on AIM becoming effective in accordance with the AIM Rules
“AIM”	a market operated by London Stock Exchange
“AIM Rules”	the rules published by London Stock Exchange governing the admission to, and operation of, AIM from time to time and including the AIM Rules for Companies and the AIM Rules for Nominated Advisers
“Articles”	the articles of association of the Company, as amended
“Board”	the board of directors of the Company from time to time and any duly authorised and constituted committee thereof
“Code”	The City Code on Takeovers and Mergers published from time to time by the Panel
“Combined Code”	the Combined Code on Corporate Governance published in June 2006 by the Financial Reporting Council, as amended from time to time
“Company”	Modern Water plc, a company registered in England and Wales with registered number 05963927
“CREST”	the relevant system (as defined in the CREST Regulations) operated by CRESTCo in accordance with which securities may be held or transferred in uncertificated form
“CRESTCo”	CRESTCo Limited, a company incorporated under the laws of England and Wales with registered number 2878738, the operator of CREST
“CREST Regulations”	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755), as amended, and any applicable rules made under these regulations
“Cymtox”	Cymtox Limited, a company registered in England and Wales with registered number 5025552 and in which the Company has an equity investment
“Directors”	the directors of the Company, whose names are set out on page 3 of this document
“Enlarged Issued Share Capital”	the Ordinary Shares in issue following the Placing
“Existing Ordinary Shares”	the 33,652,600 Ordinary Shares in issue immediately prior to the Placing (assuming completion of the Surrey Aqua Roll-Up Agreement)
“FSMA”	the Financial Services and Markets Act 2000, as amended
“Group”	the Company and the Subsidiaries
“IAS”	International Accounting Standards

“IFRS”	International Financial Reporting Standards
“Incentive Shares”	the Ordinary Shares issued and allotted pursuant to and in accordance with the rules of the Management Share Incentive Scheme
“IP Group”	IP Group plc, a company registered in England and Wales with registered number 04204490
“KBC Peel Hunt”	KBC Peel Hunt Ltd
“London Stock Exchange”	London Stock Exchange plc
“Management Share Incentive Scheme”	the Company’s share incentive scheme entitled the “Modern Water Deferred Share Scheme”, more particularly described in paragraph 9.1 of Part VII of this document
“Management Team”	together, Neil McDougall, Simon Humphrey and Dr Gerald Jones
“Modern Water Incentive Plan”	the Modern Water Incentive Plan, more particularly described in paragraph 9.3 of Part VII of this document
“not in Public Hands”	Ordinary Shares held, directly or indirectly (including via a related Financial Product) by: <ul style="list-style-type: none"> (i) a related party (as defined in the AIM Rules); (ii) the trustees of any employee share scheme or pension fund established for the benefit of any directors/employees of the Group; (iii) any person who under any agreement has a right to nominate a person to the Board; (iv) any person who is the subject of a lock-in agreement pursuant to rule 7 of the AIM Rules; (v) the Company as treasury shares
“Official List”	the official list of the UK Listing Authority
“Ordinary Shares”	ordinary shares of 0.25 pence each in the Company
“Panel”	The Panel on Takeovers and Mergers
“Placing”	the conditional placing by KBC Peel Hunt of the Placing Shares with institutional and other investors at the Placing Price pursuant to the terms and conditions of the Placing Agreement
“Placing Agreement”	the conditional agreement dated 7 June 2007, between the Company, the Directors and KBC Peel Hunt relating to the Placing and Admission, further details of which are set out in paragraph 13.1 of Part VII of this document
“Placing Price”	119 pence per Ordinary Share
“Placing Shares”	25,210,085 new Ordinary Shares to be issued by the Company pursuant to the Placing
“Prospectus Directive”	directive 2003/71/EC, as amended

“Prospectus Rules”	the prospectus rules published by the Financial Services Authority from time to time for the purposes of Part VII of FSMA in relation to offers of securities to the public and admission of securities to trading on a regulated exchange
“PWL”	Poseidon Water Limited, a company registered in England and Wales with registered number 04598478
“related Financial Product”	any financial product whose value in whole or in part is determined directly or indirectly by reference to the price of the Ordinary Shares, including a contract for difference or a fixed odds bet
“Shareholders”	holders of Ordinary Shares
“Subsidiaries”	PWL and, upon Admission, Surrey Aqua
“Surrey Aqua”	Surrey Aquatechnology Limited, a company registered in England and Wales with registered number 05698169
“Surrey Aqua Roll-Up Agreement”	the conditional agreement between the Company and the Surrey Aqua Sellers dated 4 May 2007
“Surrey Aqua Sellers”	together, Professor Adel Sharif, Neil McDougall and the University of Surrey
“UK” or “United Kingdom”	United Kingdom of Great Britain and Northern Ireland
“United States” or “US”	the United States of America, its territories and possessions, any state of the United States and the District of Columbia

In this document all references to times and dates are in reference to those observed in London, United Kingdom.

In this document the symbols “£” and “p” refer to pounds sterling and pence sterling respectively and the symbol “\$” refers to United States dollars.

GLOSSARY

“bioluminescence”	the production and emission of light by a living organism as the result of a chemical reaction during which chemical energy is converted to light energy
“BOOT”	a project by which a developer builds an infrastructure facility using limited or non-recourse financing in return for the right to operate the facility and charge users a fee in order to generate a commercially acceptable rate of return on investment and where the developer owns and operates the project for a specified amount of time, usually 25 to 30 years, after which ownership is transferred to the government or public authority usually without compensation
“brackish water”	water that is saltier than fresh water, but not as salty as sea water with salinity of between 1000 and 10,000 mg/l
“conventional desalination processes”	includes reverse osmosis, multi-effect distillation, multi-stage flash and electrodialysis
“desalination”	the process of removing salt and other minerals from water in order to obtain fresh water suitable for animal or human consumption or for irrigation
“determinands”	a specific chemical substance
“electrodialysis”	the separation of a solution’s ionic components through the use of semipermeable, ion-selective membranes operating in a DC electric field
“European Waste Water Standards”	the standards prescribed for the treatment and subsequent discharge of waste water into the environment as defined in the European Council directive concerning urban waste water treatment (91/271/EEC)
“footprint”	the surface area of a desalination plant
“fresh water”	water with a salinity of less than 1000 mg/l dissolved salts
“grey water”	non-industrial wastewater generated from domestic processes such as washing dishes, laundry and bathing
“intellectual property”	a term often used to refer generically to property rights created through intellectual and/or discovery efforts of a creator that are generally protectable under patent, trademark, copyright, trade secret or other law
“m³/d”	cubic meter per day
“manipulated osmosis”	the use of an osmotic agent to attract water molecules under some pressure through a semi-permeable membrane
“membrane”	a thin barrier that permits the passage of particles of a certain size or of particular physical or chemical properties
“metric tonne”	one metric tonne of water measures 1m ³ and is equal to 1,000 litres, 264 US gallons or 219 British gallons

“multi-effect distillation”	a thermal technique whereby sea water is boiled and the steam condensed in tubes inside chambers filled with sea water, some of which itself then boils and the resulting vapour is fed into the tubes in the next chamber and the process repeated
“multi-stage flash”	a thermal technique of desalination whereby sea water is heated then quickly transferred to a lower pressure chamber, causing some of it to boil rapidly, or “flash” into steam which is then condensed and the process is then repeated
“osmotic pressure”	excess pressure that must be applied to a concentrated solution to produce equilibrium and prevent the movement of a more dilute solution through a semipermeable membrane into the more concentrated solution
“osmotic potential”	the opposite of water potential which is the degree to which water would want to stay in a given liquid
“potable water”	water safe for human consumption or which may be used in the preparation of food or beverages, or for cleaning articles used in the preparation of food or beverages
“pre-treatment”	the treating of sea water prior to desalination which may include the removal of suspended solids, biological activity, oils and other contaminants (of differing importance depending upon the technology, with a particular need in osmotic applications)
“retrofitting”	measures taken to allow new or updated parts to be fitted to and/or replace old or outdated assemblies and technologies
“reverse osmosis”	a method of separating water from dissolved salts by passing feedwater through a semipermeable membrane at a pressure greater than the osmotic pressure caused by dissolved salts
“rotating biological contactor”	biological treatment process used in the treatment of waste water following primary treatment
“sea water”	general term for sea or ocean water with a typical total dissolved solids concentration of 35,000 mg/L
“sequencing batch reactor”	a reactor consisting of processing tanks for the treatment of waste water with a defined sequence of operation
“submerged aerated filter”	a high performance biological filter for the treatment of both domestic and industrial wastes
“thermal desalination”	a desalination technique which involves the heating of sea water as opposed to a membrane or other less frequently used techniques
“water stressed”	a situation when the demand for water exceeds the available amount during a certain period or when poor quality restricts its use
“waste water”	any water that has been adversely affected in quality by anthropogenic influence (in the most common usage, municipal waste water that contains a broad spectrum of contaminants resulting from the mixing of wastewaters from different sources)

KEY INFORMATION

This information is derived from, and should be read in conjunction with, the full text of this document.

Introduction

The Company has been established to source, develop and deploy technology-based solutions to meet the growing demand for the economic availability of fresh water and treatment of waste water.

Less than one per cent. of the water on Earth is available for consumption. As fresh water is a finite resource and as population grows, many parts of the world are experiencing a growing water crisis.

In the developing world, it is estimated that 2.6 billion people (approximately two fifths of the world's population) do not have access to adequate sanitation. In these areas approximately 2.2 million people die from diseases associated with poor water quality and sanitation every year.

The Group currently has access to two core technologies which are the subject of patent applications:

- desalination technology which aims to reduce the cost of desalinating sea water as it requires less energy and lower capital expenditure than conventional desalination processes; and
- technology to allow sea water based domestic waste water to be treated to a sufficient quality to meet European Waste Water Standards.

Business Model

The Company's objective is to create value for shareholders through the acquisition of assets through which the Group's technologies can be deployed and the licensing and sale of its water related technologies to third parties.

The principal components of the Group's business model are:

- BOOT projects – to acquire ownership and/or management of BOOT water projects that can be fitted with the Group's technologies to reduce capital and operating costs of those assets and, in particular, reduce energy consumption; and
- intellectual property – to acquire and invest in water-related technologies complimentary to those already owned by the Group and which have the potential to be developed through to commercial operation.

A number of BOOT projects have been identified by the Group which meet its technology deployment criteria. The Group will initially aim to acquire BOOT projects in water stressed areas, including Southern Europe and the Middle East, where the Group expects to use Surrey Aqua and/or PWL technologies (either together or alone) to produce more economically efficient solutions in, among other things, desalination and waste water treatment.

The Group intends to continue its focus on exploiting technologies identified through partnerships with IP Group and various universities, international research institutions and the Directors' industry knowledge in the following areas:

- reduction of energy consumption and operational costs in desalination;
- reduction of energy usage in the treatment of, and increased generation of energy from, sewage and sewage sludge;
- reduction in cost and increased reliability of grey water recycling processes; and
- enhanced removal of pollutants and recovery of valuable materials from very large scale industrial waste processes such as mining and agriculture.

Principal Activities

Surrey Aquatechnology Limited

Surrey Aqua was spun out from the University of Surrey on 30 November 2006. Its founding shareholders were Neil McDougall, Professor Adel Sharif, the University of Surrey and the Company. The Company will, following Admission, own 100 per cent. of Surrey Aqua.

Surrey Aqua is developing processes for the osmotic treatment of water which include the desalination of seawater for potable water, the treatment of water produced from the desalination process and the preparation of water for re-injection for use in the oil industry.

The Group's initial focus for Surrey Aqua's intellectual property will be on its manipulated osmosis technology and its application in the desalination of brackish water and sea water. Manipulated osmosis technology is suitable to be used in the construction of new and integrated into existing thermal desalination and reverse osmosis desalination plants, reducing the capital costs, the footprint and the operating costs of such plants.

Poseidon Water Limited

PWL was spun out from Cardiff University on 30 April 2004. The Company currently owns 51 per cent. of PWL. PWL's sewage treatment process is designed to be used on waste water based on either just seawater or a mixture of fresh water and sea water. Conventional waste water sewage treatment processes predominantly treat waste water based solely on fresh or potable water. Where they are based on a combination of fresh water and sea water or just sea water, performance is significantly compromised and they have limited effectiveness. As toilet flushing uses approximately 30 per cent. of all domestic water usage, implementing PWL's water treatment process can significantly reduce the levels of fresh water required.

Field tests have now been completed successfully and the next step is full commercial installation of PWL's technology. The Company is in early stage discussions with a number of new build developers to implement its technology in an initial commercial reference site as the first stage in the commercial roll-out of the technology. The Company expects the reference site to be commercially operational by the first half of 2008.

Cymtox Limited

Cymtox was spun out from Cardiff University on 1 August 2004. The Company currently owns 16.67 per cent. of Cymtox. Cymtox exploits a new technology that monitors water toxicity on a continuous, real time basis. It checks a wide range of toxicity and warns of suspicious changes. The core technology is based on the well established science of bioluminescence.

Cymtox is in final negotiations with a water quality instrument manufacturer of similar products to produce a manufacturing prototype using off the shelf components. This production prototype will be used to launch formal marketing of the product in areas where protection of water supplies is crucial. The Directors expect the production prototype to be manufactured within the next 12 months.

Reasons for Placing and Admission

The Directors intend to use the net proceeds of the Placing to provide funds for the Group's development and commercialisation strategy. This currently comprises:

- acquisition of existing contracts/companies where the Company can improve the project economics through deployment of its technology, estimated to cost approximately £20 million;
- further development, investment in existing technologies and acquisition/licensing of new technologies from the Group's current pipeline, estimated to cost approximately £5 million; and
- funding the Company's ongoing working capital requirements including the recruitment of up to 20 employees in the next 18 months, primarily focussed on business development and research and product development, estimated to cost approximately £3 million.

Details of the Placing and Admission

KBC Peel Hunt, as agent for the Company, has conditionally placed 25,210,085 new Ordinary Shares with investors at 119 pence per Ordinary Share representing, in aggregate, approximately 42.8 per cent. of the Enlarged Issued Share Capital. The Placing, which is not underwritten, is conditional, inter alia, upon the admission of the Company's Ordinary Shares to trading on AIM by 12 June 2007, or such later time as KBC Peel Hunt and the Company agree. The Placing is intended to raise £30 million for the Company, before expenses. After the expenses of the Placing and Admission, estimated in total at £1.4 million (excluding VAT), the Placing is intended to raise £28.6 million.

Further Information

Your attention is drawn to the additional information in Parts II to VII of this document.

PLACING STATISTICS

Placing Price	119 pence
Number of Existing Ordinary Shares	33,652,600
Number of new Ordinary Shares to be issued pursuant to the Placing	25,210,085
Market capitalisation at the Placing Price	£70.0 million
Number of Ordinary Shares in issue on Admission	58,862,685
Percentage of Enlarged Issued Share Capital subject to the Placing	42.8 per cent.
Percentage of Enlarged Issued Share Capital not in Public Hands on Admission	57.8 per cent.
Gross proceeds of the Placing available to the Company	£30.0 million
Net proceeds of the Placing available to the Company	£28.6 million
International Security Identification Number (ISIN)	GB00B1XF5X66
AIM Symbol	MWG

EXPECTED TIMETABLE

Date of this Admission Document	7 June 2007
Admission and dealings in the Ordinary Shares expected to commence on AIM	12 June 2007
Expected crediting of CREST accounts (where applicable) by	12 June 2007
Expected despatch of definitive share certificates (where applicable) by	26 June 2007

Each of the times and dates in the Expected Timetable is subject to change.

PART I

INFORMATION ON THE GROUP

1. Introduction

The Company has been established to source, develop and deploy technology-based solutions to meet the growing demand for the economic availability of fresh water and treatment of waste water. The Company's objective is to create value for Shareholders through both the acquisition of assets through which the Group's technologies can be deployed to improve the efficiency and reduce the operating costs of such assets and the licensing and sale of the Group's water-related technologies to third parties.

The Group's initial focus is to continue to invest in its technologies and to subsequently deploy them across the international fresh water and waste water industry with the aim of increasing the economic availability of fresh water from the conversion and use of sea water.

Of the total volume of water on Earth, 97.5 per cent. is in the seas and oceans, 1.725 per cent. is locked in glaciers and the polar caps, 0.75 per cent. is fresh groundwater and just 0.0075 per cent. is found in lakes and rivers as fresh surface water. The remaining 0.0175 per cent. is tied up elsewhere in swamps, soil moisture and frost. Therefore, less than one per cent. of the water on Earth is available for consumption. As fresh water is a finite resource and as population grows, many parts of the world are experiencing a growing water crisis. In December 2003 the United Nations General Assembly proclaimed the years 2005 to 2015 the International Decade for Action "Water for Life" in recognition of the growing water crisis.

In addition, whilst the future impact of climate change remains uncertain, there is a consensus amongst the scientific community that it is likely to exacerbate the water crisis through an increase in extreme weather events such as droughts and flooding.

Water supply

Current statistics in respect of the global domestic fresh water supply from the United Nations show the following:

- 1.1 billion people in the world do not have access to potable water (this equates to approximately one sixth of the world's population); and
- by 2025 it is estimated that around two-thirds of the world's population – about 5.5 billion people – will live in areas facing moderate to severe water stress.

The economic availability of fresh water is not only an issue for domestic fresh water supply. The primary users of water are agriculture and industry. The approximate breakdown of water usage by sector is as follows: agriculture (66 per cent.); industry (20 per cent.); and domestic (10 per cent.). The Directors believe that water shortage is therefore likely to become an increasing constraint on economic growth throughout the world.

Waste water treatment

The treatment of waste water is an increasing problem in both the developed and developing worlds. In the developed world, increasing legislative requirements and consumer awareness of environmental issues have forced companies to consider adapting technology to reduce the levels and types of pollutants being discharged. In addition, conventional sewage treatment processes create large volumes of sludge, the disposal of which is likely to become more costly and complex as a result of increasingly stringent legislation and regulation.

In the developing world, it is estimated that 2.6 billion people (approximately two fifths of the world's population) do not have access to adequate sanitation. In these areas approximately 2.2 million people die from diseases associated with poor water quality and sanitation every year.

2. Group History

The Company's policy to source, develop and deploy technology-based solutions to meet the growing demand for the economic availability of fresh water and treatment of waste water was established in November 2006 by IP Group and the Management Team. At the time of its formation, IP Group and the Management Team committed £2.2 million in cash to the Company to enable the development of a portfolio of water-related technologies. Of these committed funds, just over £1.0 million was invested shortly after the Company's incorporation as follows, with the remainder being retained by the Group pending further development opportunities:

Company name	<i>Surrey Aqua</i>	<i>PWL</i>	<i>Cymtox</i>
Description of activities	A spin out from the University of Surrey, owns desalination technology and is focussed on the improvement and development of such technology	A spin out from Cardiff University, owns technology to replace fresh water with sea water within the sanitation system	A further spin out from Cardiff University, uses bioluminescence technology to produce a real time water toxicity monitor
Amount invested	£535,000	£425,000	£75,000
Date of investment	30 November 2006	14 December 2006	14 December 2006
Percentage of issued share capital held by the Company at the date of investment	30 per cent. (upon Admission, 100 per cent. owned)	51 per cent.	16.67 per cent.

On 4 May 2007, the Surrey Aqua Roll Up Agreement was signed under which the Company agreed to acquire the remaining shares of Surrey Aqua not already owned by the Company, the consideration for which will be satisfied by the issue of 10,763,600 Ordinary Shares. Conditional upon the occurrence of the events described in paragraph 13.4 of Part VII of this document, Surrey Aqua will become a wholly owned subsidiary of the Company. Further details of the Surrey Aqua Roll-Up Agreement are set out in paragraph 13.4 of Part VII of this document.

Further details of the businesses, together with the owned or licensed-in technology, of each of Surrey Aqua, PWL and Cymtox are set out below in this Part I.

3. The Company's Business Model – Key Strengths and Strategy

The Company's objective is to create value for Shareholders through both the acquisition of assets through which the Group's technologies can be deployed to improve the efficiency and reduce the operating costs of such assets and the licensing and sale of its water-related technologies to third parties.

The principal components of the Group's business model are:

1. *BOOT projects* – to acquire ownership and/or management of BOOT water projects that can be fitted with the Group's technologies to reduce capital and operating costs of those assets and, in particular, reduce energy consumption; and
2. *intellectual property* – to acquire and invest in water-related technologies complimentary to those already owned by the Group and which have the potential to be developed through to commercial operation.

The Directors believe that the Group's business model exploits the fact that, to date, there has been limited adoption and commercialisation of innovation in water technology generally and that the Group's key competitive advantage lies in its ability to identify technologies that will transform less efficient water projects to achieve the economic availability of fresh water. As a result of these factors, the Directors believe the Company is well positioned to take advantage of the increasing global demand for fresh water.

BOOT projects

A number of water projects have been developed through BOOT projects and a number of BOOT projects have been identified by the Group which meet its technology deployment criteria. The Group will initially aim to acquire BOOT projects in water stressed areas, including Southern Europe and the Middle East, where the Group expects to use Surrey Aqua and/or PWL technologies (either together or alone) to produce more economically efficient solutions in, among other things, desalination and waste water treatment.

The typical, but not exhaustive, characteristics of a BOOT project are as follows:

Contract duration	25-30 year period of operation from construction
Operationally geared	volumetric tariff is fixed at the time the contract is awarded to build and operate, providing a predictable source of revenue
Financially geared	up to 80 per cent. of acquisition costs are financed through debt
Financially stable	single “off-taker” of water from a plant, usually with a strong credit rating, e.g. government or municipal entity or utility company
Project management	project ownership and operation are distinctly separate

In some BOOT projects, the volumetric tariffs are fixed at the time the contract is awarded and therefore any operational savings through advances in technologies are retained by the BOOT investors.

The Management Team has extensive experience in the acquisition and management of assets such as water and waste water processing plants, in which it is intended that the Company’s current and future technologies can be deployed.

Intellectual Property

The Group currently has access to two core technologies which are the subject of patent applications and which are described in the patent report set out in Part VI of this document:

1. desalination technology which aims to reduce the cost of desalinating sea water as it requires less energy and lower capital expenditure than conventional desalination processes; and
2. technology to allow sea water based domestic waste water to be treated to a sufficient quality to meet European Waste Water Standards.

The Group intends to continue its focus on exploiting technologies identified through partnerships with IP Group and various universities, international research institutions and the Directors’ industry knowledge in the following areas:

- reduction of energy consumption and operational costs in desalination;
- reduction of energy usage in the treatment of, and increased generation of energy from, sewage and sewage sludge;
- reduction in cost and increased reliability of grey water recycling processes; and
- enhanced removal of pollutants and recovery of valuable materials from very large scale industrial waste processes such as mining and agriculture.

4. Current Portfolio

The Group is initially concentrating on two distinct approaches to the water market being: (i) desalination; and (ii) the substitution of fresh water with sea water or recycled water for certain non-potable uses. The Group’s strategy is to acquire key stakes in appropriate technologies within these areas and to date has made investments in Surrey Aqua and PWL. The Group also has an investment in Cymtox.

Surrey Aquatechnology Limited

Background and Technology

Surrey Aqua was spun out from the University of Surrey on 30 November 2006. Its founding shareholders were Neil McDougall, Professor Adel Sharif, the University of Surrey and the Company. The Company will, upon Admission, own 100 per cent. of Surrey Aqua. The following agreements are currently in place between the Company, Surrey Aqua and the University of Surrey, further details of which are set out in paragraphs 13.7 to 13.10 (inclusive) of Part VII of this document:

- (i) an intellectual property agreement between Surrey Aqua and the University of Surrey dated 30 November 2006 under which the University of Surrey assigned to Surrey Aqua intellectual property rights in various patent applications together with all applications or registrations deriving or claiming priority from these applications, and know-how;
- (ii) a framework research and collaboration agreement dated 4 May 2007 between the Company and the University of Surrey under which the University of Surrey agrees that it will enter into an agreement with the Company to perform certain research services over a five year term;
- (iii) a research agreement dated 4 May 2007 between the University of Surrey and Surrey Aqua under which the University of Surrey will conduct a one year research project 'Forward Osmosis' for Surrey Aqua, under the direction of Professor Adel Sharif; and
- (iv) a consultancy and business development agreement dated 30 November 2006 between the Company and Surrey Aqua for the provision by the Company of corporate governance and related services.

Surrey Aqua is developing processes for the osmotic treatment of water which include the desalination of seawater for potable water, the treatment of water produced from the desalination process and the preparation of water for re-injection for use in the oil industry.

Surrey Aqua's intellectual property has the following applications:

- Manipulated osmosis. A process for the extraction of a solvent (typically water) from a solution which can reduce the energy requirement of traditional reverse osmosis processes while reducing the capital expenditure, the size of plant required and other operational costs. The technology resulting from this know-how is referred to in the patent report set out in Part VI of this document as SA Patent Filing No.1.
- A process and apparatus for the production of energy from the difference in osmotic pressure of two solutions. This process can be used to recover some energy from a desalination process and generate energy where desalination is not required. The technology resulting from this know-how is referred to in the patent report set out in Part VI of this document as SA Patent Filing No.2.
- A process for re-injecting diluted formation water into an oil field in order to increase the oil recovery. The process aims to reduce the cost of re-injection, reduce the cost of treatment of produced water and reduce the amount of chemicals required to treat the formation water. The technology resulting from this know-how is referred to in the patent report set out in Part VI of this document as SA Patent Filing No.3.
- A process for using solar energy to enhance or drive a desalination or solvent extraction method. The technology resulting from this know-how is referred to in the patent report set out in Part VI of this document as SA Patent Filing No.4.

Roll Out and Implementation

The Group currently intends to roll out and implement Surrey Aqua's technology through a staged development plan:

1. The Group intends to continue to refine key components involved in the process to enable the technology to reach the stage where it can be commercially tested. This process is expected to take

approximately three months. At the same time, Surrey Aqua intends to continue developing further applications for the manipulated osmosis process.

2. The Group aims to retrofit Surrey Aqua's technology to an existing BOOT desalination plant (whether a thermal or reverse osmosis desalination plant) in conjunction with an existing BOOT desalination plant owner. The Group intends to acquire a strategic stake in an existing BOOT desalination project within twelve months following Admission and thereafter retrofit the Surrey Aqua technology to prove its commercial viability and the Group's installation ability.
3. Due to the longer term nature of building a new BOOT desalination project incorporating the Surrey Aqua manipulated osmosis technology, the Group intends to participate in tender processes for the construction and operation of new BOOT desalination projects within 24 months following Admission.

Given the commercial environment in which the Group operates, it should be noted that the Management Team may or may not follow all of these stages or may pursue the development plan in a different order of priority. The Company will also continually research and assess new areas of water related technology.

Desalination Market

Driven by the scarcity of fresh water, particularly in areas of water stress, the global desalination industry is predicted to grow from 39.9 million m³/d at the beginning of 2006 to 64.3 million m³/d in 2010, and to 97.5 million m³/d in 2015. This represents a 61 per cent. increase in capacity over a five-year period, and a 140 per cent. increase in capacity over a ten-year period. The compound annual growth rate of installed capacity is around 9 per cent. The compound annual growth rate of the market for new capacity is around 13 per cent.

It is forecasted that the expansion of capacity will require capital investment totalling approximately \$25 billion by the end of 2010, or approximately \$56.4 billion by the end of 2015. Based on current trends, it is expected that more than half of this capital will come from the private sector. The increase in capacity is forecast to also lead to increased operating expenditure. The estimated annual operating cost is expected to rise from \$6.5 billion in 2005 to \$9.9 billion in 2010 and to \$14.8 billion in 2015.

The market for desalination is active and there are a wide variety of consulting engineers, equipment suppliers and trade organisations that specialise in desalination. Finance is readily available for well designed projects. Installed plants come in a variety of sizes, supplying fresh water to areas ranging from small villages to large urban conurbations. As technology improves, the general size of plants is expected to increase.

Applications

The Group's initial focus for Surrey Aqua's intellectual property will be on its manipulated osmosis technology and its application in the desalination of brackish water and sea water.

Manipulated osmosis technology is suitable to be used in the construction of new and integrated into existing thermal desalination and reverse osmosis desalination plants, reducing the capital costs, the footprint and the operating costs of such plants. In addition, manipulated osmosis technology is suitable for integration with existing thermal desalination and reverse osmosis desalination plants and will assist in reducing their operating costs, in particular their energy consumption.

Competition

The Company is aware of a number of potential competitors who are actively pursuing opportunities in the desalination market in their capacity as developers, equipment/service suppliers and or membrane suppliers, principally being GE Water, Veolia Water Systems, Suez Energy International, Siemens Water Technology and Consolidated Water Co. Ltd. However, the Directors believe that there is currently no technology which directly competes with Surrey Aqua's manipulated osmosis technology in the desalination markets in Southern Europe and the Middle East. The Directors therefore believe that the Group is well positioned to take advantage of potential market opportunities in water related technology, targeting regional areas where

the Group expects to use Surrey Aqua and/or PWL technologies (either together or alone) to produce more economically efficient solutions to desalination and waste water treatment.

Poseidon Water Limited

Background and Technology

PWL was spun out from Cardiff University on 30 April 2004. Its shares are held by Cynnovation Limited, University College Cardiff Consultants Limited, Cardiff Partnership Fund Limited and the Company. The Company currently owns 51 per cent. of PWL.

The Company has entered into a consultancy and business development agreement with PWL for the provision of corporate governance and related services, further details of which are set out in paragraph 13.7 of Part VII of this document.

Cardiff University's intellectual property, further details of which are set out in the patent report at Part VI of this document, was assigned to PWL from University College Cardiff Consultants Limited on 25 April 2007.

The core of PWL's business is a combination of biological treatment processes and waste water treatment expertise. PWL's process is designed to allow sea water based domestic waste water to be treated to a sufficient quality to meet European Waste Water Standards.

Specifically, PWL's sewage treatment process is designed to be used on waste water based on either just seawater or a mixture of fresh water and sea water. Conventional waste water sewage treatment processes predominantly treat waste water based solely on fresh or potable water. Where they are based on a combination of fresh water and sea water or just sea water, performance is significantly compromised and they have limited effectiveness. As toilet flushing uses approximately 30 per cent. of all domestic water usage, implementing PWL's water treatment process can significantly reduce the levels of fresh water required. The principal benefits of PWL's waste water treatment process are therefore:

- reduced requirements for fresh water; and
- reduced costs relating to the purchase of fresh or potable water.

Countries with existing dual plumbing systems (i.e. those with separate plumbing for sea water and potable water) but limited facilities for treating sea water based domestic waste water, including Hong Kong, Gibraltar, Cayman Islands, Maldives, Marshall Islands, US Virgin Islands and Kiribati, are potential target markets for PWL's process.

PWL's initial target markets will be new-build, coastal developments in water stressed areas. The PWL process utilises a dual plumbing system and can reduce requirements for expensive desalinated water by up to approximately 30 per cent., thus enabling a better utilisation of scarce fresh water resources.

Implementation

To date, PWL has worked with three sewage treatment package plant manufacturers to field test its technology. The three manufacturers use different processes in their sewage treatment packages, allowing the technology to be tested in three different environments. These processes are sequencing batch reactor, rotating biological contactor and submerged aerated filtrator. The field test rig was maintained for nine months for each process with comprehensive logging of the performance results from the three treatment package plants. In each case the results exceeded the European Waste Water Standards.

Field tests have now been completed successfully and the next step is full commercial installation of PWL's technology. The Company is in early stage discussions with a number of new build developers to implement its technology in an initial commercial reference site as the first stage in the commercial roll-out of the technology.

Market

Until recently, the lack of a commercially viable, high performance treatment option for waste water deriving from sea water has been a barrier to the more widespread acceptance of sea water for non potable purposes, like toilet flushing.

Awareness is increasing surrounding the use of sea water instead of fresh water for non-potable purposes as a sustainable water solution in water stressed areas. The key drivers affecting increased usage of sea water instead of fresh water in waste water systems are:

- Conventional waste water sewage treatment processes are unreliable when converted to using sea water;
- Migration to, and housing development in, water stressed areas is continuing to increase, putting further pressure on already scarce water resources in those areas; and
- Demand for sustainable tourism in water stressed coastal areas is requiring innovative and cost efficient solutions using sea water.

Additionally, PWL's technology has the potential to replace desalination technology for up to approximately 30 per cent. of a community's water supply, thereby requiring a reduced desalination capacity, which, in turn, will significantly lower total water supply, energy and operational running costs.

Competition

PWL's principal competitors are the numerous suppliers of conventional waste water treatment plants which use fresh water to treat waste water. However in comparison to PWL's technology, conventional waste water treatment processes have been found to be unreliable when suffering from saline intrusion with sea water.

The Directors believe that the reduction in overall cost and requirement for efficient use of fresh water resources gives PWL's process a significant advantage in the market for coastal new-build package treatment plants.

Cymtox Limited

Background and technology

Cymtox was spun out from Cardiff University on 1 August 2004. Its shares are held by Cynnovation Limited, Cardiff Partnership Fund Limited, University College Cardiff Consultants Limited and the Company. The Company currently owns 16.67 per cent. of Cymtox.

The Company has entered into a consultancy and business development agreement with Cymtox for the provision of corporate governance and related services, further details of which are set out in paragraph 13.7 of Part VII of this document.

Cymtox exploits a new technology that monitors water toxicity on a continuous, real time basis. It checks a wide range of toxicity and warns of suspicious changes. The core technology is based on the well established science of bioluminescence. The Cymtox technology is the subject of various patent applications, further details of which are set out in section 3.3 of the patent report at Part VI of this document or which are the subject of the exclusive licence described below.

In addition to the intellectual property rights which are the subject of the applications set out in the patent report at Part VI of this document, Cymtox was on 30 July 2004 granted an exclusive world-wide licence to intellectual property rights which are the subject of various patent applications (including in the UK, Europe and the US), including all rights to any patents so granted, by its owner, University College Cardiff Consultants Limited. The licence is due to expire on 30 July 2019, although it may be extended by mutual agreement between Cymtox and University College Cardiff Consultants Limited.

The key advantages of the Cymtox technology over existing water toxicity testing technologies are as follows:

- the Cymtox technology has been proven to detect chemical determinands, such as 1/1000th of a lethal dose of cyanide in chlorinated tap water, in three seconds in a real-time continuous monitor;
- the Cymtox technology is focused on ‘broad band’ monitoring, which determines the general presence of toxicity in liquids, rather than ‘determinand-specific’ monitoring, which determines the presence and quantity of a specific substance within a liquid; and
- the Cymtox technology can detect low levels of toxic contaminants in less than one minute, representing a significant improvement to the normal 15-120 minute detection times of existing products on the market.

Implementation

Cymtox is in final negotiations with a water quality instrument manufacturer of similar products to produce a manufacturing prototype using off the shelf components. This production prototype will be used to launch formal marketing of the product in areas where protection of water supplies is crucial. The Directors expect the production prototype to be manufactured within the next 12 months.

5. Future Technologies

The Company is continuing to review new technologies in its key areas of interest, principally:

- reduction of energy consumption and operational costs in desalination;
- reduction of energy usage in the treatment of, and increased generation of energy from, sewage and sewage sludge;
- reduction in cost and increased reliability of grey water recycling processes; and
- enhanced removal of pollutants and recovery of valuable materials from very large scale industrial waste such as mining and agricultural processing.

The Company expects to complete investments in and sign licence and option agreements for new technologies related to economic availability of freshwater and treatment of waste water in the near future. The Company will seek to acquire key stakes in technologies that are complementary to its strategic focus.

6. Sources of Revenue

The Group intends to generate revenues by deploying its current and future technologies in a number of ways:

- *Asset Ownership* – the Group will seek to acquire assets related to its existing technologies, in particular the manipulated osmosis technology, and will deploy those technologies to improve the efficiency and reduce the operating costs of the assets. An example of this strategy is the BOOT contract where the income is typically on a take or pay basis agreed at contract award. Therefore, a significant portion of the increased value from a reduction in operating costs is retained by the contractor for the life of the contract.
- *Licencing/Royalties* – if the Directors consider it appropriate, the Group will grant licences of its owned and licensed technologies to third parties in return for royalties, milestone payments and licence fees.

7. Current Trading and Prospects

In the five months to April 2007, the Company has not generated any revenue and has continued to incur ongoing operating expenses.

Since 29 November 2006, the Group has continued to refine its technologies and continues to identify opportunities to commercialise these technologies, details of which are included in “The Company’s Business Model – Key Strengths and Strategy” above.

8. Directors and Key Consultants

Directors

Details of the Directors, their roles and their backgrounds are as follows:

Neil McDougall (45), *Executive Chairman*

Neil was appointed as Executive Chairman of the Company on 1 December 2006 and as Chairman of Surrey Aqua on 29 November 2006. Neil was previously an independent investor and advisor to various private equity groups and financial institutions. Prior to that, he was Executive and Deputy Chairman of Swan Group plc (the holding company for Mid Kent Water plc) from 2001 to 2004. Neil was also Chairman and CEO of Biwater Capital Limited (a subsidiary of Biwater plc) from 1996 to 2001. In partnership with the University of Surrey and Oxfam, Neil is currently developing water testing equipment for the developing world on a charitable basis. He is also a Director of Delagua Water Testing Limited. Neil is a chartered accountant.

Simon Humphrey (40), *Chief Executive Officer and Finance Director*

Simon was appointed as CEO of the Company on 1 December 2006, and as a Director of each of PWL and Cymtox on 14 December 2006. Simon was previously an investment manager at Laing O’Rourke Portfolio Solutions Limited and was a Director of Glen Water Limited a 50/50 joint venture between Laing O’Rourke Portfolio Solutions Limited and Thames Water Services Limited. Previously, he worked as an investment director at two water industry companies, Spring Capital and Cascad BV. From 1990 to 1999 Simon worked at various Biwater plc companies in a variety of financial and project based roles both in the UK and internationally. Simon is a chartered management accountant and will be responsible for the finances of the Company (which are currently provided by IP Group) in his dual role as chief executive officer and finance director.

Dr Gerald Jones (56), *Chief Scientific Officer*

Gerald was appointed as a Director of the Company on 1 December 2006 and PWL and Cymtox on 14 December 2006. Gerald is currently the principal consultant for Business Strategy and Innovation at WRc plc, where he has worked in a variety of roles since 1980, including Group Marketing Manager. Gerald specialises in innovation, international marketing and business development and is also a founding Director and investor of Cynnovation Limited, a spin out company from WRc plc.

Michael Gradon (48), *Senior Independent Non-Executive Director*

Michael is a senior executive with over twenty five years’ experience in high-level commercial, management and legal positions. Until its takeover by Dubai Ports World in 2006, he spent 20 years at The Peninsular and Oriental Steam Navigation Company (“P&O”) including 8 years on the main board. A Cambridge law graduate and qualified lawyer, he joined P&O initially as a corporate lawyer before moving into a number of general management roles and was appointed to the P&O Board in 1998, at the time one of the youngest executive Directors on the main board of a FTSE 100 company.

Michael has held executive positions covering a wide range of management experience including executive P&L responsibility for property, infrastructure and leisure businesses, crisis and risk management, managing relationships with the Board and shareholders, multiple contract/commercial negotiations, and handling Board-level personnel matters.

Paul Shepherd CBE DL (62), *Non-Executive Director*

Paul is a chartered engineer with extensive experience in the construction and engineering industry both in the UK and overseas. Until 2001 Paul was Chairman and Group Managing Director of Shepherd Building

Group, one of the UK's largest private construction, engineering and manufacturing groups which operated in 90 countries. He is a past Chairman of the Construction Confederation, a past President of the Chartered Institute of Building (CIOB), and was a member of the Economic Affairs Committee of the CBI from 1995 to 2003. He is a Fellow of the Institute of Civil Engineers and the Chartered Institute of Building Services Engineers.

Paul is currently a Non-Executive Director of the FT Construction Group and subsidiaries, Chairman of the International Board of the CIOB, a member of the Court of York University and a Deputy Lieutenant for North Yorkshire. He was awarded a CBE in 1999 for services to the UK construction industry.

Trevor Jones (61), *Non-Executive Director*

Trevor is a mechanical engineer with considerable managerial experience across a range of industries. He has wide experience in the water industry with Thames Water, the world's third largest water services company. Trevor was managing director of Thames Water's non regulated business during which he was Chairman of the Metronet Consortium that won two thirds of the London Underground PPP. Following that he was managing director for all Thames Water's businesses in UK and Ireland which included Thames Water Utilities Limited, the largest water and waste water utility in the UK.

Trevor also has extensive experience in the international water market having been Chairman of Thames Water International, a portfolio of companies and projects in ten countries in the Middle East, Asia, Latin America and Australia.

Mike Townend (44), *Non-Executive Director*

Mike is director of Capital Markets at IP Group. He has 17 years experience in all aspects of equity capital markets and was formerly at Lehman Brothers where he was Managing Director, European Equities and Head of Equity Sales to Hedge Funds. In this role, where he was jointly responsible for the equity sales operation at Lehman Brothers, Mike focussed particularly on hedge funds and alternative asset managers and was responsible for building and maintaining multi-strategy and asset class relationships with institutional investors and prominent alternative asset managers. Prior to that, Mike was an Executive Director at Donaldson, Lufkin and Jenrette ("DLJ") where he was recruited to build up business with hedge funds as a key element of DLJ'S European start up strategy. He has a further eight years equity sales experience at Banque Paribas and BG Bank where he was Head of Equity Sales. In addition, Mike has extensive experience of raising capital, having recently completed a number of private company fundings including one in the intellectual property arena, Imprimatur Capital.

Key Consultants

Professor Adel Sharif (42), *Consultant to the Company and Director of Surrey Aqua*

Professor Sharif was appointed as a Director of Surrey Aqua on 27 November 2006. Professor Sharif is a professor in Chemical & Process Engineering at Surrey University, and has worked at the University for 9 years, with a total of 16 years in professional academia. He is the winner of The Royal Society 2005 Brian Mercer Senior Award for Innovations in Science and Technology, has over 60 publications and is an inventor and co-inventor of 6 patents. He founded the Centre for Osmosis Research and Applications at the School of Engineering of the University of Surrey ("CORA") in 2003, the UN Year of Fresh Water. CORA's research activities in the area of osmosis science have resulted in a number of inventions in the areas of desalination, water treatment, and renewable and fossil fuels energy. Professor Sharif is a founding shareholder and Director of Surrey Aqua and co-inventor of its technology. His team have been awarded the DTI Smart Award (Small Merit Award for Research and Technology). He is also a Member of the Qatar Foundation International Advisory Council and a winner of the Ministry of Defence sponsored UK Muslim News Award for Excellence 2007 in Engineering, Science and Technology.

Professor John C. Fry, *Consultant to and Technical Director of PWL*

Professor Fry was appointed as a Director of PWL on 29 March 2004. He is the co-inventor of the technological advances embodied in the PWL patent applications. Professor Fry has also acted as a Director

of Insect Investigations Limited, a Cardiff University spin out company and is an active research scientist with 35 year's experience in microbial ecology research. He has been awarded over £2 million in research grants over the past 10 years and has had over 160 publications.

9. Corporate Governance

The Directors recognise the importance of sound corporate governance and will, in so far as is practicable given the Company's size, stage of development and the constitution of the Board, comply with the main provisions of the Combined Code, the Quoted Companies Alliance Guidelines published on 13 July 2005 and the Policy and Voting Guidelines for AIM companies issued by the National Association of Pension Funds in March 2007.

Board

The Board is responsible for formulating, reviewing and approving the Company's strategy, budgets, major items of capital expenditure, acquisitions and other corporate actions. The Company intends to hold Board meetings at least 6 times each financial year and at other times as and when required.

Committees

The Company has established properly constituted audit and remuneration committees of the board with formally delegated duties and responsibilities.

The audit committee of the Company, comprising Michael Gradon, Paul Shepherd, Trevor Jones and Mike Townend (all non-executive Directors), will be chaired by Michael Gradon and will meet at least twice a year. The audit committee is responsible for ensuring that the Group's financial performance is properly monitored, controlled and reported. It will also meet the auditors and review reports from the auditors relating to accounts and internal control systems. The audit committee will meet at least once a year with the auditors. The Board has not identified a member of the audit committee who has recent relevant financial experience. However, the Board considers that collectively the members have the requisite skills and attributes to enable the audit committee to properly discharge its responsibilities.

The remuneration committee of the Company, comprising Michael Gradon, Paul Shepherd, Trevor Jones and Mike Townend (all non-executive Directors) will be chaired by Michael Gradon and will meet at least twice a year. It will set and review the scale and structure of the executive Directors' remuneration packages, including share options and other long term incentives and the terms of their service contracts. The remuneration and the terms and conditions of the non-executive Directors will be determined by the Board with due regard to the interests of the Shareholders and the performance of the Group. The remuneration committee will also make recommendations to the Board concerning the allocation of share options and other long term incentives to employees.

At the present time, given its early stage of development, the newly appointed Board does not feel it is appropriate to have a nomination committee. However, the Company will review this decision in the future.

Share Dealing

The Company has adopted a code for Directors' dealings which is appropriate for an AIM quoted company. The Directors will comply with Rule 21 of the AIM Rules relating to Directors' dealings and will also take all reasonable steps to ensure compliance by the Group's applicable employees (as defined in the AIM Rules).

10. Lock-in arrangements

On Admission, the Directors will be interested, in aggregate, in 9,071,550 Ordinary Shares, representing 15.41 per cent. of the Enlarged Issued Share Capital. The Directors have agreed that they will not dispose of any interest in Ordinary Shares held by them on Admission for a period of one year following Admission, and that for a further period of one year they will not dispose of any interest in such Ordinary Shares otherwise than through KBC Peel Hunt and with the prior written consent of KBC Peel Hunt, which will not be unreasonably withheld.

In addition, each of IP Group, Adel Sharif and the University of Surrey, has undertaken to KBC Peel Hunt that, save in certain limited circumstances, he or it will not dispose of any interest in Ordinary Shares held by him or it on Admission for a period of one year following Admission, and that for a further period of one year they will not dispose of any interest in such Ordinary Shares otherwise than through KBC Peel Hunt and with the prior written consent of KBC Peel Hunt, which will not be unreasonably withheld.

11. Management Share Incentive Scheme

On the Company's formation, the Directors considered that an important part of the Company's remuneration policy should include equity incentives through the grant of the right to subscribe for shares in the Company to directors and employees of the Company and the Company's holding company at that time, IP Group. Accordingly, on 1 December 2006, the Company adopted the Management Share Incentive Scheme. Between the date of its adoption and 12 March 2007, each of the members of the Management Team and IP2IPO Nominees Limited (to hold as nominee for IP Group employees) were invited to subscribe for, in aggregate, 7,917,200 Ordinary Shares under the rules of the Management Share Incentive Scheme at not less than the market value of the Ordinary Shares at the time of subscription. The subscription price for all of the aforementioned Incentive Shares has now been fully paid up by each of the relevant subscribers and all the outstanding Incentive Shares will be admitted to AIM on Admission. The Incentive Shares are subject to additional contractual restrictions to those already contained in the lock-in arrangements described in paragraph 10 above and are further detailed in paragraph 9.1 of Part VII of this document.

No invitations to subscribe for Ordinary Shares under the Management Incentive Scheme have been made since 12 March 2007 and whilst the rules of the Management Share Incentive Scheme provide that invitations may be made up to 30 November 2016, the Company will not be making any further invitations, nor will any Ordinary Shares be issued and allotted, under the Management Share Incentive Scheme either on or following Admission.

Further details of the Management Share Incentive Scheme and the individual subscriptions for Ordinary Shares under its rules are set out in paragraph 9.1 of Part VII of this document.

12. Modern Water Incentive Plan

The Directors believe that the Company's success is highly dependent on the quality and loyalty of its employees and executive Directors and other persons providing services to the Group. To assist in the recruitment, retention and motivation of high quality personnel, the Company must have an effective remuneration strategy. The Directors consider that an important part of the Company's remuneration strategy is the ability to award equity incentives and, in particular, share options and other long term incentives.

On 1 June 2007, the Company adopted the Modern Water Incentive Plan to give the remuneration committee a vehicle to provide suitable equity incentives to selected directors and employees.

On 6 June 2007, 1,682,630 unapproved options over Ordinary Shares (in aggregate) were granted to Neil McDougall and Simon Humphrey under the rules of the Modern Water Incentive Plan. After Admission, options over Ordinary Shares and other long term incentives may be granted under the Modern Water Incentive Plan, the operation of which will be supervised by the Remuneration Committee. A summary of the principal features of the Modern Water Incentive Plan and the interests of the Directors in options over Ordinary Shares granted under such scheme are set out in paragraphs 9.3 and 9.4 of Part VII of this document.

13. Reasons for the Placing and Admission

The Directors intend to use the net proceeds of the Placing to provide funds for the Group's development and commercialisation strategy. This currently comprises:

- acquisition of existing contracts/companies where the Company can improve the project economics through deployment of its technology, estimated to cost approximately £20 million;

- further development, investment in existing technologies and acquisition/licensing of new technologies from the Group's current pipeline, estimated to cost approximately £5 million; and
- funding the Company's ongoing working capital requirements including recruitment of up to 20 employees in the next 18 months, primarily focussed on business development and research and product development, estimated to cost approximately £3 million.

The Directors believe that Admission may provide the Group with additional commercial opportunities by improving its corporate profile within the industry and within the financial and professional communities. The Directors also consider that the recruitment, retention and incentivisation of key staff through the use of share options will be important to the Group's continued development.

14. Dividend Policy

Initially and in the medium term, the Directors' intention is to re-invest funds into the Company rather than pay dividends. Thereafter the payment of dividends will be considered subject to the availability of distributable reserves, whilst maintaining an appropriate level of dividend cover and having regard to the need to retain sufficient funds to finance the development of the Company's activities.

15. Details of Placing and Admission

KBC Peel Hunt, as agent for the Company, has conditionally placed 25,210,085 new Ordinary Shares with investors at 119 pence per Ordinary Share representing, in aggregate, approximately 42.8 per cent. of the Enlarged Issued Share Capital. The Placing, which is not underwritten, is conditional, *inter alia*, upon the admission of the Company's Ordinary Shares to trading on AIM by 12 June 2007, or such later time as KBC Peel Hunt and the Company agree.

The Placing is intended to raise £30.0 million for the Company, before expenses. After the expenses of the Placing and Admission, estimated in total at £1.4 million (excluding VAT), the Placing is intended to raise £28.6 million.

Applications have been made for the Enlarged Issued Share Capital to be admitted to trading on AIM. It is expected that Admission will become effective and dealings in the Enlarged Issued Share Capital will commence on AIM on 12 June 2007. It is expected that the proceeds of the Placing due to the Company will be received by it on or soon after Admission.

The Placing Shares will rank in full for all dividends or other distributions hereafter declared, made or paid on the ordinary share capital of the Company and will rank *pari passu* in all other respects with all other Ordinary Shares in issue on Admission.

Further details of the Placing Agreement are set out in paragraph 13.1 of Part VII of this document.

16. CREST

The Articles permit Ordinary Shares to be issued and transferred in uncertified form in accordance with the CREST Regulations. CREST is a computerised paperless share transfer and settlement system which allows shares and other securities, to be held in electronic rather than paper form and transferred otherwise than by written instrument. Application has been made by the Company for the Ordinary Shares in issue at Admission to be admitted to CREST and it is expected that the Ordinary Shares will be so admitted and accordingly enabled for settlement in CREST on the date of Admission. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place within CREST if relevant Shareholders so wish.

CREST is a voluntary system and Shareholders who wish to hold their shares in certified form will be able to do so.

Notwithstanding the election by placees as to the form of delivery of the Placing Shares, no temporary documents of title will be issued. All documents or remittance sent by or to a placee, or as it may direct, will be sent through the post at the placee's risk.

It is expected that the appropriate CREST accounts of placees will be credited with the Placing Shares comprising their Placing participation with effect from 12 June 2007. In the case of placees requesting Placing Shares in certificated form, it is expected that certificates in respect of the Placing Shares will be despatched by post, within 14 days of the date of Admission.

Pending despatch of share certificates or crediting of CREST accounts, the Company's registrar will certify any instruments of transfer against the register.

17. Taxation

Information regarding taxation in relation to the Placing and Admission is set out in paragraph 12 of Part VII of this document. These details are, however, intended only as a general guide to the current tax position under UK taxation law. Shareholders who are in any doubt as to their tax position or who are subject to tax in jurisdictions other than the UK are strongly advised to consult their own independent financial adviser immediately.

18. Further Information

Your attention is drawn to the additional information in Parts II to VII of this document.

PART II

RISK FACTORS

Prospective investors should consider carefully all of the information within this document, including the following risk factors, before making a decision to invest in the Ordinary Shares.

The risks listed below do not necessarily comprise all those associated with an investment in the Company. In particular, the Company's performance may be affected by changes in the market or economic conditions, including movements in commodity prices, and in legal, regulatory and tax requirements. The risks listed are not set out in any particular order of priority.

If any of the following risks actually occur, the Company's business, financial condition, trading performance and prospects could be substantially adversely affected. In such cases, the trading price of the Ordinary Shares could decline and investors may lose all or part of their investment.

Additional risks and uncertainties not presently known to the Directors, or which they currently deem immaterial, may also have an adverse effect upon the Company and the information set out below does not purport to be an exhaustive summary of the risks affecting the Company.

Early Stage of Operations

The Group is at an early stage of development. The commencement of the Group's revenues is difficult to predict and there is no guarantee that the Group will generate any revenues in the foreseeable future. The Group has a limited operating history upon which its performance and prospects can be evaluated and faces the risks frequently encountered by developing companies. The majority of the Group's technologies have not been commercially tested, whilst others, although tested, are not yet operational. These risks include the uncertainty on which areas to target for growth and whether its technologies will be commercially viable. There can be no assurance that the Group's proposed operations will be profitable or produce a reasonable return, if any, on investment.

Intellectual Property

The commercial success of the Group depends in part on its ability to protect and exploit its intellectual property and to preserve the confidentiality of its know how. The Group may not be able to protect and preserve its intellectual property rights or to exclude competitors with similar products and/or processes.

The Group relies on a number of patent applications to protect its assets. Patents act to prevent a competitor from independently developing or using products or processes that fall within the scope of the patent's claims in the jurisdiction in respect of which the patent is registered.

No assurance can be given that others will not gain access to the Group's un-patented proprietary technology and/or use or disclose such technology or that the Group can ultimately protect un-patented proprietary technology. No assurance can be given that any pending or filed but not granted patent or trade mark applications or any future patent or trade mark applications will result in granted patents or trade mark applications, that the scope of any patent protection, trade mark or copyright will exclude competitors or provide advantages to the Group, that in the future any patent granted in favour of the Group will be held valid on being challenged or that third parties will not in the future claim rights in or ownership of the patents and other proprietary rights from time to time held by the Group.

Further, there can be no assurance that others have not developed or will not develop similar products, duplicate any of the Group's products or design around any pending patent applications or patents (if any) subsequently granted in favour of the Group. Other persons may hold or receive patents which contain claims having a scope that covers products developed by the Group (whether or not patents are issued to the Group).

A substantial cost may be incurred if the Group is required to defend its intellectual property rights including any patent applications or subsequently granted patents (if any) or trade marks (if any) against third parties.

There is no assurance that obligations to maintain the Group's or its collaborator's know how would not be breached or that such know how might otherwise become known in a manner which provides the Group with no recourse. The commercial success of the Group may also depend in part upon non-infringement by the Group of intellectual property owned by third parties including compliance by the Group with the terms of any licences granted to it. If this is the case, the Group may have to obtain appropriate intellectual property licences or alter certain activities or processes or develop or maintain alternative products or challenge the validity of such intellectual property in the courts.

A third party could also claim that the Group's products or processes infringe its own proprietary rights. Such claims, even without merit, can be time-consuming and expensive to defend and could have a detrimental effect on the Group's resources. A third party asserting infringement claims against the Group could require the Group to cease the infringing activity and to pay damages. The third party could also take legal action which could be costly to defend. Additionally, the Group may be required to develop alternative non-infringing solutions that may require significant time and substantial unanticipated resources. There can be no assurance that such claims will not have a material adverse effect on the Group's business, financial condition or results.

There is no assurance that intellectual property which is acquired or licensed will be free from rights and interests of third parties or that the transferor or licensor will have the right or ability to confer right, title or interest in any intellectual property. Where intellectual property is licensed to the Group there can be no guarantee that the licensor will adequately maintain and protect the underlying intellectual property in which the Group has an interest. In particular, a failure by a licensor to maintain or enforce the patent protection in which the Group has an interest could prejudice the ability of the Group to prevent competitors utilising its technologies. This could materially and adversely affect the business and/or financial position of the Group. Where intellectual property is licensed to the Group there can be no assurance that the Group's rights to such intellectual property will not be suspended, terminated or otherwise lost in consequence of the breach of any licensed agreement by the Group or due to other relevant facts or circumstances. Additionally, rights licensed to the Group may be limited in duration, application, field of use or territory or contain covenants restricting the freedom of the Group to conduct its business.

The Group's methods of and procedure for protecting the concepts, ideas, proprietary know-how and documentation of its proprietary technology may not give the Group complete protection, and there can be no assurance that others will not obtain access to the Company's know-how or concepts, ideas and documentation. Furthermore, there can be no assurance that confidentiality arrangements with the Company's directors, employees, consultants, manufacturers, suppliers and prospective licence will adequately protect the Group's trade secrets.

The Group currently has no trade mark registrations, nor has it made any applications to register trade marks. Third parties may claim that their registered trade marks are infringed by the marks used by the Group and/or third parties may infringe the Group's unregistered marks.

The Company is aware of one pending third party US patent application which, if granted without amendment, would restrict the Group's ability to apply one of its technologies in the US.

The Group's current strategy to focus on certain water stressed areas, including Southern Europe and the Middle East, is such that its activities should not be restricted by this third party application or any patent resulting from such application.

Market acceptance

Whilst the Directors believe a viable market for the Group's technologies will develop in the future, there can be no assurance that such technologies will succeed as an alternative to other new products. The development of a market for the products is affected by many factors, some of which are beyond the Group's control, including the emergence of newer, more successful technologies and products and the cost of the Group's products themselves.

If a market fails to develop or develops more slowly than anticipated, the Group may be unable to recover the losses it may have incurred in the development of its products and may never achieve profitability. In

addition, the Directors cannot guarantee that the Group will continue to develop, manufacture or market its products if market conditions do not support the continuation of such products.

Requirement for Additional Capital

In order to fulfill its strategy of acquiring existing contracts/companies in which to deploy its technologies and to expand its technology portfolio, the Group will require additional capital in the future whether from equity or debt sources. As a result a shareholding in the Company could be substantially diluted. There is no guarantee that the then prevailing market conditions will allow for such a fundraising or that new investors will be prepared to subscribe for Ordinary Shares at the same price as the Placing Price or higher. If the Group is not able to obtain additional capital on acceptable terms, or at all, it may be forced to adapt its business model in the context of rapidly developing technology and customer needs.

Competition from Organisations with Greater Capital

The Group may face competition from organisations which have greater capital resources than the Group. There is no assurance that the Group will be able to compete successfully in such a market place.

Joint venture risk

Some of the Group's investments will be held through joint ventures with third parties, meaning that the ownership and control of such assets is shared with such third parties. As a result, certain decisions relating to the assets and operation of such joint ventures may depend upon the consent or approval of third parties. Disputes may arise between the Group and third party partners, which could mean that the Group is not able to manage or deal with a particular investment in the way it would wish and this may adversely affect the Group. In addition, projects may require finance to be provided through a joint venture arrangement to which the Group is a party. If one of the Group's partners in a joint venture were to fail to provide its share of such finance when required, the Group may be forced to make up such shortfall out of its own resources to avoid additional cost or delay to the project.

BOOT Contracts

Some of the Group's investments will be in entities that are subject to substantial regulation by government agencies. In addition, BOOT contracts are generally governed by a series of legal documents, contracts, governmental licences, concessions and leases that are complex and may result in disputes over interpretation and/or enforceability. If the Group fails to comply with these regulations or contractual obligations it could be subject to monetary penalties or it could lose its right to operate the underlying asset, or both. In addition, governments have considerable discretion in implementing regulations and policies and activities which are not currently regulated may be regulated in the future. Such government intervention could have an adverse effect on the BOOT project's value or income production.

Some of the BOOT contracts in which the Group will invest may be illiquid in nature. Such illiquidity may affect the Group's ability to vary its investment portfolio or liquidate part of its investments in response to changes in technologies and demand. In addition, up to 80 per cent. of acquisition costs may be financed through debt. These factors could have an adverse impact on the Group's business and financial condition.

The Company may be exposed to litigation in the future

Customers may rely upon the Group's technologies for their fresh water needs. Any liability for damages resulting from technical faults or failures could be substantial and could materially adversely affect the Group's business and results of operations. In addition, a well-publicised actual or perceived problem could adversely affect the market's perception of the Group's technologies, which would materially impact upon the Group's financial condition and operating results. Finally, such claims could result in higher insurance premiums or affect the Group's ability to obtain adequate insurance at a reasonable price.

Operations overseas

Most of the Group's joint ventures and BOOT contracts will be located overseas. The Group's business could therefore be adversely affected by changes in local and regional economic, political and social conditions or the policies of the relevant government, such as changes in laws and regulations, taxation and imposition of restrictions on currency conversion. In addition, the occurrence of war, public disorder, economic sanctions, terrorism and local or national strikes or labour unrest in any of the overseas locations in which the Group operates may disrupt or permanently prevent the Group from operating in these locations or recovering its investment in whole or in part.

The Group's investments may be denominated in currencies other than sterling. The Group will maintain its books and intends to pay distributions in sterling. Accordingly, fluctuations in exchange rates between sterling and the relevant local currency and the costs of conversion and exchange control may have an unfavourable effect on the profitability of such operations.

Dependence on Recruitment and Retention of Key Personnel

The success of the Group is dependent upon its ability to retain and attract high quality staff with relevant expertise and experience to broaden the skills base of the Group and to further enhance the Group's technologies.

In addition, the Group is reliant on its executive management to develop its business. A loss of the services of one or more members of its executive team may adversely affect the Group's technology development and/or its business, financial condition and results.

It is the intention of the Group to expand and to recruit a number of staff over the next year. There can be no guarantee that the Group will be able to attract and retain staff with the relevant skills and qualities. This may adversely affect the Group's technology development and its business, financial condition and results.

Taxation

Any change in the Company's tax status or in taxation legislation could affect the Company's ability to provide returns to Shareholders or alter post tax returns to Shareholders. Statements in this document concerning the taxation of investors in Ordinary Shares are based on current tax law and practice which is subject to change. The taxation of an investment in the Company depends on the individual circumstances of Shareholders.

Volatility of Ordinary Share price

The Placing Price has been agreed between KBC Peel Hunt and the Company and may not be indicative of the market price for the Ordinary Shares following Admission. The subsequent market price of the Ordinary Shares may be subject to wide fluctuations in response to many factors, including those referred to in this Part II, as well as stock market fluctuations and general economic conditions or changes in political sentiment that may substantially affect the market price of the Ordinary Shares irrespective of the Group's actual financial, trading or operational performance. These factors could include the performance of the Company, large purchases or sales of the Ordinary Shares (or the perception that the same may occur, as, for example in the period leading up to the expiration of the Lock-Up Deeds), legislative changes and market, economic, political or regulatory conditions.

The Ordinary Shares will be traded on AIM rather than the Official List. An investment in shares traded on AIM may carry a higher risk than an investment in shares quoted on the Official List. In addition, the market in the Ordinary Shares on AIM may have limited liquidity, making it more difficult for an investor to realise its investment on AIM than to realise an investment in a company whose shares are quoted on the Official List. Investors should therefore be aware that the market price of the Ordinary Shares may be more volatile than that of shares quoted on the Official List, and may not reflect the underlying value of the net assets of the Company. Investors may therefore not be able to sell at a price which permits them to recover their original investment.

Liquidity of Ordinary Shares

There is no trading history regarding the Ordinary Shares and Admission should not be taken as implying that a liquid market for the Ordinary Shares will develop or be sustained after the Placing. The liquidity of a securities market is often a function of the volume of the underlying Ordinary Shares that are publicly held by unrelated parties. Following the listing and placement of Ordinary Shares, IP Group will continue to own approximately 23 per cent. of the Ordinary Shares and the voting rights attendant thereto. Accordingly, Ordinary Shares may not be traded in sufficient volumes to give liquidity to holders of the Ordinary Shares.

If a liquid trading market for the Ordinary Shares does not develop, the price of the Ordinary Shares may become more volatile and it may be more difficult to complete a buy or sell order for such Ordinary Shares.

There can be no guarantee as to future performance

There is no certainty and no representation or warranty is given by any person that the Company will be able to achieve any level of performance referred to in this document, whether express or implied. This may adversely affect the Company's financial condition, results of operations, prospects or the market price of the Ordinary Shares.

Actual results could differ materially from those anticipated in forward-looking statements, and may depend upon factors that are beyond the Company's control

Certain statements contained in this document may constitute forward-looking statements. Any such forward-looking statements involve risks, uncertainties, and other factors that may cause the actual results, performance or achievements of the Group to be materially different from any results, performance or achievements expressed or implied by such forward-looking statements. These forward-looking statements speak only as of the date of this document. The Group and the Directors expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein, save as required to comply with any legal or regulatory obligations to reflect any change in the Group's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

The Company has not independently verified information it has sourced from third parties

The Company has sourced certain information contained in this document from third parties, including private companies and the Company has relied on the accuracy of this information without independent verification.

Additionally, the Company relies on and refers to information and statistics from various third party or unofficial public sources and its own internal estimates. The information from its internal estimates has not been verified by reference to any independent sources. While the Company accepts responsibility for having correctly reproduced information obtained from third party or unofficial public sources, it has not independently verified information it has obtained from such sources. Unless otherwise stated, all such data is presented in nominal terms and has not been restated to reflect the effects of inflation.

The foregoing factors are not exhaustive and do not purport to be a complete explanation of all the risks and significant considerations involved in investing in the Company.

PART III
ACCOUNTANTS' REPORT

Part A – Accountants' Report on the Company

The following is the text of a report received from the Company's reporting accountants:



PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH
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The Directors
Modern Water plc
Warwick Court
5 Paternoster Square
London
EC4M 7BP

KBC Peel Hunt Ltd
111 Old Broad Street
London
EC2N 1PH

7 June 2007

Dear Sirs

Modern Water plc (formerly Modern Water Limited) (the “Company”)

We report on the financial information set out in Part B of Part III. This financial information has been prepared for inclusion in the admission document dated 7 June 2007 (the “**Admission Document**”) of Modern Water plc (the “**Company**”) on the basis of the accounting policies set out in note 2 to the financial information. This report is required by Schedule Two of the AIM Rules for Companies published by the London Stock Exchange plc (the “AIM Rules”) and is given for the purpose of complying with that Schedule and for no other purpose.

Responsibilities

The Directors of the Company are responsible for preparing the financial information in accordance with International Financial Reporting Standards as adopted by the European Union.

It is our responsibility to form an opinion as to whether the financial information gives a true and fair view, for the purposes of the Admission Document and to report our opinion to you.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and for any responsibility arising under paragraph (a) of Schedule Two of the AIM Rules as to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 23.1 of Annex I to the AIM Rules, consenting to its inclusion in the Admission Document.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purposes of the Admission Document dated 7 June 2007, a true and fair view of the state of affairs of the Company as at the date stated and of its results, cash flows and recognised income and expenses for the period then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Declaration

For the purposes of Paragraph (a) of Schedule Two of the AIM Rules we are responsible for this report as part of the Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Admission Document in compliance with Schedule Two of the AIM Rules.

Yours faithfully

PricewaterhouseCoopers LLP

Chartered Accountants

Part B – Financial Information on the Company

Balance sheet at 29 November 2006

	<i>Notes</i>	<i>As at 29 November 2006 £</i>
ASSETS		
Current assets		
Receivables – called up share capital not paid		1
		<u>1</u>
EQUITY		
Ordinary share capital	3	1
Total Equity		<u>1</u>
LIABILITIES		
Liabilities		–
Total Liabilities		<u>–</u>

The company was incorporated on 11 October 2006. The Company has not traded since its incorporation; no income and expenses were earned or incurred. In addition, there have been no other recognised income or expenses.

Statement of changes in Shareholders' equity

	<i>Share Capital £</i>	<i>Total £</i>
At 11 October 2006	–	–
New shares issued	1	1
At 29 November 2006	<u>1</u>	<u>1</u>

Cash flow statement

On incorporation, the Company issued one equity share for a total cash consideration of £1. There have been no cash flows in the period from 11 October 2006 to 29 November 2006.

Notes to the Financial Information

1. General

The Company was incorporated and registered in England and Wales on 11 October 2006 under the Companies Act as a private company limited by shares with the name Modern Water Limited and with registered number 05963927. The registered office of the Company is Warwick Court, 5 Paternoster Square, London EC4M 7BP. The functional currency of the company is £ sterling.

2. Accounting policies

Basis of preparation

The special purpose financial information has been prepared in accordance with the requirements of the AIM Rules and in accordance with this basis of preparation. The basis of preparation describes how the financial information has been prepared in accordance with International Financial Reporting Standards (“IFRSs”) as adopted by the European Union.

Critical judgements

The preparation of the Special Purpose Financial Information has not required the application of significant judgement or estimates by management.

The consolidated financial statements of the Company will be prepared under IFRS and the accounting policies described below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries).

Subsidiaries

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than half of the voting rights. The existence and effect of potential voting rights are considered when assessing whether the Company controls an entity. Subsidiaries are fully consolidated from the date on which control is established by the Company.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Subsidiaries’ accounting policies are amended where necessary to ensure consistency with the policies adopted by the Group.

Associates

Associates are entities over which the Company has significant influence, but does not control, generally accompanied by a shareholding of between 20 per cent. to 50 per cent. of the voting rights.

The equity method of accounting is used to account for the acquisition of the Company’s associates. The cost of investment in associate undertakings is measured at fair value of the assets given, equity instruments issued, and liabilities incurred or assumed at the date of exchange plus costs directly attributable to the transaction. The Company’s investment in associates includes goodwill identified on acquisition, net of any accumulated impairment losses.

The Company’s share of its associates’ post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Company’s share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

2. Accounting policies (continued)

Unrealised gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates are changed where necessary to ensure consistency with the policies adopted by the Group.

Business combinations

The purchase method of accounting is used to account for the acquisition of the Company's subsidiaries. The cost of acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued, and less liabilities incurred or assumed at the date of exchange plus costs directly attributable to the transaction. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination that meet the definition under IFRS 3 Business Combinations are initially measured at their fair values at acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Company's share of the identifiable net assets is recorded as goodwill.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired subsidiary / associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets. Goodwill on acquisitions of associates is included in 'investments in associates' and is tested for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. In accordance with IFRS 10; Interim Financial Reporting and Impairment, impairment losses recognised in an interim period on goodwill carried at cost are not reversed at a subsequent balance sheet date. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity sold.

Goodwill is allocated to cash generating units for the purpose of impairment testing. The allocation is made to those cash generating units or groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose.

Property, plant and equipment

All property, plant and equipment is shown at cost less subsequent depreciation and impairment. Cost includes expenditure that is attributable to the acquisition of the items. Depreciation on assets is calculated using the straight-line method to allocate the cost of each asset to its residual value over its estimated useful life, as follows:

Fixtures and fittings	Over 3 to 5 years
Computer equipment	Over 3 to 5 years

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Subsequent costs are capitalised only when it is probable that they will result in future economic benefits flowing to the Company and when they can be measured reliably. All other repairs and maintenance expenditure is charged to the income statement in the year in which it is incurred.

Intangible 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.

2. Accounting policies (continued)

Computer software costs

Acquired computer software licences and software development costs are capitalised and amortised over their estimated useful lives of between three and five years.

Research and development

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

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

- An asset is created that can be identified (such as a database or software);
- It is probable that the asset created will generate future economic benefits; and
- The development cost of the asset can be measured reliably.

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

Intangible assets identified as a result of a business combination are dealt with in line with IAS 38, and brought on to the consolidated balance sheet at the date of acquisition.

Impairment of intangible assets and property, plant and equipment

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment and whenever events or circumstances indicate that the carrying amount may not be recoverable. 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 amount 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. For the purposes of assessing impairments, assets are grouped at the lowest levels for which there are identifiable cash flows (cash generating units 'CGUs').

Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event, and it is probable that the Company will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. Assets held under finance leases are included within property, plant and equipment. The asset is initially measured at fair value, or if lower, the present value of the minimum lease payments. A corresponding liability is recognised within obligations under finance leases. The assets are either depreciated using the same method as similar fixed assets, or the length of the lease, whichever is shorter. Leasing payments are treated as consisting of a capital element and finance costs, the capital element reducing the obligation to the lesser and the finance charge being written off to the income statement over the period of the lease. All other leases are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight line basis over the period of the lease.

Financial instruments

Financial assets and liabilities are recognised on the Company's balance sheet when the Company becomes party to the contractual provisions of the instrument.

2. Accounting policies (continued)

Trade receivables

Trade receivables are initially measured at fair value and are subsequently measured at amortised cost, they do not carry any interest, and are reduced by appropriate provisions for estimated irrecoverable amounts. Such provisions are recognised in the income statement.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and demand deposits, and other short-term highly liquid investments with maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Trade payables and borrowings

Trade payables are not interest-bearing and are initially measured at their fair value and subsequently measured at amortised cost. Borrowings are initially recognised at the fair value and subsequently measured at their amortised cost.

Equity instruments

Equity instruments are recorded at fair value, being the proceeds received, net of direct issue costs.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the contractual arrangements entered into.

Revenue recognition

All revenue in respect of licence income is recognised over the period of the licence and is stated exclusive of value added tax. Revenue from contracts will be recognised in accordance with IAS 11; Construction Contracts.

Gains on disposal of equity investments represent the surplus over carrying value on the disposal of equity investments and are recognised when the right to receive payment is established. Dividend income is recognised when the right to receive payment is established.

Segment reporting

A business segment is a group of assets and operations engaged in providing services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing services within a particular economic environment that is subject to different risks and returns from other segments in other economic environments.

Foreign currencies

Exchange differences arising on the settlement or retranslation of monetary items are included in the income statement for the year. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

Employee benefits

Pension obligations

The Company does not operate any pension schemes for employees but makes contributions to employee personal pension schemes on an individual basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due.

2. Accounting policies (continued)

Share based payments

Share based incentive arrangements are provided to management and certain employees. Share options are valued at the date of grant using an appropriate option pricing model and are charged to operating profit over the vesting period of the award. The annual charge is modified to take account of options granted to employees who leave the Company during the performance or vesting period and forfeit their rights to the share options and in the case of non-market related performance conditions, where it becomes unlikely they will vest.

Taxation

Taxation in the income statement represents the sum of the tax currently payable and deferred tax on items charged or credited to the income statement.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is measured on a non discounted basis using tax rates at the balance sheet date.

Deferred tax liabilities are recognised on taxable temporary differences arising on investments in subsidiaries and associates, and interest in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Government grants

Government grants including non-monetary grants at fair value, shall not be recognised until there is reasonable assurance that the Company will comply with the conditions attaching to them and that the grants will be received.

Government grants relating to tangible fixed assets are treated as deferred income and released to the income statement over the expected useful lives of the assets concerned. Other grants are credited to the income statement as the related expenditure is incurred.

3. Share capital

	<i>As at 29 November 2006</i>
	£
Authorised	
1,000 ordinary shares of £1.00 each	1,000
	£
Allotted	
1 ordinary shares of £1.00 each	1
	£
Paid up	
Nil ordinary shares of £1.00 each	–

The Company was incorporated on 11 October 2006 with an authorised share capital of £1,000 comprising 1,000 ordinary shares of £1 each. One ordinary share was allotted on incorporation and this was unpaid as at 29 November 2006. Ordinary shares are classified as equity.

On 1 December 2006 the Company's authorised share capital was increased. Further details of this are set out in note 4 (d).

4. Events after the balance sheet date

(a) *Business combinations*

On 14 December 2006 the Company subscribed for shares representing 51 per cent. of the enlarged share capital of Poseidon Water Limited, a company involved in the development of technology that enables saline wastewater treatment systems to be used in coastal areas where freshwater is in short supply, for cash consideration of £425,000.

Details of the net assets acquired and the goodwill are as follows:

Purchase consideration	£ 425,000
Fair value of assets acquired (see below)	(170,129)
Goodwill	<u>254,871</u>

4. Events after the balance sheet date (continued)

(a) *Business combinations (continued)*

The assets and liabilities arising from the acquisition, provisionally determined, are as follows:

	<i>Fair Value</i>	<i>Acquiree's carrying amount</i>
	£	£
Cash and cash equivalents	413,193	413,193
Property, plant and equipment	4,777	4,777
Intangible assets	–	–
Trade and other receivables	54	54
Trade and other payables	(84,437)	(84,437)
Deferred tax assets	–	–
Net assets	<u>333,587</u>	<u>333,587</u>
Minority interests	(163,458)	(163,458)
Net assets acquired	<u>170,129</u>	<u>170,129</u>

In preparing the fair value table above no amount has been allocated to intangible assets and associated deferred tax as it is considered impracticable to determine any such amounts at the current time.

(b) *Associates*

On 30 November 2006 the Company subscribed for shares representing 30 per cent. of the enlarged share capital of Surrey Aquatechnology Limited, a company involved in the development of a reverse osmosis process for the purification of salt water, for cash consideration of £535,000.

Details of the net assets acquired and the goodwill are as follows:

Purchase consideration	£ 535,000
Share of fair value of net assets acquired (see below)	(186,711)
Goodwill	<u>348,289</u>

The assets and liabilities of Surrey Aquatechnology Limited, provisionally determined, are as follows:

	<i>Acquiree's carrying amount and fair value</i>
	£
Cash and cash equivalents	622,370
Intangible assets	–
Net assets acquired	<u>622,370</u>
The Company's share of net assets (30%)	<u>186,711</u>

In preparing the fair value table above no amount has been allocated to intangible assets and associated deferred tax as it is considered impracticable to determine any such amounts at the current time.

4. Events after the balance sheet date (continued)

(b) *Associates (continued)*

On 4 May 2007 the Company conditionally agreed to increase its investment in Surrey Aquatechnology Limited to 100 per cent. which would make it, following Admission, a wholly owned subsidiary of the Company. The estimated fair value of consideration for the acquisition of these further shares is £12,808,684 to be satisfied by the issue of 10,763,600 Ordinary Shares at an issue price of £1.19 per share. The acquisition of these further shares is conditional, *inter alia*, on Admission.

The assets and liabilities of Surrey Aquatechnology Limited as at 4 May 2007 were as follows:

	<i>Acquiree's carrying amount</i>
	£
	100%
Cash and cash equivalents	544,915
Trade and other receivables	7,791
Trade and other payables	(25,666)
Intangible assets	—
Net assets	527,040

As part of the above transaction, the Company has agreed to purchase 14,530 ordinary shares in Surrey Aquatechnology Limited from Neil McDougall, for the issue of 2,235,600 Ordinary Shares. Following completion of this transaction and Admission, Neil McDougall will be beneficially interested in 10.64 per cent. of the issued ordinary share capital of the Company.

(c) *Investments*

On 14 December 2006 the Company acquired 16.7 per cent. of the share capital of Cymtox Limited, a company involved in the development of a real time continuous acute toxicity monitor for water applications, for cash consideration of £75,000.

(d) *Equity transactions*

On 1 December 2006 the authorised share capital of the Company was increased to £10,000 ordinary shares of £1 each by the creation of 9,000 ordinary shares of £1 each ranking *pari passu* with the existing ordinary shares of £1 each. Immediately thereafter, each of the existing issued and un-issued shares of £1 each were subdivided into 1,000 ordinary shares of 0.1 pence each, such that the share capital is £10,000 divided into 10,000,000 ordinary shares of 0.1 pence each.

On 1 December 2006 IP Group plc subscribed for 66,761 ordinary shares of 0.1 pence representing 82.1 per cent. for cash consideration of £2,036,000 and accordingly from this date is considered to be the ultimate holding company and controlling party of the Company by virtue of its interest in more than 50 per cent. of the equity share capital of the Company.

On 2 February 2007, 14,374 ordinary shares of 0.1 pence each were issued and allotted to IP2IPO Nominees Limited (held on behalf of employees of IP Group plc) under the Management Share Incentive Scheme at 0.1 pence per ordinary share.

On 1 June 2007, the authorised share capital of the Company was increased to £100,000 by the creation of 90,000,000 ordinary shares of 0.1 pence each.

On 6 June 2007, every 10 ordinary shares of 0.1 pence each were consolidated into one ordinary share of 1 pence each following which, each ordinary share of 1 pence each was sub-divided into 4 Ordinary Shares. Immediately thereafter, the authorised share capital of the Company was increased to £250,000 by the creation of 60,000,000 Ordinary Shares.

4. Events after the balance sheet date (continued)

(e) (i) ***Directors interests in shares***

On 1 December 2006, the directors of the Company acquired shares in the Company, as follows:

- Neil McDougall acquired 3,330 ordinary shares of 0.1 pence each at a price of £30.03 per share. On the same date, he also acquired 7,245 ordinary shares of 0.1 pence each through the Management Share Incentive Scheme at a price of £0.001 per share.
- Simon Humphrey acquired 1,665 ordinary shares of 0.1 pence each at a price of £30.03 per share. On the same date, he also acquired 4,625 ordinary shares of 0.1 pence each through the Management Share Incentive Scheme at a price of £0.001 per share.
- Gerald Jones acquired 1,000 ordinary shares of 0.1 pence each through the Management Share Incentive Scheme at £0.001 per share.

On 12 March 2007, Neil McDougall was allocated a further 9,572 and Simon Humphrey was allocated a further 2,770 ordinary shares of 0.1 pence each under the Management Share Incentive Scheme.

The shares identified above allocated to Neil McDougall, Simon Humphrey and Gerald Jones are subject to contractual restrictions on transfer over a two year period commencing on and from 1 December 2006.

On 14 March 2007, Michael Gradon acquired 1,262 ordinary shares of 0.1 pence each and Paul Shepherd acquired 841 ordinary shares of 0.1 pence each, all at a price of £30 each. There are no restrictions on these issues.

(e) (ii) ***Directors interests in share options***

On 6 June 2007 Neil McDougall was granted 560,877 and Simon Humphrey was granted 1,121,753 share options over the Company's Ordinary Shares at an exercise price of £1.19 under the Modern Water Incentive Plan. The exercise of the options is subject to certain performance criteria being met over a three year period from the date of Admission.

(f) ***Bonus Issue and Re-registration of the Company***

On 1 June 2007, the Company capitalised £57,108.06 of its share premium reserves and applied the same towards allotting and issuing 57,108,055 ordinary shares of 0.1 pence each, credited as fully paid, pro rata to the existing Shareholders at that time. On 4 June 2007, the Company re-registered as a public limited company and changed its name to Modern Water plc. Details of the re-registration have been included in paragraph 5 of Part VII of the Admission Document.

(g) ***Ultimate controlling party***

At 29 November 2006 the ultimate controlling party of the Company was Pinsent Masons Director Limited. As noted above, following the investment by IP Group plc on 1 December 2006 IP Group plc is considered to be the ultimate holding company and controlling party of the Company by virtue of its interest in more than 50 per cent. of the equity share capital of the Company.

PART IV

UNAUDITED PRO FORMA STATEMENT OF NET ASSETS

Set out below is an unaudited proforma statement of net assets of Modern Water which has been prepared to show the effect on Modern Water of the subsequent investments and the proposed placing as if they had taken place on 29 November 2006. The unaudited pro forma net asset statement has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and therefore does not represent Modern Water's actual financial position.

	<i>Adjustments</i>					<i>Enlarged Group pro forma net assets £'000</i>
	<i>Modern Water as at 29 Nov 2006 (Note 1) £'000</i>	<i>PWL as at 14 Dec 2006 (Note 2) £'000</i>	<i>Surrey Aqua as at 4 May 2007 (Note 3) £'000</i>	<i>Cymtox as at 14 Dec 2006 (Note 4) £'000</i>	<i>Other adjustments (Note 5) £'000</i>	
Assets						
Non current assets						
Intangible fixed assets	–	–	–	–	13,071	13,071
Tangible fixed assets	–	5	–	–	–	5
Investments	–	–	–	75	–	75
	–	5	–	75	13,071	13,151
Current assets						
Debtors	–	–	8	–	–	8
Cash at bank and in hand	–	413	545	–	29,650	30,608
	–	413	553	–	29,650	30,616
Total assets	–	418	553	75	42,721	43,767
Liabilities						
Non current liabilities	–	–	–	–	–	–
Current liabilities	–	(84)	(26)	–	–	(110)
Total liabilities	–	(84)	(26)	–	–	(110)
Net assets	–	334	527	75	42,721	43,657

Notes:

1. The financial information for Modern Water as at 29 November 2006 has been extracted without material adjustment from the financial information set out in Part III of this document.
2. The financial information for PWL as at 14 December 2006 has been extracted without material adjustment from the financial information set out on Part III of this document.
3. The financial information for Surrey Aqua as at 4 May 2007 has been extracted without material adjustment from the financial information set out on Part III of this document.
4. The financial information for Cymtox as at 14 December 2006 has been extracted without material adjustment from the financial information set out on Part III of this document.
5. The other adjustments comprise:
 - (i) Adjustment to intangible assets of £13,071,000 comprising:

(a) Intangible assets increased by £254,000 being the estimated goodwill arising on the acquisition of PWL comprising the excess of the estimated cost of acquisition over the net assets of PWL at 14 December 2006. The goodwill has been calculated prior to any fair value adjustments which may be made to the book values of the underlying net assets being acquired. The adjustment can be summarised as follows:

	<i>£'000</i>
Consideration (Cash of £425,000)	425
Less: net assets of PWL at 14 December 2006	(171)
Adjustment to intangible assets	254

(b) On 30 November 2006 Modern Water acquired 30% of Surrey Aqua for £535,000. Under the terms of a roll up agreement signed on 4 May 2007, Modern Water will allot and issue 10,763,600 Ordinary Shares to the Surrey Aqua shareholders in proportion to their holding in Surrey Aqua, thereby increasing Modern Water's holding in Surrey Aqua to 100%. The Surrey Aqua roll up agreement is conditional on (i) Admission occurring before 30 June 2007; and (ii) Modern Water achieving a pre-money valuation at Admission of at least £25 million. The proforma adjustment reflects the cost of acquisition of the 30 per cent. shareholding in Surrey Aqua on 30 November 2007 (£535,000) plus the estimated fair value of consideration for the acquisition of the remaining 70 per cent. for £12,808,684, calculated as 10,763,600 Ordinary Shares at £1.19 per share. Intangible assets increased by £12,816,644, being the estimated goodwill arising on the acquisition of the 100 per cent. shareholding in Surrey Aqua, comprising the excess of the estimated costs of the acquisition (in two tranches) over the net assets of Surrey Aqua at 4 May 2007, the latest available balance net assets information. Goodwill has been calculated prior to any fair value adjustments which may be made to the book values of the underlying net assets being acquired. The adjustment can be summarised as follows:

	£'000
Consideration for 30% shareholding (Cash of £535,000)	535
Consideration for 70% shareholding	12,809
Less: 100% share of net assets of Surrey Aqua at 4 May 2007	(527)
Adjustment to intangible assets	<u>12,817</u>

(ii) Adjustments to cash and cash equivalents can be summarised as follows:

	£'000
Receipt of proceeds from new share issue on 1 December 2006	2,185
Proceeds from placing	30,000
Less: consideration for the acquisition of PWL	(425)
Less: consideration for the acquisition of Surrey Aqua	(535)
Less: consideration for the acquisition of CYMTOX	(75)
Less: estimated expenses of the placing	(1,500)
Adjustment to cash	<u>29,650</u>

6. No adjustment has been made to reflect the trading or other transactions of Modern Water since 29 November 2006, of PWL since 14 December 2006, Surrey Aqua since 30 November 2006, or Cymtox since 14 December 2006.

PART V

TECHNICAL REPORT

Modern Water plc (“Modern Water”)
Warwick Court
5 Paternoster Square
London
EC4M 7BP

KBC Peel Hunt Ltd
111 Old Broad Street
London EC2N 1PH

7 June 2007

Dear Sirs

Manipulated Osmosis for Desalination and Water Purification Processes Background

WRc plc (“WRc”) has been asked to provide this report on the technology relating to manipulated reverse osmosis and the global market for desalination. The detailed technical assessment has been written by Professor W. Richard Bowen, FREng; the market assessment and broad technical context has been written by WRc.

WRc is an international research and technology company, specialising in water, pollution control and environmental management and consultancy services, with an annual turnover in excess of £12 million. WRc’s clients include the Environment Agency and Local Authorities, a wide range of multi-national corporations and UK companies and Water Utilities, Central Government Departments, The European Commission, Overseas governments and organisations and International agencies (such as the World Health Organisation, for which WRc is a collaborating centre for drinking water and water pollution control). WRc’s status as an independent research and consulting organisation is highly valued.

WRc has extensive resources and expertise, employing qualified scientists and engineers. Within the water and wastewater business they have expertise in all aspects of treatment for the production of potable water and disposal of wastewater; this extends to the use of membranes for microfiltration, ultrafiltration and reverse osmosis.

The principal author of the report, Dr Ian Walker, is WRc’s Research Director and Head of the Treatment Processes Business. He is a Chartered Scientist with extensive experience in drinking water treatment and supply, wastewater treatment, project management and business development. He has 30 years experience of the wastewater and potable water industry, including 9 years with a manufacturing and contracting company. He has detailed knowledge and experience of all aspects of drinking water production and has specialist knowledge of oxidation, absorption, flotation and membrane processes. He has undertaken evaluation and due diligence studies of developing technologies for drinking water production, including electrodialysis, and has provided consulting services to the UK Government, The European Commission and the UK water and wastewater utility companies.

Professor Bowen, a consultant to WRc, is a Fellow of the UK Royal Academy of Engineering. His Academy citation states, “Professor W R Bowen is an outstanding chemical engineer who has made a major contribution to the understanding and application of advanced separation processes, especially membrane processes, directly meeting industry needs. He founded the Centre for Complex Fluids Processing at University of Wales Swansea, which combines world-leading research with extensive industrial interactions”. He has reported the results of more than thirty years of research in over two hundred publications. He has advised industries, funding bodies and universities on an international basis.

Gerald Jones is an employee of WRc and a Director of the Company. Gerald Jones provides services to the Company under the terms of a consultancy agreement between the Company and WRc plc, further details of which are set out in paragraph 7.4.3 of Part VII of this document. However, Gerald Jones has not had any input in the writing of this report. He has merely reviewed it on behalf of the Company in his capacity as Chief Scientific Officer of the Company.

Technical Report

Scientific principles

Definitions and explanations:

Membrane – A formal definition of a membrane is “an interphase separating two phases and selectively controlling the transport of materials between those phases”. Synthetic membranes have the form of thin sheets, tubes, or hollow fine fibres made from materials such as cellulose, polyamide, polycarbonate, polysulphone or a number of advanced polymers. In simple terms, such materials are sophisticated filters. Control of the fabrication conditions of synthetic membranes allows control of the minimum size of entities that they can separate. A typical specification range for liquid separations is: microfiltration (10-0.1 μm), ultrafiltration, (0.1 μm -5 μm), nanofiltration (~1 nm), reverse osmosis (<1 nm). Separation is also influenced by charge and dielectric effects.

Membrane separation process – Incorporation of synthetic membranes in suitably engineered devices allows them to be used for practical separation processes. Such a device minimally requires means of delivering the liquid to be processed to the membrane and means of removing and collecting both the liquid which has passed through the membrane, the permeate, and the liquid which is retained, the concentrate. The permeate is usually forced to pass through the membrane by applying a pressure to the liquid to be processed. Such membrane separation processes have been commercially available for several decades. They range in scale from tiny devices, designed to process less than one millilitre of liquid, to very large-scale processes, capable of producing several hundred thousand cubic metres of purified liquid each day. The large-scale processes, in particular, require careful engineering design and will typically incorporate sophisticated monitoring and control equipment.

Osmotic pressure – Osmotic pressure is a thermodynamic property, by definition a pressure that must be applied to a solution to bring it to a certain equilibrium condition. Osmotic pressure is a colligative property, in general increasing with the concentration of dissolved materials (measured on a molar basis) in solution. Such pressure may be high, for example, the osmotic pressure of brackish water is in the range 0.1-0.7 MPa (1-7 bar) and that of sea water is in the range 2.3-3.7 MPa (23-37 bar).

Osmosis – If a solution of high osmotic pressure is isolated from a solution of low osmotic pressure (or a pure liquid) by a membrane that allows the passage of the solvent but not the solutes, then a spontaneous flow of solvent will occur from the low osmotic pressure solution to the high osmotic pressure solution. This flow is known as osmosis.

Reverse osmosis – Removal of solutes at high concentration in solutions may be achieved by applying a pressure in excess of the osmotic pressure to force the solvent through a suitable membrane. Such processes, termed reverse osmosis, are widely used commercially. For example, this is one of the standard methods for desalinating brackish water and sea water to produce drinking water. Even though widely used, such processes are somewhat expensive to build and operate due to the high pressure that must be applied, which gives relatively high construction and energy running costs, and due to a number of practical difficulties such as deposition of unwanted material on the membrane (fouling), which reduces operating efficiency, and possible corrosion of the equipment. Further, the percentage of the brackish water or sea water converted to drinking water is often lower than desired.

Manipulated osmosis technology

Surrey Aquatechnology Limited’s manipulated osmosis technology (the “Manipulated Osmosis Technology”) aims to provide an effective alternative to the reverse osmosis process by using a two stage membrane process:

Stage 1: Osmosis The liquid to be treated (feed solution) is contacted with a membrane having a solution of higher osmotic pressure (draw solution) on the opposite side. Solvent is spontaneously transported by osmosis from the feed solution to the draw solution, resulting in the dilution of the latter.

Stage 2: Nanofiltration The diluted draw solution is contacted under pressure with a nanofiltration membrane. Purified liquid is recovered through the membrane and the draw solution is restored to its original state, enabling its re-use in *Stage 1*.

Main expected technical benefits of the technology

- (i) *Stage 1* requires minimal applied pressure, hence having relatively low construction and operating costs together with potentially lower fouling problems compared to reverse osmosis. The minimal applied pressure requirement also allows the use of high flux membranes specifically designed for the technology.
- (ii) *Stage 2* is a high pressure process, but the draw solution contains a pure and selectable solute (the osmotic agent) allowing the use of a membrane of higher permeability (nanofiltration membrane) giving high rates of purified liquid recovery with minimum membrane fouling, and hence a low specific energy requirement (kWh m⁻³ permeate). The non-corrosive nature of the osmotic agent is expected to give reduced capital costs compared to a conventional reverse osmosis desalination stage.

Applications of the technology

The technology is generic in nature. Desalination of brackish water and sea water are major potential applications. The technology may also be suitable for the treatment of a number of industrial waste streams and for concentration of landfill leachates. The gentle nature of the first stage may make the technology especially suitable for treatment of sensitive products in the food and pharmaceutical industries.

The technology is also suitable for use in combination with other processes to provide effective overall separation. For example, the technology might be combined with a thermal separation process. Further, the technology is expected to be suitable for integration with existing membrane or thermal processes (retrofitting).

Scalability of the technology

The technology is likely to be scalable across the full range of existing commercial membrane processes (millilitre to hundreds of thousands of cubic metres). It should be noted that membrane separation processes are modular in construction, large plants being built by suitably combining many modules of a size that is testable in a pilot-plant laboratory. This greatly facilitates scale-up. The Surrey Aqua team is already working with such modules.

The technology also has the possibility of compact construction, making it suitable for applications where space is limited. Other possibilities include equipment for emergency relief and portable equipment.

Scale-up of the technology will benefit from knowledge of the design and operation of existing membrane equipment. Some new challenges exist, especially regarding the recycling of the draw solution. It is likely that large-scale applications of the technology will use continuous recycling whereas smaller-scale processes will operate batchwise. The smallest scales of operation could operate on a single-use disposable basis. In the latter case, manufacturing scale would refer to the number of units manufactured.

Expected performance of the technology

At the time of writing, preliminary experimental and pilot plant data has been collected for both *Stage 1* and *Stage 2*. The results demonstrate that the principles of the proposed process are sound. Preliminary calculations indicate that the technology should give savings in both capital and operating costs compared to existing membrane processes. This exploratory work shows that the factors that will allow optimisation of the performance of the technology include:

Membrane for osmosis – Existing commercial membranes for processes such as desalination are constructed to withstand high applied pressures. The osmosis stage of the technology does not require such high applied pressures. Hence, it is possible to use new types of membrane allowing greatly enhanced rates of separation. The Surrey Aqua team has begun collaboration with a leading membrane manufacturer to produce such membranes. These membranes will be specified to allow back-flushing and cleaning-in-place, and to have high chlorine resistance. Suitable membranes are more readily available for the nanofiltration stage, though some development may benefit the technology.

Osmotic agent – The choice of the osmotic agent is very important to the maximisation of process performance. The osmotic agent must be chosen to have a suitable osmotic pressure and also to be easily separated and recycled. That is, it must be matched to both the feed liquid to be treated and to the performance of the nanofiltration membrane used. It may be that different osmotic agents may give optimised performance for different applications. Osmotic agents used by the Surrey Aqua team are readily available and compatible with water regulations.

Process equipment design – Although existing membrane processes provide a sound basis for initial design, the technology has some special design features which need to be optimised. Some of these have already been addressed. On very large-scale plant, effective recycling of osmotic agent and energy recovery will be crucial to optimisation.

Process modelling – Preliminary calculations are favourable, but a full prediction of the expected performance of the technology requires a detailed numerical process simulation. This should take into account the optimisation of membrane properties, the optimisation of osmotic agent and the detailed process equipment design. The Surrey Aqua team has commenced such simulations.

Technical conclusions

This technology is generic and potentially applicable to a number of important commercial separation processes. The principles of the technology have been established. Features that must be optimised to maximise the performance of the technology have been identified. Mechanical components for the technology are commercially available. The Surrey Aqua team has the expertise and drive required to develop fully the technical potential of the technology, but the team is small. At this stage, investment should be focussed on expanding the engineering team at Surrey so that they can solve the engineering challenges and thereby realise the full potential of the technology.

Market Analysis

Summary of desalination and the market

Desalination refers to any of several processes that remove the excess salt and other minerals from water in order to obtain fresh water suitable for drinking or irrigation. Desalination is most commonly applied to sea water, particularly in the Middle East, and is increasingly being installed in the USA, North Africa, Singapore, Spain, Australia and China. It is also used on ships, submarines and small islands. Desalination of brackish water is also practiced and some of the same principles are used to produce drinking water from “non-conventional” sources (conventional being rivers, reservoirs and underground aquifers) such as treated wastewater, saline ground waters and salt rich mine drainage waters.

A December 2006 Global Water Intelligence report published by Media Analytics Limited provides a detailed assessment of the global market for desalination. The current global installed capacity of desalination plants is 39.9 million m³d⁻¹ (Mm³.d⁻¹). Although this is only 0.4 per cent. of the total daily production of potable water worldwide, it is concentrated in a limited number of countries with 42 per cent. of the capacity installed in the Gulf States. The installed capacity is forecast to rise to 64.3 Mm³.d⁻¹ by 2010 and to 97.5 Mm³.d⁻¹ by 2015; the rate of growth is expected to be greater in non-Gulf countries. These increases are driven by economic growth, population growth, increasing affluence and increasing stress on fresh (conventional) water sources. The current trend to increase the use of non-conventional water sources in countries such as the USA and Spain is expected to continue; the impact of climate change is expected to put greater stress on fresh water sources in other countries. In the UK, for example, desalination was considered by two water companies to relieve water stress in South East England as an alternative to the

development of increased storage capacity. There is also expected to be further development of desalination in the growing Middle East market.

The market for desalination is active and there are a wide variety of consulting engineers, equipment suppliers and trade organisations that specialize in desalination. Finance is readily available for well designed projects. Installed plants come in a variety of sizes from small (village) sized plants to 800,000 m³d⁻¹. As technology improves the general size of plants is also increasing.

Desalination is not normally the first choice for the provision of drinking water because production costs are very much greater than using fresh water, largely because of the energy requirements. Continuing technological developments and optimisation of the existing technology have led to reductions in cost over the past 20 years and this is expected to continue at approximately 4 per cent. pa, despite increasing energy costs. The increase in the price of oil may disrupt this process over the next few years but is not expected to affect the overall growth of the market: there is a slight paradox in that increases in energy prices boost the desalination market in the energy rich and water poor economies of the Middle East and Gulf States where desalination is considered to be mature technology.

The 2006 costs for water produced by new desalination plant were in the region of US 50 cents.m⁻³; actual costs depend on the local conditions, the raw water source and the technology used. These costs are 4-6 times those of water produced from conventional sources and by conventional treatment, which is typically 8-15 cents.m⁻³. However, production costs remain the smaller proportion of the total cost to provide and deliver water to the consumer's tap, which when pumping costs are added bring the total to US 100-200 cents.m⁻³.

The economics are also highly scheme and situation dependent with factors such as the cost of water transfer, environmental and planning considerations and marginal costs associated with blending desalinated water with existing water sources all bearing on the strategic decision process. Additionally, the relatively high cost for desalination is increasingly becoming justifiable in terms of the economic benefits of guaranteeing a regular supply of safe water.

The increasing requirements for industries and countries to adopt more sustainable solutions, particularly in the context of targets to reduce CO₂ emissions, is a potential barrier to any technology that is perceived as more energy intensive than alternatives. The installation of a large desalination plant in London was objected to on the grounds that it was a high energy process. The ability to link desalination to renewable energy or nuclear energy, which arguably are less carbon producing than the use of fossil fuels, is seen as one way of developing a more sustainable approach to water supply. There are several applications of the use of nuclear power stations for cogeneration and water supply, including the EURODESAL project, which aims to provide water from desalination technologies at 30-60 per cent. less cost than using fossil fuel electricity.

Desalination can be seen as the more sustainable option where it can be argued that it allows greater use of non-conventional sources and therefore enables a reduction in the exploitation of the limited fresh water and the natural environment that depends on it. Reducing the energy requirements of desalination therefore moves the technology further towards a more sustainable choice of technology.

Whist the mature end of the market is largely based on production of fresh water from sea water the newer market is more heterogeneous with the feedstock including: effluent from wastewater plants, brackish water, brine, river water or polluted groundwater. This extends the choice of technology that can be used, the scale of plant size, including very small point of entry household units, and the overall net-cost for providing potable water. The choice of the technology made by a customer is influenced by the reliability of the system, which will in turn be affected by the presence, or absence, of a local installed base providing experience and skilled labour specific to one type of technology.

Performance and ability of the various desalination technologies

There are two main methods used for desalination: thermal, where pure water is distilled from the raw water, and membrane, where pressure drives water through a semi-permeable membrane leaving a concentrated waste stream behind. There are several variants of both types but the dominant technology in membrane desalination is reverse osmosis (RO).

Multiple Stage Flash Distillation (MSF)

Multi-stage flash distillation is a thermal desalination process that distills sea water by flashing a portion of the water into steam in multiple stages. First, the seawater is heated in a container known as a brine heater. This is usually achieved by condensing steam on a bank of tubes carrying sea water through the brine heater. Thus heated, the water is passed to another container known as a “stage”, where the surrounding pressure is lower than that in the brine heater. It is the sudden introduction of this water into a lower pressure “stage” that causes it to boil so rapidly as to flash into steam. As a rule, only a small percentage of this water is converted into steam; the remaining water is sent through a series of additional stages, each at a lower ambient pressure than the previous “stage”. As steam is generated, it is condensed on tubes of heat exchangers that run through each stage.

Energy is required to generate the steam to heat the brine and to reduce the ambient pressure in each stage; it has high cooling water requirements and is considered practical only for seawater applications. It is cost competitive only if waste heat (steam) is available.

This is a mature technology where growing plant size has allowed it to remain competitive. It is generally recognised as the most reliable process and has a very large installed base in the Persian Gulf making it a very safe choice for that region. Plants are now operating after 30 years allowing depreciation of asset life to be extended from the normal 20 year design period. Typically, electrical consumption of the MSF process is 3.5 kWh.m^{-3} , while heat consumption is about 68 kWh/m^3 of water produced, which has less than 25 mg.l^{-1} total dissolved solids (TDS).

4.2 Multiple Effect Distillation (MED)

This process pre-dates MSF, which displaced it from the market because of MSF’s larger plant size, but which is now becoming the more common choice for new thermal plant. It is very similar to MSF, using low pressures in a series of chambers to obtain the desalinated water but uses a counter current heat exchanger to obtain maximum efficiency. It has a lower capital cost and requires less cooling water than MSF but had been restricted by small plant size. It is competitive with non-thermal methods where waste heat is available and improvements in design have increased plant sizes making it more popular in the Gulf. It typically uses 1.2 kWh.m^{-3} of electrical consumption and an equivalent of about 48 kWh/m^3 of heat consumption per unit water produced, which has less than 25 mg.l^{-1} total dissolved solids (TDS).

4.3 Reverse Osmosis (RO)

Osmosis involves water molecules in a dilute solution diffusing through a semi-permeable membrane into a concentrated solution until both sides are in equilibrium. Reverse osmosis is achieved by applying pressure to the concentrate side of the membrane (the seawater) to force water through to the dilute side (the product drinking water). High relative pressures are involved, up to 65 bar and this is the principal energy requirement for the process. Developed in the 1960’s it is becoming more cost competitive due to better and cheaper membranes and improvements in energy recovery from the waste (concentrate) stream. Improvements in membrane packing density (area of membrane per unit volume) have reduced plant footprint and capital costs and improvements in membrane material have extended membrane life, increased flux (flow of produced water per unit area) and reduced operating costs.

RO has several advantages over thermal technologies: it can be used on seawater and brackish water, is not dependent on cooling water or waste steam, has substantially lower capital costs and can be supplied in a wide range of plant sizes. Its principal disadvantage is its dependency on pre-treatment (critically) and it is more complex to operate. It typically uses 4.0 kWh.m^{-3} water produced, which has around 450 mg.l^{-1} total dissolved solids (TDS).

There remains substantial scope to increase the efficiency of RO; the theoretical minimum power consumption is 0.8 kWh.m^{-3} and there is considerable active research in this area.

4.4 Electrodialysis

Commercial electrodialysis predates RO by about 10 years. It utilises a DC electric field and pairs of cationic and anionic selective membranes. As the water passes between the membranes, salt ions move towards the electrode of opposite charge and through the membrane. Cost is proportional to the concentration of salts in the water thus it is more cost competitive for brackish water than for sea water. A variant to produce ultra pure water uses ion exchange resins in conjunction with the electric field.

4.5 Hybrid processes

MSF/MED and RO can be combined with advantages to both processes but true hybrids have not yet been commercialised. Parallel operation linked to power generation is in operation, where the power plant can maintain a high base load throughout the year but switch to water production during off-peak periods.

4.6 Market trends for desalination

There is universal agreement that there will be a continuing and increasing need for technologies to produce fresh water. The drivers come from increasing population, increasing use of water and decreasing availability of cheap, natural clean water. Whilst there are pressures to manage (reduce) demand for fresh water in developing countries, demand globally will increase both for agricultural use and for domestic or industrial use. One consensus amongst climate change predictions is that there is an increasing likelihood of extreme conditions, including extended periods of drought. This will make the use of desalination more likely, despite possibly unfavourable energy costs, as a means of providing a more flexible means of meeting demand.

Based on recent trends, and without depending on specific climate change factors, global growth for desalination plant is expected to increase installed plant from a current base of 42.6 Mm³.d⁻¹ to 64.3 Mm³.d⁻¹ by 2010 and 97.5 Mm³.d⁻¹ by 2015. This is expected to require capital investment of \$25 billion (2006-2010) and \$31.4 billion (2011-2015).

Although the Gulf States represent the core for existing installed desalination plant, there are 30 well defined geographical areas globally where desalination is regularly used to produce potable water ranging in size from countries such as China, India and the USA to middle sized counties such as South Korea and Chile down to city states such as Bahrain and Singapore. All continents and all types of economy are involved in the use of desalination technologies, from Europe, Australasia and the USA through ex Soviet Union countries to developing countries in the Caribbean. The principal geographic areas by size of market are: UAE, Saudi Arabia, USA, Spain, Kuwait, China and Algeria. The first four countries in the list account for more than 50 per cent. of the total expected growth in contracted and proposed capacity.

There is a very active research base within the desalination market. Much of this is targeted at optimisation of existing technology or its extension to a wider range of source waters. Countries that are particularly active in RO research include Singapore, Australia and the USA.

In terms of the market split by technology, the older thermal technologies tend to dominate the Gulf region whereas RO is first choice elsewhere, unless waste heat is available. Over the period 1980 – 2005 membrane has been the market leader by commissioned capacity rising from about 0.5 Mm³.d⁻¹ to more than 2.5 Mm³.d⁻¹; MSF technologies have risen from a similar base to 2.0 Mm³.d⁻¹.

From 2000 to 2005, market share of RO has been about 60 per cent., MSF at 26 per cent. and others at 14 per cent. in an overall market of 16 MMm³.d⁻¹. Membranes are expected to take an increasing share from 60 per cent. in 2005 to 65 per cent. in 2015. This will raise their installed capacity from 25.56 Mm³.d⁻¹ to 63.4 Mm³.d⁻¹ over the same period.

There are a number of reasons for the continued increase in RO; in part it is linked to the large and diverse number of contractors available, and capable, of building RO plants which will encourage competition and innovation. By contrast MSF and MED appear now to be dominated by two firms. RO is also easier to install, is flexible in operation and has no requirements for large volumes of cooling water. Although there is still uncertainty about the medium/long term costs for membrane replacement (and therefore potential for high operating costs) the low capital cost for RO is the principal reason for its attractiveness.

4.7 Cost components

The forecast capital costs of desalination plants have the following components:

<i>Component</i>	<i>US \$ bn</i> <i>2006 -2010</i>	<i>US \$ bn</i> <i>2011 -2015</i>
Intakes & outfalls	1.7	2.0
Pre-treatment	1.2	1.6
Civil engineering	4.5	5.7
Pumps	1.6	1.6
Thermal plant piping, alloys & fabrication	3.3	3.6
Membrane piping, alloys and membranes	2.5	2.8
Other equipment and materials	6.6	12.3
Installation and Services	2.2	3.1
Design and legal costs	1.5	1.9
Total capital costs	<u>25.0</u>	<u>31.4</u>

Estimated annual operating costs have the following components:

<i>Component</i>	<i>US \$ bn 2005</i>	<i>US \$ bn 2010</i>	<i>US \$ bn 2015</i>
Parts and components	0.3	0.5	0.8
Chemicals	0.9	1.5	2.3
Labour	3.0	4.1	5.9
Membranes	0.1	0.2	0.4
Energy	2.2	3.5	5.4
Total	<u>6.5</u>	<u>9.9</u>	<u>14.8</u>

The cost structure for RO plants, producing potable water from sea water approximates as follows:

<i>Component</i>	<i>% of total cost</i>
Consumables (chemicals etc)	3
Labour	4
Membrane replacement	5
Maintenance and parts	7
Fixed charges (capital depreciation etc)	37
Power	44

It is clear that any technological improvements that lead to a significant reduction in power requirements will have a strong competitive advantage.

Main problems and limitations of desalination technologies

All desalination systems produce waste streams (concentrate) and disposal can be problematic in meeting environmental standards. When disposing back to the source water it needs to be dispersed to prevent localised damage to the ecology.

MSF: needs large quantities of cooling water and is only suitable for seawater. To be cost competitive this method needs a source of low cost steam and needs to take advantage of efficiencies of scale; it is not considered competitive below unit sizes of 32,000 Mm³.d⁻¹.

MED: more complex to operate than MSF and is only suitable for sea water. It still requires cooling water but not as much as MSF and is more cost-competitive when linked to a source of waste heat.

RO: has an absolute requirement for good pre-treatment to avoid fouling of the membranes; such treatment is dependent on the nature of the feed water and needs to be tailored to that water. Fouling of the membrane reduces permeability and flux: in time the volume of water produced from a given area of membrane decreases and/or the required driving pressure increases. Fouling can be reduced by good pre-treatment and

by the use of regular cleaning. Pre-treatment adds to capital and operating costs. Cleaning adds to operating costs and can reduce the life of the membrane. Biofouling is a particular problem as it can lead to early degradation of the membrane and lead to poor rejection properties (increased passage of salt). Chemical scaling is also a problem and this too can lead to membrane damage. With some RO applications there are complications with boron which is not well removed by standard membranes. This is a specific problem for agricultural use of the treated water as boron is relatively toxic to plants. There are membranes that have been developed that have higher boron rejection characteristics. RO plant is more complex to operate than other desalination systems and this may be a barrier to operators used to thermal systems. However it is, in principle, simpler than conventional water treatment using chemical coagulation and large hydrodynamic separating processes, and is relatively easy to automate; it is an attractive process for chemical and mechanical engineers who like “pipes and pumps”.

Conclusions

The markets for desalination are expected to continue to grow and membrane based processes are expected to take a greater share. Additionally, as pressure on natural sources of fresh water increases, membrane processes are expected to enable greater use of non-conventional water sources. The manipulated osmosis technology offers reduced capital costs (reduced membrane area) and operating costs (energy). When fully developed and optimised it will have ready application to the growing market for desalination and recovery of water from non-conventional sources; market entry should be facilitated by the fact that it is a variant of established technologies.

Yours Faithfully

For and on behalf of WRc plc.

PART VI

PATENT ATTORNEY'S REPORT

Modern Water PLC ("Modern Water")
Warwick Court
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London EC4M 7BP

KBC Peel Hunt Ltd
111 Old Broad Street
London
EC2N 1PH

7 June 2007

Dear Sirs

Modern Water's Patent Attorneys' Report

The Firm of Boulton Wade Tennant ("BWT") is a professional partnership of Chartered Patent Attorneys and European Patent Attorneys which has been established since 1894. The Firm currently has offices in London, Reading, Oxford and Cambridge.

BWT advises on all aspect of intellectual property, including patent, design and trade mark rights and has a variety of clients, both in the United Kingdom and overseas. BWT has particular expertise in four technical areas: engineering and designs; hi-tech and electronics; chemistry and materials; and biotechnology and life sciences. BWT has experience in preparing reports for admissions both to the Official List of the UK Listing Authority and trading on the London Stock Exchange and to trading on AIM.

The principal authors of the report ("this Report") are Adrian Hayes and Hsu Min Chung. Adrian Hayes is Head of the BWT Chemistry and Materials team and holds a Master of Arts Degree in Natural Sciences from the University of Cambridge and a Master of Law Degree in Intellectual Property Litigation from Nottingham Law School, Nottingham Trent University. He is a Chartered Patent Attorney and European Patent Attorney and has been a Partner in BWT since 1997. Hsu Min Chung is a partner in the BWT Chemistry and Materials team and holds a Master of Chemistry Degree from the University of Oxford. She is a Chartered Patent Attorney and European Patent Attorney and has been a Partner in BWT since 2005.

Prior to receiving instructions for the preparation of this Report, Modern Water had not been a client of BWT. BWT has instead taken instructions from the technology transfer office of the University of Surrey, an investor in Surrey AquaTechnology Limited ("Surrey Aqua") which, upon admission of Modern Water to AIM, will be a shareholder in Modern Water. On instructions from the University of Surrey, BWT has filed the series of patent applications as set out later in this Report which have subsequently been assigned to Surrey Aqua. University College Cardiff Consultants Limited ("Cardiff Consultants"), Poseidon Water Limited ("Poseidon") and Cymtox Limited ("Cymtox") are not clients of BWT and BWT has not filed or prosecuted those patent applications referred to in this Report which have been filed in the name of Cardiff Consultants or Cymtox. For the purposes of this Report, Modern Water, Surrey Aqua, Poseidon and Cymtox are together referred to as the "Relevant Companies".

BWT has prepared this Report based on the information available from the various patent registries referred to in this Report, its records and information provided by Modern Water, Cardiff Consultants, the University of Surrey and the Relevant Companies and their advisors (including the patent attorneys of each of the Relevant Companies to the extent that this is not BWT).

BWT has been asked to report on the Relevant Companies' portfolio of patents and patent applications (the "Relevant Patent Applications"). The scope of the Report is detailed further in section 2 below. This Report has the following sections:

1. Introduction to the Patent System
2. Scope of the Report
3. Patent Policy of Modern Water
4. Modern Water's Patent Portfolio
5. Third Party Rights

1. Introduction to the Patent System

A patent is a monopoly right conferred upon an inventor and his successors in title for the making of a new and non-obvious invention. This monopoly is of limited duration but, while in force, allows the patent holder to prevent others copying his invention. It is not a licence to commercialise the invention, for which other permissions may be required.

It is a fundamental feature of the patent system that patents are territorial. An application for a national patent for an invention may be made to a national Patent Office and, if granted, will establish a monopoly right in that country alone. There are International and Regional Conventions which provide the opportunity for applicants to lodge a single patent application with an option for it to mature to a national patent in many individual territories. For the purpose of this Report the relevant Conventions are the European Patent Convention ("EPC") operated by the European Patent Office ("EPO"), the Patent Co-operation Treaty ("PCT") operated by the World Intellectual Property Organisation ("WIPO") and the Gulf Co-operation Council ("GCC") operated by the Patent Office of the Cooperation Council for the Arab States of the Gulf.

Also of relevance is a further, very well-established International Convention known as the Paris Convention. This Convention allows applicants to file what is known as a "priority" application in any country party to the Convention. Provided that, within twelve months of the date of that application, the applicant files further substantially identical applications in other convention countries, those later applications will be permitted to claim the date of the earlier application as their priority date, i.e. the date on which their patentability is assessed in those other convention countries. The claim to priority remains valid even if the priority application is allowed to lapse. It is possible to claim the benefit of the priority date of a national application for International Patent Applications, European Patent Applications and GCC Patent Applications filed under the PCT, EPC and GCC, respectively.

It is usual for applicants to make a first patent application establishing a priority date in their home country. Within one year, it is common practice to lodge a superseding application, for example, at the EPO or, if further territories are required, an International Application under the PCT claiming priority from the priority application. If the priority application is a UK application, patent protection can still be obtained in the UK even if the UK priority application is allowed to lapse, provided that a European or International Patent Application is filed. This is because the UK is party to both the EPC and PCT.

Patentability is assessed based on "prior art" and prior art comprises all information relevant to the application within the public domain prior to the priority date.

A patent application filed at the EPO can, once granted, become a bundle of national patents in each of the EPC territories designated in the application. There are currently 32 countries party to the EPC, although a number of these have not been available for designation until quite recently. A European Patent only has the possibility of maturing to a national patent in countries which could be designated at the time that the application was filed.

A European patent application will be centrally searched and examined by the EPO which will involve searching for prior relevant publications in similar fields to the invention and considering whether, in the light of these, the invention satisfies the test of patentability, i.e. whether the invention is new and inventive

and whether the application describes the invention clearly and completely enough for it to be repeated by another person skilled in that art. If patentable, a patent will be granted by the EPO and can then, subject to the applicant completing the validation processes and paying fees in the contracting states, become effective as a national patent in each designated state and each national patent will be enforceable under local patent law.

Where an applicant wishes to cover additional territories to those available under the EPC, an International application can be made under the PCT. The applicant may currently designate more than 100 participating states including a regional designation of the EPO. Pursuant to this procedure, an application will be the subject of an international search and a search report will be produced. The application may then proceed to international preliminary examination, although this is optional.

WIPO cannot grant a patent. For a patent to be obtained under the PCT, the final decision on patentability for each territory will be taken in the National Phase by the respective national patent office or a regional office such as the EPO. As for a European patent, a patent obtained in this way will be enforceable under local national patent law.

Patent protection in the USA can be obtained either from a PCT application or as a direct national filing in the USA. Either way, the application will be examined by the US Patent Office for novelty and non-obviousness before grant.

A GCC patent application covers the following states: Kuwait, Qatar, Oman, Kingdom of Saudi Arabia, Kingdom of Bahrain and United Arab Emirates. The application will be examined by the Patent Office of the Cooperation Council for the Arab States of the Gulf. The GCC is not part of the PCT. Accordingly, a GCC patent application cannot be obtained from a PCT application and must be filed directly at the Patent Office of the Cooperation Council for the Arab States of the Gulf. However, certain member states of the GCC, such as the United Arab Emirates, are party to the PCT. It is therefore possible to obtain patent protection in, for example, the United Arab Emirates from a PCT application. Once granted, a GCC patent is automatically effective in all the GCC member states. However, infringement will be considered under the domestic laws of each member state.

Patent applications are normally published eighteen months from the priority date. This publication may be the first opportunity that interested third parties (including competitors) will have to read the details of the invention and see the scope of the claims. Once a patent has been granted, the patentee may be able to sue an infringer for damages extending retrospectively as far back as the date of publication. Thus, any party who knowingly infringes claims of a pending application after publication runs a significant risk. In most countries, a patent can only be enforced against an alleged infringer once it has been granted. However, patents and patent applications can be licensed or assigned at any time.

The validity of granted patents can be challenged by a third party. Depending upon national/regional patent laws, third parties may have the opportunity either before or after grant, to object and file an opposition. For example, for a European patent granted under the EPC there is a nine-month opposition term from the grant date. This opposition term provides a procedural opportunity for a third party to challenge a patent centrally at the EPO. Once the term has expired the third party loses this opportunity and can only attack the patent in the national patent offices. The opponent must produce good evidence and/or argument in order to persuade the opposition division of the EPO to overturn the decision of the examining division and cause revocation or restriction of the scope of claims of the granted European patent.

Patents once granted remain in force for a specified period. Usually annual maintenance fees must be paid. Virtually all countries now have a normal patent term of twenty years from the date of filing.

2. Scope of the Report

BWT has been asked to report on the portfolio of patents and patent applications held by the Relevant Companies. No patents have been granted to any of the Relevant Companies and no patents or patent applications have been filed in the name of Modern Water. Relevant Patent Applications have been filed in the name of the University of Surrey (in respect of Surrey Aqua's technology), Cardiff Consultants (in

respect of Poseidon's technology) and Cymtox (in respect of its own technology) and BWT reports in this Report on the status of these Relevant Patent Applications.

The Relevant Patent Applications that were filed in the name of the University of Surrey have been assigned to Surrey Aqua and these assignments are in the process of being registered at the relevant patent offices. The Relevant Patent Applications that were filed in their respective names of Cardiff Consultants have been assigned to Poseidon and these assignments are in the process of being registered at the relevant patent offices.

BWT understands that:

- upon admission of Modern Water to AIM Surrey Aqua will be a wholly owned subsidiary of Modern Water;
- Modern Water owns:
 - a 51 per cent. interest in Poseidon; and
 - a 17 per cent. interest in Cymtox.

BWT has been advised that Modern Water's rights in the patent applications listed in part 4 of this Report (see below) are by reason of its investments in Surrey Aqua, Poseidon and Cymtox.

For patent applications filed in the name of the University of Surrey, BWT has relied on the information from its own records. For the patent applications filed in the name of Cardiff Consultants, BWT has relied on the information provided by Withers and Rogers, the firm of patent attorneys in charge of the filing and prosecution of these applications. For the patent applications filed in the name of Cymtox, BWT has relied on the information provided by Wynne-Jones, Lainé & James, the firm of patent attorneys in charge of the filing and prosecution of these applications. Except where otherwise stated, BWT has not carried out an independent check on the status of these applications.

In respect of the Relevant Patent Applications, this Report includes a description of the inventions claimed in the patent applications, and considers their filing and prosecution history. No opinion as to the likely validity of the patent applications or eventual patents is given.

In the interests of protecting confidential information, patent applications which have been filed but not yet published, are listed below but their content is not discussed in this Report.

It has not been within the remit of BWT to investigate the entitlement of the University of Surrey, Cardiff Consultants and Cymtox to the Relevant Patent Applications that were filed in their respective names. It has also not been within the remit of BWT to investigate the entitlement of a Relevant Company to the Relevant Patent Applications. Therefore, no opinion is given in this regard in this Report. It is not within the remit of BWT to investigate the validity of the assignment of the University of Surrey's patent applications to Surrey Aqua or the assignment of Cardiff Consultants' patent applications to Poseidon. Therefore, no opinion is given on these matters in this Report.

This Report also includes an opinion as to whether the desalination process described below infringes any patents identified in an infringement search report produced by an independent search company, Davda & Associates Ltd, trading as Davda and Co.. It has not been within the remit of BWT to comment on the search strategy employed and no opinion is provided in this regard in this Report. However, it should be appreciated that there is no guarantee that the search is 100 per cent. exhaustive. For example, there may be relevant documents that have not been indexed under the classifications searched. Furthermore, pending applications that are currently unpublished will not be picked up by the search.

Finally, it should be understood that patentability, validity and infringement are judged by Patent Offices and Courts. Patent Examiners and Courts may from time to time issue unpredictable and unexpected decisions.

3. Modern Water's Patent Portfolio

Intellectual property generation and protection is of fundamental importance to the business strategy and to the creation of value for Modern Water.

BWT has been advised that the Relevant Companies will follow procedures set out below in order to protect the intellectual property rights of the Relevant Companies:

- the Relevant Companies will hold regular intellectual property meetings to identify and prioritise areas of potentially protectable intellectual property and, in consultation with its advisers, assess whether the potential benefits of patent filing and protection outweigh the risks of publication of the Relevant Companies' proprietary intellectual property or whether such know how should remain trade secrets of the Relevant Companies in respect of which no patent filing is made;
- employees of the Relevant Companies will not publish or otherwise communicate any scientific discovery or information or materials relating to work carried out for the Relevant Companies through which such scientific discovery could be determined to any individual or organisation outside of the Relevant Companies without having first presented such scientific discovery to the Relevant Companies and obtained the prior approval of the Chief Executive Officer and Chief Scientific Officer to such publication or communication;
- attendees of the intellectual property meetings will generally include Simon Humphrey (Chief Executive Officer), Gerald Jones (Chief Scientific Officer) and such other members of the development team of the Relevant Companies from time to time as Simon Humphrey may consider appropriate (in relation to those matters where BWT is instructed to act, the Relevant Companies will request Hsu Min Chung or an appropriate colleague from BWT to attend the meetings);
- the intellectual property meetings will also address defence or challenges to the Relevant Companies patent claims to the extent applicable and challenges to claims which potentially infringe the Relevant Companies' patent claims; and
- before drafting and filing an initial UK patent application for an invention, the Relevant Companies will carry out patentability searches using both the scientific personnel of the Relevant Companies, and/or BWT or the patent attorneys instructed to act on that matter. Patent documents identified during these searches will be assessed by BWT or the patent attorneys instructed to act on that matter to determine the likely impact that they may have on Modern Water's business strategy in terms of risk to patentability and freedom to operate.

3.1 *Patent applications filed in the name of University of Surrey*

The information on the patent applications in this section (3.1) is based on information from our own records. Except where otherwise stated, we have not carried out an independent check on the status of these applications. Please note that, as stated above, the Relevant Patent Applications described in this part have been assigned to Surrey Aqua and are in the course of being registered in the name of Surrey Aqua.

SA Patent Filing No. 1

Title: Solvent Removal Process

<i>Country</i>	<i>Application No.</i>	<i>Publication No.</i>	<i>Filing Date</i>	<i>Status</i>
United Kingdom	0317839.9		30 July 2003	Lapsed
Gulf Co-operation Council (GCC)	GCC/P/2004/3677		28 July 2004	Pending
International (PCT)	PCT/GB2004/003242	WO2005/012185	28 July 2004	Lapsed – Entered National and Regional Phases below
Europe	04743570.6	1651570	28 July 2004	Pending
United States	10/566389	2006/0237366A1	28 July 2004	Pending
India	460/KOLNP/2006		28 July 2004	Pending
Israel	173406		28 July 2004	Pending
China	200480027912.2	1856447A	28 July 2004	Pending
South Africa	2006/01768		28 July 2004	Pending
Australia	2004261474		28 July 2004	Pending

International Prosecution

The PCT application was filed claiming priority from the United Kingdom application which has now lapsed. The claims of the application were amended in the International phase to a process for removing a solvent from a first solution, said process comprising (a) positioning a selective membrane between the first solution and a second solution having a higher osmotic potential than the first solution, such that solvent from the first solution passes across the membrane to dilute the second solution, and (b) extracting solvent from the second solution by passing the diluted second solution through a nanofiltration membrane, wherein the nanofiltration membrane is cast as a skin layer on a support, and the separation properties of the nanofiltration membrane are controlled by the pore size and electrostatic properties of the skin layer.

International Preliminary Examination was requested on the basis of the amended claims. The International Preliminary Examination Report did not raise any objections of lack of novelty objections against the amended claims. However, lack of inventive step objections were raised.

The International application was then brought into the National and Regional Phases in Europe, the United States, India, Israel, China, South Africa and Australia on the basis of the amended claims.

European Prosecution

The European application is the Regional Phase of the above International application. All Contracting States were designated. In the first European Examination Report, the Examiner referred to the International Preliminary Examination Report and raised the same lack of inventive step objections mentioned in that report under the corresponding provisions of the European Patent Convention. The claims were amended in response to the European Examination Report to clarify that the second solution contains solute species that are sufficiently large to be separated using said nanofiltration membrane.

The European Patent Office has not issued any further Communications since the response was filed.

United States Prosecution

The first Examination Report has yet to be received.

Indian Prosecution

The first Examination Report has yet to be received.

Israeli Prosecution

The first Examination Report has yet to be received. The claims of this application have been brought into line with the claims that are pending before the European Patent Office in preparation for substantive examination.

Chinese Prosecution

The first Examination Report has yet to be received. We have instructed our Chinese associates to register this application in Hong Kong. The Hong Kong patent application number is 07104652.4.

South African Prosecution

No substantive examination is carried out in South Africa. The application is still pending.

Australian Prosecution

The first Examination Report has yet to be received.

Gulf Co-operation Council Prosecution

This application was filed claiming priority from the United Kingdom application. The text of this application as filed is identical to the text of the unamended original PCT application. The first Examination Report has yet to be received.

SA Patent Filing No. 2

Title: Osmotic Energy

<i>Country</i>	<i>Application No.</i>	<i>Publication No.</i>	<i>Filing Date</i>	<i>Status</i>
United Kingdom	0319042.8		13 August 2003	Lapsed
Gulf Co-operation Council (GCC)	GCC/P/2004/3720		11 August 2004	Pending
International (PCT)	PCT/GB2004/003450	WO2005/017352	11 August 2004	Lapsed – Entered National and Regional Phases below
Europe	04743686.0	1660772	11 August 2004	Rule 51(4)EPC Communication issued
United States	10/568082	2006/0225420A1	11 August 2004	Pending
India	540/KOLNP/2006		11 August 2004	Pending
Japan	2006-523048		11 August 2004	Pending
China	200480026502.6	1853044A	11 August 2004	Pending
Australia	2004265489		11 August 2004	Pending

International prosecution

The PCT application was filed claiming priority from the United Kingdom application which has now lapsed. The claims were amended in the International phase to a process for driving a prime mover, said process comprising (a) positioning a selective membrane between a liquid and a solution having a higher osmotic potential than the liquid, such that the solution becomes pressurised by the influx of liquid across the membrane, (b) transferring the pressure generated in the solution to another liquid via a pressure exchange system to drive a prime mover, (c) recovering the solution, (d) separating at least some of the solvent from the solution to form a residual product, and (e) recycling the separated solvent and/or residual product of step (d) to step (a).

International Preliminary Examination was requested on the basis of the amended claims. In the International Preliminary Examination Report, the Examiner indicated that the amended claims were novel and inventive.

The International application was then brought into the National and Regional Phases in Europe, the United States, India, China, Australia and Japan on the basis of the amended claims.

European Prosecution

The European application is the Regional Phase of the above International application. All Contracting States were designated. A Communication under Rule 51(4)EPC has issued on this application indicating that the application is in order for grant. The text as intended for grant has been approved. No substantive amendments were made in the European Regional Phase.

United States Prosecution

The first Examination Report has yet to be received.

Indian Prosecution

The first Examination Report has yet to be received.

Japanese Prosecution

The first Examination Report has yet to be received.

Chinese Prosecution

The first Examination Report has yet to be received. We have instructed our Chinese associates to register this application in Hong Kong. The Hong Kong patent application number is 07104409.0.

Australian Prosecution

The first Examination Report has yet to be received.

Gulf Co-operation Council Prosecution

This application was filed claiming priority from the United Kingdom application. The text of this application as filed is identical to the text of the unamended original PCT application. The first Examination Report has yet to be received.

SA Patent Filing No. 3

Title: Secondary Oil Recovery

<i>Country</i>	<i>Application No.</i>	<i>Publication No.</i>	<i>Filing Date</i>	<i>Status</i>
United Kingdom	0509306.7		6 May 2005	Lapsed
International (PCT)	PCT/GB2006/001647	WO2006/120399	5 May 2006	

International prosecution

The PCT application was filed claiming priority from the United Kingdom application which has now lapsed. It was filed with method claims directed to a process for injecting water into a subterranean petroleum-bearing formation for petroleum recovery, said method comprising (a) positioning a selective membrane between an aqueous solution and formation water having a higher solute concentration than the aqueous solution, such that water passes across the membrane by osmosis to dilute the formation water, (b) injecting the diluted formation water into the petroleum-bearing formation, (c) recovering formation water from the petroleum-bearing formation, and (d) using at least a portion of the recovered formation water in step (a).

The application was also filed with an apparatus claim directed to an apparatus for injecting water into a subterranean petroleum-bearing formation for petroleum recovery, said apparatus comprising (a) a housing comprising a selective membrane for separating an aqueous solution from formation water having a higher solute concentration than the aqueous solution and configured to allow water from the aqueous solution to pass across the membrane by osmosis to dilute the formation water, means for

injecting the diluted formation water into the petroleum-bearing formation, (c) means for recovering formation water from the petroleum-bearing formation, and (d) means for introducing the recovered formation water into the housing.

The application was also filed with a claim directed to the use of barium chloride and/or calcium chlorides as additives for injection fluids for the recovery of petroleum from petroleum-bearing rock formations.

The International Searching Authority issued a written opinion indicating that the method and apparatus claims were novel and inventive over the prior art. However, the use claim was considered to relate to a separate inventive concept and was not searched or examined in the International phase. It may still be possible to obtain patent protection for the use claim in the National and/or Regional Phases. However, in certain jurisdictions, it is not possible to cover more than one inventive concept in a single patent application. Accordingly, in these jurisdictions, the use claim may need to be covered separately in one or more divisional applications.

The 30-month deadline for entering the National and Regional Phases is 6 November 2007. We understand that it is the intention of Surrey Aqua to enter the National and Regional Phases before this deadline.

SA Patent Filing No. 4

Title: Separation Process

<i>Country</i>	<i>Application No.</i>	<i>Publication No.</i>	<i>Filing Date</i>	<i>Status</i>
United Kingdom	0621247.6		25 October 2006	Pending

This application has not yet been published.

3.2 *Patent applications filed in the name of Cardiff Consultants*

The information on the patent applications listed in this section is based on information provided by Withers and Rogers, the firm of patent attorneys in charge of the filing and prosecution of these applications. To the extent that we have been able to in the relevant jurisdictions, we have carried out and independent verification of the status of the applications and set out the results below. Please note that, as stated above, the Relevant Patent Applications described in this part have been assigned to Poseidon and are in the course of being registered in the name of Poseidon.

Title: Water Treatment

<i>Country</i>	<i>Application No.</i>	<i>Publication No.</i>	<i>Filing Date</i>	<i>Status</i>
United Kingdom	0407922.4		7 April 2004	Lapsed
International (PCT)	PCT/GB2005/001358	WO2005/097688	7 April 2005	Lapsed – Entered National and Regional Phases below
Europe	05732810.6	1735246	7 April 2005	Pending
United States	Pending		7 April 2005	Pending
India	3140/KOLNP/06		7 April 2005	Pending
Brazil	0509750-9		7 April 2005	Pending
China	200580018620.7		7 April 2005	Pending
South Africa	2006/08406		7 April 2005	Pending
Canada	2563455		7 April 2005	Pending
United Arab Emirates	716/2006		7 April 2005	Pending
Japan	2007-506840		7 April 2005	Pending
Mexico	PA/a/2006/011596		7 April 2005	Pending
Australia	2005230271		7 April 2005	Pending

International prosecution

The PCT application was filed claiming priority from the United Kingdom application which has now lapsed. The International application was brought into the National and Regional Phases above with claims to an apparatus for the biological treatment of saltwater-based domestic wastewater, the apparatus having an inlet for the introduction of the saltwater-based domestic wastewater, an outlet for the removal of treated wastewater, means for monitoring the salinity level of the saltwater-based domestic wastewater entering or within the apparatus and means for controlling the salinity level of the saltwater-based domestic wastewater entering or within the apparatus such that fluctuations in the salinity level of the saltwater-based domestic wastewater are reduced and the biological treatment of the saltwater-based domestic wastewater is thereby maintained, the apparatus being suitable for the maintenance of a marine biological community and the biological treatment being aerobic with aeration using air.

The application was also filed with claims directed to a domestic water supply and sewerage assembly comprising: a first supply conduit for the supply of saltwater to at least one toilet and a corresponding first sewerage conduit for removal of saltwater-based wastewater from the at least one toilet; and a second supply conduit for the supply of freshwater to one or more devices requiring potable water and a corresponding second sewerage conduit for removal of freshwater-based wastewater from those devices, the first and second sewerage conduits being arranged so as to allow the transfer of the saltwater-based wastewater for biological treatment without the salinity level of the saltwater-based wastewater being affected by uncontrolled mixing with the freshwater-based wastewater to such a degree as to significantly affect the biological treatment.

The application was also filed with claims directed to a method for the biological treatment of domestic wastewater, the wastewater comprising a stream of saltwater-based domestic wastewater from the at least one toilet supplied with saltwater, and a stream of freshwater-based domestic wastewater from at least one device supplied with freshwater, the method comprising transferring the stream of saltwater-based wastewater for biological treatment in such a manner as to avoid the salinity level of the saltwater-based wastewater being affected by uncontrolled mixing with the stream of freshwater-based wastewater to such a degree as to significantly affect the biological treatment, and biologically treating the resulting saltwater-based or mixed wastewater.

The application additionally claimed a method for the biological treatment of saltwater-based domestic wastewater by means of a marine biological community, the method comprising introducing the saltwater-based domestic wastewater into an apparatus suitable for the development and/or maintenance of a biological treatment community and controlling the salinity level of the wastewater within the apparatus such that fluctuations in salinity level are reduced and the biological treatment of the wastewater is thereby maintained.

The International Preliminary Examination Report raised lack of novelty and/or lack of inventive step objections against these claims. No response was filed during the International phase. If these objections are raised in the National/Regional Phase, the Applicant will be provided with an opportunity to submit amendments and/or arguments in response to these objections before the National/Regional Patent Offices.

European Prosecution

The European application is the Regional Phase of the above International application. All Contracting States were designated. The first Examination Report has yet to be received.

United States Prosecution

We have been advised by Withers & Rogers that the United States application has been filed. Withers & Rogers have not yet received notification of the US application number.

Indian Prosecution

We have been advised by Withers and Rogers that the Indian application is pending.

Brazilian Prosecution

We have been advised by Withers and Rogers that the Brazilian application is pending.

Chinese Prosecution

We have been advised by Withers and Rogers that the Chinese application is pending. We have carried out an independent check on the Chinese patent register and can confirm that this is the case.

South African Prosecution

We have been advised by Withers and Rogers that the South African patent application is pending. We have carried out an independent check on the South African patent register and can confirm that this is the case.

Canadian Prosecution

We have been advised by Withers and Rogers that this patent application is pending. We have carried out an independent check on the Canadian patent register and can confirm that this is the case.

United Arab Emirates Prosecution

We have been advised by Withers and Rogers that this patent application is pending.

Japanese Prosecution

We have been advised by Withers and Rogers that this patent application is pending.

Mexican Prosecution

We have been advised by Withers and Rogers that this patent application is pending.

Australian Prosecution

We have been advised by Withers and Rogers that this patent application is pending. We have carried out an independent check on the Australian patent register and can confirm that this is the case.

3.3 *Patent applications filed in the name of Cymtox*

The information on the patent applications listed in this section is based on information provided by Wynne-Jones, Lainé & James, the firm of patent attorneys in charge of the filing and prosecution of these applications.

3.3.1 Title: Water Monitoring System

<i>Country</i>	<i>Application No.</i>	<i>Publication No.</i>	<i>Filing Date</i>	<i>Status</i>
United Kingdom	0510709.9		26 May 2005	Lapsed
International (PCT)	PCT/GB2006/001803	WO2006/125954		Pending

International prosecution

The International application was filed claiming priority from the UK patent application, which has now lapsed. The International application was filed with a claim directed to a continuous water monitoring system for detecting contaminants in a water supply comprising: (a) a feed line for delivering a sample of water from a water system or a natural water supply to a test chamber; (b) a test chamber; (c) a bioreagent fermenter in fluid communication with said test chamber for delivering a light emitting bioreagent, grown in said fermenter, to said test chamber; (d) a light detection means associated with at least said test chamber for measuring light emitted from said bioreagent; (e) a waste line for removing said sample and said bioreagent from said test chamber; characterised in that said light detection means measures the light emitting properties of the bioreagent before and after contact with said water sample and, where there is a change in the said light emitting properties after contact with said sample, the water monitoring system registers that the sample water has been contaminated.

The application also claimed a continuous water monitoring system for detecting contaminants in a water supply comprising: (a) a feed line for delivering a sample of water from a water system or a natural water supply to a test chamber; (b) a test chamber; (c) a bioreagent fermenter in fluid communication with said test chamber for delivering a light emitting bioreagent, grown in said fermenter, to said test chamber; (d) a light detection means associated with at least said test chamber for measuring light emitted from said bioreagent; and (e) a waste line for removing said sample and said bioreagent from said test chamber; characterised in that (f) a water sample conditioning means is provided for conditioning said sample of water before it is delivered to said test chamber.

The application also claimed a method for continuously monitoring a water supply in order to detect contaminants therein comprising: (a) delivering a sample of water from a water system or a natural water supply to a test chamber; (b) delivering a light emitting bioreagent to said test chamber; (c) detecting light emitted from said bioreagent before and after it has been exposed to said water sample; (d) determining, where there has been a change in light emission as a result of contact of said bioreagent with said water sample, that contaminants exist in said water sample; and (e) removing said water sample and said bioreagent from said test chamber in order to repeat the above process.

The application further claimed a continuous water monitoring system for detecting contaminants in a water supply comprising (a) a feed line for delivering a sample of water from a water system or a natural water supply to a test chamber; (b) a test chamber; (c) a water sample conditioning means for altering the ionic strength of said sample of water before it is delivered to said test chamber; (d) a bioreagent fermenter in fluid communication with said test chamber for delivering a light emitting bioreagent, *vibrio fischeri*, grown in said fermenter to said test chamber; (e) a light detection means associated with at least said test chamber for measuring light emitted from said bioreagent; and (f) a waste line for removing said sample and said bioreagent from said test chamber.

The International Searching Authority issued a written opinion raising lack of novelty and inventive step objections against the claims. The Applicant has not filed amended claims in response to the written opinion. However, if these objections are raised in the National/Regional Phase, the Applicant will be provided with an opportunity to submit amendments and/or arguments in response to these objections before the National/Regional Patent Offices.

The 30-month deadline for entering the National and Regional Phases is 26 November 2007.

4. Third Party Rights

We have been advised that Modern Water intends to operate a desalination process in which seawater is contacted with one side of a hollow fibre semi-permeable membrane. The opposite side of the membrane is contacted with a solution formed from a known inorganic salt. The inorganic salt solution has an initial total solute concentration that is higher than that of seawater. Accordingly, the difference in osmotic potential between the two solutions on either side of the membrane causes water to flow from the seawater-side of the membrane to dilute the inorganic salt solution (direct osmosis). Ions in the seawater, such as sodium and chloride ions, are prevented from flowing across the membrane. The flow of water leaves a concentrated solution of seawater on the seawater-side of the membrane and a diluted inorganic salt solution on the opposite side of the membrane. Salt is not removed from the concentrated seawater. The diluted inorganic salt solution is introduced into a nanofiltration unit. In the nanofiltration unit, the inorganic salt is separated as a concentrated inorganic salt solution. The remainder of the solution is removed as product water. The inorganic salt is not removed from the concentrated inorganic salt solution.

An infringement search has been carried out by a third party searcher, Davda & Associates Ltd. (trading as Davda & Co.), to locate International applications and European patents and patent applications filed under the EPC that might affect Modern Water's freedom to operate the above process. We have reviewed the search results and can confirm that the search did not reveal any granted patents that would be infringed by the process described above.

However, the search has revealed the existence of International patent publication no. WO2005/089913 made by SRI International ("SRI") which, if granted without amendment, would be infringed by the desalination

process intended to be operated by Modern Water as described above in this section 4. The International Searching Authority issued a written opinion raising a number of lack of novelty and/or lack of inventive step objections against the claims of the SRI application as originally filed. The University of Surrey's application, WO 2005/012185 (see SA Patent Filing No. 1) was also cited against this application in the International Search Report as a potentially relevant piece of prior art. Although SRI has filed amended claims in response to the written opinion, lack of novelty and lack of inventive step objections were raised against the amended claims in the International Preliminary Report on Patentability. The European Register indicates that this International application was deemed to have been withdrawn in Europe in October 2006 as no steps were taken to bring this application into the European Regional Phase. Although it is possible for SRI to apply for restoration of the European Regional Phase before 16 October 2007 at the latest, restoration will only be granted in exceptional circumstances. The European Regional Phase of this application is therefore, in the view of BWT, highly unlikely to be a cause for concern for Modern Water.

We have checked for equivalents (i.e. equivalent patents and patent applications that share a common claim to priority) of this International application on INPADOC (International Patent Documentation Center), a database of patent family and legal status information operated by the EPO based on information made available to the EPO by certain national and regional patent offices. The database showed that a US equivalent to this International application exists, US 20060011544. This US application was filed independently of the International application but claims priority from the same application as the International application. Although there is no guarantee that the information on INPADOC is 100% accurate, this US application would appear to be the only equivalent to this International application. There is no evidence on INPADOC that any steps were taken to bring the International application into the national/regional phase in any jurisdictions and the normal deadline provided under the relevant provisions of the PCT has now expired.

We have checked the US Patent and Trade Mark Office's online register and note that the US application is still pending but the first substantive examination report has not yet been issued. The US application was published with the same claims as the original International application and it should be noted that, as mentioned above, the International Examiner considered these claims to lack novelty and inventive step. The US Examiner will, however, carry out an independent examination of the claims of the US application. Modern Water shall maintain a watch on this US application to see whether equivalent objections are raised in the US and intends, at the relevant time, to seek advice from a US patent attorney on any appropriate options available to it should the US application be granted in a form which affects its freedom to operate in the US.

Yours faithfully

Adrian Hayes

Hsu Min Chung

for and on behalf of
BOULT WADE TENNANT

PART VII

ADDITIONAL INFORMATION

1. Responsibility

The Company and each of the Directors, whose names appear on page 3 of this document, accept responsibility for the information contained in this document. The Company and the Directors declare that, having taken all reasonable care to ensure that such is the case, the information contained in this document is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect the import of such information.

2. Incorporation and principal activities

- 2.1 The Company is domiciled in the United Kingdom and was incorporated and registered in England and Wales on 11 October 2006 as a private limited company with the name Modern Water Limited and registered number 05963927.
- 2.2 The Company was re-registered as a public limited company with the name Modern Water plc on 4 June 2007, under which it currently trades.
- 2.3 The Company's registered office and principal place of business is Warwick Court, 5 Paternoster Square, London, EC4M 7BP. The telephone number at the Company's registered office and principal place of business is 0207 498 5200.
- 2.4 The Company is governed by and its securities were created under the Act. The liability of the Shareholders is limited in accordance with the provisions of the Act.
- 2.5 The Company has no administrative, management and supervisory bodies other than the Board of Directors, the Audit Committee and the Remuneration Committee, all of which have no members other than the Directors. Details of the composition and constitution of the two Committees are summarised in Part I of this document.
- 2.6 The Company's auditors for the current financial period are PricewaterhouseCoopers LLP who are members of the Institute of Chartered Accountants in England and Wales.

3. The Group

- 3.1 Save as disclosed in paragraph 8 of this Part VII, to the best of the knowledge of the Company there are no other persons who directly or indirectly control the Company, where control means owning 30 per cent. or more of the voting rights attaching to the share capital of the Company. The Company is not aware of any arrangements which may at a subsequent date result in a change in control of the Company.
- 3.2 Upon Admission the Company will have two subsidiaries, details of which are set out below:

<i>Name</i>	<i> Holding</i>	<i>Country of Incorporation</i>
Surrey Aquatechnology Limited	100%	England and Wales
Poseidon Water Limited	51%	England and Wales

The Company also has a 16.67 per cent. holding in Cymtox Limited.

4. Ordinary Shares

- 4.1 The Ordinary Shares may be held in certificated form or under the CREST system, which is a paperless settlement procedure enabling securities to be evidenced and transferred, otherwise than by a written instrument in accordance with the CREST Regulations. When admitted to trading, the

Ordinary Shares will be registered with ISIN GB00B1XF5X66. The Company's registrars, Capita Registrars are responsible for keeping the Company's register of members.

- 4.2 The dividend and voting rights attaching to the Ordinary Shares are set out in paragraph 6.2 of this Part VII.
- 4.3 Section 89 of the Act gives the Shareholders pre-emption rights on any issue of shares by the Company to the extent not disapplied by a special resolution passed pursuant to section 95 of the Act. Details of the current section 95 disapplication resolution are set out in paragraphs 4.7.2 and 5.7.7 below.
- 4.4 The Ordinary Shares have no right to share in the profits of the Company other than through a dividend, distribution or return of capital, further details of which are set out in paragraph 6.2 below.
- 4.5 Each Ordinary Share is entitled on a *pari passu* basis with all other issued Ordinary Shares to share in any surplus on a liquidation of the Company.
- 4.6 The Ordinary Shares have no redemption or conversion provisions.
- 4.7 The Directors were authorised to allot and issue the Placing Shares pursuant to:
 - 4.7.1 an ordinary resolution passed on 6 June 2007 authorising the Directors pursuant to section 80 of the Act to allot Ordinary Shares with an aggregate nominal value of up to £48,562;
 - 4.7.2 a special resolution passed on 6 June 2007 authorising the Directors pursuant to section 95 of the Act to allot the Placing Shares for cash pursuant to the authority referred to in paragraph 4.3 above as if section 89(1) of the Act did not apply to such allotment;

such authorities to expire on the date which is 15 months from the date of the resolution, or, if earlier, at the conclusion of the first Annual General Meeting of the Company (unless previously renewed, varied or revoked by the Company in general meeting).

- 4.8 It is anticipated the Placing Shares will become unconditionally allotted on 12 June 2007, the date of Admission.
- 4.9 The Ordinary Shares are freely transferable provided that such shares are fully paid, the Company has no lien over such shares, the instrument of transfer is duly stamped, is in favour of not more than four joint transferees and is in respect of only one class of shares.
- 4.10 The Placing Shares will be subject to the Code. Under Rule 9 of the Code ("Rule 9"), any person, or group of persons acting in concert, who acquires, whether by a series of transactions over a period of time or not, an interest in shares which taken together with shares in which persons acting in concert with him are interested, carry 30 per cent. or more of the voting rights of a company which is subject to the Code, or any person who, together with persons acting in concert with him, is interested in shares which in aggregate carry not less than 30 per cent. of the voting rights of a company but does not hold shares carrying more than 50 per cent. of such voting rights and such person, or any person acting in concert with him, acquires an interest in any other shares which increases the percentage of shares carrying voting rights in which he is interested, is normally required by the Panel to make a general offer in cash to acquire the remaining shares in the company to all its shareholders at not less than the highest price paid by him or any persons acting in concert with him within the preceding twelve months. Rule 9 is subject to a number of dispensations.

Under the Act, if a person who has made a general offer (an "offer") to acquire Ordinary Shares (the "offeror") were to acquire, or contract to acquire, 90 per cent. of the Ordinary Shares to which the offer relates, within four months of the offer, the offeror could then compulsorily acquire the remaining 10 per cent. The offeror would do so by sending a notice to all Shareholders who have not accepted the offer (the "Outstanding Shareholders") telling them that the offeror will compulsorily acquire their Ordinary Shares and, six weeks later, executing a transfer of the outstanding Ordinary Shares in the offeror's favour and (if not paid to the Shareholders) paying the consideration to the Company, which would hold the consideration on trust for the Outstanding Shareholders. The

consideration offered to the Outstanding Shareholders must, in general, be the same as the consideration which was available under the offer.

The Act gives minority Shareholders a right to be bought out in certain circumstances by the offeror. If, at any time before the end of the period within which the offer can be accepted, the offeror holds, or has agreed to acquire not less than 90 per cent. of the Ordinary Shares, any holder of Ordinary Shares to which the offer relates who has not accepted the offer can, by a written communication to the offeror, require it to acquire that holder's Ordinary Shares.

The offeror is required to give each Shareholder notice of his right to be bought out within one month of that right arising. The offeror may impose a time limit on the rights of the minority shareholders to be bought out, but that period cannot end less than three months after the end of the acceptance period. If a Shareholder exercises his rights, the offeror is entitled and bound to acquire those Ordinary Shares on the terms of the offer or on such other terms as may be agreed.

- 4.11 No person has made a public takeover bid for the Company's issued share capital since its date of incorporation.
- 4.12 A Shareholder is required pursuant to the Financial Services Authority's Disclosure and Transparency Rules to notify the Company if, as a result of his acquisition or disposal of Ordinary Shares or of changes in the Company's voting rights, the percentage of voting rights which that Shareholder holds reaches, exceeds 3 per cent. and each additional 1 per cent or falls below 3 per cent.

5 Share capital

- 5.1 The authorised and issued share capital of the Company immediately prior to the Placing (assuming completion of the Surrey Aqua Roll-Up Agreement) is as follows:

	<i>Authorised</i>		<i>Issued (fully paid)</i>	
	<i>Number</i>	<i>£</i>	<i>Number</i>	<i>£</i>
Ordinary shares of 0.25 pence each	100,000,000	250,000	33,652,600	84,131.50

- 5.2 Immediately following the Placing and Admission, the authorised and issued share capital of the Company is expected to be as follows:

	<i>Authorised</i>		<i>Issued (fully paid)</i>	
	<i>Number</i>	<i>£</i>	<i>Number</i>	<i>£</i>
Ordinary shares of 0.25 pence each	100,000,000	250,000	58,862,685	147,156.71

On Admission the Ordinary Shares will rank *pari passu* in all respects.

- 5.3 The Placing will result in the allotment and issue of 25,210,085 Ordinary Shares, diluting existing Shareholders by 42.8 per cent.
- 5.4 The par value of each Ordinary Share is 0.25 pence.
- 5.5 The Company has no issued Ordinary Shares that are not fully paid up.
- 5.6 The Company was incorporated with an authorised share capital of £1,000 divided into 1,000 Ordinary Shares of £1 each of which one share was taken by the subscribers to the memorandum of association of the Company, Pinsent Masons Director Limited. On 31 October 2006, the subscriber share was transferred to IP Group.
- 5.7 The following changes to the authorised and issued share capital of the Company have taken place since the date of its incorporation:
- 5.7.1 on 1 December 2006, by written resolution, the Company's authorised share capital was increased from £1,000 to £10,000 and each ordinary share of £1 each was subdivided into 1,000 ordinary shares of £0.001 each;

- 5.7.2 on 1 December 2006, 85,626 ordinary shares of £0.001 each were issued and allotted, 12,870 of these to the Management Team under the Management Share Incentive Scheme at £0.001 per ordinary share, the balance being subscribed for by IP Group, Neil McDougall and Simon Humphrey at £30.03 each;
- 5.7.3 on 2 February 2007, 14,374 ordinary shares of £0.001 each were issued and allotted to IP2IPO Nominees Limited (held on behalf of employees of IP Group) under the Management Share Incentive Scheme at £0.001 per ordinary share;
- 5.7.4 on 12 March 2007, 12,342 ordinary shares of £0.001 each were issued and allotted to Neil McDougall and Simon Humphrey under the Management Share Incentive Scheme at £0.001 per Ordinary Share;
- 5.7.5 on 14 March 2007, 2,103 ordinary shares of £0.001 each were issued and allotted to Paul Shepherd and Michael Gradon at £30 per ordinary share;
- 5.7.6 on 1 June 2007, pursuant to written resolutions of the Company passed on that date the authorised share capital was increased from £10,000 to £100,000 by the creation of 90,000,000 ordinary shares of £0.001 each following which, pursuant to section 130 of the Act, £57,108 of the share premium account of the Company was applied to allot and issue, credited as fully paid, 57,108,055 ordinary shares of £0.001 each to the shareholders of the Company at that time in proportion to their current shareholdings;
- 5.7.7 on 6 June 2007, pursuant to shareholder resolutions of the Company passed on that date:
- (a) every 10 ordinary shares of £0.001 each were consolidated into one ordinary share of £0.01 each;
 - (b) each ordinary share of £0.01 each was sub-divided into 4 Ordinary Shares, being shares of £0.0025 each;
 - (c) the authorised share capital of the Company was increased from £100,000 to £250,000 by the creation of 60,000,000 Ordinary Shares;
 - (d) the Directors were generally and unconditionally authorised in accordance with section 80 of the Act to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80(2) of the Act) up to an aggregate nominal amount of £48,562, such authority to expire on the date 15 months from the date of the resolution authorising the directors to allot or, if earlier, the next annual general meeting of the Company unless varied, revoked or renewed by the Company in general meeting;
 - (e) the Directors were authorised pursuant to section 95 of the Act to allot equity securities (as defined in section 94(2) of the Act) for cash pursuant to the authority referred to in sub-paragraph 5.7.7(c) above as if section 89(1) of the Act did not apply to such allotment provided that such power was limited to:
 - (A) the allotment of equity securities for cash in connection with the Placing up to an aggregate nominal amount of £63,025.30;
 - (B) the allotment of 10,763,600 Ordinary Shares to the Surrey Aqua Sellers pursuant to the Surrey Aqua Roll-Up Agreement;
 - (C) the allotment of equity securities for cash in connection with rights issues to holders of Ordinary Shares where the equity securities respectively attributable to the interests of such holders are proportionate (as nearly as may be practicable) to the respective numbers of Ordinary Shares held by them, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with any fractional entitlements or any legal or practical problems under the laws or requirements of any regulatory body or any recognised stock exchange in any territory;

- (D) the allotment of equity securities in addition to any allotted pursuant to subparagraphs (A) to (C) above up to a maximum aggregate nominal amount of £14,715.7.

5.8 On 4 May 2007, the Company and the Surrey Aqua Sellers entered into the Surrey Aqua Roll-Up Agreement. Conditional, *inter alia*, on Admission, pursuant to such agreement, the Company agreed to allot and issue 10,763,600 Ordinary Shares in aggregate, which will, when issued, constitute approximately 32 per cent. of the issued share capital of the Company following completion of the Surrey Aqua Roll-Up Agreement but prior to the Placing to the Surrey Aqua Sellers in proportion to their holding in Surrey Aqua in exchange for the sale by them and the acquisition by the Company of all the issued ordinary shares of £0.001 each in Surrey Aqua not then held by the Company. Following Admission, Surrey Aqua will be a wholly owned subsidiary of the Company. Further details of the Surrey Aqua Roll-Up Agreement are set out in paragraph 13.4 of this Part VII.

5.9 Save as disclosed in paragraphs 5 and 9:

5.9.1 no share or loan capital of the Company has been issued or is proposed to be issued;

5.9.2 there are currently no outstanding convertible securities, exchangeable securities or securities with warrants issued by the Company;

5.9.3 there are no shares in the Company not representing capital;

5.9.4 there are no shares in the Company held by or on behalf of the Company itself or by subsidiaries of the Company;

5.9.5 there are no acquisition rights and/or obligations over authorised but unissued share capital of the Company and the Company has made no undertaking to increase its share capital; and

5.9.6 no person has any preferential or subscription rights for any share capital of the Company.

6. Summary of the Memorandum and Articles of Association

6.1 *Memorandum of Association*

The memorandum of association of the Company provides that its principal object and purpose is to carry on business as a general commercial company. Its objects and purposes are set out in full in clause 3 of the memorandum of association.

6.2 *Articles of Association*

The Articles, which were adopted pursuant to a written resolution of the Company passed on 1 June 2007, include provisions to the following effect:

Voting rights

Subject to the provisions of the Act, to any special terms as to voting attached to shares of the Company and any suspension or abrogation of voting rights pursuant to the Articles, at a general meeting of the Company every member who is present in person shall on a show of hands have one vote and every member present in person or by proxy shall on a poll have one vote for each share of which he is a holder. In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders.

Unless the Board otherwise determines, no member is entitled to vote at a general meeting or at a separate meeting of the shareholders of any class of shares, either in person or by proxy, or to exercise any other right or privilege as a member in respect of any share held by him, unless all calls presently payable by him in respect of that share, whether alone or jointly with any other person, together with interest and expenses (if any) have been paid to the Company or if he, or any other person appearing to be interested in such shares, has been issued with a notice pursuant to section 793 of CA 2006

(requiring disclosure of interests in shares) and has failed in relation to any such shares to give the Company the information required by such notice within 14 days from the service of the notice.

Dividends

Subject to the provisions of the Act and of the Articles, the Company may by ordinary resolution declare dividends to be paid to members according to their respective rights and interests in the profits of the Company. However, no dividend shall exceed the amount recommended by the Board.

Subject to the provisions of the Act, the Board may declare and pay such interim dividends (including any dividend payable at a fixed rate) as appears to the Board to be justified by the profits of the Company available for distribution. If at any time the share capital of the Company is divided into different classes, the Board may pay such interim dividends on shares which rank after shares conferring preferential rights with regard to dividends as well as on shares conferring preferential rights, unless at the time of payment any preferential dividend is in arrears. Provided that the Board acts in good faith, it shall not incur any liability to the holders of shares conferring preferential rights for any loss that they may suffer by the lawful payment of any interim dividend on any shares ranking after those preferential rights.

All dividends, interest or other sums payable and unclaimed for 12 months after having become payable may be invested or otherwise used by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends unclaimed for a period of 12 years after having been declared or having become due for payment shall (if the Board so resolves) be forfeited and shall cease to remain owing by the Company.

The Board may, with the authority of an ordinary resolution of the Company, direct that payment of any dividend declared may be satisfied wholly or partly by the distribution of assets, and in particular of paid up shares or debentures of any other company, or in any one or more of such ways.

The Board may also, with the prior authority of an ordinary resolution of the Company and subject to such conditions as the Board may determine, offer to holders of Ordinary Shares (excluding any member holding shares as treasury shares) the right to elect to receive Ordinary Shares, credited as fully paid, instead of the whole (or some part, to be determined by the Board) of any dividend specified by the ordinary resolution.

Distribution of assets on a winding-up

If the Company is wound up, the liquidator may, with the sanction of a special resolution of the Company and any other sanction required by law, dividend *in specie* among the members (excluding any member holding treasury shares) the whole or any part of the assets of the Company and may, for that purpose, value any assets and determine how the dividend shall be carried out as between the members or vest the whole or any part of the assets in trustees on such trusts for the benefit of the members as he with the like sanction shall determine, but no member shall be compelled to accept any assets on which there is a liability.

Transfer of shares

Subject to any applicable restrictions in the Articles, each member may transfer all or any of his shares by instrument of transfer in writing in any usual form or in any form approved by the Board. Such instrument must be executed by or on behalf of the transferor and (in the case of a transfer of a share which is not fully paid up) by or on behalf of the transferee. The transferor is deemed to remain the holder of the share until the transferee's name is entered in the register of members.

The Board may, in its absolute discretion and without giving any reason, refuse to register any transfer of a share or renunciation of a renounceable letter of allotment unless:

- (a) it is in respect of a share which is fully paid up;
- (b) it is in respect of only one class of shares;

- (c) it is in favour of a single transferee or not more than four joint transferees;
- (d) it is duly stamped (if so required); and
- (e) it is delivered for registration to the registered office for the time being of the Company or such other place as the Board may from time to time determine, accompanied (except in the case of a transfer by a recognised person (as defined in the Articles) where a certificate has not been issued or in the case of a renunciation) by the certificate for the shares to which it relates and such other evidence as the Board may reasonably require to prove the title of the transferor or person renouncing and the due execution of the transfer or renunciation by him or, if the transfer or renunciation is executed by some other person on his behalf, the authority of that person to do so,

provided that the Board shall not refuse to register any transfer or renunciation of partly paid shares which are listed on the grounds they are partly paid shares in circumstances where such refusal would prevent dealings in such shares from taking place on an open and proper basis.

If the Board refuses to register a transfer of a share, it shall send the transferee notice of its refusal within two months after the date on which the transfer was lodged with the Company.

Variation of rights

Subject to the provisions of the Act, if at any time the share capital of the Company is divided into shares of different classes, any of the rights for the time being attached to any share or class of shares in the Company may be varied or abrogated in such manner (if any) as may be provided by such rights or, in the absence of any such provision, either with the consent in writing of the holders of not less than three-quarters in nominal value of the issued shares of the class (excluding any shares of that class held as treasury shares) or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the class.

The quorum at any such meeting shall be not less than two persons holding or representing by proxy at least one-third of the nominal amount paid up on the issued shares of the class in question (excluding any shares of that class held as treasury shares) and at an adjourned meeting not less than one person holding shares of the class in question or his proxy.

Subject to the terms of issue of or rights attached to any shares, the rights or privileges attached to any class of shares shall be deemed not to be varied or abrogated by the creation or issue of any new shares ranking *pari passu* in all respects (save as to the date from which such new shares shall rank for dividend) with or subsequent to those already issued or by the reduction of the capital paid up on such shares or by the purchase or redemption by the Company of its own shares or the sale of any shares held as treasury shares in accordance with the provisions of the Act and the Articles.

General meetings

All general meetings other than annual general meetings shall be called extraordinary general meetings. The Board may convene an extraordinary general meeting whenever it thinks fit. An extraordinary general meeting may also be convened by members pursuant to section 368 of the Act.

An annual general meeting and an extraordinary general meeting convened for the passing of a special resolution shall be convened by not less than 21 clear days' notice in writing. All other extraordinary general meetings shall be convened by not less than 14 clear days' notice in writing.

A Director shall, notwithstanding that he is not a member, be entitled to attend and speak at any general meeting. The Chairman of any general meeting may also invite any person to attend and speak at that meeting if he considers that this will assist in the deliberations of the meeting. Any proxy appointed by a member shall also, with the permission of the Chairman of the meeting, be entitled to speak at any general meeting.

No business shall be transacted at any general meeting unless a quorum is present. Two persons (either members, duly authorised representatives or proxies) entitled to vote upon the business to be transacted at the meeting shall be a quorum. The Chairman of the meeting may, with the consent of the meeting at which a quorum is present, and shall, if so directed by the meeting, adjourn the meeting from time to time (or indefinitely) and from place to place as the meeting shall determine. Where a meeting is adjourned indefinitely, the Board shall fix a time and place for the adjourned meeting. Whenever a meeting is adjourned for 30 days or more or indefinitely, seven clear days' notice at the least, specifying the place, the day and time of the adjourned meeting and the general nature of the business to be transacted, must be given in the same manner as in the case of the original meeting.

A resolution put to a vote of the meeting should be decided on a show of hands unless a poll is duly demanded. Subject to the provisions of the Act, a poll may be demanded by the Chairman, at least five members having the right to vote at the meeting, a member or members representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting or member or members holding shares conferring the right to vote at the meeting, being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right. In the case of an equality of votes, whether on a show of hands or on a poll, the Chairman of the meeting shall be entitled to a casting vote in addition to any other votes that he may have.

The Board may direct that any person wishing to attend any meeting should provide such evidence of identity and submit to such searches or other security arrangements or restrictions as the Board shall consider appropriate in the circumstances and shall be entitled in its absolute discretion to refuse entry to any meeting to any person who fails to provide such evidence of identity or to submit to such searches or to otherwise comply with such security arrangements or restrictions.

Borrowing powers

The Board may exercise all the powers of the Company to borrow money and to mortgage or charge all or any part of its undertaking, property and assets (present and future) and uncalled capital and, subject to the provisions of the Act, to create and issue debentures and other loan stock and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Alteration of share capital

Subject to the provisions of the Act, the Company in general meeting may from time to time by ordinary resolution increase its share capital, consolidate and divide all or any of its share capital into shares of a larger amount, cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled and sub-divide all or any of its shares into shares of a smaller amount. The Company may also, subject to the provisions of the Act, to any rights for the time being attached to any shares and to any requirements in the AIM Rules, purchase its own shares and, by special resolution, reduce its share capital, any capital redemption reserve, share premium account or other undistributable reserve in any way.

Issue of shares

Subject to the provisions of the Act and to any special rights for the time being attached to any shares, any shares may be allotted or issued with or have attached to them such preferred, deferred or other special rights or restrictions, whether in regard to dividend, voting, transfer, return of capital or otherwise, as the Company may from time to time by ordinary resolution determine or, if no such resolution has been passed or so far as the resolution does not make specific provision, as the Board may determine, and any share may be issued which is, or at the option of the Company or the holder of such share is liable to be, redeemed in accordance with the Articles.

Subject to the provisions of the Act and to any relevant authority of the Company in general meeting required by the Act, the unissued shares at the date of adoption of the Articles and any shares created thereafter shall be at the disposal of the Board.

Directors' fees

The Directors (other than alternate Directors) shall be entitled to receive by way of fees for their services as Directors such sum as the Board may from time to time determine (not exceeding in aggregate £250,000 per annum or such other sum as the Company in general meeting shall from time to time determine). Any such fees payable shall be distinct from any salary, remuneration or other amounts payable to a Director pursuant to any other provision of the Articles and shall accrue from day to day.

The Directors are entitled to be repaid all reasonable travelling, hotel and other expenses properly incurred by them in or about the performance of their duties as Directors. The salary or remuneration of any Director appointed to hold any employment or executive office may be either a fixed sum of money, or may altogether or in part be governed by business done or profits made or otherwise determined by the Board or any committee authorised by the Board and may be in addition to or in lieu of any fee payable to him for his services as Director.

Pensions and gratuities for Directors

The Board, or any committee authorised by the Board, may exercise all the powers of the Company to provide pensions, other retirement or superannuation benefits, death or disability benefits or other allowances or gratuities for persons who are or were directors of the Company or any company in the Group and their relatives or dependants.

Directors' interests in contracts

Subject to the provisions of the Act and provided that his interest is disclosed at a meeting of the Board in accordance with the Articles, a Director, notwithstanding his office, may enter into or otherwise be interested in any contract, arrangement, transaction or proposal with the Company or in which the Company is otherwise interested, may hold any other office or place of profit at the Company (except that of auditor of the Company or any of its subsidiaries) in conjunction with holding the office of Director and may act by himself or through his firm in a professional capacity for the Company, and in any such case on such terms as to remuneration and otherwise as the Board may arrange, and may be a Director or other officer of, or employed by, or a party to any transaction or arrangement with, or otherwise interested in, any company promoted by the Company or in which the Company is otherwise interested and shall not be liable to account to the Company for any profit, remuneration or other benefit realised by any such office, employment, contract, arrangement, transaction or proposal. No such contract, arrangement, transaction or proposal shall be liable to be avoided on the grounds of any such interest or benefit.

Restrictions on Directors' voting

A Director shall not vote on, or be counted in the quorum in relation to, any resolution of the Board or of a committee of the Board concerning any contract, arrangement, transaction or any other proposal whatsoever to which the Company is or is to be a party and in which he has an interest which (together with any interest of any person connected with him within the meaning of section 346 of the Act) is to his knowledge a material interest (otherwise than by virtue of his interests in shares or debentures or other securities of or otherwise in or through the Company), unless the resolution concerns any of the following matters:

- (a) the giving of any guarantee, security or indemnity in respect of money lent or obligations incurred by him or any other person at the request of or for the benefit of the Company or any of its subsidiary undertakings;

- (b) the giving of any guarantee, security or indemnity in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
- (c) the giving of any other indemnity where all other Directors are also being offered indemnities on substantially the same terms;
- (d) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any of its subsidiary undertakings in which offer he is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which he is to participate;
- (e) any proposal concerning any other body corporate in which he (together with persons connected with him) does not to his knowledge have an interest (as the term is used in Part 22 of the Act) in one per cent. or more of the issued equity share capital of any class of such body corporate nor to his knowledge hold one per cent. or more of the voting rights available to members of such body corporate;
- (f) any proposal relating to an arrangement for the benefit of the employees of the Company or any of its subsidiary undertakings which does not award him any privilege or benefit not generally awarded to the employees to whom such arrangement relates;
- (g) any proposal concerning insurance which the Company proposes to maintain or purchase for the benefit of Directors or for the benefit of persons who include Directors; or
- (h) any proposal concerning the funding of expenditure by one or more Directors on defending proceedings against him or them, or doing anything to enable such Director or Directors to avoid incurring such expenditure.

A Director shall not vote or be counted in the quorum on any resolution of the Board or committee of the Board concerning his own appointment (including fixing or varying the terms of his appointment or its termination) as the holder of any office or place of profit with the Company or any company in which the Company is interested.

Age of Directors

No person shall be disqualified from being appointed or reappointed a Director and no Director should be required to vacate that office, by reason of the fact that he has attained the age of 70 years or any other age, and no director who is of the age of 70 or more shall be required to retire. When a general meeting of the Company is convened at which, to the knowledge of the Board, a Director will be proposed for appointment or re-appointment who will at the date of the meeting be 70 or more, the Board shall give notice of his age in a notice convening the meeting or in any document accompanying the notice, but the omission to do so shall not invalidate any proceedings or any appointment or re-appointment of that Director at that meeting.

Number of Directors

Unless and until otherwise determined by an ordinary resolution of the Company, the number of Directors shall be not less than two.

Directors' appointment and retirement

Directors may be appointed by the Company by ordinary resolution or by the Board. If appointed by the Board, a Director holds office only until the next annual general meeting and shall not be taken into account in determining the number of Directors who are to retire by rotation. A Director shall not be required to hold any shares in the Company.

At each annual general meeting one-third of the Directors who are subject to retirement by rotation will retire by rotation and be eligible for re-election. Subject to the Act and to the Articles, the Directors to retire will, firstly, be any Director who wishes to retire and not offer himself for re-

election and secondly, those who have been longest in office since their last appointment or re-appointment, but as between those who have been in office an equal length of time, those to retire shall (unless they otherwise agree) be determined by lot.

Untraced shareholders

Subject to the Articles, the Company may sell any shares registered in the name of a member remaining untraced for 12 years who fails to communicate with the Company following advertisement of an intention to make such a disposal. Until the Company can account to the member, the net proceeds of sale will be available for use in the business of the Company or for investment, in either case at the discretion of the Board. The proceeds will not carry interest.

Non-United Kingdom shareholders

There are no limitations in the Articles on the rights of non-United Kingdom shareholders to hold, or to exercise voting rights attached to, the Ordinary Shares. However, non-United Kingdom shareholders are not entitled to receive notices of general meetings unless they have given an address in the United Kingdom to which such notices may be sent.

CREST

CREST is a paperless settlement system enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by a written instrument. The Articles are consistent with CREST membership and, amongst other things, allow for the holding and transfer of shares in uncertificated form. The Articles contain other provisions in respect of transactions with the shares in the Company in uncertificated form and generally provide for the modifications of certain provisions of the Articles so that they can be applied to transactions with shares in the Company in uncertificated form.

Indemnity of officers

Subject to the provisions of the Act, but without prejudice to any indemnity to which he might otherwise be entitled, every Director, alternate Director, Secretary or other officer of the Company (except the Auditors) may at the discretion of the Board be indemnified out of the assets of the Company against all costs, charges, losses, damages and liabilities incurred by him for negligence, default, breach of duty, breach of trust or otherwise in relation to the affairs of the Company.

Lien and forfeiture

The Company shall have a first and paramount lien on every share which is not fully paid for all amounts payable to the Company (whether presently or not) in respect of that share and to the extent and in the circumstances permitted by the Act. The Board may sell any share on which the Company has a lien if a sum in respect of which the lien exists is presently payable and is not paid within 14 clear days after notice has been sent to the holder of the share demanding payment and stating that if the notice is not complied with the share may be sold.

The Board may from time to time make calls on members in respect of any monies unpaid on their shares, subject to the terms of allotment of the shares. Each member shall (subject to receiving at least 14 clear days' notice) pay to the Company the amount called on his shares. If a call or any instalment of a call remains unpaid in whole or in part after it has become due and payable, the Board may give the person from whom it is due not less than 14 clear days' notice requiring payment of the amount unpaid together with any interest which may have accrued and any costs, charges and expenses incurred by the Company by reason of such non-payment. The notice shall name the place where payment is to be made and shall state that if the notice is not to be complied with the shares in respect of which the call was made is liable to be forfeit.

7. Directors

7.1 *Interests in Ordinary Shares*

The interests of the Directors in Ordinary Shares as at 6 June 2007 (being the most recent practicable date prior to the publication of this document) and assuming completion of the Surrey Aqua Roll-Up Agreement which is expected to occur on Admission, all of which are beneficial, are as follows:

Ordinary Shares

	<i>Immediately prior to the Placing</i>		<i>On Admission</i>	
	<i>No. of Ordinary Shares</i>	<i>Percentage of issued share capital</i>	<i>No. of Ordinary Shares</i>	<i>Percentage of Enlarged Issued Share Capital</i>
<i>Directors:</i>				
Neil McDougall	6,265,000*	18.62	6,265,000*	10.64
Simon Humphrey	1,812,000*	5.38	1,812,000*	3.08
Dr Gerald Jones	200,000*	0.59	200,000*	0.34
Michael Gradon	252,400	0.75	546,518***	0.93
Paul Shepherd	168,200	0.50	231,225***	0.39
Trevor Jones	—	—	16,807***	0.03
Mike Townend	—**	—	—**	—

* a proportion of each of these shares are held under the Management Incentive Scheme and subject to two year restrictions. Further details of these restrictions and the breakdown are set out in paragraph 9.2 below.

** immediately prior to the Placing, Mike Townend had a beneficial interest in 575,000 Ordinary Shares, representing 1.71 per cent. of the issued share capital of the Company which are registered in the name of IP2IPO Nominees Limited. On Admission Mike Townend will have a beneficial interest in 575,000 Ordinary Shares, representing 0.98 per cent. of the issued share capital of the Company which are registered in the name of IP2IPO Nominees Limited.

*** Michael Gradon has subscribed 294,118 Ordinary Shares, Paul Shepherd has subscribed 63,025 Ordinary Shares and Trevor Jones has subscribed 16,807 Ordinary Shares in the Placing, all at the Placing Price.

Details of the options to acquire Ordinary Shares which have been granted prior to Admission to each of Neil McDougall and Simon Humphrey are set out in paragraph 9.4 below. Save for the aforementioned options, none of the other Directors hold any options to acquire Ordinary Shares.

Save as described above, no Director will have any interest in the Ordinary Shares on Admission and there is no person to whom any capital of any member of the Group is under option or agreed unconditionally to be put under option.

7.2 *Directorships*

The Directors currently hold the following directorships, other than in the Company, and have held the following directorships within the five years prior to the publication of this document:

<i>Director</i>	<i>Current directorships</i>	<i>Former directorships held in last five years</i>
Neil McDougall	Delagua Water Testing Limited Surrey Aquatechnology Limited	Aspect Scientific Limited Aspland and James Limited Bream Investments Limited Dr Augustus Voelcker & Sons Limited Eclipse Scientific Holdings Limited Eclipse Scientific Limited Halcrow Water Services Limited Industrial Energy Costs Limited Inenco Energy Limited Inenco Energy Performance Limited Inenco Limited Inenco Marketing Limited Inenco Systems Limited Inenco Water Limited Invicta Water Limited Mid Kent Financing Limited Mid Kent Fisheries Limited Midland Energy Consultants Limited Spring Capital Limited Swan Capital Group Limited Swan Capital Holdings Limited Swan Capital Investments Swan Capital Nominees Limited Swan Group Swan Property Limited Swiftrail UK Limited Voelcker Holdings Limited
Simon Humphrey	Cymtox Limited Poseidon Water Limited	Glen Water Limited Glen Water (Holdings) Limited
Dr Gerald Jones	Aquabiotec Limited Cymtox Limited Poseidon Water Limited	Cynnovation Limited

<i>Director</i>	<i>Current directorships</i>	<i>Former directorships held in last five years</i>
Michael Gradon	All England Lawn Tennis Club (Wimbledon) Limited	Abbott & Goldman Acta Investments (Australia) Limited Amalgamated Developers (Buxton) Limited Anderson Hughes and Company Limited Associated Bulk Carriers Ship Management (London) Limited Atomstage Limited Audley Properties Limited Avner Enterprises Limited Berham Property Company Limited Bilsite Limited Biscorn Investment Company Limited Bishopsgate Property and General Investments Limited Braham Shipping Limited Brishaw Securities Limited British India Steam Navigation Company Limited C.C.L. (Land Developments) Limited C.C.L. (Vectis) Limited C.W.T. Developments (Manchester) Limited CCL (Kenton) Limited CCL (Uxbridge) Limited Cerland Properties Limited Certown Properties Limited Cerwood Properties CH Marina Limited Civil Land Limited Comtile Investments Limited European Ferries Limited Financial Trust Limited Frank C. Strick & Co. (Glasgow) Limited Frederick J. Benford Limited Geared Ships Limited Griitsen One Limited Griitsen Two Limited Guardford Limited H.E. Moss & Co. Limited Immogolf S.A. Immobiliaria La Manga SA Imperial Wharf Limited Indexreal Limited Integrated Port Systems Limited James Hemphill Limited LG Properties Limited Lidward Securities Limited Linfire Limited

<i>Director</i>	<i>Current directorships</i>	<i>Former directorships held in last five years</i>
Michael Gradon (continued)		London Gateway Park Management Limited London Gateway Park Limited London & Leeds Properties Limited London Scottish Developments Limited London Scottish Properties Limited Managed Offices Limited MCP (1988) Limited Monarch Steamship Company Limited Mulliner House Dormant Company No. 2 Limited Mulliner House Dormant Company No. 3 Limited Mulliner House Dormant Company No. 8 Limited Mulliner House Dormant Company No. 9 Limited Mulliner House Dormant Company No.1 Limited Nalden Properties Limited Norbay (UK) Limited Normandy Ferries Limited Northern Ireland Trailers (Scotland) Limited Old Course Golf & Country Club Limited Partrederiet International Offshore Services ANS P&O (Harbours) Limited P&O Aviation Limited P&O Bulk Shipping Limited P&O Computer Services Limited P&O Construction Limited P&O Containers (Assets) Limited P&O Dover (Holdings) Limited P&O European Ferries (Dover) Limited P&O Ferrymasters Holdings Limited P&O Finance PLC P&O Garden City Investments B.V. P&O Group Charitable Trust Limited P&O Incentive Trustees Limited P&O Limited P&O Maritime Services (UK) Limited P&O Mobile-Lab Limited P&O Netherlands B.V. P&O Oil Limited P&O Overseas Holdings Limited P&O Overseas Transport Limited P&O Petroleum Limited P&O Ports Ltd

<i>Director</i>	<i>Current directorships</i>	<i>Former directorships held in last five years</i>
Michael Gradon (continued)		P&O Property Limited P&O Properties (Scotland) Limited P&O Scottish Ferries Limited P&O Securities Limited P&O Scottish Ferries Ship Management Limited P&O Short Sea Ship Management Limited P&O Subsea Limited P&O Tankships Investments Limited P&O Tankmasters Limited P&O Tank Transport Limited Partkestrel Limited Peninsular Computer and Information Systems Limited Phoenix Securities (Developments) Limited POETS Fleet Management Limited PRA Chartering and Trading Company Limited Provincial & Suburban Investments (Alperton) Limited Ravenreed Limited SCIT Finance Limited SCIT Finance (Scotland) Limited Sea Oil Services Limited S P U Limited Stanhope Steamship Company Limited Stock Conversion Limited Stoneleigh Finance (Control) Limited The Belfast Steamship Company Limited The City Property Investment Trust Corporation Limited The P&O Services Group Limited The Peninsular and Oriental Steam Navigation Company Thinkmajor Limited Towbar Properties Limited Toweriver Limited Town & City (Manchester) Developments Limited Town & City Properties (Holdings) Limited Town & City Accounts Limited Townsend Ferries & Shipping Limited Townsend Thoresen Properties (Germany) Limited Tribert Tankers Limited Tribert Tankers London Limited Setsate Limited Shimpling Properties Limited Witchin Capesize Limited

<i>Director</i>	<i>Current directorships</i>	<i>Former directorships held in last five years</i>
Paul Shepherd	FT Construction Group (Holdings) Ltd George Fordy & Son Ltd George Fordy Properties Ltd Langtons (Northallerton) Ltd Tom Willoughby Ltd Walter Thompson (Contractors) Ltd Wares Teesside Ltd York Civic Trust York Minster Mystery Plays 54 Palace Gardens Terrace Management Co Ltd	Dean Oliver/Dean Oliver International Inc LSI Inc Medical Scientific Structures Inc Medical Scientific Structures Ltd Portakabin BV Portakabin GmbH Portakabin Ltd Portakabin Sarl (France) Shepherd Building Group Ltd Shepherd Building Service Ltd Shepherd Construction Ltd Shepherd Engineering Services Ltd Yorkon Ltd
Trevor Jones	Inversiones Andes sur Chile Inversiones Aquas de Arauco Inversiones Thames Water Chile Limitada	Izmit SU A.S. Metronet Rail BCV Holdings Limited Metronet Rail SSL Holdings Limited PWT Projects Limited Thames Water Altyapi Hizmetleri Ltd Sirketi Thames Water International Services Holdings Limited Thames Water International Services Limited Thames Water Overseas Consultancy Limited Thames Water Overseas Limited Thames Water Utilities Limited Water Projects International Limited
Mike Townend	IP Group plc	None

7.3 *Receiverships and liquidations*

No Director has:

- 7.3.1 had any unspent convictions in relation to indictable offences;
- 7.3.2 been declared bankrupt or entered into an individual voluntary arrangement;
- 7.3.3 been a director with an executive function of any company at the time or within 12 months preceding any receivership, compulsory liquidation, creditors voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with that company's creditors generally or with any class of its creditors;
- 7.3.4 been a partner in a partnership at the time of, or within twelve months preceding, any compulsory liquidation, administration or partnership voluntary arrangement of any such partnership;
- 7.3.5 had his assets the subject of any receivership or has been a partner of a partnership at the time of or within the twelve months preceding, any assets thereof being the subject of a receivership; or

7.3.6 been subject to any public criticism by any statutory or regulatory authority (including any recognised professional body) or has ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

7.4 **Terms of employment**

7.4.1 On 18 May 2007, Neil McDougall entered into a new service agreement with the Company under the terms of which Mr McDougall agreed to act as Executive Chairman of the Company for a salary of £240,000 per annum. The appointment is for four days a week and is terminable on 12 months' notice in writing by either party. Upon termination, no benefits other than those accruing during the notice period are due to Mr McDougall. Under the terms of the agreement, Mr McDougall is entitled to private health insurance for himself, spouse and children under 18, and is also entitled to participate in the Company's life assurance scheme and income protection scheme. The agreement contains customary restrictive covenants which have effect during the term of the service agreement and for 12 months thereafter. This agreement superseded in its entirety both Mr McDougall's existing service agreement with the Company dated 1 December 2006 and the service agreement between Surrey Aqua and Mr McDougall dated 30 November 2006.

7.4.2 On 18 May 2007, Simon Humphrey entered into a new service agreement with the Company under the terms of which Mr Humphrey agreed to act as Chief Executive Officer of the Company for a salary of £110,000 per annum. The appointment is terminable on 12 months' notice in writing by either party. Upon termination, no benefits other than those accruing during the notice period are due to Mr Humphrey. Under the terms of the agreement, Mr Humphrey is entitled to private health insurance for himself, spouse and children under 18, and is also entitled to participate in the Company's life assurance scheme and income protection scheme. The agreement contains customary restrictive covenants which have effect during the term of the service agreement and for 12 months thereafter. This agreement superseded in its entirety Mr Humphrey's existing service agreement with the Company dated 2 January 2007.

7.4.3 On 1 December 2006, the Company, WRc plc and Gerald Jones entered into a consultancy agreement pursuant to which WRc plc agreed to provide the services of Mr Jones for a maximum of 133 days per calendar year as a board member of the Company and various other services including, *inter alia*, the identification of and carrying out of due diligence on investment opportunities and intellectual property within the water sector. The appointment commenced on 1 December 2006 and runs until the agreement is terminated by three months notice in writing by either party. The fee for the services is the sum of £435 per day (exclusive of VAT), payable to WRc plc quarterly in arrears. The consultancy agreement contains clauses relating to confidentiality and intellectual property ownership, the latter providing that all intellectual property generated by Mr Jones in the course of the provision of the services is the property of and vests in the Company. The consultancy agreement also contains customary restrictive covenants which have effect during the term of the agreement and for 6 months thereafter. Upon termination, no benefits other than those accruing during the notice period are due to WRc plc in respect of the services being provided by Mr Jones.

7.4.4 On 14 March 2007, Michael Gradon entered into a letter of appointment with the Company under the terms of which Mr Gradon agreed to act as the senior non-executive director of the Company for a fee of £35,000 per annum. The appointment is terminable by one month's notice in writing on either side. Upon termination, no benefits other than those accruing during the notice period are due to Mr Gradon.

7.4.5 On 14 March 2007, Paul Shepherd entered into a letter of appointment with the Company under the terms of which Mr Shepherd agreed to act as a non-executive director of the Company for a fee of £20,000 per annum. The appointment is terminable by one month's notice in writing on either side. Upon termination, no benefits other than those accruing during the notice period are due to Mr Shepherd.

- 7.4.6 On 3 April 2007, Trevor Jones entered into a letter of appointment with the Company under the terms of which Mr Jones agreed to act as a non-executive director of the Company for a fee of £20,000 per annum. The appointment is terminable by one month's notice in writing on either side. Upon termination, no benefits other than those accruing during the notice period are due to Mr Jones.
- 7.4.7 On 18 May 2007, Michael Townend entered into a letter of appointment with the Company under the terms of which Mr Townend agreed to act as a non-executive director of the Company. The fees for his services as non-executive director are included with the fees payable by the Company to IP2IPO Limited pursuant to the services agreement between those parties, further details of which are set out at paragraph 13.3 below. The appointment is terminable by one month's notice in writing on either side. Upon termination, no benefits other than those accruing during the notice period are due to Mr Townend.
- 7.4.8 Save as disclosed in sub-paragraphs 7.4.1 to 7.4.7 above, there are no service contracts, existing or proposed, between any Director and the Company.

8. Substantial shareholders

Other than the holdings of the Directors, which are set out in paragraph 7.1 above, the Directors are aware of the following who, as at 6 June 2007 (being the most recent practicable date prior to the publication of this document) and assuming completion of the Surrey Aqua Roll-Up Agreement which is expected to occur on Admission, were interested, directly or indirectly, in 3 per cent. or more of the Company's capital:

	<i>Immediately prior to the Placing</i>		<i>On Admission</i>	
	<i>No. of Ordinary Shares</i>	<i>Percentage of issued share capital</i>	<i>No. of Ordinary Shares</i>	<i>Percentage of Enlarged Issued Share Capital</i>
IP Group plc	13,552,200	40.27	13,552,200	23.02
IP2IPO Nominees Limited	2,874,800*	8.54	2,874,800*	4.88
University of Surrey	4,422,600	13.14	4,422,600	7.51
Professor Adel Sharif	4,105,400	12.20	4,105,400	6.97

* These Ordinary Shares are held for the benefit of certain employees of IP Group, including Mike Townend who, immediately prior to the Placing had a beneficial interest in 575,000 Ordinary Shares representing 1.71 per cent. of the issued share capital of the Company

9. Employee Share Option Schemes

9.1 *The Modern Water Deferred Share Scheme (the "Management Share Incentive Scheme")*

General

The Management Share Incentive Scheme was adopted on 1 December 2006.

The Board of Directors of the Company was responsible for supervising the operation of the Management Share Incentive Scheme and the invitations to participate made under its terms.

Benefits under the Management Share Incentive Scheme are not pensionable. Incentive Shares acquired under the Management Share Incentive Scheme which are still subject to contractual restrictions following Admission are not transferable until such restrictions have expired (see further below in "Restrictions on Incentive Shares").

Eligibility

All employees, including executive directors, of the Company and the Company's holding company (including, prior to Admission, IP Group plc) or other subsidiary of the Company's holding Company were eligible to participate in the Management Share Incentive Scheme at the discretion of the Board.

Invitation to participate

The Board were empowered under the rules of the Management Share Incentive Scheme to issue those invitations to subscribe for Incentive Shares which were made between 1 December 2006 and 12 March 2007. Whilst the rules of the Management Share Incentive Scheme provide that the Board may issue invitations to participate in the Management Share Incentive Scheme at any time up to the date which is 10 years after its adoption, no invitations to subscribe for Ordinary Shares have been made since 12 March 2007 and the Board will not be making any further invitations, nor will any Ordinary Shares be issued and allotted, under the Management Share Incentive Scheme either on or following Admission.

Acquisition of Shares

Between the date of its adoption on 1 December 2006 and 12 March 2007, each of the members of the Management Team and IP2IPO Nominees Limited (to hold on behalf of certain IP Group employees) were invited to subscribe for Ordinary Shares at their market value at the date of invitation. Invitations were made subject to complying with certain conditions. Each of the aforementioned subscribers paid up the nominal value of their Incentive Shares on subscription and were required to pay the balance of the subscription price (being the difference between the market value of the Incentive Shares at the date of subscription and the nominal value) at a later date to be agreed with the Company. Following confirmation, however, on 30 March 2007 from HM Revenue & Customs that the market value was equivalent to the nominal value at the date of each of the invitations, no further subscription amount was due to be paid and all the Incentive Shares subscribed under the Management Incentive Scheme were confirmed to have been fully paid up to their market value by each of the relevant subscribers. As a result, all of the aforementioned Incentive Shares will be admitted to AIM on Admission.

The Incentive Shares are subject to restrictions which are lifted at various stages over a period of two years. Shares can not be dealt with until all of the restrictions have ceased to apply to the shares (see “Restrictions on Shares” below).

Scheme limits

Participants have subscribed under the Management Share Incentive Scheme for a total of 7,917,200 Ordinary Shares.

Limits on participation by individuals

On the basis that no further invitations to subscribe for shares under the Management Share Incentive Scheme on or following Admission, the highest number of Incentive Shares acquired by an individual under the Management Share Incentive Scheme, being Neil McDougall, was 3,363,400 Ordinary Shares.

Restrictions on Incentive Shares

The Incentive Shares are subject to restrictions as to voting and dealing, but are released from such restrictions following a defined period after the date of the relevant participant subscribing for their shares as is agreed between the Company and the participant in each subscription agreement. Save in limited circumstances including where the cessation of employment is by reason of death or serious illness, participants (including those IP Group employees in respect of which IP2IPO Nominees Limited holds as nominee) must remain employed throughout that defined period.

Shares subject to restrictions are required, under each participant’s subscription agreement, to be compulsorily transferred to the Company’s employee share ownership trust (“**Employee Trust**”) if the relevant participant does not remain employed by the Company (or IP Group) for a defined period after the date of their subscription. The Board may waive the obligation to transfer the Incentive Shares to the Employee Trust in its absolute discretion. Incentive Shares that are transferred to the Employee Trust following Admission are transferred back at the subscription price, being £0.001 per share.

The provisions regarding the compulsory transfer of shares currently operate in two ways:

(a) *The Management Team*

If any member of the Management Team voluntarily leaves the Company or is dismissed within one year of 1 December 2006, he must, subject to any waiver of such requirement by the Board, transfer two thirds of his Incentive Shares to the Employee Trust. Such leaver will be required to transfer one third of his Incentive Shares if he ceases to be employed after the first, but before the second, anniversary of 1 December 2006.

(b) *Employees of IP Group (Ordinary Shares held by IP2IPO Nominees Limited)*

Personal performance measures apply to the relevant Incentive Shares for the period of nine months following the date of subscribing for its shares. Performance conditions are measured and determined at the discretion of the Board.

Conditions and restrictions

The above referenced restrictions may be amended or waived only if the original condition or restriction has ceased to be appropriate whereupon the Board may amend, relax or waive it provided that any new condition or restriction is no more difficult to satisfy.

Amendments

The Board may amend the Management Share Incentive Scheme except that no alteration shall alter adversely the rights attaching to any Incentive Shares allotted pursuant to the Management Share Incentive Scheme prior to such alteration without the consent of participants holding not less than three-quarters of all the Incentive Shares outstanding at that time.

The Company does not intend to make any further invitations under the Management Share Incentive Scheme.

9.2 *Directors' holdings under the Management Share Incentive Scheme*

<i>Director</i>	<i>Dates of subscription</i>	<i>Total number of Ordinary Shares held under the Management Share Incentive Scheme</i>	<i>Subscription Price</i>	<i>Number of shares subject to restrictions on Admission</i>	<i>Details of when restrictions fall away*</i>
Neil McDougall	1 December 2006 and 12 March 2007	3,363,400	£0.001 (fully paid)	2,242,266	Restrictions to fall away in respect of 1,121,133 shares on 1 December 2007 and in respect of the balance of 1,121,133 shares on 1 December 2008.
Simon Humphrey	1 December 2006 and 12 March 2007	1,479,000	£0.001 (fully paid)	986,000	Restrictions to fall away in respect of 493,000 shares on 1 December 2007 and in respect of the balance of 493,000 shares on 1 December 2008.
Gerald Jones	1 December 2006	200,000	£0.001 (fully paid)	133,333	Restrictions to fall away in respect of 66,667 shares on 1 December 2007 and in respect of the balance of 66,666 shares on 1 December 2008.

*assuming continued employment subject to being a good leaver (being cessation or employment by reason of death, illness, retirement or wrongful dismissal by the Company)

9.3 *The Modern Water plc Incentive Plan (the “Modern Water Incentive Plan”)*

General

The Modern Water Incentive Plan was adopted on 1 June 2007.

The Modern Water Incentive Plan contains provisions relating to the making of awards in the form of approved options (rights to acquire Ordinary Shares which are intended to qualify for exemption from the usual income tax and national insurance contributions (“NICs”) on exercise for UK taxpayers), unapproved options (rights to acquire Ordinary Shares which would not qualify for any favourable UK tax treatment), conditional awards of Ordinary Shares (awards that provide for Ordinary Shares to be received once performance conditions are satisfied) and matching awards of Ordinary Shares (awards of Ordinary Shares to match an investment in shares made in respect of bonuses deferred by participants).

The Board of Directors of the Company or the “Remuneration Committee” supervises the operation of the Modern Water Incentive Plan.

Benefits under the Modern Water Incentive Plan are not pensionable.

Eligibility

All employees, including executive directors, of the Company and the Company’s holding company (including, prior to Admission, IP Group plc) or other subsidiary of the Company’s holding Company are eligible to participate in the Modern Water Incentive Plan at the discretion of the Board.

Grants of options and awards of shares

The Remuneration Committee may grant options or make awards of shares at any time after adoption of the Modern Water Incentive Plan (except during a close period as defined in the AIM Rules).

No award may be made more than ten years after the date on which shareholders approved the Modern Water Incentive Plan.

Option exercise price

The price per share payable upon the exercise of any option will not be less than the higher of the market value of an Ordinary Share immediately prior to the date of grant and the nominal value of an Ordinary Share (unless the option is expressed to relate only to existing shares).

Limits on the issue of shares

The rules permit options and awards to be satisfied on exercise or vesting by new issue shares, treasury shares or Ordinary Shares purchased in the market. The number of Ordinary Shares that may be issued under the Modern Water Incentive Plan, when aggregated with the number of Ordinary Shares issued under any employees’ share scheme operated by the Company in the ten years immediately preceding the date upon which an option or award of shares is granted, shall not exceed ten per cent. of the Company’s issued share capital at the date of grant.

Shares issued under the Management Share Incentive Scheme do not count towards this limit. Shares to which an option or award of shares granted under the Modern Water Incentive Plan before the date of Admission of the Company shall be counted towards this limit.

Individual limits

The maximum number of Ordinary Shares over which a participant may be granted options in any year will be limited to shares with a market value of two times the participant’s basic salary (or three times, if the Remuneration Committee has determined that the participant will not receive a conditional award of shares in that year).

An individual will be permitted to hold approved options with an aggregate exercise price not exceeding the relevant statutory limit (currently £30,000).

The maximum number of Ordinary Shares in respect of which a participant may be made conditional awards in any year will be limited to Ordinary Shares with a market value of one times the participant's basic salary (or two times, if the Remuneration Committee has determined that the participant will not be granted an option in that year).

The maximum number of Ordinary Shares in respect of which a participant may be made a matching award in any year will be limited to shares with a market value equal to the value of Ordinary Shares acquired with any bonus foregone.

Performance conditions

Options may be granted and awards of Ordinary Shares shall be made subject to performance conditions which must be satisfied before the participant has a right to exercise an option or before an award of Ordinary Shares vests. The Remuneration Committee may set different performance conditions for grants of options and conditional awards of Ordinary Shares in different years. The Remuneration Committee will also have discretion to change a performance condition if events happen that make it fair and reasonable to do so, but not so as to make, in the opinion of the Remuneration Committee, the performance condition materially easier or more difficult to satisfy than when the option was granted or the award of Ordinary Shares was made.

The performance conditions attaching to the options granted to Neil McDougall and Simon Humphrey prior to Admission are detailed in paragraph 9.4 below.

Exercise and vesting

Subject to satisfaction of the defined performance conditions, save for those options granted to Neil McDougall and Simon Humphrey as detailed further in paragraph 9.4 below, an option will normally be exercisable between the third and tenth anniversaries of the date of grant and an award of Ordinary Shares will normally vest on the third anniversary of the award date.

Unapproved options and awards of Ordinary Shares would lapse on leaving, unless the Remuneration Committee exercises its discretion to allow them to vest. In such a case, the option or award of Ordinary Shares would vest to the extent that the performance condition has been met and a proportional number of shares could be acquired.

Approved options may be exercised early in the event that a participant leaves by reason of death, injury, disability, redundancy or retirement and where the participant's employer or business unit ceases to be within the Group. In such a case, the option would be exercisable to the extent that the performance condition has been met and a proportional number of Ordinary Shares could be acquired.

Options may be exercised early and awards of Ordinary Shares may vest early in the event of a change of control, amalgamation, reconstruction or voluntary winding up of the Company and, ordinarily, in the event of a demerger, if the Remuneration Committee so decides. In such circumstances, the performance condition must be satisfied as applied over the shorter period, unless the Remuneration Committee at its discretion and acting fairly and reasonably, treats the performance condition as satisfied, taking into account the performance of the Company up until the relevant event.

Conditions and restrictions

Prior to the exercise of an option or the vesting of an award of Ordinary Shares, the Ordinary Shares subject thereto may not be transferred, assigned, charged or otherwise encumbered but this will not restrict any right of personal representatives following the death of the participant.

The Company can transfer the employer's NIC liability arising in respect of the exercise of options and vesting of awards of Ordinary Shares.

Payment for Ordinary Shares and admission to trading

The Company will apply for admission of a relevant participant's shares to trading on AIM when an award of Ordinary Shares has vested or option has been exercised.

The vesting of awards of Ordinary Shares and the exercise of options and the subsequent sale of Ordinary Shares is subject to such restrictions as are contained in any relevant code or securities transactions rules (including its share dealing code) which applies to the Company, its directors and employees once its Ordinary Shares are admitted to trading.

Shares allotted under the Modern Water Incentive Plan rank *pari passu* with the then issued Ordinary Shares (save for any entitlements accruing to shares by reference to a record date preceding the date of entry of the participant on the register of members).

Amendments

The Remuneration Committee may amend the Modern Water Incentive Plan except that the basis for determining a Participant's entitlements, and any adjustments on a variation in capital, may not be altered to the advantage of participants without the prior agreement of the Company in general meeting, except for minor amendments to benefit the administration of the Modern Water Incentive Plan, to take account of changes in legislation, to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or for the Company or for members of the Group.

9.4 *Directors' holdings under the Modern Water Incentive Plan*

<i>Director</i>	<i>Total number of Ordinary Shares held under option under the Modern Water Incentive Plan</i>	<i>Vesting Period</i>	<i>Subscription Price</i>	<i>Performance Condition</i>
Neil McDougall	560,877	Subject to satisfaction of the performance criteria, 1/3 to vest on the date 12 months from Admission, 1/3 to vest on the date 24 months from Admission, and the final 1/3 to vest on the date 36 months from Admission	£1.19	Each tranche to vest subject to total shareholder return being at least equal to 10% for the 12 months preceding the relevant tranche vesting date
Simon Humphrey	1,121,753	As above	£1.19	Each tranche to vest subject to total shareholder return being at least equal to 10% for the 12 months preceding the relevant tranche vesting date

10. Working Capital

The Directors are of the opinion that, having made due and careful enquiry, the working capital available to the Group will be sufficient for its present requirements, that is for at least 12 months from the date of Admission.

11. Legal and arbitration proceedings

The Company is not, or has not been, engaged in any governmental legal or arbitration proceedings and, so far as the Directors are aware, there are no such proceedings pending or threatened against or being brought by the Company, which are having or may have or have had during the twelve months preceding the date of this document a significant effect on the Company's financial position.

12. Taxation

12.1 UK Taxation

The following is intended as a general guide to the UK tax position under current legislation and published HM Revenue & Customs (“HMRC”) practice at the date of this document, both of which are subject to change at any time. It only deals with the position of certain types of Shareholder, and does not deal with others (such as dealers in securities, insurance companies and collective investment schemes) whose tax position might in some cases be different. The information given is by way of general summary only and does not constitute legal or tax advice to any person. Shareholders who are in any doubt about their tax position, or who are taxable in a jurisdiction other than the UK, should obtain detailed tax advice.

12.2 Dividends

No tax will be withheld by the Company when it pays a dividend.

A UK resident individual Shareholder who receives a dividend from the Company will be entitled to a tax credit, currently at the rate of 1/9th of the cash dividend paid (or 10 per cent. of the aggregate of the net dividend and related tax credit). The individual is treated as receiving for tax purposes gross income equal to the cash dividend plus the tax credit. The tax credit is set against the individual’s tax liability on that gross income. The lower rate of income tax on dividend income is currently 10 per cent.

An individual Shareholder who is not liable to income tax at a rate greater than the basic rate (currently 22 per cent.) will have no income tax to pay in respect of the dividend. The higher rate of income tax on dividends is currently 32.5 per cent. This means that a Shareholder who is a higher rate taxpayer (currently 40 per cent.) will have further income tax to pay at a rate of 22.5 per cent. of the dividend plus the related tax credit (or 25 per cent. of the cash dividend). For example, a dividend of £80 will carry a tax credit of £8.89. The income tax payable by a higher rate taxpayer would be 32.5 per cent. of £88.89, namely £28.89, less the tax credit of £8.89, leaving a net tax liability of £20.

UK resident Shareholders who do not pay income tax or whose liability to income tax on the dividend and related tax credit is less than the tax credit, including pension funds, charities and certain individuals, are no longer entitled to claim repayment of any part of the tax credit associated with the dividend from HMRC.

A UK resident corporate Shareholder will not generally be liable to corporation tax on any dividend received from the Company and the dividend received and related tax credit will constitute franked investment income.

Whether a Shareholder who is not resident in the UK for tax purposes is entitled to a tax credit in respect of dividends paid by the Company and to claim payment of any part of the tax credit will depend, in general, on the provisions of any double taxation convention which exists between the Shareholder’s country of residence and the UK. However, where a non-resident Shareholder is entitled to claim payment of any part of a tax credit, the amount payable will generally be less than one per cent. of the dividend to which it relates. A non-UK resident Shareholder may also be subject to foreign taxation on dividend income.

12.3 Taxation of chargeable gains

A disposal of Ordinary Shares by a Shareholder who is either resident or ordinarily resident in the UK may, subject to the Shareholder’s circumstances and any available exemption or relief, give rise to a chargeable gain (or allowable loss) for the purposes of UK taxation of chargeable gains.

For Shareholders within the charge to corporation tax on chargeable gains, indexation allowance should be available to reduce the amount of chargeable gain realised on a disposal of Ordinary Shares (but not to create or increase any loss).

For Shareholders who are subject to capital gains tax, such as individuals, trustees and personal representatives, taper relief (which reduces the percentage of the gain chargeable by reference to how long the Ordinary Shares have been held) may be available to reduce the amount of chargeable gain realised on a disposal of Ordinary Shares.

A Shareholder who is neither UK resident nor UK ordinarily resident will not be subject to UK tax on a gain arising on a disposal of Ordinary Shares unless (i) the Shareholder carries on a trade, profession or vocation in the UK through a branch or agency and, broadly, holds the Ordinary Shares for the purposes of the trade, profession, vocation, branch or agency or (ii) the Shareholder falls within the anti-avoidance rules applying to temporary non-residents.

12.4 *Inheritance tax*

The Ordinary Shares will be assets situated in the UK for the purposes of UK inheritance tax.

A gift of Ordinary Shares by, or on the death of, an individual Shareholder may (subject to certain exemptions and beliefs) be a transfer of value subject to UK inheritance tax, even if the Shareholder is neither domiciled nor deemed to be domiciled in the UK. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift. Special rules apply to gifts where the donor reserves or retains some benefit and these rules could give rise to a liability to UK inheritance tax on the death of the donor. Special rules also apply to close companies, partnerships and trustees of certain settlements holding Ordinary Shares. The general effect of these rules is that the individual Shareholder, partner or trustee may be subject to UK inheritance tax in respect of the Ordinary Shares.

12.5 *Stamp duty and stamp duty reserve tax (“SDRT”)*

No stamp duty or SDRT will be payable by Shareholders on the allotment, issue or registration of the Shares.

Any subsequent conveyance or transfer or sale of Ordinary Shares will usually be subject to stamp duty, at the rate of 0.5 per cent. (rounded up to the nearest multiple of £5) of the amount or value of the consideration paid. Stamp duty is normally paid by the purchaser. A charge to SDRT at the rate of 0.5 per cent. of the amount or value of the consideration paid will arise in relation to an unconditional agreement to transfer Ordinary Shares. SDRT is normally a liability of the purchaser. However, if within six years of the date of the agreement (or, if the agreement was conditional, the date on which the agreement became unconditional) a share transfer is executed pursuant to the agreement and is duly stamped, the stamping of the transfer will normally cancel the SDRT liability. Any SDRT already paid will be refunded.

Where Ordinary Shares are issued or transferred to issuers of depositary receipts or providers of clearance services (or their nominees or agents) stamp duty or SDRT may be payable, broadly, at the rate of 1.5 per cent. of the amount or value of the consideration payable or, in certain circumstances, 1.5 per cent. of the value of the Ordinary Shares. Where such stamp duty or SDRT is payable, such amounts may be charged by the depositary or clearance service to the Shareholder to whom the Ordinary Shares would otherwise have been issued or to whom the Ordinary Shares are being transferred.

Under the CREST system for paperless share transfers, no stamp duty or SDRT will arise on a transfer of Ordinary Shares into the system, unless the transfer into CREST is itself for consideration in money or money’s worth, in which case a liability to SDRT will arise, usually at the rate of 0.5 per cent. of the amount or value of consideration given. Transfers of shares within CREST are generally liable to SDRT (at a rate of 0.5 per cent. of the consideration paid) rather than stamp duty, and SDRT on relevant transactions settled within the system or reported through it for regulatory purposes will be collected and accounted for to the Inland Revenue by CRESTCo.

Special rules apply to agreements made by market intermediaries and to certain sale and repurchase and stock borrowing arrangements. Charities are exempt from stamp duty and SDRT on the acquisition of shares.

Any person who is in any doubt as to his/her tax position or requires more detailed information than the general outline above should consult his/her professional advisers.

13. Material Contracts

Set out below is a summary of each material contract entered into by any member of the Group other than those entered into in the ordinary course of business, to which the issuer or any member of the Group is a party, within the two years immediately preceding the date of this document:

13.1 *Placing Agreement*

The Placing Agreement contains the following terms:

- (i) the Company appoints KBC Peel Hunt as its agent to procure subscribers at the Placing Price of the Placing Shares and KBC Peel Hunt have agreed (subject as set out in paragraph (viii) below) to use its reasonable endeavours to procure subscribers at the Placing Price for the Placing Shares;
- (ii) the obligation of KBC Peel Hunt referred to in paragraph (i) above is conditional, *inter alia*, on Admission occurring on or about 12 June 2007 or such later date (being no later than 26 June 2007) as KBC Peel Hunt and the Company may agree;
- (iii) subject to Admission, the Company shall pay KBC Peel Hunt a commission at the rate of:
 - (A) 3 per cent. of the value of the Placing Shares issued up to an aggregate value of £30,000,000;
 - (B) 1 per cent. of the Placing Shares issued between an aggregate value of £30,000,001 and £40,000,000; and
 - (C) 1.5 per cent. of the value of the Placing Shares issued above £40,000,001;
- (iv) the Company shall pay all the costs and expenses of and incidental to the Placing;
- (v) the Company and each of the executive Directors give certain warranties and undertakings to KBC Peel Hunt in relation to, *inter alia*, the accuracy of the information contained in this document, the financial position of the Group, the intellectual property rights held by the Group and to other matters in relation to the Group and its business;
- (vi) the non-executive Directors give certain warranties and undertakings to KBC Peel Hunt in relation to the accuracy of the information contained in this document;
- (vii) the Company additionally agrees to indemnify KBC Peel Hunt, its group companies and the directors, officers, employees and agents of KBC Peel Hunt in respect of certain losses and liabilities by such persons in the performance of their duties pursuant to the Placing, save to the extent that any such losses and liabilities arise from the fraud, wilful default or negligence of such persons or breach by KBC Peel Hunt of its obligations under an express term of the Placing Agreement;
- (viii) KBC Peel Hunt may terminate the Placing Agreement at any time prior to Admission in certain circumstances, including a breach of any of the warranties or undertakings contained in the Placing Agreement or upon the occurrence of certain force majeure events; and
- (ix) each of the Directors has agreed with the Company and with KBC Peel Hunt not to dispose of any of his Ordinary Shares held prior to or subscribed for in the Placing before the first anniversary of Admission (save in limited circumstances) and before the second anniversary of Admission only to dispose of such Ordinary Shares with the consent of and through KBC Peel Hunt while KBC Peel Hunt is broker to the Company, such consent not to be unreasonably withheld or delayed.

13.3 *Service Agreement*

A service agreement dated 1 December 2006 made between the Company and IP2IPO Limited, a subsidiary of IP Group plc, whereby IP2IPO Limited provides strategic, business development and accountancy services to the Company (the “Service Agreement”).

IP2IPO Limited is paid £60,000 per annum (plus expenses and VAT) for the provision of such services. The Service Agreement provides that upon Admission, the Company must pay all fees accrued by that time to IP2IPO Limited.

The Service Agreement has no fixed term and may be terminated by either party giving written notice of one month.

The Service Agreement contains standard warranties and an indemnity by the Company in favour of IP2IPO Limited against all claims arising directly or indirectly out of or in connection with the performance of IP2IPO Limited’s obligations or any matter incidental thereto which the Company has requested from IP2IPO Limited and any failure by the Company to comply with any applicable law.

IP2IPO Limited has limited its direct liability to £100,000. IP2IPO Limited will not be liable for a claim arising from (i) loss of profits or anticipated savings, (ii) loss of goodwill or injury to reputation, (iii) loss of business opportunity, (iv) punitive damages, (v) loss of data, (vi) losses suffered by third parties or (vii) indirect, consequential or special loss or damage.

13.4 *Surrey Aqua Roll-Up Agreement*

A conditional sale and purchase agreement dated 4 May 2007 made between the Surrey Aqua Sellers and the Company pursuant to which the Company acquired, with full title guarantee, the entire issued share capital of Surrey Aqua not, at the date of the Surrey Aqua Roll-Up Agreement, then owned by the Company in consideration for the issue and allotment to the Surrey Aqua Sellers of such number of Ordinary Shares in aggregate or will, when issued, constitute approximately 32 per cent. of the issued share capital of the Company following completion of the Surrey Aqua Roll-Up Agreement but prior to the Placing.

The Surrey Aqua Roll-Up Agreement (and thus the allotment of the Ordinary Shares to the Surrey Aqua Sellers under it) is conditional, amongst other things, upon Admission. Pending completion of the acquisition, the Surrey Aqua Sellers each agree not to sell, transfer or otherwise dispose of their shares in Surrey Aqua subject to a specified exception for up to half of the shares held by University of Surrey.

13.5 *Surrey Aqua Shareholders’ Agreement*

The Company has entered into a subscription and shareholders agreement with Surrey Aqua and the Surrey Aqua Sellers dated 30 November 2006. The agreement governs the conduct of the business of Surrey Aqua, including granting consent rights to any two of Professor Adel Sharif, the Company and the University of Surrey prior to Surrey Aqua undertaking various material changes or actions. Conditional on completion of the Surrey Aqua Roll-Up Agreement and Admission, the Surrey Aqua Roll-Up Agreement provides for termination of the Surrey Aqua Shareholders’ Agreement and contains a waiver of all and any accrued rights thereunder.

13.6 *PWL and Cymtox Subscription and Shareholders Agreements*

The Company has entered into subscription and shareholders agreements with each of PWL and Cymtox. Each agreement is dated 14 December 2006.

Each subscription and shareholders agreement shall continue in full force and effect unless and until the occurrence of (i) one person becoming the sole shareholder, (ii) a resolution being passed or an order being made for the winding up of the relevant company, (iii) a listing of the relevant company taking place or (iv) the written agreement of all the parties to terminate the agreement.

PWL and Cymtox each undertake to the Company that it will not, without the prior written consent of the Company, *inter alia*, (i) make any material change in the nature or trade or its business or dispose of all or a substantial part of its business, (ii) appoint or remove or agree to remove any directors of the respective companies and (iii) alter or add to any of the provisions of their memorandum of association or the articles of association.

The Cymtox articles of association also contain drag and tag provisions pursuant to which the shareholders holding a majority of the issued shares may require the minority to accept any offer for sale.

Each subscription and shareholders agreement includes non-compete covenants for each of the executive directors of PWL and Cymtox respectively.

13.7 ***Consultancy and Business Development Agreements***

The Company has entered into consultancy and business development agreements with each of Surrey Aqua (dated 30 November 2006), PWL (dated 14 December 2006) and Cymtox (dated 14 December 2006) for the provision of corporate governance and related services. Each agreement may be terminated by either party giving written notice of one week. The Company receives fixed fees of £14,463 (Cymtox), £50,760 (PWL) and £6,000 (Surrey Aqua) per annum for the provision of such services. The Company's liability is limited under each of these agreements to the higher of four times the annual fee and £100,000.

13.8 ***University of Surrey Intellectual Property Agreement***

An intellectual property agreement dated 30 November 2006 made between Surrey Aqua and the University of Surrey (the "University") whereby the University assigned to Surrey Aqua certain intellectual property rights including 24 patent applications together with all applications or registrations deriving or claiming priority from these applications, and know-how (the "Intellectual Property Agreement"). A further 4 restated patent applications which are not expressly referenced in this agreement have been deemed assigned under this agreement by virtue of the fact that they derive from or claim priority from applications that are expressly listed in the agreement. Surrey Aqua is in the process of registering the assignments of the patent applications assigned under this agreement at the relevant patent registries.

The Intellectual Property Agreement provides that the University be granted a worldwide, irrevocable, royalty free non-exclusive licence back to use the assigned intellectual property rights in respect of non-commercial, academic research. Consideration is payable by Surrey Aqua to the University by way of a 'fair and reasonable sum' in royalties for the products manufactured or sold on behalf of Surrey Aqua which exploit intellectual property rights arising from exploitation of the assigned intellectual property rights ("Arising Intellectual Property Rights"), but only where the contribution has been made by an academic who does not hold shares in Surrey Aqua. The 'fair and reasonable' sum is to be payable in accordance with a revenue share agreement. Since this arrangement only relates to arising intellectual property rights (which expressly excludes intellectual property rights arising under or in relation to any research and development agreement between the University and Surrey Aqua) it is not anticipated that any sums are to be payable under this arrangement as the research agreements described at 13.9 and 13.10 below provide that all 'foreground' (i.e. that intellectual property developed by either party to that agreement during the contract term) will vest in Surrey Aqua.

The licence provisions will remain in force for 5 years from 30 November 2006, and will continue on a rolling 1 year term (terminable on 6 months' notice expiring at the end of the 5 years or on any anniversary).

Surrey Aqua may terminate on 3 months' notice and the University is able to terminate both on 3 months' notice immediately on notice where Surrey Aqua challenges or assists others to challenge the University's ownership of any Arising Intellectual Property Rights or the secret and substantial nature of any know-how.

Surrey Aqua may also require the University to assign to Surrey Aqua intellectual property generated during the term of the Intellectual Property Agreement where such intellectual property is capable of application exclusively in the field of osmosis research at the University. Where such intellectual property is capable of application outside this field, the parties shall discuss licence terms for this intellectual property. Where licensing arrangements are agreed, the University is responsible for prosecuting and defending such intellectual property. Patent applications deriving directly and exclusively from this Arising Intellectual Property which are not the subject of an assignment to Surrey Aqua, are to be made in the name of the University Rights.

13.9 **Research Agreement**

A research agreement dated 4 May 2007 made between Surrey Aqua and the University (the "Research Agreement") pursuant to which Surrey Aqua has engaged the University to undertake a 12 month programme of research entitled "Forward Osmosis" and as more particularly described within the schedule to the agreement (the "Project"). The Research Agreement provides for the Project to be carried out at the University's premises by the Centre of Osmosis Research under the direction of Professor Adel Sharif. Surrey Aqua may terminate the agreement if Professor Adel Sharif is unable or unwilling to continue the direction and supervision of the Project and the University is unable to find a replacement suitable to Surrey Aqua within one month. The total cost to Surrey Aqua for the Project is £219,174 plus VAT to be paid to the University in equal quarterly instalments in advance. Surrey Aqua agrees, following expenditure by the University, to reimburse the sum of £20,000 to the University to cover costs of health and safety upgrades and further agrees to contribute an additional £53,321 towards product purchases and travel in connection with the Project. The agreement runs for 12 months from 1 April 2007 to 31 March 2008, subject to earlier termination on sixty days' notice for material breach. The Research Agreement provides for all intellectual property generated in the course of the Project to vest in Surrey Aqua.

13.10 **Framework Research Agreement**

The Research and Collaboration Framework Agreement dated 4 May 2007 (the "Framework Research Agreement") and made between the Company and the University of Surrey contains the following terms:

- (a) the term of the agreement is, subject to earlier termination, 5 years from the date of commencement of the agreement;
- (b) the agreement is conditional, *inter alia*, on completion of the Surrey Aqua Roll-Up Agreement. Admission occurring before 30 June 2007 and Modern Water achieving a pre-money valuation at Admission of at least £25,000,000;
- (c) the agreement provides for the provision of the services of Professor Adel Sharif for 60 days per annum and the services of other members of the CORA research group up to a minimum of £50,000 per year based on the day rates to be agreed between the Company and the University at the start of each calendar year;
- (d) the research services to be supplied under the agreement are to be supplied on the basis of an agreed form research agreement with the variables in each case such as the work programme and data deliverables to be agreed between the Company and the University at the relevant time;
- (e) all intellectual property rights arising under any research services provided under the Framework Research Agreement automatically vests in the Company;
- (f) the agreement contains an exclusive right for a defined period for the University to negotiate terms with the Company for the provision of new water related research which the Company wishes to commission;

- (g) the agreement contains an option for the University to request a licence of the Company's desalination technology for the development, use, marketing and sale of portable desalination units but only then to the extent that the grant of such licence does not compete (directly or indirectly) with the commercial interests of the Company or any member of its Group;
- (h) the agreement provides that the name of Surrey Aqua will be used in connection with the sale or marketing of the technology for such period as the University retains a shareholding of greater than 2 per cent. in the Company; and
- (i) the agreement provides that the Company will, and will procure that Surrey Aqua will, use its reasonable endeavours to support the University of Surrey in its efforts to establish a strong research collaboration with the Company and a third party, and gives examples of such reasonable endeavours.

13.11 *Technology Agreement*

A technology agreement dated 21 April 2004 made between University College Cardiff Consultants Ltd (the 'Licensor') and the University of Wales, Cardiff, ("Cardiff University") whereby the Licensor granted PWL the exclusive, worldwide right to market, use and commercially exploit certain intellectual property rights, including a patent application (the "Technology Agreement").

PWL has been granted the first option for the licences or assignment of modifications or improvements made to the licensed technology which are made by Professor John Fry (or his substitute). PWL has also granted the Licensor and Cardiff University an irrevocable, royalty free, non-exclusive, worldwide licence during the first four years of the term in relation to any improvements made by PWL, for teaching and non-commercial research purposes only. The consideration was 36,900 ordinary shares of 10 pence each of PWL.

The Technology Agreement shall continue until the earlier of either four years from the commencement date or the assignment of the licensed intellectual property to PWL (see paragraph 13.12 of this Part VII).

The Licensor does not have the right to terminate on a change of control of PWL and PWL has no termination rights.

The Licensor shall use all reasonable endeavours to prosecute and defend the intellectual property and grant the subsisting patent applications and any further applications pursuant to any improvements created by the Licensor (up to an expenditure of £10,000).

13.12 *PWL Assignment Agreement*

An assignment agreement dated 25 April 2007 made between University College Cardiff Consultants Limited (as "Assignor"), Cardiff University and PWL whereby the intellectual property rights which are the subject of the licence to PWL (described in paragraph 13.11 above of this Part VII) as well as 13 patent applications relating to the UK patent application, are assigned to PWL (the "PWL Assignment Agreement").

The Assignor also agrees to assign, on demand, improvements either it or Cardiff University develop or acquire during the first 4 years of the term of the PWL Assignment Agreement.

The PWL Assignment Agreement also provides for a licence to the Assignor and Cardiff University of the perpetual, irrevocable, royalty free, non-exclusive, worldwide licence of all intellectual property rights which are the subject of the assignment.

13.13 ***Patent Licences from PWL to each of System S&P Vertriebs GmbH, ATB Abwassertechnik Baumann GmbH and Aquabiotec GmbH***

PWL has entered into agreements with System S&P vertriebs GmbH (20 May 2005), ATB Abwassertechnik Baumann GmbH (13 May 2005) and Aquabiotec GmbH (25 April 2005) (together the “Licensees”) respectively pursuant to which PWL has granted non-exclusive licences to use certain know-how and intellectual property in respect of this know-how to exploit it on a commercial basis.

The consideration payable by the Licensees under these agreements is a royalty of between 9 per cent. or 12 per cent. of the net ex works sales price of every unit of wastewater treatment plant and systems supplied by the Licensees.

13.14 ***MRBP Patent Licence***

A patent licence dated 30 July 2004 made between Cymtox and MRBP Research Limited (“MRBP”) whereby MRBP granted a ‘sole and exclusive’ licence to Cymtox in relation to the use of certain apparatus, connected know-how and patent applications, in order to develop licensed apparatus on a commercial basis with third party manufacturers (the “Cymtox Patent Licence”).

This patent licence provides that Cymtox is required to meet minimum sales targets and pay consideration of £16,000 on account and £18,000 as a licence fee and a ‘pre-sales development phase’ success fee of £9,500. According to the amending agreement described below, these obligations have been met or waived. Royalty fees are also payable in relation to the manufactured products and ‘proprietary sacrificial components’ which are developed pursuant to the patent licence.

MRBP novated its rights and obligations under this patent licence to University College Cardiff Consultants Limited (“UC3”) pursuant to a deed of novation entered into by MRBP, UC3 and Cymtox on 31 August 2006. MRBP assigned all its intellectual property (including the patents which are the subject of this licence) to UC3 on 4 September 2006. Appended to this patent licence is an amending agreement between UC3 and Cymtox dated 12 December 2006. This amending agreement amends the payment terms of the patent licence.

13.15 ***Consultancy Agreement relating to Professor Adel Sharif***

A services agreement dated 4 May 2007 made between the Company, Surrey Aqua, AquaOsmotics Limited (the ‘Consultancy Company’) and Professor Adel Sharif (the Chair of the Technology Steering Committee at the University of Surrey (the “Chair of the TSC”)) whereby the Consultancy Company agrees to procure that the Chair of the TSC devotes a minimum of 48 days per year to the Company in the performance of various services including, but not limited to, scientific and technical advice on the Company’s research and development programmes, Surrey Aqua’s intellectual property portfolio and assistance with the business of the Company as requested from time to time the “Services Company”. The fee payable by the Company to the Consultancy Company is £50,000 per annum plus VAT and expenses. The services agreement is terminable on three months notice in writing.

The Services Agreement also provides, *inter alia*, that (i) all intellectual property rights, records and notes created by the Consultancy Company or Professor Adel Sharif will vest in the Company (ii) for the period of six months after the termination of the Services Agreement, the Consultancy Company shall not, and shall procure that the Chair of the TSC shall not, (without the Company’s consent) provide advice to, or be otherwise concerned or interested in (whether as shareholder, agent, director, officer, manager, consultant, contractor, partner or employee of any other person, firm or company) any commercial organisation in areas competitive with the services being provided to the Company under the Services Agreement and (iii) neither party may assign any of their rights and /or obligations under the Services Agreement.

The Services Agreement provides for termination of the existing consultancy agreement between Surrey Aqua, AquaOsmotics Limited and Professor Adel Sharif dated 30 November 2006.

13.16 *Consultancy Agreement relating to James Beaumont*

A consultancy agreement dated 25 May 2007 between Surrey Aqua and James Beaumont (the “Consultant”), whereby the Consultant is to devote 2 days per week providing various consultancy services to the Company. The agreement is for a fixed term period commencing on 1 March 2007 and ending on 30 June 2007 and provides for a fee of £583.33 per day (plus VAT and expenses), payable monthly in arrears.

14. Related Party Transactions

- 14.1 A service agreement dated 1 December 2006 made between the Company and IP2IPO Limited, a subsidiary of IP Group plc, whereby IP2IPO Limited provides strategic, business development and accountancy services to the Company (including the provision of a financial controller), further details of which are set out at paragraph 13.3 of this Part VII. IP Group has agreed to continue with the existing arrangements in respect of providing the Company with a financial controller until such time as the Company has made an appointment for this position.
- 14.2 A conditional sale and purchase agreement dated 4 May 2007 made between the Surrey Aqua Sellers and the Company pursuant to which the Company acquired, conditional upon Admission, the entire issued share capital of Surrey Aqua not, at the date of the agreement then owned by the Company, further details of which are set out at paragraph 13.4 of this Part VII.
- 14.3 A subscription and shareholders agreement dated 14 December 2006 between the Company and PWL pursuant to which the Company acquired a 51 per cent. shareholding in PWL, further details of which are set out at paragraph 13.6 of this Part VII.
- 14.4 A consultancy agreement dated 1 December 2006 between the Company, WRC plc and Gerald Jones pursuant to which WRC plc agreed to provide the services of Gerald Jones for a maximum of 133 days per calendar year, further details of which are set out at paragraph 7.4.3 of this Part VII.

15. Intellectual Property

The future profitability of the Company will depend, amongst other things, on its ability to protect and secure its intellectual property relating to the various technologies it wishes to exploit. It is fundamental to the business of the Company that it obtains and maintains patent protection for its portfolio. As described in the patent report in Part VI of this document and in paragraph 13.14 of this Part VII, the Company owns 42 patent applications and has the right to use under an exclusive licence 1 filed patent application in respect of its Group’s technologies that the Directors consider, or considered at the time of filing, to be material to the Company’s business. The Company also relies on trade secrets and copyrights and takes such steps to protect these rights as the Directors consider appropriate in the circumstances.

16. Other information

- 16.1 The gross proceeds of the Placing are expected to be £30 million. The total costs and expenses in relation to Admission and the Placing (including London Stock Exchange fees, printing, advertising and distribution costs, legal, accounting, corporate finance and public relations fees and expenses) are payable by the Company and (assuming subscription in full) are estimated to amount to approximately £1.4 million, excluding value added tax. The net proceeds of the Placing are expected to be £28.6 million (excluding value added tax).
- 16.2 Save as described in this document, there has been no significant change in the trading or financial position of the Company since 11 October 2006, being the date of its incorporation.
- 16.3 KBC Peel Hunt Ltd, the Company’s Nominated Adviser and Broker, which is authorised and regulated by the Financial Services Authority, has given and has not withdrawn its written consent to the inclusion in this document of reference to its name in the form and context in which it appears.
- 16.4 PricewaterhouseCoopers LLP has given and not withdrawn its written consent to the inclusion in Part III of this document of its report in the form and context in which it appears.

- 16.5 WRc plc, of Frankland Road, Blagrove, Swindon, Wiltshire, SN5 8YF, an international research and technology company specialising in water, pollution control, environmental management and consultancy services, is responsible for the preparation of the report included at Part V of this Admission Document. This report was prepared at the request of the Company. WRc plc has given and not withdrawn its written consent to the inclusion in this document of the report, in the form and context in which it is included. WRc plc has no material interest in the Group.
- 16.6 Boulton Wade Tennant, Chartered Patent Attorneys and European Patent Attorneys, of Verulam Gardens, 70 Gray's Inn Road, London, WC1X 8BT is responsible for the preparation of the report included at Part VI of this Admission Document. This report was prepared at the request of the Company. Boulton Wade Tennant has given and not withdrawn its written consent to the inclusion in this document of the report, in the form and context in which it is included. Boulton Wade Tennant has no material interest in the Group.
- 16.7 Other than the current application for Admission, the Ordinary Shares have not been admitted to dealings on any recognised investment exchange nor has any application for such admission been made nor are there intended to be any other arrangements for there to be dealings in the Ordinary Shares.
- 16.8 Save as disclosed in this document, no person (excluding professional advisers and trade suppliers) has (i) received directly or indirectly from the Company within the 12 months preceding the date of this document or (ii) entered into contractual arrangements to receive, directly or indirectly, from the Company on or after Admission any of the following:
- 16.8.1 fees totalling £10,000 or more; or
 - 16.8.2 securities in the Company where these have a value of £10,000 or more calculated by reference to the Placing Price; or
 - 16.8.3 any other benefit to a value of £10,000 or more on the date of Admission.
- 16.9 The accounting reference date of the Company is 31 December.
- 16.10 Save as disclosed in this document, there are no patents, licences, industrial, commercial or financial contracts or new manufacturing processes which are or may be of fundamental importance to the Company's business.
- 16.11 There have been no significant recent trends concerning the development of the Company's business since 11 October 2006 being the date of its incorporation.
- 16.12 The Placing Price represents a premium over nominal value of 118.75 pence per Ordinary Share.
- 16.13 There have been no interruptions and there have been no significant changes to the business of the Company which have or have had a significant effect on the financial position of the Company since incorporation and there are no significant investments in progress by the Company.
- 16.14 The Directors are unaware of any exceptional factors which have influenced the Company's activities.
- 16.15 To the extent that information in this document is sourced from a third party, it has been accurately reproduced and that so far as the Company is aware and able to ascertain from the information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.
- 16.16 The Directors are not aware of any arrangements under which future dividends are waived or agreed to be waived.
- 16.17 Monies received from applicants pursuant to the Placing will be held in accordance with the terms of the application procedures issued by KBC Peel Hunt until such time as the Placing becomes unconditional in all respects. If the Placing does not become unconditional in all respects by 12 June 2007 (or such later date as KBC Peel Hunt and the Company may agree), application monies will be

returned to applicants as soon as practicable at their own risk and without interest prior to delivery of the Ordinary Shares. The period within which the Placing applications may be accepted pursuant to the Placing are set out in the Placing Agreement and in the placing letters sent to placees.

17. Availability of this document

Copies of this Admission Document will be available free of charge from the registered office of the Company at Warwick Court, 5 Paternoster Square, London EC4M 7BP and from the offices of KBC Peel Hunt at 111 Old Broad Street, London EC2N 1PH, during normal office hours (Saturdays, Sundays and public holidays excepted) from the date of this document until the date which is one month following Admission.

7 June 2007

