

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you are recommended to seek your own independent financial advice immediately from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser duly authorised under the FSMA, if you are in the UK, or, if not, from another appropriately authorised independent financial adviser. This document has been prepared for the purposes of paragraph 1.2.2R(2) of the Prospectus Rules. This document also comprises an AIM admission document drawn up in accordance with the AIM Rules for Companies.**

The Directors and Proposed Directors (whose names appear on page 20 of this document) and the Company accept responsibility, both individually and collectively, for the information contained in this document. To the best of the knowledge and belief of the Company, the Directors and the Proposed Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and there are no other facts which, if omitted, would affect the import of such information. The Company, the Directors and the Proposed Directors accept responsibility accordingly.

This document is being sent to Nviro Shareholders and Southbank Shareholders. If you have sold or otherwise transferred all of your Existing Ordinary Shares or Southbank Shares, please forward this document, together with the accompanying documents, at once, to the purchaser or transferee or to the bank, stockbroker, or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee. However, such documents should not be forwarded or transmitted in or into a Restricted Jurisdiction or any other jurisdiction if to do so would constitute a violation of the relevant laws of such jurisdiction. The distribution of this document in jurisdictions other than the UK may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restrictions. Any failure to comply with those restrictions may constitute a violation of the securities laws of any such jurisdiction.

A copy of this document, which comprises a document equivalent to a prospectus relating to Nviro, in accordance with the Prospectus Rules published by the FSA, has been filed with the FSA in accordance with those rules.

**This document has not been delivered to the Isle of Man Financial Supervision Commission for registration as a prospectus pursuant to section 38 of the Isle of Man Companies Act 1931 on the basis that the offer of Placing Shares is a "private placement" as defined in the Isle of Man Companies (Private Placements) (Prospectus Exemptions) Regulations 2000. Neither this document, the Offer or the Placing have been approved by the Isle of Man Financial Supervision Commission or any other governmental or regulatory authority in or of the Isle of Man.**

**The whole of the text of this document should be read and your attention is drawn to the section entitled "Risk Factors" on page 8 of this document for a discussion of certain factors which should be taken into account in considering whether or not to accept the Offer and acquire Ordinary Shares. The whole of this document should be read in light of those risk factors.**

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## **Issue of up to 13,218,225 new ordinary shares of 1p each in Nviro Cleantech plc in connection with the Offer by**

### **Nviro Cleantech plc**

*(Incorporated in the Isle of Man under the Companies Acts 1931 – 2004 with registered number 116537C)*

**To be renamed Specialist Energy Group plc  
for the whole of the issued and to be issued share capital of**

### **Southbank UK plc**

**Placing of 5,263,200 new ordinary shares of 1p each in Nviro Cleantech plc at 76p per share**

**Admission of Specialist Energy Group plc to trading on AIM**

### **Fairfax I.S. PLC**

*Lead Financial Adviser and Broker*

### **Grant Thornton Corporate Finance**

*Financial Adviser and Nominated Adviser*

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#### **SHARE CAPITAL ON ADMISSION**

The following table shows the authorised and issued share capital of the Company immediately following the Share Capital Consolidation, the Placing and Admission and assuming full acceptance of, and no variation of, the Offer (and assuming no further Ordinary Shares or Southbank Shares are issued):

Authorised		Issued	
Number	Amount	Number	Amount
40,000,000	£400,000	25,090,744	£250,907.44
		ordinary shares of 1p each	

Application will be made to the London Stock Exchange for the Enlarged Share Capital to be admitted to trading on AIM. It is expected that Admission will become effective and that dealings will commence in the Enlarged Share Capital within 21 days of the Offer becoming or being declared unconditional. The Ordinary Shares are not and will not be dealt on any recognised investment exchange and no other applications have been or will be made for such shares to be traded on any other investment exchange.

**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 of the UKLA. 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 the London Stock Exchange on admission in the form set out in Schedule Two to the AIM Rules for Nominated Advisers. The London Stock Exchange has not itself examined or approved the contents of this document.**

**It must be remembered that the price of shares and securities can go down as well as up.**

Fairfax is acting exclusively for Nviro and for no one else in connection with the matters described herein and will not be responsible to anyone else for providing the protections afforded to customers of Fairfax or for advising any other person on the contents of this document or any matter referred to herein. No representation or warranty, express or implied, is made by Fairfax as to any of the contents of this document.

Fairfax is authorised and regulated by the Financial Services Authority and has been appointed to act as lead financial adviser in relation to the AIM admission document and broker to the Company in accordance with the AIM Rules for Companies. Fairfax's responsibilities are not owed to the Company or to any Director or to any other person, whether in respect of any decisions to acquire Ordinary Shares in reliance on any part of this document or otherwise.

Grant Thornton Corporate Finance, a division of Grant Thornton UK LLP, which is authorised and regulated by the Financial Services Authority, is acting as Nominated Adviser to the Company for the purposes of the AIM Rules for Companies in connection with the Admission and as such, its responsibilities are owed solely to London Stock Exchange plc and are not owed to the Company or to any Director or to any other person or entity. Grant Thornton Corporate Finance will not be responsible to anyone other than the Company for providing the protections afforded to clients of Grant Thornton Corporate Finance, or for advising any other person on the transactions and arrangements described in this document.

Littlejohn LLP is acting exclusively for Nviro and no-one else in connection with the Offer and will not be responsible to anyone other than Nviro for providing the protections afforded to clients of Littlejohn nor for providing advice in relation to the Offer, the content of this document, or any matter referred to herein.

This document does not constitute an offer to sell, or a solicitation of an offer to buy Ordinary Shares in any jurisdiction in which such offer or solicitation is unlawful. In particular, this document is not for distribution in or into the United States of America, Canada, Australia, South Africa or Japan. The Ordinary Shares have not been and will not be registered under the United States Securities Act 1933 (as amended) or under the securities legislation of a Restricted Jurisdiction or in any country, territory or possession where to do so may contravene local securities laws or regulations. Accordingly, the Ordinary Shares may not, subject to certain exceptions, be offered or sold, directly or indirectly in or into a Restricted Jurisdiction or to any national, citizen or resident of a Restricted Jurisdiction.

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## **SUMMARY**

This summary should be read as an introduction only to this document and any decision to accept the Offer or otherwise invest in the Company should be based on consideration of this document as a whole by the investor. Investors should note that if a claim relating to the information contained in this document is brought by an investor before a court, the investor bringing the claim might, under the national legislation of the EEA States, have to bear the costs of translating the document before legal proceedings are initiated. Civil liability attaches to those persons who are responsible for this summary, including any translation of this summary, but only if the summary is misleading, inaccurate or inconsistent when read together with other parts of this document.

### **INTRODUCTION**

The Board announced on 23 December 2009 the terms of an all share offer to be made by Nviro to acquire the entire issued and to be issued share capital of Southbank.

In view of the size of Southbank in relation to the size of Nviro and the fundamental change to the Company's business, the Acquisition constitutes a reverse takeover under the AIM Rules for Companies and, as such, requires the approval of Nviro Shareholders at the Extraordinary General Meeting.

As a consequence of the Acquisition constituting a reverse takeover, the Company is required to apply for re-admission to AIM as the Enlarged Group. It is expected that such Admission will take place as soon as is reasonably practicable within 21 days of the Offer becoming or being declared unconditional (save only for the Admission) and concurrently the Company's current admission to AIM will be cancelled.

In addition, the Group has conditionally raised £4.0 million pursuant to the Placing.

### **BACKGROUND TO AND REASONS FOR THE OFFER**

Since Nviro's admission to AIM in August 2007 it has been engaged in commercialising Clean Technologies. Over the last two years, Nviro has focused its attention and investment primarily on its Clean Fuel technology, Vertus.

During the final quarter of 2008 Vertus suffered a combination of setbacks at its first commercial pilot site which was under construction at CBT's site in Cincinnati, Ohio, USA. This prompted the Directors to reconsider the economic viability of the CBT project going forward.

In May 2009 Nviro withdrew from the site with mutual agreement by CBT. The issues Nviro identified at the CBT project also had a negative impact on discussions with prospective clients in India and China who were awaiting the CBT plant going live. Therefore, the Directors concluded that there was a need to implement strategic partnerships in the energy market place.

The Company entered into discussions with Southbank and these discussions have now developed to cover the proposed transaction.

### **INFORMATION ON NVIRO**

Nviro Cleantech Limited was established with the objective of investing in a number of environmental clean technology projects. Nviro Cleantech plc, an Isle of Man incorporated company, was formed in May 2006 and is the parent company of Nviro Cleantech Limited and its subsidiaries. Nviro Cleantech plc was admitted to AIM in August 2007.

### **INFORMATION ON SOUTHBANK**

Southbank, through its subsidiary Hayward Tyler, engineers, manufactures and sells products and services to the energy sector. This sector covers a wide range of activities including conventional fossil fired power generation, nuclear power, oil and gas exploration and renewable energy.

### **STRATEGY FOR THE ENLARGED GROUP**

The Directors, save for Christopher Every who will become a non-executive director, have agreed to resign subject to Admission, whereupon the Proposed Directors' appointments shall commence with immediate effect.

The Proposed Directors intend to focus the resources of the Enlarged Group on the business of Southbank's main operating subsidiary, Hayward Tyler. They will continue to pursue the opportunities which the

Directors have been developing to Out-license the Vertus technology. Should these licensing discussions not reach a satisfactory conclusion the Proposed Directors intend to cease development of the Vertus technology.

The Proposed Directors believe that significant opportunities for growth exist within the energy sector and that by focusing on expanding within this sector the Enlarged Group is expected to have the potential for significant organic growth. The Proposed Directors believe that in order to capitalise on these opportunities the Enlarged Group needs to be able to provide Hayward Tyler with additional financial resource and support for its expanding global ambitions.

Given the focus on the Hayward Tyler business and its opportunities for growth the Proposed Directors plan to exit from Nviro's technologies, Microrelease, Laseair and Organotect.

## **THE OFFER**

Nviro is offering to acquire all of the issued and to be issued Southbank shares on the following terms:

### **For every 7,149 Southbank Shares 100 Consideration Shares**

and so in proportion for any number of Southbank Shares held. Fractions of Consideration Shares will not be allotted to Southbank Shareholders. Fractional entitlements to Consideration Shares will be rounded down to the nearest Consideration Share.

At the Placing Price of 76 pence per Nviro Share (post Share Capital Consolidation), the Offer values each Southbank Share at approximately 1.063 pence and the entire issued and to be issued share capital of Southbank at approximately £10.05 million.

Based on the AIM closing price of 5.5 pence (pre Share Capital Consolidation) per Nviro Share on 19 December 2009, being the last business day before the commencement of the Offer period, the Offer values each Southbank Share at approximately 0.769 pence. On this basis the Offer values the entire issued and to be issued share capital of Southbank at approximately £7.27 million.

Full acceptance of the Offer by holders of existing Southbank Shares will result in the issue of up to 13,218,225 Consideration Shares, representing approximately 52.68 per cent. of the Enlarged Share Capital. The minimum number of Consideration Shares capable of being issued pursuant to the Offer, if the acceptance condition is satisfied, is 9,913,669. In both cases these figures assume no variation to the terms of the Offer, the allotment of the Placing Shares, no further allotment of Southbank Shares and that all outstanding share options have been exercised in respect of Southbank Shares.

## **THE PLACING**

The Group has conditionally raised £4.0 million (£3.2 million net of expenses and applicable VAT) to fund capital expenditure and to strengthen the balance sheet of the Enlarged Group through the partial repayment of existing Southbank debt in order to further finance the business strategy of the Enlarged Group.

The intended use of proceeds from the Placing is as follows:

	<b>£m</b>
<b>Repayment of borrowings</b>	3.0
<b>Capital expenditure</b>	0.2
<b>Placing expenses</b>	0.8
<b>Total</b>	<u>4.0</u>

## **SUMMARY FINANCIAL INFORMATION**

### **Nviro**

The table below sets out Nviro's summary financial information for the last three financial years extracted without material adjustment from the Nviro consolidated audited accounts for the years ended 30 September 2008, 30 September 2007 and the 11 month period to 30 September 2006, which were prepared under IFRS. The summary financial information with regards to Nviro has been extracted from Part II of this document.

	12 months to 30 September 2008 £'000	12 months to 30 September 2007 £'000	11 months to 30 September 2006 £'000
Loss from operations	(3,437)	(4,235)	(857)
Loss for the period	(3,173)	(4,195)	(857)
Basic and diluted loss per share (p)	(6.44)	(13.81)	(22.53)
Total non-current assets	3,010	1,063	–
Total assets	14,101	7,410	–
Total equity	12,816	6,445	(803)

The report of the independent auditors for the period to 30 September 2008 includes an 'Emphasis of Matter' paragraph dealing with the ability of the Company to continue as a going concern. In particular, it draws attention to the uncertainties as to the generation of cash flows from revenue operations and the Company's ability to raise further additional funding. The paragraph is reproduced below.

***Emphasis of Matter – Going Concern***

*In forming our opinion, which is not qualified, we have considered the adequacy of the disclosures made in note 1 of the financial statements concerning the uncertainty as to the generation of cash flows from revenue operations and the company's ability to raise further additional funding as required. In view of the significance of this uncertainty we consider that it should be drawn to your attention.*

These uncertainties reflect the difficult conditions in the global economy generally and the Company's target markets and the financial markets specifically. The Directors consider that the Acquisition and Placing addresses these uncertainties in that, in acquiring Southbank, the Company acquires mature revenue operations with the opportunity to generate and sustain future cash flows.

The table below sets out Nviro's summary financial information for the six month period to 31 March 2009 and comparative data from the same period in the prior financial year, extracted without material adjustment from the Nviro interim statement, which was neither audited nor reviewed and was prepared under IFRS.

	6 months to 31 March 2009 £'000	6 months to 31 March 2008 £'000
Loss from operations	(5,404)	(1,451)
Loss for the period	(5,305)	(1,355)
Basic and diluted loss per share	(8.03p)	(3.09p)
Total non-current assets	2,842	1,956
Total assets	9,090	6,020
Total equity	7,529	5,154

**Southbank**

The table below sets out Southbank's summary financial information for the last three financial years extracted without material adjustment from the Southbank consolidated audited accounts for the years ended 31 December 2008, 31 December 2007 and 31 December 2006. The financial information for the years ended 31 December 2008 and 31 December 2007 were prepared under IFRS. The financial information for the year ended 31 December 2006 was prepared under UK GAAP. The summary financial information with regards to Southbank has been extracted from Part III of this document.

	12 months to 31 December 2008 £'000	12 months to 31 December 2007 £'000	12 months to 31 December 2006 £'000
Revenue	32,340	25,659	24,719
Operating (loss)/profit	(2,520)	796	2,797
Profit/(loss) for the year	(4,642)	(399)	1,428
Total assets	35,309	27,514	25,347
Total non-current assets	17,669	14,583	13,778
Total equity	703	4,495	7,597
Basic earnings/(loss) per share (p)	(0.60)	(0.05)	0.21
Diluted earnings/(loss) per share (p)	(0.60)	(0.05)	0.17

The table below sets out Southbank's summary financial information for the six month period to 30 June 2009 and comparative data from the same period in the prior financial year, extracted without material adjustment from the Southbank interim statement, which was neither audited nor reviewed and was prepared under IFRS.

	6 months to 30 June 2009 £'000	6 months to 30 June 2008 £'000
Revenue	18,385	14,094
Operating (loss)/profit	1,282	(1,764)
Profit/(loss) for the period	95	(2,826)
Total assets	27,503	22,040
Total non-current assets	17,088	15,132
Total equity	494	1,671
Basic earnings/(loss) per share (p)	0.01	(0.36)
Diluted earnings/(loss) per share (p)	0.01	(0.36)

### **Dividend Policy**

The Group does not currently declare dividends. The Proposed Directors currently propose to reinvest the Enlarged Group's earnings to finance the growth of the business in the short to medium term and intend to commence the payment of dividends only when they consider it commercially prudent to do so having regard to the availability of the Enlarged Group's distributable profits, available cash balances and the retention of funds required to finance future growth.

### **Risk Factors**

Nviro and, after the completion of the Acquisition, the Enlarged Group, its operating results and financial condition could be materially and adversely affected by a number of risks relating to Nviro and, after the completion of the Acquisition, the Enlarged Group and its business. As a result the value of a New Ordinary Share could decline and investors could lose part or all of their investment. The Directors and Proposed Directors have identified the following material risks, which do not necessarily comprise all those associated with an investment in the Company and are not set out in any order of priority.

- The Enlarged Group's success will depend on retaining the Proposed Directors and attracting and retaining skilled and qualified personnel.
- The Enlarged Group is likely to face competition from other entities operating in its business sectors and may be vulnerable to fluctuations in exchange rates where it operates in overseas markets and/or commodity prices.
- Should the Global economic slowdown continue it may in the longer term (i.e. after 12 months from the date of Admission) adversely impact the liquidity needs, terms of trade and the financial performance of the Enlarged Group.
- The business of the Enlarged Group is vulnerable to losses resulting from the commercial risk of litigation in this market.
- The Enlarged Group's technologies, manufacturing processes and products will be required to meet certain safety and environmental protection standards to gain approval to manufacture and market.
- If the integration of Nviro or its business with that of Southbank is unsuccessful, the Acquisition could lead to disruptions to the operations of the Enlarged Group.
- The business of Southbank is vulnerable to loss resulting from manufacturing process defects, machinery malfunction, physical disaster, sabotage or other *force majeure* events beyond the control of Southbank.
- Hayward Tyler had a defined benefit pension scheme deficit of £1.377 million as at 1 January 2008 on an ongoing basis adopting the assumptions used in the formal valuation as at that date. A revised valuation updated as at 31 August 2009 and based upon the current state, at that time, of the equities market, showed there would be a point-in-time shortfall of £3.836 million. The scheme's funding position, which although closed to new members and future service accruals is in deficit, may have an adverse impact on the net asset position of the Enlarged Group.

- There is no certainty that, in the longer term (i.e. after 12 months from the date of Admission) the Enlarged Group will be able to generate sufficient cash flows from operations or have recourse to future debt or equity finance sufficient to meet the Enlarged Group's working capital needs.
- Southbank and its subsidiaries own two properties in the UK. Due to current market conditions, these properties are likely to have decreased in value, and the way that this decrease is accounted for may have an adverse impact on the net asset position of the Enlarged Group.
- Following the Offer becoming or being declared unconditional (save for Admission) application will be made for the Enlarged Share Capital to be admitted to trading on AIM. There can be no guarantee that this application will be successful and it is emphasised that no application is being made for admission of the Enlarged Share Capital to the Official List or to any other stock exchange at this time.
- The value of an investment in the Company may go down as well as up. The Company can give no assurance that an active trading market for its shares will develop, or if developed, be sustained in the future.
- The Enlarged Group may be adversely affected by changes in economic, political, judicial, administrative, taxation or regulatory factors, as well as other unforeseen matters, in the Isle of Man or in other jurisdictions in which the Company operates.
- The rights of shareholders are governed by Isle of Man law, hence the rights of shareholders may be different to the typical rights of shareholders in the UK and other jurisdictions.
- If Nviro does not obtain a 90 per cent. shareholding in Southbank, its ability to conduct future corporate actions may be restricted.

## **RISK FACTORS**

**In addition to all other information set out in this document, Nviro Shareholders, Southbank Shareholders and potential investors in the Company should carefully consider the risk factors below before making a decision to accept the Offer or invest in the Company. If any of the following risks were to materialise, Nviro's and, after completion of the Acquisition, the Enlarged Group's business, financial condition, results or future operations could be materially and adversely affected.**

**In such circumstances, the price of the New Ordinary Shares could decline and investors could lose all or part of their investment. If you are in any doubt about the action you should take, you should consult a professional adviser authorised under the FSMA if you are in the United Kingdom or, if not, another appropriately authorised independent financial adviser.**

The Directors and Proposed Directors have identified the following material risks, which do not necessarily comprise all those associated with an investment in the Company and are not set out in any order of priority. Additional risks and uncertainties currently unknown to the Company, or which the Directors and Proposed Directors currently believe are immaterial, may also have a material adverse effect on its financial condition or prospects or the trading price or underlying value of a New Ordinary Share.

### **BUSINESS RISKS**

#### **Management and employees**

The Enlarged Group's success will depend on the retention of its Proposed Directors and future management team, and on its ability to continue to attract and retain highly skilled and qualified personnel. Although the Company has entered into service contracts or letters of appointment (as relevant) with the Proposed Directors, there can be no assurance that the Company will retain the services of any of its Proposed Directors, or attract or retain any appropriately qualified senior managers or skilled employees.

#### **Competition**

If the Enlarged Group fails to keep up with technological change then its products, services and technologies could become less competitive or obsolete. Competitors may develop products, services or technologies which are more effective or less expensive than those developed by the Enlarged Group. In addition, current and potential competitors may have substantially greater financial, technical and marketing resources than the Enlarged Group or may have a currency advantage over the Enlarged Group so may be better able to compete in the Enlarged Group's markets. Such competitors compete with the Enlarged Group for both customers and employees. There is no assurance that the Enlarged Group will be able to compete successfully in the future within its marketplace.

#### **Intellectual Property Rights ("IPR")**

Much of the Enlarged Group's IPR is contained within the technical expertise and know-how of its employees and contractors including knowledge relating to its installed base of Boiler Circulating Pumps ("BCPs"). There is a risk to the Enlarged Group of losing certain of such IPR in the event that certain persons leave the employ of the Enlarged Group. This could result in adverse consequences for the business of the Enlarged Group in terms of potentially losing customers due to lack of know-how and the cost of recruiting and training replacement persons. Many of the technologies originally developed for the BCP are now time expired from a patent perspective and also some of Nviro's IPR is unregistered or unprotected which may result in competitors manufacturing such unprotected items for sale in the market which could result in the Enlarged Group losing customers and revenue.

#### **Global economic slowdown**

The global economic slowdown has impacted several businesses. Should these recessionary conditions continue to prevail, they may in the longer term (i.e. after twelve months from the date of Admission), adversely impact the liquidity needs, terms of trade and the financial performance of the Enlarged Group.

#### **Litigation**

The business of the Enlarged Group is vulnerable to losses resulting from the commercial risk of litigation in this market.



## **Currency Risk**

Foreign exchange rate fluctuations may affect the cash flow from the Enlarged Group's operations as it is likely to operate in markets that utilise currencies other than those in which its principal costs are denominated.

## **Dividend Payments**

All dividends or other distributions will be made at the sole discretion of the directors of the Company from time to time. The payment of any dividend will always be in accordance with the Company's dividend policy and will depend upon a number of factors, including the availability of sufficient distributable reserves and cash balances. Further information about the Company's dividend policy is set out in paragraph 5.2 of Part VI of this document. As a holding company, the Company's ability to pay dividends is affected by a number of factors, principally its ability to receive sufficient dividends from Subsidiaries. The payment of dividends to the Company by its Subsidiaries is, in turn, subject to restrictions, including certain regulatory requirements and the existence of sufficient distributable reserves and cash in the Company's Subsidiaries. The ability of these Subsidiaries to pay dividends and the Company's ability to receive distributions from its investments in other entities are subject to applicable local laws and regulatory requirements. These laws and restrictions could limit the payment of future dividends and distributions to the Company by its Subsidiaries, which could restrict the Company's ability to pay a dividend to holders of the Company's shares. The Company can give no assurance that it will be able to pay a dividend on its shares in the future.

## **INDUSTRY RISKS**

### **Regulatory risk**

The industry is subject to extensive government regulation both current and proposed by various country-specific and regional or international regulatory bodies. The technologies, manufacturing processes and products will be required to meet certain safety and environmental protection standards to gain approval to manufacture and market. Compliance with these regulations and standards may make it more expensive to operate the business and increases the risk that technologies and products may not be approved for sale or such approvals may be delayed, restricted or rescinded.

### **Country risk**

The Enlarged Group has international operations and is subject to economic, political and regulatory risks associated with conducting business in foreign countries, including the potential burden of complying with a variety of foreign laws, trade standards and regulatory requirements; difficulty identifying, establishing and maintaining relationships across all facets of the Enlarged Group's products and services; and geopolitical risks such as political and economic instability that can affect supply chains, customers and activities in a particular location.

Due to its international operations, the Enlarged Group's business is vulnerable to disruptions and challenges caused by acts beyond its control, for instance, acts of terrorism, natural disasters, or other *force majeure*.

### **Management of future growth**

If the future management of the Enlarged Group is unable to successfully integrate Nviro or its business with that of Southbank, the Acquisition could lead to disruptions to the operations of the Enlarged Group. If the operations or assimilation of Southbank's business does not accord with the expectations of the future management team, the Enlarged Group may have to decrease the value afforded to the acquired business or realign the existing Group's structure.

## **SOUTHBANK SPECIFIC RISKS**

### **Manufacturing of products**

The business of Southbank is vulnerable to loss resulting from manufacturing process defects, machinery malfunction due to ageing or defunct plant and machinery, physical disaster, sabotage or other *force majeure* events beyond the control of Southbank. Any delays in the manufacturing process could lead to a backlog of unfilled or unfinished orders and prevent the Southbank from winning further orders due to the increased lead time. In addition, such delays can expose the business to a risk that commodity prices change from the

original costing of a contract to actual cost incurred. These circumstances could have an adverse impact on the financial performance of the Enlarged Group.

### **Pension**

Hayward Tyler has a defined benefit pension scheme which was closed to new members and future accruals of pension benefits on 1 June 2003. According to its last triennial valuation as at 1 January 2008, the fund was in deficit on an ongoing valuation basis on the assumptions adopted in that valuation of £1.377 million. On this basis a schedule of contributions was agreed between the trustees and Hayward Tyler whereby £184,800 is paid into the pension fund each year over a ten year period. The next formal review and corresponding triennial valuation is due as at 1 January 2011 and a corresponding schedule of contributions agreed by 31 March 2012. Depending on market conditions, investment performance and the underlying assumptions used, the deficit could increase or decrease and the way that it is accounted for may have an adverse impact on the net asset position of the Enlarged Group. The funding position will also potentially be affected if the scheme trustees change their investment strategy or the scheme is wound up.

A revised valuation updated as at 31 August 2009 and based upon the current state, at that time, of the equities market, showed there would be a point-in-time shortfall of £3.836 million. The Proposed Directors believe that completion of the Placing, Offer, Acquisition and Admission will strengthen the covenant of Southbank and as such do not believe that the Placing, Offer, Acquisition and Admission gives the trustees of the scheme grounds to seek a revision of the current schedule of contributions.

The closure of Hayward Tyler's defined benefit pension scheme in 2003 may not have been effective as it was achieved by the exercise of a power by Hayward Tyler which was not at that time vested in it, although the power was subsequently vested in it with retrospective effect. If the closure was not effective, this is likely to have a material impact on the funding position of the scheme and Hayward Tyler's future contribution obligation.

### **Financing**

The ability of the Enlarged Group to make payments on and to refinance existing debt in the longer term (i.e. after 12 months from the date of Admission) will depend on its future operating performance and ability to generate sufficient cash. Additionally, it will also depend to some extent on general economic, financial, competitive, market, legislative, regulatory and other factors which may be beyond the control of the Enlarged Group. There is no certainty that, in the longer term (i.e. after 12 months from the date of Admission), the Enlarged Group will be able to generate sufficient cash flows from operations or have recourse to future debt or equity finance sufficient to enable the Enlarged Group to service its debts when they are due or to fund liquidity needs.

Failure to manage working capital could in the longer term (i.e. after 12 months from the date of Admission), impact upon the ability of the Enlarged Group to grow and lead to the potential breach of banking related covenants.

### **Customer Terms and Conditions**

Southbank's standard terms and conditions place an obligation on its customers to pay in stages for the products and services. There is a cash flow risk to the Enlarged Group if these standard terms and conditions are not agreed for certain works.

### **Property Valuations**

Southbank and its subsidiaries own two UK properties. Due to market conditions, these properties are likely to have decreased in value in line with property value movements generally in the UK. Therefore, the Directors and Proposed Directors believe that the current fair market value of the properties is likely to be below current carrying value in the accounts of Southbank. The way that this decrease is accounted for may have an adverse impact on the net asset position of the Enlarged Group.

This has not been reflected in the historical financial information presented in this document.

## **MARKET RISKS**

### **AIM**

An application will be made for the Enlarged Share Capital to be admitted to trading on AIM and it is emphasised that no application is being made for admission of the Enlarged Share Capital to the Official

List or to any other stock exchange at this time. AIM is a market designed primarily for emerging or smaller companies. An investment in shares quoted on AIM may be less liquid and may carry a higher risk than an investment in shares quoted on the Official List. The rules of AIM are less demanding than those of the Official List. Further, the London Stock Exchange has not itself examined or approved the contents of this document. 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.

Stock markets have from time to time experienced severe price and volume fluctuations, a recurrence of which could adversely affect the market price for the New Ordinary Shares. Admission to trading on AIM should not be taken as implying that there will be a liquid market for the New Ordinary Shares.

#### **Market for the Company's shares and volatility of share price**

Prospective investors should be aware that the value of an investment in the Company may go down as well as up. In addition, the Company can give no assurance that an active trading market for its shares will develop, or if developed, be sustained in the future. If an active trading market is not developed or maintained, the liquidity and trading price of the Company's shares could be adversely affected. Furthermore, the trading price of the Company's shares may not reflect the underlying value of the Company and may be subject to wide fluctuations in response to a number of events and factors, such as variations in the Company's operating results, changes in the regulatory environment and stock market sentiment.

The New Ordinary Shares are intended to provide an opportunity for longer-term capital growth and therefore they may not be suitable as a short-term investment.

In addition, the market price of the New Ordinary Shares may be subject to wide fluctuations in response to many factors, including variations in the operating results of the Company, divergence in financial results from analysts' expectations, changes in earnings estimates by stock market analysts, general economic conditions, overall market or sector sentiment, legislative changes in the Company's sector and other events and factors outside of the Company's control.

### **REGULATORY AND TAXATION RISKS**

#### **Company taxation position**

The Company is incorporated and registered in, and is a tax resident of, the Isle of Man. However, since the Enlarged Group intends to run its affairs so that central management and control of the Company is exercised in the UK, this will most probably give rise to the Company being classified as resident in the UK for corporation tax purposes. This could result in the Company paying corporation tax in the UK, which is currently at a higher rate than in the Isle of Man.

#### **Shareholder taxation position**

Investors should take their own tax advice as to the consequences of owning shares in the Company as well as receiving returns from it. In particular, investors should be aware that ownership of shares in the Company can be treated in different ways in different jurisdictions.

#### **Regulatory and legal changes**

The Company's strategy has been formulated in the light of the current regulatory and legal environment and likely anticipated future changes. The regulatory and legal environment may change in the future and such changes may have a material adverse effect on the Company.

#### **Economic, political, judicial, administrative, taxation or other regulatory factors**

The Enlarged Group may be adversely affected by changes in economic, political, judicial, administrative, taxation or regulatory factors, as well as other unforeseen matters, in the Isle of Man (the jurisdiction in which the Company is registered) or in other jurisdictions in which the Company operates.

The Company is incorporated under the laws of Isle of Man. Accordingly, the rights of shareholders are governed by the Isle of Man corporate law and by the Company's constitutional documents. Hence the rights of shareholders may be different to the typical rights of shareholders in the UK and other jurisdictions. A brief summary of some differences of Isle of Man law and how the constitutional documents have been modified accordingly are set out in Part VI of this document.

Although the Directors and Proposed Directors recognise the importance of good corporate governance, neither the Listing Rules of the United Kingdom Listing Authority nor the Combined Code will apply to the Enlarged Group. Please note the discussion of this point in more depth in section 21 (Corporate Governance and Internal Controls) of Part I of this document.

## **RISKS RELATING TO THE ACQUISITION**

### **Minority ownership of Southbank**

If at least a 90 per cent. shareholding in Southbank is not obtained by Nviro under the Offer the existence of a minority interest may greatly restrict future corporate actions.

The Offer is, at present, conditional, *inter alia*, upon valid acceptance being received in respect of at least 75 per cent. in nominal value of Southbank Shares to which the Offer relates. Unless valid acceptance are received for more than 90 per cent. of the issued share capital to which the Offer relates, Nviro will not be able to take advantage of the provisions of sections 979 to 982 (inclusive) of the 2006 Act to compulsorily acquire any remaining Southbank Shares and therefore Southbank will not become a wholly owned subsidiary of Nviro.

### **There will be dilution of ownership of Nviro Shares**

In the event that the Offer is declared or becomes unconditional existing Nviro Shareholders will suffer a reduction in their proportionate ownership and voting interest in the share capital of Nviro.

### **Admission to AIM**

Following the Offer becoming or being declared unconditional (save for Admission) application will be made for the Enlarged Share Capital to be admitted to trading on AIM. Whilst every effort will be made to ensure this application is successful there can be no guarantee that this will be the case. In particular, as a condition to Admission the Company will be required to confirm to the London Stock Exchange that it has sufficient working capital for its present requirements, that is, at least 12 months following admission. If for any reason the Placing does not proceed then Admission will not occur. As Admission of the Consideration Shares to trading on AIM is a condition of the Offer, if the Placing does not proceed there is a significant risk that the Acquisition will not complete.

## DEFINITIONS

In this document the following terms and expressions have the following meanings unless the context requires otherwise:

“1985 Act”	the Companies Act 1985 (as amended);
“2006 Act”	the Companies Act 2006;
“Acquisition”	the proposed acquisition of Southbank by Nviro pursuant to the Offer;
“Acts”	the Isle of Man Companies Acts 1931-2004 (as amended);
“Admission”	the admission of the Enlarged Share Capital to trading on AIM becoming effective in accordance with the AIM Rules for Companies;
“AIM”	the AIM market operated by the London Stock Exchange;
“AIM Rules for Companies”	the rules of the London Stock Exchange governing the admission of securities to trading on and the regulation and operation of AIM;
“Articles”	the articles of association of the Company, a summary of which is set out in paragraph 5 of Part VI of this document;
“Board” or “Directors”	the directors of the Company as at the date of this document whose names are set out on page 20 of this document;
“Business Day”	a day on which the London Stock Exchange is open for the transaction of business;
“CBT”	Cincinnati Bulk Terminals;
“Circular”	the explanatory circular to Nviro Shareholders in respect of the Extraordinary General Meeting dated 23 December 2009;
“CISX”	Channel Islands Stock Exchange;
“City Code” or “Code”	the City Code on Takeovers and Mergers;
“Combined Code”	the Combined Code on Corporate Governance published in June 2008 by the Financial Reporting Council;
“Consideration Shares”	the 13,218,225 New Ordinary Shares (assuming full acceptance of the Offer) to be issued by the Company as consideration pursuant to the Offer;
“CREST”	the relevant system (as defined in the Regulations) in respect of which Euroclear UK & Ireland Limited is the operator in accordance with which securities may be held and transferred in uncertificated form;
“DTR”	the Disclosure Rules and Transparency Rules made by the FSA pursuant to section 73A(3) of FSMA;
“EEA States”	the states which are contracting parties to the agreement on the European Economic Area signed at Oporto on 2 May 1992, as it has effect for the time being (such states being at the date of this document Austria, Belgium, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, the Netherlands, Norway, Poland, Portugal, the Slovak Republic, Slovenia, Spain, Sweden and the United Kingdom);
“Enlarged Group”	Nviro and its Subsidiaries following completion of the Acquisition;
“Enlarged Share Capital”	the entire issued share capital of the Company following the Share Capital Consolidation, issue of the Placing Shares and issue of the Consideration Shares;
“EU”	the European Union;

“Euro”	the lawful currency of the European Union;
“Existing Ordinary Shares”	the 66,093,184 ordinary shares of 0.1p each in the capital of the Company in issue as at the date of this document;
“Extraordinary General Meeting”	the general meeting of the Company to be held at 11.00 a.m. on 15 January 2010 at Burleigh Manor, Peel Road, Douglas, Isle of Man IM1 5EP;
“Fairfax” or “Broker” or “Lead Financial Adviser”	Fairfax I.S. PLC;
“First Closing Date”	the first closing date of the Offer, being 1.00 p.m. on 18 January 2010;
“Form of Acceptance and Assignment”	the form of acceptance and assignment and authority relating to the Offer;
“Form of Proxy”	the form of proxy contained in the Circular for use at the Extraordinary General Meeting;
“FRS”	financial reporting standard;
“FSA”	the Financial Services Authority;
“FSMA”	the Financial Services and Markets Act 2000 (as amended);
“GBP”, “£”, “UK£” or “Sterling”	pound sterling, the lawful currency of the United Kingdom;
“Grant Thornton International”	a non-practising, non-trading international umbrella organisation comprising a network of independent member and correspondent firms throughout the world. Grant Thornton International is not an international/global/worldwide partnership either in relation to all of the members collectively or any two or more members together. In particular, Grant Thornton UK LLP does not carry on business in the United States of America or Canada and is a separately owned and managed business from entities known as Grant Thornton LLP carrying on business in those territories;
“Grant Thornton Corporate Finance” or “Nominated Adviser”	The capital markets division of Grant Thornton UK LLP and nominated adviser to the Company;
“Grant Thornton UK LLP”	a limited liability partnership registered in England and Wales whose principal place of business is Grant Thornton House, Melton Street, Euston Square, London NW1 2EP and which is the UK member firm of Grant Thornton International;
“Group”	Nviro and its Subsidiaries at the date of this document;
“Hayward Tyler”	Hayward Tyler Group Limited and its subsidiaries;
“IFRS”	International Financial Reporting Standards;
“INR”	Rupees, the lawful currency of India;
“IPO”	initial public offering;
“IPR”	intellectual property rights;
“Listing Rules”	the rules and regulations made by the FSA under Part VI of FSMA (as amended);
“London Stock Exchange”	London Stock Exchange plc;
“Memorandum”	the memorandum of association of the Company, a brief summary of which is set out in paragraph 5 of Part VI of this document;

“Nviro” or the “Company”	Nviro Cleantech plc, a company incorporated in the Isle of Man with registered number 116537C to be renamed Specialist Energy Group plc;
“Nviro Shareholders” or “Shareholders”	the holders of Existing Ordinary Shares;
“New Ordinary Shares”	the ordinary shares of 1p each in the capital of the Company resulting from the Share Capital Consolidation;
“Offer”	the offer made by Nviro to acquire the whole of the issued and to be issued share capital of Southbank (including for the avoidance of doubt, shares held in treasury) and, where the context so requires, any subsequent revision, variation, extension or renewal thereof;
“Offer Document”	the document sent to Southbank Shareholders on 23 December 2009 containing details and terms of the Offer;
“Offer Period”	the period commencing 20 November 2009 (being the date of the announcement of the Rule 2.4 announcement) until whichever of the following shall be the latest: (i) 1.00 p.m. on 18 January 2010; (ii) the date on which the Offer lapses; or (iii) the date on which the Offer becomes or is declared unconditional as to acceptances;
“Official List”	the Official List of the UKLA;
“Panel” or “Takeover Panel”	the Panel on Takeovers and Mergers;
“Placing”	the conditional placing by Fairfax on behalf of Nviro of the Placing Shares at the Placing Price pursuant to the Placing Agreement, as described in this document;
“Placing Agreement”	the conditional agreement dated 22 December between (1) Nviro (2) the Directors and Proposed Directors (3) Fairfax and (4) Grant Thornton Corporate Finance, relating to the Placing, details of which are set out in paragraph 13.2 of Part VI of this document;
“Placing Price”	76 pence per Placing Share;
“Placing Shares”	the 5,263,200 New Ordinary Shares to be allotted and issued by Nviro pursuant to the Placing;
“Prospectus Rules”	the rules made by the FSA pursuant to section 84(1) of FSMA for the purposes of Part VI of FSMA;
“Proposals”	the Offer, the Placing, the Share Capital Consolidation and Admission;
“Proposed Board” or “Proposed Directors”	the persons whose names are set out on page 20 of this document;
“Record Date”	6.00 p.m. on 15 January 2010;
“Regulations”	the Isle of Man Uncertificated Securities Regulations (2005) (SD 754/05), as amended;
“Regulatory Information Service”	any of the services set out in Appendix 3 to the Listing Rules;
“Restricted Jurisdiction”	the United States, Canada, Australia, South Africa or Japan;
“Share Capital Consolidation”	the proposed consolidation of the Company’s share capital resulting in 1 New Ordinary Share for every 10 Existing Ordinary Shares, details of which are set out in section 7 of Part I of this document;
“Share Option Scheme”	the option scheme, comprising the EMI option plan and the unapproved share option plan, further details of which are set out in paragraph 9 of Part VI of this document;

“Share Registrars”	Share Registrars Limited;
“Southbank”	Southbank UK plc, a company registered in England and Wales with registered number 5474162;
“Southbank Group”	Southbank and its Subsidiaries;
“Southbank Shareholders”	the holders of Southbank Shares;
“Southbank Shares”	the existing issued or unconditionally allotted and fully paid ordinary shares of 0.02p each in the capital of Southbank and any further such shares which may be issued or unconditionally allotted and fully paid prior to the time and date on which the Offer ceases to be open for acceptance (or, subject to the City Code or with the consent of the Panel, by such other date as Nviro may decide);
“Subsidiary” or “Subsidiaries”	a subsidiary undertaking (as defined by section 1159 of the 2006 Act);
“UK” or “United Kingdom”	the United Kingdom of Great Britain and Northern Ireland;
“UK GAAP”	UK generally accepted accounting practices, including the requirements of the Acts, Financial Reporting Standards, Statements of Standard Accounting Practice and Urgent Issues Task Force Abstracts in force at the date of this document;
“UKLA”	the Financial Services Authority, acting in its capacity as the competent authority for the purposes of Part VI of FSMA;
“uncertificated” or “in uncertificated form”	recorded on the relevant register of the share or security concerned as being held in uncertificated form in CREST, and title to which, by virtue of the Regulations, may be transferred by means of CREST;
“United States”, “US” or “USA”	the United States of America, its territories and possessions and any other areas subject to its jurisdiction, any states of the United States and the District of Columbia;
“USD”, “US\$” or “\$”	US dollars, the lawful currency of the United States;
“US person”	a US person as defined in Regulation S under the US Securities Act;
“US Securities Act”	the United States Securities Act 1933, as amended;
“VAT”	value added tax.



## GLOSSARY

“ASME”	American Society of Mechanical Engineers;
“BCP”	boiler circulating pump;
“Clean Coal” or “Clean Fuel”	a new generation of energy processes that reduce air emissions and other pollutants from fuels and in particular coal;
“Clean Technology” or “Cleantech”	technologies developed by biological, computational, and physical scientists and engineers that enable better use of natural resources and significantly reduce ecological impact and which are intended to be developed, tested, presented for marketing authorisation and ultimately sold as a clean technology;
“CO <sub>2</sub> ”	carbon dioxide;
“DSM”	deep submersible motor;
“EP”	Engineered Products, the name of the main manufacturing business of Hayward Tyler;
“FPSO”	floating, production, storage, offloading;
“GDP”	gross domestic product;
“Global Warming”	the average increase in the Earth’s temperature, which in turn causes changes in climate and is widely believed to be detrimentally affected by the influence of man and industry;
“GW”	gigawatt;
“HAPs”	hazardous air pollutants;
“In-license”	industry term for licensing IPR of certain technologies and products from third parties and the terms “In-licensed” and “In-licensing” shall be construed accordingly;
“Manufacturing Division”	the division that comprises the original manufacturing business of Hayward Tyler;
“Micro-Fluidics”	the behaviour, precise control and manipulation of microlitre and nanolitre volumes of fluids and used in the development of DNA chips, micro-propulsion, micro-thermal technologies, and law-on-a-chip technology;
“MDF”	medium density fibreboard;
“MW”	megawatt;
“N Stamp”	nuclear stamp;
“OECD”	Organisation for Economic Co-operation and Development;
“OEM”	original equipment manufacture;
“Out-license”	industry term for licensing IPR of certain technologies and products to third parties and the terms “Out-licensed” and “Out-licensing” shall be construed accordingly;
“Services Division”	the division of Hayward Tyler that provides services including repair, upgrade, overhaul and spare parts;
“SynGas”	Synthesis Gas;
“WNA”	World Nuclear Association.

## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Offer announced .....	23 December 2009
Publication of Offer Document, this document and the Circular .....	23 December 2009
Latest time and date for receipt of the Form of Proxy .....	11.00 a.m. on 13 January 2010
Extraordinary General Meeting .....	11.00 a.m. on 15 January 2010
First closing date of the Offer .....	1.00 p.m. on 18 January 2010
Admission of Enlarged Share Capital to AIM <sup>(1)</sup> .....	8.00 a.m. on 20 January 2010
CREST accounts credited with New Ordinary Shares <sup>(1)</sup> .....	20 January 2010
Certificates for New Ordinary Shares despatched <sup>(1)</sup> .....	week commencing 25 January 2010

(1) Subject to the Offer becoming or being declared unconditional at the first closing date.

Each of the dates in the above timetable is subject to change at the absolute discretion of the Company, Grant Thornton Corporate Finance and Fairfax (subject to compliance with the City Code). All times are Greenwich Mean Time.

## STATISTICS

Number of Existing Ordinary Shares .....	66,093,190
Number of New Ordinary Shares following the Share Capital Consolidation .....	6,609,319
Number of Consideration Shares to be issued pursuant to the Offer <sup>(1)</sup> .....	13,218,225
Number of Placing Shares to be issued pursuant to the Placing .....	5,263,200
Enlarged Share Capital on Admission <sup>(1)</sup> .....	25,090,744
Percentage of Enlarged Share Capital being issued pursuant to the Placing .....	20.98%
Gross proceeds of the Placing .....	£4,000,032
Net proceeds of the Placing .....	£3,163,032
Expected market capitalisation on Admission at the Placing Price <sup>(1)</sup> .....	£19,068,965
Ordinary Share ISIN number .....	IM00B511CF53
Tradable Instrument Display Mnemonic .....	SEGR.L

(1) Assumes full acceptance of, and no variation to, the Offer and assuming no further Southbank Shares are issued.

### FORWARD-LOOKING STATEMENTS

This document includes statements that are, or may be deemed to be “forward-looking statements”. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms “believes”, “estimates”, “plans”, “anticipates”, “targets”, “expects”, “predicts”, “aims”, “continues”, “intends”, “may”, “will”, “would” or “should” or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this document and include statements regarding Nviro’s, Southbank’s and the Enlarged Group’s intentions, beliefs or current expectations concerning, among other things, Nviro’s, Southbank’s and the Enlarged Group’s results of operations, financial condition, prospects, growth, strategies and the industries in which Nviro, Southbank and the Enlarged Group operate. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances.

A number of factors could cause actual results and developments to differ materially from those expressed or implied by the forward-looking statements including, without limitation: conditions in the markets, the market position of Nviro, Southbank and the Enlarged Group, earnings, financial position, cash flows, return on capital and operating margins, anticipated investments and capital expenditures, changing business or other market conditions and general economic conditions. These and other factors could adversely affect the outcome and financial effects of the plans and events described in this document. Forward-looking statements contained in this document based on past trends or activities should not be taken as a representation that such trends or activities will continue in the future. Except as required by the Prospectus Rules, the Listing Rules, the DTR, applicable law or the AIM Rules for Companies neither Nviro nor Fairfax nor Grant Thornton Corporate Finance undertakes any obligation to update or review any forward-looking statements, whether as a result of new information, future events or otherwise. Southbank Shareholders who are considering whether to accept the Offer and Nviro Shareholders and potential investors in the Company should not place undue reliance on forward-looking statements, which speak only as of the date of this document. None of the statements made in this section “Forward-looking statements” in any way obviates the requirements to comply with the Prospectus Rules, the DTR, the AIM Rules for Companies or the FSMA.

## **DIRECTORS, SECRETARY AND ADVISERS**

### **Directors**

Duncan Roy Sedgwick, *Non-executive Interim Chairman*  
Christopher Graeme Every, *Chief Executive Officer*  
Christopher Tawney, *Executive Director and Chief Financial Officer*  
Elizabeth Jayne Glare Cooper, *Non-executive Director*  
Andrew James Cosentino, *Non-executive Director*  
Philip Thomas Hollobone, *Non-executive Director*

*all of whose business address is:*

Burleigh Manor  
Peel Road  
Douglas  
Isle of Man IM1 5EP

### **Proposed Directors**

<b>Solicitors to Nviro as to Isle of Man Law</b>	Cains Advocates Limited 15-19 Athol Street Douglas Isle of Man IM1 1LB
<b>Reporting Accountants to Nviro and Southbank and Auditor to Southbank</b>	Grant Thornton UK LLP No 1 Whitehall Riverside Whitehall Road Leeds LS1 4BN
<b>Auditor to Nviro</b>	Baker Tilly UK Audit LLP 2 Bloomsbury Street London WC1B 3ST
<b>Solicitors to Southbank as to English Law</b>	Irwin Mitchell 40 Holborn Viaduct London EC1N 2PZ
<b>Solicitors to the Placing</b>	Field Fisher Waterhouse LLP 35 Vine Street London EC3N 2AA
<b>Registrars and Receiving Agents</b>	Share Registrars Limited Suite E First Floor 9 Lion and Lamb Yard Farnham Surrey GU9 7LL

## **PART I**

### **INFORMATION ON THE OFFER, THE PLACING AND THE ENLARGED GROUP**

#### **1. INTRODUCTION**

The Board announced on 23 December 2009 the terms of an all share offer to be made by Nviro to acquire the entire issued and to be issued share capital of Southbank.

In view of the size of Southbank in relation to the size of Nviro and the fundamental change to the Company's business, the Acquisition constitutes a reverse takeover under the AIM Rules for Companies and, as such, requires the approval of Nviro Shareholders at the Extraordinary General Meeting. Notice of the Extraordinary General Meeting has been sent to Nviro Shareholders with this document.

In addition, resolutions will be proposed at the Extraordinary General Meeting regarding several other matters, including to approve an increase in the authorised share capital, to grant powers of allotment and to disapply the pre-emption provisions in respect of the Placing and the Acquisition and for the future grant of options, to consolidate the authorised share capital, to change the Company's name to Specialist Energy Group plc and to amend the Articles by removing certain borrowing restrictions and the restriction on directors' fees, to assist the Enlarged Group going forward.

As a consequence of the Acquisition constituting a reverse takeover, the Company is required to apply for re-admission to AIM as the Enlarged Group. It is expected that such Admission will take place as soon as is reasonably practicable within 21 days of the Offer becoming or being declared unconditional (save only for the Admission) and concurrently the Company's current admission to AIM will be cancelled.

In addition, the Group has conditionally raised £4.0 million pursuant to the Placing for capital expenditure and to strengthen its balance sheet through the partial repayment of existing Southbank debt principally to enable it to further finance and develop its business strategy for the Enlarged Group. Further details of the Placing are set out in sections 5 and 6 of this Part I.

#### **2. BACKGROUND TO AND REASONS FOR THE OFFER**

Since Nviro's admission to AIM in August 2007 it has been engaged in commercialising Clean Technologies. Over the last two years, Nviro has focused its attention and investment primarily on its Clean Fuel technology, Vertus. The other projects in the Group have continued on agreed investment programmes and have absorbed limited cash investment by comparison, but they have continued to be satisfactorily developed in this time. The Southbank Group provides niche engineering solutions for the global energy sector and provides a wide range of products and services to a variety of power generation industries. Further information on Nviro and Southbank is set out in sections 8 and 9 of this Part I.

During the final quarter of 2008 Vertus suffered a combination of setbacks at its first commercial pilot site which was under construction at CBT's riverside site in Cincinnati, Ohio, USA. The air permit, which was negotiated by and granted to Vertus under Federal, State and local City Clean Air legislation in November 2008, contained very stringent off-gas standards and controls which required Vertus to re-engineer certain of its existing off-gas treatment system technology. By the end of 2008, it became apparent that such re-engineering of the Vertus technology was substantially increasing the capital and operating costs of the site under construction in Cincinnati. In addition, the impact of the economic situation in the coal marketplace for the Ohio region, the uncertainties and unexpected changes in the US Clean Air legislation and rapidly falling gas prices culminated in a reduction of the margins between Environmental Protection Agency Air Quality compliant and non-compliant coals by ten times in just one month (source: Energy Information Administration ("EIA") figures, January 2009). This prompted the Directors to reconsider the economic viability of the CBT project going forward and led to a strategic review of the Company's business which was completed in March 2009.

Further to the strategic review, it became clear that it would be very challenging to continue to build a commercial, cost-effective plant on the CBT site and in May 2009 Nviro's withdrawal from the site was initiated by mutual agreement with CBT. The issues Nviro identified at the CBT project also had a negative impact on discussions with prospective clients in India and China who were awaiting the CBT plant going live. Negotiations continue between Nviro and CBT on revised agreements for future opportunities to

co-market Vertus technology to CBT's clients. However, a substantial part of the capital set aside to fund the plant was spent or committed and has necessitated a negotiated withdrawal, not only from the relationship with CBT, but also from the build programme to cease capital spend and control operational costs from the programme.

Further to the strategic review, a detailed evaluation of Vertus technology's performance, in a range of defined conditions, was undertaken to establish its ability to respond to the changes being demanded from the market place given current economic conditions and legislative requirements. Completed in May 2009, the evaluation period confirmed, through testing a wide range of fuels from all ranks of coal and biomass, that the technology had a number of issues that weakened its previously perceived capability as a broad spectrum treatment technology for coal prior to combustion. However, the evaluation demonstrated that Vertus still has the ability to provide solutions to the Clean Fuel market.

As a result of the above, the Directors concluded that in order for Nviro to continue to pursue the development of Vertus technology, with the remaining cash position and in the prevailing economic climate, there was a need to implement strategic partnerships in the energy market place. A number of options for strategic alliances with potential power industry and resource based entities were considered with the intention of securing a stronger corporate entity and more certain future for the Company.

The Company entered into discussions with Southbank and initially the discussions were focused on potential co-operation between Nviro and Southbank in both the common ground of marketing to major utilities and abilities in engineering and synergies in capital engineering project management skills. These discussions have now developed to cover the Proposals.

### **3. STRATEGY FOR THE ENLARGED GROUP**

The Proposed Directors intend to focus the resources of the Enlarged Group on the business of Southbank's main operating subsidiary, Hayward Tyler. They will continue to pursue the opportunities which the Directors have been developing to license the Vertus technology. Should these licensing discussions not reach a satisfactory conclusion the Proposed Directors intend to cease development of the Vertus technology.

The Hayward Tyler business operates across a number of markets. Hayward Tyler engineers, manufactures and sells products and services to the following market segments of the energy sector:

- Power generation (traditional fossil fired)
- Power generation (nuclear)
- Power generation (Clean Coal)
- Oil and Gas (top-side)
- Oil and Gas (subsea)
- Renewables (tidal)

The Proposed Directors believe that significant opportunities for growth exist within the energy sector and that by focusing on expanding within the above market segments the Enlarged Group is expected to have the potential for significant organic growth via its Hayward Tyler subsidiary. The Proposed Directors believe that in order to capitalise on these opportunities the Enlarged Group needs to be able to provide Hayward Tyler with additional financial resources and support for its expanding global ambitions.

The Proposed Directors believe that the Hayward Tyler order book (for the EP division) is full for over 12 months and the main export markets of China and India continue to exhibit strong GDP growth characteristics which is the main driver for power generation demand. In addition the development of enhanced oil recovery techniques and the continuing exploration of offshore oil reserves highlight the growth potential of the subsea market.

In order to make the most of these positive macro-economic factors and provide Hayward Tyler with the best means of capitalising on these factors the Enlarged Group intends to use the proceeds of the Placing to ensure that a more appropriate capital structure is in place to help facilitate this growth. The Proposed Directors believe that the Acquisition will result in an improvement in net assets, a reduction in gearing and a marked improvement in free cash flow generation and accordingly interest cover. The Proposed Directors believe that the expected positive effects of a stronger balance sheet include:

- Ability to increase capital expenditure levels and invest in new infrastructure and manufacturing equipment at the main Hayward Tyler operating sites (thereby underpinning the delivery of its existing order book and also improving the gross margins relating to its existing and future orders);
- Ability to further compete for overseas contracts (which often require bonding or letters of credit to be raised);
- Ability to develop overseas joint ventures in key end markets, for example India, where an element of local manufacturing could have significant benefits both in terms of sales expansion and margin improvements;
- Ability to undertake research and development projects relating to specific end uses and end users within existing market niches for example development of a larger size subsea motor unit;
- Stronger financial measures which are expected to improve credit rating scores (and therefore wider credit insurance cover) thus enabling improved payment terms; and
- Reduction in bank net debt levels and the associated reduction in interest charge.

Given the focus on the Hayward Tyler business and its opportunities for growth the Proposed Directors plan to continue to exit from Nviro's technologies, Microrelease, Laseair and Organotect to ensure the minimum continuing cost and the maximum reduction in potential future liabilities.

During the course of the economic cycle the Proposed Directors believe that there will be further opportunities for growth through acquisition. Such acquisitions are expected to operate in either the same or complementary sectors to those in which Hayward Tyler already operates. The focus of the Enlarged Group is expected to remain linked to the energy sector encompassing power generation through nuclear to renewables and oil and gas. The businesses that the Proposed Directors intend to target are likely to exhibit some or all of the following characteristics:

- A niche position or leading market position
- End markets which are exhibiting strong growth
- Profit maximisation potential
- Operational management team in place
- Worldwide opportunities

The initial focus of the Proposed Directors will however be on the steady and consistent, profitable growth of its main operating subsidiary, Hayward Tyler as outlined above. The use of the proceeds of the Placing is discussed in greater detail in section 6 of this Part I.

#### **4. THE OFFER**

Nviro is offering to acquire, on the terms and subject to the conditions set out in the Offer Document and reproduced in Part V of this document, all of the issued and to be issued Southbank Shares on the following terms:

##### **For every 7,149 Southbank Shares 100 Consideration Shares**

and so in proportion for any number of Southbank Shares held. Fractions of Consideration Shares will not be allotted to Southbank Shareholders. Entitlements to Consideration Shares will be rounded down to the nearest Consideration Share.

A holder of Southbank Shares held through a nominee should note that his entitlement in relation to fractions of New Ordinary Shares will depend on his contractual arrangements with the relevant nominee.

At the Placing Price of 76 pence per Nviro Share (post Share Capital Consolidation), the Offer values each Southbank Share at approximately 1.063 pence and the entire issued and to be issued share capital of Southbank at approximately £10.05 million.

Based on the AIM closing price of 5.5 pence (pre Share Capital Consolidation) per Nviro Share on 19 December 2009, being the last business day before the commencement of the Offer period, the Offer values each Southbank Share at approximately 0.769 pence. On this basis the Offer values the entire issued and to be issued share capital of Southbank at approximately £7.27 million.



The Southbank Shares which are the subject of the Offer will be acquired fully paid and free from all liens, charges, equitable interests, encumbrances and third party rights and together with all rights now or hereafter attaching thereto, including the right to all dividends and other distributions (if any) declared, made or paid hereafter.

The full terms and conditions of the Offer are set out in Part V of this document and in the Offer Document which has today been posted to the Southbank Shareholders.

Following the Offer becoming or being declared unconditional (save for Admission) application will be made for the Enlarged Share Capital to be admitted to trading on AIM. Whilst every effort will be made to ensure this application is successful there can be no guarantee that this will be the case. In particular, as a condition to Admission the Company will be required to confirm to the London Stock Exchange that it has sufficient working capital for its present requirements, that is, at least 12 months following Admission. If for any reason the Placing does not proceed then Admission will not occur. As Admission of the Consideration Shares to trading on AIM is a condition of the Offer, if the Placing does not proceed there is a significant risk that the Acquisition will not complete.

Full acceptance of the Offer by holders of existing Southbank Shares will result in the issue of up to 13,218,225 Consideration Shares, representing approximately 52.68 per cent. of the Enlarged Share Capital. The minimum number of Consideration Shares capable of being issued pursuant to the Offer, if the acceptance condition is satisfied, is 9,913,669. In both cases these figures assume no variation to the terms of the Offer, the allotment of the Placing Shares, no further allotment of Southbank Shares and that all outstanding share options have been exercised in respect of Southbank Shares.

#### **Irrevocable Commitments**

Nviro has received irrevocable undertakings to accept (or procure the acceptance of) the Offer from the directors of Southbank (and those of their immediate families and associated interests) in respect of their aggregate holding of 201,547,824 Southbank Shares representing approximately 21.33 per cent. of Southbank's issued and to be issued share capital and from certain other Southbank Shareholders in respect of an aggregate 178,547,824 Southbank Shares representing 18.89 per cent. of Southbank's issued and to be issued share capital.

This figure includes options over Southbank Shares that the Proposed Directors and other shareholders have irrevocably committed to exercise prior to acceptance of the Offer.

These irrevocable undertakings will cease to be binding in the event of the Offer lapsing or being withdrawn.

#### **Procedure for Acceptance of the Offer and Settlement**

The procedure for acceptance of the Offer and settlement are reproduced in Sections C and D of Part V of this document, and are set out in full in the Offer Document and accompanying Form of Acceptance and Assignment.

### **5. DETAILS OF THE PLACING AND DEALING ARRANGEMENTS**

The Company has conditionally raised £4.0 million (approximately £3.2 million net of expenses and applicable VAT) by the placing of 5,263,200 Placing Shares pursuant to the Placing at the Placing Price. The Placing Shares will represent approximately 20.98 per cent. of the Enlarged Share Capital on Admission. The Placing, which is not underwritten or guaranteed, is conditional, *inter alia*, upon the Offer becoming or being declared unconditional and Admission becoming effective.

Further details of the Placing Agreement are set out in paragraph 13.2 of Part VI of this document.

Immediately following Admission, the Directors, Proposed Directors and applicable employees of the Enlarged Group and their immediate families and associates are expected to hold in aggregate approximately 2,768,159 New Ordinary Shares amounting to approximately 11.03 per cent. of the Enlarged Share Capital on Admission.

As a consequence of the Acquisition constituting a reverse takeover, the Company is required to apply for re-admission to AIM as the Enlarged Group. Therefore, application will be made for the Enlarged Share Capital to be admitted to trading on AIM as soon as is reasonably practicable within 21 days of the Offer

becoming or being declared unconditional (save for Admission). The Placing Shares will rank *pari passu* in all respects with the Ordinary Shares.

**6. REASONS FOR THE PLACING AND USE OF PROCEEDS**

The Group has conditionally raised £4.0 million (£3.2 million net of expenses and applicable VAT) to fund capital expenditure and to strengthen its balance sheet through the partial repayment of existing Southbank debt principally to enable it to further finance and develop its business strategy for the Enlarged Group.

The intended use of proceeds from the Placing is as follows:

	<b>£m</b>
<b>Repayment of borrowings</b>	3.0
<b>Capital expenditure</b>	0.2
<b>Cost of Placing</b>	0.8
	<hr/>
<b>Total</b>	<b>4.0</b>
	<hr/>

**Repayment of Borrowings**

The Proposed Directors intend to use a portion of the proceeds from the Placing to strengthen the balance sheet of the Enlarged Group by repaying a portion of Southbank’s existing borrowings.

**Capital Expenditure**

The Proposed Directors believe that the proceeds of the Placing will enable the Enlarged Group to accelerate the Southbank Group capital expenditure programme. The Proposed Directors would expect that by accelerating the capital expenditure programme, margin improvements could be achieved and the projected gross margin levels relating to the current order book could be underpinned. The Proposed Directors intend to seek a grant from the East of England Development Agency and equipment finance to augment the funding of capital expenditure, which the Proposed Directors estimate may cover £2.75 million of the planned capital expenditure.

**7. SHARE CAPITAL CONSOLIDATION**

**Reasons for Share Capital Consolidation**

*To reduce share price volatility*

Share price volatility can create investor uncertainty and increase a company’s cost of capital. This means small actual movements in the share price can represent large percentage movements, which fuels the perception of volatility.

In addition, while Ordinary Shares trade at below 50 pence per Ordinary Share they are much more likely to be perceived as a ‘penny share’. Whilst it is difficult to quantify the negative impact this has on investor perception of a company’s shares, ‘penny shares’ tend to attract speculators, which can further add to the volatility in the share price.

**Effect of the Share Capital Consolidation**

The effect of the Share Capital Consolidation will be that, on the implementation of the Share Capital Consolidation, Shareholders on the register of members at the Record Date, which is expected to be the close of business (London time) on 15 January 2010, will exchange:

**10 Existing Ordinary Shares for 1 New Ordinary Share**

and so in proportion for any other number of Existing Shares then held.

Apart from having a different nominal value, each New Ordinary Share issued pursuant to the Share Capital Consolidation will carry the same rights as an Existing Ordinary Share.

**Fractional Entitlements**

Unless a holding of Existing Ordinary Shares is exactly divisible by 10, a Shareholder will have a fractional entitlement to a New Ordinary Share following the Share Capital Consolidation. Any fractional entitlements will not be allotted to Shareholders and will be aggregated into New Ordinary Shares and sold in the market for the benefit of the Company.

## Conditions

The Share Capital Consolidation is conditional upon Resolution 3 set out in the notice of Extraordinary General Meeting in the Circular being passed.

## Options

All outstanding options granted under the Share Option Scheme will need to be adjusted to reflect the Share Capital Consolidation. Further information on this is set out in paragraph 9 to Part VI of this document.

## 8. INFORMATION ON NVIRO

### History and Background

Nviro Cleantech Limited was established in October 2005 with the objective of investing in a number of environmental clean technology projects and assisting in the commercialisation of such technologies. Nviro Cleantech plc, an Isle of Man incorporated company was formed in May 2006 and is the parent company of Nviro Cleantech Limited and its subsidiaries (a full structure chart is set out in paragraph 2.7 of Part VI of this document). Nviro Cleantech plc was admitted to AIM in August 2007 with a portfolio of technologies.

### Portfolio Overview

Nviro's portfolio technologies were sourced from small private developers and universities in the UK and Europe. A Clean Fuel technology, Vertus, was selected as the primary technology based upon the perceived scale of market opportunity and has become the primary focus of the Company's resources to date. The following table provides an overview of the Group's existing portfolio:

Portfolio	Technology	Description
Clean Fuel Technologies	A portfolio including Vertus, fuel drying, additive and solid fuel biomass treatment technologies	Nviro's primary technology, Vertus, has continued to be developed since Nviro's IPO. The experience at the CBT project (as set out in section 2 (Background to and Reasons for the Offer) of this Part I) has resulted in the original patented technology, Vertus, being augmented with complementary Clean Fuel technologies. The Company has continued to develop the Clean Fuels technology portfolio with the objective of building a range of pre-combustion treatments for coal and biomass fuels to create a cleaner burning and lower emissions energy generation process.
Recycling Technology	Microrelease	Patented technology to recycle MDF and particle board into a high quality reusable wood fibre that has been proven to pilot stage with manufactured product utilised in major shop fitting tests.
Air Technologies	Organotect	A field-based detection system that allows the rapid analysis of hazardous chemicals present in air. The technology has been developed to prototype stage and some field tests have been carried out.
	Laseair	A clean air technology that utilises low energy sources including laser to clean and decontaminate air. Laboratory testing has been completed.

### Clean Fuel Technologies

Ongoing development of the Clean Fuel portfolio of technologies has gained from the experience of the CBT project in Cincinnati (as described in section 2 (Background to and Reasons for the Offer) of this Part I). The difficulties that arose from economic, legislative and technical issues with the technology leading to the Group's withdrawal in early 2009 have resulted in a process of broadening the technology base. The portfolio now encompasses technologies from within the Group as well as some potential In-licensed technologies.

Based on the internal evaluation programme conducted in early 2009, the Directors believe that Nviro is now positioned to be able to deliver added value for clients in three market sectors reflecting an ability to tailor fuels for clients in fast growing areas across the global solid fuel market which are:

*Manipulation of high rank, high value fuels:* for tailored applications demanding fuels such as anthracite or high ranking bituminous coal to have precise specification characteristics for client applications as fuels, filterant and reductants.

*Low to medium temperature thermal processing of low ranking coals:* the removal of moisture and manipulation of HAPs focusing on lignite and brown coal.

*Blended, tailored fuels combining the application of thermally treated biomass and additives:* serving the largest sector of the global power generation industry which is presently seeking solutions to HAPs and CO<sub>2</sub> legislation.

#### ***Current Trading and Opportunities***

The Directors have continued to work with prospective clients from the power generation sector in Europe, the USA and parts of Asia through relationships developed over recent years, but the impact of the withdrawal from the CBT project in early 2009 along with the global market changes has had a negative impact on the commercialisation progress of Vertus. The exercise to establish a new marketing approach in the market place has commenced.

In addition, the Company is pursuing opportunities of working closely under formal arrangements with new strategic partners. One of these is a major resource group with coal resources in Asia and another is a European based group that is active in supporting coal fired plants. These discussions are ongoing and are expected to come to a conclusion before the end of 2009.

#### ***Recycling and Air Technologies***

The Directors are satisfied with the progress that has been made in the development of the Recycling and Air Technologies over the last few years. However, it is the intention of the Proposed Directors, in-line with their revised strategy for the Enlarged Group, to withdraw the Company's ongoing funding and involvement from these technologies to ensure the minimum continuing cost and the maximum reduction in potential future liabilities to the Company.

#### **Corporate Intellectual Property Policies and Management**

Nviro has a series of current licenses and IPR in relation to the Vertus technology, Microrelease technology, Organotect technology and Laseair technology.

Full details of the licenses and IPR are set out in paragraphs 13 and 18 of Part VI of this document.

#### **Directors of Nviro**

Brief biographies of the Directors are set out in section 10 of this Part I. All of the Directors, save for Christopher Every who will become a non-executive director, have agreed to resign from their position with the Company subject to and with effect from Admission.

#### **Employees**

As at 31 March 2009 Nviro had 17 full time employees. Nine are based in the UK and eight in the US. Six employees are considered to be corporate and administrative and the remainder are technical staff. Nviro also employs specialist consultants from time to time, when required.

## **9. INFORMATION ON SOUTHBANK**

### **Southbank**

Southbank UK plc is a niche engineering and manufacturing group that focuses on the energy sector. This sector covers a wide range of potential activities from conventional fossil fired power generation to nuclear power through to oil and gas exploration, renewable energy (wind, hydro, tidal and wave powered) and clean energy.

Southbank's main activities are conducted through its wholly owned subsidiary Hayward Tyler Group Ltd. The Proposed Directors believe that Hayward Tyler is the market leader in the provision of specialist BCPs and motors to conventional and nuclear power generation and offshore oil and gas markets.

### **History and Background**

Hayward Tyler has a rich and varied history having been founded in 1815 as a manufacturer of water closets. Hayward Tyler has been focused on engineering and manufacturing throughout its history, achieving milestones including the development of a single cylinder steam pump in the 1830s, the world's first submersible motor in 1908 and the concept of the glandless, wet stator, BCP in 1957. More recently, in 2007 Hayward Tyler developed the world's largest subsea motor for use in offshore oil activities, which is designed to operate at depths of up to 3,000 metres.

Southbank acquired Hayward Tyler from 3i Group plc and other shareholders in March 2006 and has since recruited a new operational management team to drive the continued market led growth of the company. Southbank is quoted on the Channel Islands Stock Exchange.

### **The Business**

As at 30 June 2009 the Southbank Group had 334 employees in six locations – Luton, England (main facility); East Kilbride, Scotland; Aberdeen, Scotland; Colchester, Vermont, USA; Kunshan, China; and Delhi, India.

In 2008, 68 per cent. of the Southbank Group's turnover was related to the power sector (including nuclear), 10 per cent. to oil and gas, with the balance in other sectors including water, chemical, industrial and defence.

On a geographic basis, 34 per cent. of Hayward Tyler's 2008 sales were made to the USA, 28 per cent. to Europe (including the UK), 20 per cent. to China, with the balance to India and other nations.

In 2008, 44 per cent. of the Southbank Group's turnover was derived from OEM and 56 per cent. from servicing and spares.

Hayward Tyler's order book, as at 30 September 2009, stood at £34.6 million.

### **Products and Services**

Hayward Tyler's products include a range of fluid filled electric motors and pumps with applications in various energy markets. Hayward Tyler leverages significant services revenues from its installed base and position of OEM of various products, offering a comprehensive range of services supporting its own product range as well as those of other OEMs. In addition to purpose-built facilities in the UK, the USA and China, Hayward Tyler has a network of support engineers located internationally. Its facilities are equipped with machinery and technology to reverse engineer components and enable fast response times and optimum performance levels.

**Pumps – BCP** – Hayward Tyler supplies BCPs to large power utilities and leading boiler manufacturers worldwide. The ultimate end users of Hayward Tyler's BCPs are individual power stations. BCPs accounted for 44 per cent. of Hayward Tyler's revenues in 2008.

**Pumps – Other** – Hayward Tyler supplies other types of pumps to three categories of customer: oil and gas integrators, diesel engine manufacturers and process and nuclear companies. The ultimate end users of Hayward Tyler's other pumps include large oil companies and engine manufacturers. Other pumps accounted for 11 per cent. of Hayward Tyler's revenues in 2008.

**Spares** – Hayward Tyler supplies spare parts to its local agent network (approximately 25 per cent. of spares revenues) and direct to end users (approximately 75 per cent. of spares revenues). End users include process plants, oil and gas end users and power stations.

**Service** – The balance of Hayward Tyler's sales comes from the provisions of services including repair upgrade and overhaul to individual power stations or end users.

## **Business Markets**

### *Conventional Power*

Since Hayward Tyler's invention of the original fluid filled glandless motor technology in the 1950s, it has installed some 2,223 BCPs around the world accounting for approximately 50 per cent. of the global installed base. Most of the pumps are for subcritical boiler applications, although there is a trend in some regions to higher efficiency supercritical units. The application for BCPs is in larger utility type power stations (>300MW) rather than smaller localised or industrial size stations. Of the operational base, approximately 600 units are located in Europe, 520 in the USA, 600 in South East Asia, 110 in the Middle East/Central Asia and 140 in Australasia.

The growth in demand for these products has in recent years been led by China. Hayward Tyler has sold units to all of the five main boiler manufacturers in China and has a wholly owned foreign enterprise based in Kunshan to focus on the service operations. Of these five boiler manufacturers Hayward Tyler's largest customer is Shanghai Boiler Works, Ltd (a subsidiary of the state owned Shanghai Electric Group Co. Ltd). In 2007 Hayward Tyler signed a framework agreement with Shanghai Boiler Works, Ltd worth in excess of £10 million to supply over 50 units. The total of Hayward Tyler's past, current and committed but unshipped units to China equates to almost 90GW of generating capacity or the equivalent of the total UK generating capacity. In total Hayward Tyler has over 400 units located in China representing a total market share of almost 55 per cent.

The Proposed Directors believe that a significant proportion of future growth is likely to be led by the increase in demand for power generation in the Indian market. Hayward Tyler already has an installed base of over 100 units in India and has recently won orders from Bharat Heavy Electricals Ltd (the largest engineering and manufacturing enterprise in India in the energy-related/infrastructure sector) for a further 18 units due for delivery in 2010 and 2011. In addition to direct sales into this region Hayward Tyler has developed relationships with other engineering and manufacturing companies to further penetrate the Indian power market.

### *Nuclear Power*

Hayward Tyler has provided a number of motor and pump combinations to the nuclear power industry since its inception. Hayward Tyler is currently able to boast of having installed equipment in nearly 70 per cent. of all nuclear power stations in North America and continues to retain and expand its N Stamp accreditation, awarded by the American Society of Mechanical Engineers.

Many of the Hayward Tyler units have been canned motor pumps for balance of plant applications. However Hayward Tyler has also designed and built large reactor cooling pumps for the Norwegian nuclear market and main cooling water pumps for the North American market.

The Proposed Directors believe that Hayward Tyler with its N Stamp is well placed to continue to grow its nuclear focused operations on the back of an increasing interest in nuclear power. Work with companies such as Areva SA and Westinghouse Electric Company LLC on the new generation of reactors for US and EU construction continues to develop. To support this initiative Hayward Tyler has become a nominated supplier for both companies and is currently working on engineering the product range to support both reactor designs.

### *Oil and Gas*

Hayward Tyler has a range of heritage products for use in the oil and gas industry. In recent years the focus has been on delivering large fire water and sea water lift pumps for application on rigs and FPSO vessels. The Proposed Directors believe that further orders can be expected should the oil price continue to recover.

In addition to the topside product range Hayward Tyler has developed a DSM technology for subsea boosting and processing. Three units were designed, manufactured and shipped to Aker Solutions ASA in 2007 and 2008 for use in the Tyrihans field operated by StatoilHydro Petroleum AS. A further unit was purchased by General Electric Company for delivery in 2010 to support their subsea development projects. Hayward Tyler's DSM product range has a water glycol mix as cooling media, designed to alleviate any environmental issues that may be encountered due to system leakage, which the Proposed Directors believe is an important differentiating factor from competing products.

## *Renewables*

In 2007 Hayward Tyler had the opportunity to work with Rolls Royce plc, Garrad Hassan Group Ltd, Corus and other members of a UK government funded consortium to develop a tidal stream generation product. The Proposed Directors believe that this sponsored project was successful and led to the development and test of a 1/20th scale prototype. Since then Hayward Tyler has been working with a number of institutions to develop further a “wet” generator technology that can be packaged and sold to turbine manufacturers.

Furthermore, Hayward Tyler is also tendering BCPs for a number of solar array projects, which require a modified BCP to circulate heated water around the solar boiler. Whilst this is a relatively new concept in renewable solar generation it makes use of an existing proven Hayward Tyler technology and is being developed with a third party in California, USA.

## **Prospects and Outlook**

The Proposed Directors believe that Hayward Tyler’s order book for OEM is full up for over 12 months thus providing good visibility of potential revenues.

The markets in which Hayward Tyler operates, which include nuclear and power generation, continue to perform strongly with the economies of China and India being the driving force behind this growth. On the oil and gas side interest remains strong given Hayward Tyler’s niche product position and submersible technology. This is despite the volatility of the oil price as customers ultimately take a much longer term view of marginal field extraction. The Proposed Directors believe that the business is well placed to build on its brand, technical expertise, strong order book, focus on growth economies and global offering to continue to deliver a marked improvement in performance.

## **Corporate Intellectual Property Policies and Management**

The Proposed Directors believe that the vast majority of Hayward Tyler’s technology and IPR is contained within the technical expertise and know-how of its people and the knowledge relating to its installed base of some 2,223 BCPs. Many of the technologies originally developed for the BCP are now time expired from a patent perspective and it is only recently that Hayward Tyler has started to pursue an active policy of patent protection which covers not only its ongoing improvements to the BCP technology but also its work on the subsea oil and gas projects. The work in relation to the preparation of these patent applications is ongoing. Full details of the IPR and trademarks held by the Southbank Group is set out in paragraph 18.2 of Part VI of this document.

## **Markets and Growth Opportunities**

### *Power Generation Market*

Independent research supports the Proposed Directors’ view that the macro-economic drivers for world energy consumption are extremely positive. According to the International Energy Agency, consumption is projected to increase by 50 per cent. between 2005 and 2030, 85 per cent. of this being driven by countries which are not members of the OECD (source: EIS figures, January 2009). In these countries strong population growth, increasing urbanisation, economic development and the associated improvements in living standards are the key drivers of electricity consumption. There is a well established correlation between electricity consumption and GDP growth which despite the recent economic downturn has held up remarkably well in China and India, countries in which Hayward Tyler already has a strong and growing presence. Both of these countries also have huge reserves of coal and given national concerns over energy security coal is likely to feature as part of the overall power generating mix for decades to come. Even in China at least 300GW of new capacity due to be built by 2020 will come from coal fired plants.

However, due to environmental concerns and pressures there is increasing focus on Clean Coal technologies and reducing and/or capturing carbon emissions produced as a result of fossil fired power generation. Hayward Tyler continues to work with a number of boiler manufacturers and the Proposed Directors believe that Hayward Tyler’s BCPs in supercritical applications significantly improve the overall efficiency of existing and new power stations thereby providing significant benefits in terms of reducing carbon footprint and cost over the life of the plant. Hayward Tyler has recently won a contract from General Electric Corporation and Belleli Energy SpA to provide BCPs for the US’s first commercial Power SynGas (synthesis gas) project. SynGas is one of a number of initiatives which reduces CO<sub>2</sub> emissions compared to a traditional coal power plant.

Nuclear power is also beginning to enjoy a renaissance with the WNA projecting that 130 new nuclear reactors will be built worldwide by 2030. Of those, 30 projects are already underway with China planning to increase capacity from 9GW to 40GW by 2020. India's Ministry of Power has set targets to add 6.4 GW of nuclear power by 2012 as stated in its eleventh five year plan.

### ***Oil and Gas Market***

Despite the recent unprecedented fluctuations in the oil price the longer term demand forecasts for an increasing oil price remain favourable. As reported in the Financial Times on 2 September 2009, BP plc and its Tiber Field find in the Gulf of Mexico confirmed that further reserves and fields exist but that most of them require complex recovery techniques for example deep sea drilling in the Gulf of Mexico (source: Financial Times article titled "BP discovers giant US oilfield" dated 2 September 2009). The growing interest in new enhanced oil recovery techniques and the potential to reduce the need to tie-up FPSOs or rigs for long periods of time could also revolutionise the economics of marginal field extraction.

Oil companies make long term investments with their capital expenditure plans driven by long term supply and demand forecasts not by the spot price. Major oil companies including BP plc, Royal Dutch Shell plc and Chevron Corporation have stated publicly that they intend to maintain approximately or increase capital spending in 2009 compared to 2008.

### **Directors of Hayward Tyler Group Limited**

#### ***David Boughey – Hayward Tyler Group Managing Director (Age 47)***

David Boughey started his career as a graduate trainee with GEC Meters in Stone specialising in production and operations in their domestic and industrial metering business. He then became the operations manager for Chloride Safety Systems (part of Chloride plc) a company specialising in emergency lighting and fire detection equipment. During this period he rationalised the operations, outsourcing the main PCB sub-assemblies and reducing the production facility by 50 per cent.

He then moved to MAN B&W Diesels Ltd, a manufacturer of large diesel engines for industrial, rail and marine markets where he was a general manager before ultimately being promoted to sales director of the marine division.

Most recently Mr Boughey has been the managing director of Cressall Resistors Limited a company which manufactures electrical resistors for the electrical distribution industry. He was also involved with the Halma Group plc before it sold its business to Telema Spa of Milan, Italy. He was retained by Southbank as part of the Hayward Tyler acquisition.

#### ***Mark Wood – Group Sales and Marketing Director (Age 43)***

Mark Wood began his career in February 1990 with ABB Power Generation (ABB Kraftwerke AG), Switzerland; initially as a design engineer for CCGT power stations, followed by a number of years as power plant service manager for SEA and the Middle East. In 1995 Mark returned to the UK to develop ABB Power Generations Ltd's after sales power business and was business development manager of its equipment and service division until 1999. He was subsequently appointed sales and marketing director of Jordan Engineering UK Ltd and thereafter managing director of Powernet Media Systems Ltd (a subsidiary of Just2clicks.com plc).

Having achieved senior sales and marketing and business development positions in the engineering sector he honed his general management skills through a number of successful interim appointments with SME, start-up and blue-chip organisations.

In 2003 Mr Wood was appointed as a general manager and joined the management board of the Council of Registered Gas Installers the gas safety watchdog. In 2006 he became commercial manager at purchasing specialists Vendigital Ltd.

Mr Wood joined the Hayward Tyler Group Ltd in May 2007 as group sales and marketing director. He holds an MBA in International Management (Exeter), a B.Eng (Hons) degree in Engineering Technology (now DeMontfort University), a Post Graduate Diploma in Marketing (CIM) and an HND in Mechanical/Production Engineering (now University of Hertfordshire).



*Mark Kalinowski – Group Finance Director (Age 44)*

Mark Kalinowski has spent over 20 years of his career working within manufacturing as a qualified accountant. He undertook his apprenticeship at GEC Turbine Generators Ltd and since then has held positions with Rolls Royce Industrial Power Group Ltd working within a division involved in the repair and rewind of electrical equipment and following that with Triumph Motorcycles during their period of revival within the world market. More recently Mr Kalinowski spent time working for Audi AG managing the finances of their Cosworth Castings facility in Worcester.

His previous three years prior to joining Hayward Tyler were spent working for DHL Exel Supply Chain Ltd as finance director managing a sector of their contract logistics business supporting retail customers such as Arcadia, Debenhams, and House of Fraser.

*Kenneth Sears – Group Technical Director (Age 61)*

Kenneth Sears has worked in general business management at all levels, including corporate strategy and shareholder relations, business planning and change programmes. His experience in international motorsport and automotive industries includes engineering research and development, managing innovation and the exploitation of intellectual property, and engineering consultancy.

A qualified engineer, after taking a first class degree in engineering (B.Tech (Hons) Automotive Engineering, Loughborough University, 1970) he designed formula one racing cars for world champion John Surtees (employer Team Surtees Ltd), managed product development and production projects for Lotus Cars (employer Lotus Cars Ltd), and was responsible for technology research and development and the management and exploitation of IPR for Lotus Engineering and consultancy clients (Lotus Engineering is an operating division of Lotus Cars Ltd).

He then worked in management consultancy as an advisor on business development, technologies and intellectual property (TDLP Associates Ltd t/a ARP Associates) before joining Hayward Tyler in 2008.

He has authored and presented many papers at international conferences, has appeared on radio and television, served on industry committees, is the inventor of several patents employed in industry, and was appointed as a visiting professor at Kingston University, London in 2000.

## **10. DIRECTORS AND PROPOSED DIRECTORS**

Brief biographies of the Directors and Proposed Directors are set out below. Paragraph 11 of Part VI of this document contains further details of the current and past directorships and certain other important information regarding the Directors and Proposed Directors. All of the Directors, save for Christopher Every who will become a non-executive director, have agreed to resign from their position with the Company subject to and with effect from Admission. whereupon the Proposed Directors' appointments shall commence with immediate effect.

### **Directors**

*Duncan Roy Sedgwick – Non-executive Interim Chairman (age 54)*

Duncan Sedgwick has 30 years of experience in the energy sector, presently an independent consultant and advisor operating in the sector. Most recently he was the Chief Executive Officer (“CEO”) of Secure Electrans a company that joins together energy metering, energy display information and payment methodologies both for energy services as well as internet purchases by the use of patent protected new technology. Prior to that he was the CEO of the Energy Retail Association (“ERA”) in the United Kingdom. He helped to build the Association from the ground up, becoming a key spokesman for the sector in time of unprecedented price rises. He has delivered major operational performance improvements in the areas of selling, customer transfer and billing within member organisations. Prior to his role with the ERA, Mr Sedgwick held various positions within Powergen plc, the largest UK power utility. As Director of Business Transformation, he led Powergen plc wide national consumer programmes to reduce operating costs and improve productivity. Prior to this role, he was the Retail Director – Residential Markets where Duncan was responsible for the consumer business. While in this role he led high growth in utility consumers, repositioned the brand and company, as well as overhauled the IT infrastructure to provide for efficient and stable growth.

*Christopher Graeme Every – Chief Executive Officer (age 57)*

Christopher Every comes from a background in sales and marketing to board level management and new technology development in engineered and technical products, for companies including Wiggins Teape Paper, Courtauld International Marine Paints plc, National Starch Corporation, and Williams Holdings plc. He moved from corporate management to consulting twenty years ago and has worked with major organisations including Michelin, Powergen plc, TXU Energy and national and local government. He also has extensive experience in building new businesses, including Enhance Biotech Inc. and Brimac Ltd. Most recently, Mr Every has served as the CEO of Enhance Biotech Inc. a biotech start-up, and is a board member for Brimac Environmental Group Ltd, an environmental business focused on the manufacture and application of carbon for filtration in the sugar refining and water treatment fields.

*Christopher Tawney – Executive Director and Chief Financial Officer (age 52)*

Christopher Tawney has recent 'green' energy and fundraising experience as Finance Director of AIM listed biodiesel producer, D1 Oils plc. Previously he was finance director of mining and resources group WBB Minerals, part of the Sibelco Group. He has held senior financial roles in international groups including Lucent Technologies, Thales and Veolia after training and qualifying as an accountant with Price Waterhouse. He is a Fellow of the Institute of Chartered Accountants in England and Wales and has a degree in Modern and Medieval Languages from Cambridge University.

*Elizabeth Jayne Glare Cooper – Non-executive Director (age 54)*

Elizabeth Cooper is an experienced corporate lawyer, with a unique focus in waste management and environmental law. She is currently European Legal Counsel with Golder Associates, a global consultancy that specialises in ground engineering and environmental sciences, where she is responsible for advising the European operations on all legal matters affecting the business. Previously, she has been a leading member of Clarkslegal's environmental law practice advising both government and private sector clients in a range of areas including creation of environmental compliance strategies, development of renewable energy projects, and implementation of regional waste management programmes. Prior to that she led the legal team in SITA UK Ltd providing all legal services to this leading waste management company.

*Andrew Cosentino – Non-executive Director (age 55)*

Andrew Cosentino is a Yale graduate with over 25 years of experience in corporate mergers and acquisitions and capitalisation of companies through public and private equity and debt financings from seed stage financing through to post-IPO financings. During that time, Mr Cosentino also acquired experience in corporate and securities law in legal practice. He was a partner in the New York office of several major U.S. law firms. He has worked on numerous transactions for a variety of public and private company clients, ranging from early stage companies to mature industry leaders, as well as investment banking firms and funds, based in the United States, Europe, Latin America and the Far East. He has counselled enterprises focused upon diverse businesses including high technology, biotechnology, clean technology, software, financial institutions and investment banking, communications and media, consulting, consumer products marketing and distribution, manufacturing, specialty retailing, transportation and transportation services and mining.

*Philip Thomas Hollobone – Non-executive Director (age 45)*

Philip Hollobone is both the Member of Parliament for the Kettering Constituency and a member of Kettering Borough Council. Before being elected to Parliament in 2005, he spent most of his working career as an utility industry analyst with respectively Williams de Broë, Panmure Gordon and Société General examining the performance of UK and European water, gas and electricity companies. Mr Hollobone served over eight years in the Territorial Army, latterly as a paratrooper. Mr Hollobone was educated at Oxford University, where he studied Modern History and Economics.

**Proposed Directors**

*John May – Proposed Non-executive Chairman (age 61)*

John May is a principal of a boutique chartered accountancy practice, focusing on advising companies on finance raising, mergers and acquisitions, business strategies and entry onto PLUS Markets and AIM. He was previously a senior partner at Horwath Clark Whitehill, a UK accountancy firm, for 17 years, including

8 years on the managing board. Mr May is the policy director and deputy chairman of the Small Business Bureau Limited and deputy chairman of the Genesis Initiative, which are lobbying groups to Government on behalf of small businesses. He is also a Conservative Borough Councillor.

Mr May qualified as a Chartered Accountant in 1974 having previously gained his DIA at the University of Bath Management School in 1970 and his BA from the University of London in 1969. He was previously Finance Director of AIM listed London & Boston Investments Plc and a Non-Executive Director of AIM listed Cromax Group Plc.

*Ewan Lloyd-Baker – Proposed Chief Executive Officer (age 37)*

Ewan Lloyd-Baker has worked in corporate finance both as a principal and adviser for the past 15 years. He started his career at Arthur Anderson working in corporate recovery and corporate turnaround with a number of privately owned and publicly listed companies. As a principal he was part of the management team in a venture capital backed start up which was ultimately sold to Reuters. He then helped set up a FTSE100 corporate incubator before completing his Masters of Business Administration.

Mr Lloyd-Baker is a partner in Lloyd-Baker & Associates, a merger and acquisition boutique and for the past nine years has focused on acquiring a number of companies on behalf of his clients in deals ranging from £1 million to £20 million with a particular focus on the engineering and manufacturing sectors.

Mr Lloyd-Baker was responsible for finding the original Hayward Tyler opportunity, setting up Southbank, broking the deal, managing the finance raising process, floating Southbank on the CISX and then recruiting the new management team into Hayward Tyler.

*Nicholas (Nick) Flanagan – Proposed Finance Director (age 49)*

Nicholas Flanagan is a graduate engineer from Imperial College and a Chartered Accountant having qualified with Coopers & Lybrand in 1987. Before joining Southbank in 2008 he spent the previous 14 years in the engineering and manufacturing sectors where he held a number of senior financial roles initially with Trafalgar House PLC followed by Kvaerner ASA and Jeyes Group Limited. Prior to that he spent 6 years in corporate treasury with Saatchi & Saatchi Company PLC.

Mr Flanagan's experience includes financial planning and development, commercial and operational support, capital raising, change management, reporting, mergers and acquisitions and all aspects of treasury management including foreign exchange hedging.

*Nicholas (Nick) Winks – Proposed Non-executive Director (age 61)*

Nicholas Winks is Chairman of a number of private equity-backed businesses and has previously been a director of several quoted businesses. With a background in industry he has extensive experience across a wide range of sectors and is the co-owner of two private businesses, one a distributor of engineering parts and the other a telemarketing business.

*Christopher Graeme Every – Proposed Non-executive Director (age 57)*

Please see above.

## **11. SUMMARY FINANCIAL INFORMATION**

### **Nviro**

The table below sets out Nviro's summary financial information for the last three financial years extracted without material adjustment from the Nviro consolidated audited accounts for the years ended 30 September 2008, 30 September 2007 and the 11 month period to 30 September 2006, which were prepared under IFRS. The summary financial information with regards to Nviro has been extracted from Part II of this document.

	12 months to 30 September 2008 £'000	12 months to 30 September 2007 £'000	11 months to 30 September 2006 £'000
Loss from operations	(3,437)	(4,235)	(857)
Loss for the period	(3,173)	(4,195)	(857)
Basic and diluted loss per share (p)	(6.44)	(13.81)	(22.53)
Total non-current assets	3,010	1,063	–
Total assets	14,101	7,410	–
Total equity	12,816	6,445	(803)

The report of the independent auditors for the period to 30 September 2008 includes an 'Emphasis of Matter' paragraph dealing with the ability of the Company to continue as a going concern. In particular it draws attention to the uncertainty as to the generation of cash flows from revenue operations and the Company's ability to raise further additional funding. The paragraph is reproduced below in full and has been extracted from the report of the independent auditors which is reproduced in full in section B of Section 3 of Part II of this document.

***Emphasis of Matter – Going Concern***

*In forming our opinion, which is not qualified, we have considered the adequacy of the disclosures made in note 1 of the financial statements concerning the uncertainty as to the generation of cash flows from revenue operations and the company's ability to raise further additional funding as required. In view of the significance of this uncertainty we consider that it should be drawn to your attention.*

These uncertainties reflect the difficult conditions in the global economy generally and the Company's target markets and the financial markets specifically. The Directors consider that the Acquisition and Placing addresses both sets of uncertainties in that in acquiring Southbank the Company acquires mature revenue operations with the opportunity to generate and sustain future cash flows.

The table below sets out Nviro's summary financial information for the six month period to 31 March 2009 and comparative data from the same period in the prior financial year, extracted without material adjustment from the Nviro interim statement, which was neither audited nor reviewed and was prepared under IFRS.

	6 months to 31 March 2009 £'000	6 months to 31 March 2008 £'000
Loss from operations	(5,404)	(1,451)
Loss for the period	(5,305)	(1,355)
Basic and diluted loss per share (p)	(8.03)	(3.09)
Total non-current assets	2,842	1,956
Total assets	9,090	6,020
Total equity	7,529	5,154

Further financial information on Nviro is set out in Part II of this document.

**Southbank**

The table below sets out Southbank's summary financial information for the last three financial years extracted without material adjustment from the Southbank consolidated audited accounts for the years ended 31 December 2008, 31 December 2007 and 31 December 2006. The financial information for the years ended 31 December 2008 and 31 December 2007 were prepared under IFRS. The financial information for the year ended 31 December 2006 was prepared under UK GAAP. The summary financial information with regards to Southbank has been extracted from Part III of this document.

	12 months to 31 December 2008 £'000	12 months to 31 December 2007 £'000	12 months to 31 December 2006 £'000
Revenue	32,340	25,659	24,719
Operating (loss)/profit	(2,520)	796	2,797
Profit/(loss) for the year	(4,642)	(399)	1,428
Total assets	35,309	27,514	25,347
Total non-current assets	17,669	14,583	13,778
Total equity	703	4,495	7,597
Basic earnings/(loss) per share (p)	(0.60)	(0.05)	0.21
Diluted earnings/(loss) per share (p)	(0.60)	(0.05)	0.17

The table below sets out Southbank's summary financial information for the six month period to 30 June 2009 and comparative data from the same period in the prior financial year, extracted without material adjustment from the Southbank interim statement, which was neither audited nor reviewed and was prepared under IFRS.

	6 months to 30 June 2009 £'000	6 months to 30 June 2008 £'000
Revenue	18,385	14,094
Operating (loss)/profit	1,282	(1,764)
Profit/(loss) for the period	95	(2,826)
Total assets	27,503	22,040
Total non-current assets	17,088	15,132
Total equity	494	1,671
Basic earnings/(loss) per share (p)	0.01	(0.36)
Diluted earnings/(loss) per share (p)	0.01	(0.36)

Further financial information on Southbank is set out in Part III of this document.

## 12. OPERATING AND FINANCIAL REVIEW

### Nviro

#### *Historical Financial Performance – 11 month period to 30 September 2006*

Nviro Cleantech Limited was incorporated in October 2005. During the period to 30 September 2006 it was focused on the selection of suitable projects for investment and the negotiation and drafting of licensing and development agreements for the work required to commercialise the selected technologies. Such activities were funded by a draw down facility of up to £1.5 million provided by Life Science Ventures Limited, an investment vehicle for a group of private investors. On 18 July 2006 the Group agreed the In-license of the air technology, Organotect.

Over the eleven months to 30 September 2006 Nviro Cleantech Limited recorded a pre-tax loss of £0.86 million, including expenditure of £0.05 million on research and development. Other expenditure in the period was primarily on consultancy and other professional fees. The loss per share for the period (restated for the impact of merger accounting) was 22.53p. Of the £1.5 million draw down facility available to the Company, £0.180 million had been drawn down as at 30 September 2006. There was no cash outflow in the period and as at 30 September 2006 cash balances were zero.

#### *Historical Financial Performance – year ended 30 September 2007*

Nviro Cleantech plc, an Isle of Man incorporated company was formed in May 2006 and became the parent company of Nviro Cleantech Limited and its subsidiaries on 3 July 2007.

The initial start-up investment was bolstered by an external funding round in November 2006 which raised £2.64 million for the Group. An additional £1.31 million was raised in April 2007 in a pre-IPO fundraising. The Group raised a further £7.50 million on its IPO and the Company was admitted to trading on AIM on 6 August 2007.

During the year In-license agreements were signed in respect of four technologies, Vertus, Microrelease, Laseair and Carbon Co-burner. A joint venture was established in China for the commercialisation of Nviro's clean fuel technology, Vertus and a memorandum of understanding was signed with CLP Power India Private Limited to develop Vertus' biomass and coal treatment applications in India. In the Directors'

opinion after 10 months of being installed without notifying the Company of any problems or complaints the Microrelease technology performed well in an extensive, independent testing programme and the Laseair and Organotect programmes were on schedule with prototype assembly at an advanced stage. In the USA negotiations continued with prospective clients in both the power generation and industrial sectors.

Over the twelve months ended 30 September 2007, Nviro recorded a pre-tax loss of £4.20 million, including expenditure on research and development of £2.12 million, which was in line with the Directors' expectations. The loss per share for the period was 13.81p. Cash outflow from operations was £4.17 million, reflecting the loss for the period. The cash position remained strong, and at 30 September 2007 was £5.93 million, slightly ahead of Directors' expectations.

#### *Historical Financial Performance – year ended 30 September 2008*

The Group successfully raised £10.00 million (before expenses) from a placing of shares for cash in July 2008. As was indicated at the time, approximately 80 per cent. of the proceeds were expected to be invested in the clean fuel technology business.

During the period, an agreement was signed with CBT to establish the first Vertus US coal treatment facility at their site on the Ohio River in Cincinnati. Permits necessary to commence production were obtained and construction of the facility commenced. A fuel testing and development laboratory was set up adjacent to the CBT site including a specially configured small scale six inch diameter kiln to test sample materials and enable plant specifications to be refined for potential Vertus customers. In China, the Group's joint venture company entered into a fuel evaluation and testing agreement with Shenyang Coal Trading Group. In India, a development programme for a lignite biomass plant was initiated with CLP India Private Limited. Successful Microrelease trials were conducted with one of Europe's largest MDF manufacturers to produce MDF board with up to 20 per cent. recycled wood fibre. This product was then incorporated in a sustainable fit out and refurbishment programme for a major UK high street grocery retailer. Working prototypes were completed for both Laseair and Organotect.

Over the twelve months ended 30 September 2008, Nviro recorded a reduced pre-tax loss of £3.17 million (£4.20 million in 2007), including expenditure on research of £0.33 million, which was broadly in line with the Directors' expectations. Cash outflow from operations was £2.65 million, reflecting the loss for the period. £1.21 million was spent on the purchase of property plant and equipment, primarily at the CBT site in the US. The loss per share was 6.44p. Net cash at 30 September 2008 was £10.95 million.

#### *Historical Financial Performance – six month period ended 31 March 2009*

During the six month period to 31 March 2009, the Group suffered the combined impact of the global economic downturn and local influences upon coal pricing in the US fuel economy which resulted in a temporary halt in construction at the CBT site. Subsequently, in May 2009, the Company announced the cessation of development of the CBT site because of regulatory requirements and the changing economic costs of production at that site. As a consequence, the Group undertook an engineering and commercial review of its clean fuel technology. Extensive testing was carried out in the laboratory at Cincinnati across the full range of coal rankings and including biomass. The positive results enabled the Group to define key market sectors where commercialisation of its clean coal technology can be continued.

In the period, the Group took action to reduce operational expenditure and stop new capital spend. Since 1 January 2009 substantial cuts have been made in employee numbers reducing staff costs by approx 44 per cent., additional reductions in consultancy support and other costs have helped to reduce operation costs by 50 per cent. in May 2009 compared to January 2009.

Over the period the Group has been in detailed discussions with MDF manufacturers and continues to monitor closely trial activities to develop the Microrelease technology against specific requirements from potential commercial partners in the MDF board manufacturing industry and in other application sectors utilising recycled fibre. Efforts continue to commercialise the Laseair and Organotect technologies.

During the six month period to 31 March 2009 the Group reported a pre-tax loss of £5.30 million. As a consequence of the withdrawal from the CBT site in Cincinnati, the Group booked an impairment charge of £2.90 million against assets under construction at that site. The loss per share for the period was 8.03p. Cash balances at the end of the period were £5.95 million (September 2008: £ 10.95 million).

## **Southbank**

### *Historical financial performance – year ended 31 December 2006*

Hayward Tyler was acquired by Southbank on 6 March 2006 for £13.1 million including costs of acquisition of £0.4 million. The consideration included £10.6 million cash and £841,000 of equity issued in Southbank. Of the cash £8.6 million was payable at completion with the balance payable; £1.5 million after 12 months and £0.5 million after 24 months. The deferred payments attracted interest of 4 per cent. per annum.

Southbank raised debt as part of the cash consideration for the acquisition financing, which it subsequently refinanced during the period. The resulting long term debt comprised a £6.3 million loan, secured on the freehold property in Luton, a 15 year £750,000 mortgage of the freehold property in East Kilbride and a three year term secured loan of \$1.9 million. The £6.3 million loan was protected by a 15 year interest rate swap fixed at 4.87 per cent. until May 2011 and 5.69 per cent. for the remaining 10 years of the term.

The acquired balance sheet of Hayward Tyler had net assets with a fair value of £10.5 million and on consolidation this led to goodwill of £2.6 million. On the basis that Hayward Tyler has been operating since 1815, is the worldwide market leader in BCP technology, has an installed base of over 2,000 pumps and a worldwide brand, it was determined that goodwill would be amortised over the maximum permitted period of 20 years.

At acquisition Hayward Tyler had, under FRS 17, a pension deficit of £1.3 million. As part of the acquisition, the pension fund subscribed to 30 million Southbank Shares at par value. This £1.2 million contribution had the impact of reducing the deficit to £0.1 million. Changes in actuarial assumptions subsequent to the acquisition resulted in a net change that resulted in the pension liability being £0.3 million at 31 December 2006. Hayward Tyler continued to make a cash contribution of £120,000 per year into the pension fund.

### *Profit and loss*

With Hayward Tyler contributing 10 months to the results, Southbank turnover was £24.7 million, delivering a gross margin of £6.4 million. The principal markets for Hayward Tyler were China (31 per cent.), the US (35 per cent.) and Europe (22 per cent.). Operating charges were £3.6 million delivering an operating profit of £2.8 million.

### *Balance sheet*

At 31 December 2006 Southbank had tangible assets of £11.1 million, which included properties valued at £9.7 million, cash of £2.3 million and net assets of £7.6 million.

### *Cash flow*

Southbank generated £5.1 million of cash from operating activities. The principal cash movements were related to the acquisition of Hayward Tyler and the refinancing of debt as described above.

The cash balance at the end of the year was £1.4 million.

### *Order book*

At the end of the period the order book was £18.3 million. Order intake for the period was £25.7 million.

### *Historical financial performance – year ended 31 December 2007*

#### *Profit and loss*

Southbank revenues for 2007 were £25.7 million (2006: 10 months £24.7 million). Other than the EP business all the other main operations had a record year both in terms of revenue and operating profit. In particular, the revenue of the Services Division grew to £13.7 million. The service business in the UK experienced a significant upsurge in spare parts and in the US the service business undertook a number of high value projects particularly for the nuclear industry.

Within EP the revenue was impacted by extensive research and development, the market demand for more complex products and the need to test and ship the first 2.5MW subsea motor for the Tyrihans project. The cumulative impact of this and the investment of time, effort and research and development resulted in a delay in the shipment of other units from 2007 to 2008 and therefore an associated delay in revenues and associated profits. The revenue of the Manufacturing Division was £13.0 million.

Absolute gross margin reduced in the year to £5.7 million from £6.4 million as a result of several factors:

- The commitment of time and effort as well as cash to increase sales and the introduction of new product designs that require increased engineering expertise.
- Exchange rate movements: Hayward Tyler had significant revenues in US Dollars and the long lead time between bid and customer delivery and the adverse movement in the exchange rate during the period impacted gross margin as not all price movements were passed onto customers.
- Increased direct labour and overhead due to manufacturing new products for the first time (e.g. the Tyrihans project).

The Services Division delivered an operating profit of £2.6 million while the Manufacturing Division had an operating loss of £1.5 million. After central costs of Hayward Tyler and Southbank the overall operating result was a profit of £0.8 million (2006: profit of £2.8 million).

#### *Balance Sheet*

Southbank capitalised £0.9 million of development costs associated with the subsea motor, of which Tyrihans was the first unit shipped in the final quarter of 2007.

A subsidiary of Southbank, Redglade Investments Limited (“Redglade”), is the owner of the freehold site in Luton occupied by Hayward Tyler. The rent on the property is subject to an annual increase based on the Retail Price Index (“RPI”). In December 2007, Redglade swapped the RPI portion of the Hayward Tyler rental payment for a fixed increase of 3.045 per cent. per annum with its bank. In turn Redglade exchanged such future fixed increases for a loan from the bank of £3.3 million, which is repayable over 25 years with final maturity in 2032.

As a result of a change in the actuarial assumptions the Hayward Tyler Pension FRS 17 deficit, net of associated deferred tax asset, increased from £0.3 million to £0.7 million.

#### *Cashflow*

Despite an operating profit of £0.8 million (2006: £2.8 million) the net cash used in operating activities was £1.9 million (2006: inflow of £5.1 million) mainly the result of a net increase in working capital of £1.3 million (2006: net decrease of £2.0 million), taxes paid of £1.1 million (2006: £0.6 million), which arise from Hayward Tyler’s business in the US and interest paid £0.9 million (2006: £0.7 million). The increase in working capital was driven by an increase in trade debtors resulting from a strong performance in the final quarter of the year.

Net cash used in investing activities of £2.7 million (2006: £7.8 million) comprised tangible capital expenditure of £0.4 million (2006: £0.3 million), the acquisition of intangible assets relating to the development of the subsea motor of £0.9 million (2006: nil) and the payment of the first tranche of deferred consideration to the Hayward Tyler vendors of £1.5 million (2006: acquisition net of cash acquired £7.6 million) offset by interest received of £0.1 million (2006: £0.1 million).

To support this cash outflow Southbank refinanced via the RPI related loan described above with net proceeds of £3.3 million. This, together with net repayments of £0.3 million (2006: net raised of £2.9 million), generated net cash from financing activities of £3.1 million (2006: £6.2 million).

The cash balance at the end of the year was £0.9 million (2006: £2.3 million).

#### *Order book*

At the end of the period the order book was £29.8 million. During the period order intake was strong including a framework agreement with a principle customer in China for the provision of a large number of BCPs for both the Chinese and Indian markets. Order intake for the period was £37.5 million.

#### *Historical financial performance – year ended 31 December 2008*

From a financial perspective 2008 was a challenging year for Southbank. All parts of Hayward Tyler performed well except for EP, the principal part of the Manufacturing Division, where legacy contracts were affected by raw material cost inflation of over 30 per cent. as well as the impact of a strong Euro and weak US Dollar. To ensure Hayward Tyler is better prepared to meet the challenges ahead and to meet the



planned growth in EP, there have been significant management changes and process investments including appointing a new Managing Director and Finance Director.

#### *Profit and loss*

Group turnover of £32.3 million in 2008 represented a growth of 26 per cent. over the prior year. The Services Division, which mainly comprises the UK and US services businesses, grew turnover by 32 per cent. to £18.2 million which delivered an operating profit of £4.0 million demonstrating year-on-year improvement. UK turnover growth was driven by the appointment of a new general manager and operational improvements. In the case of the US, turnover growth increased as a result of a strong market place particularly in nuclear power which in turn drove margins higher.

The Manufacturing Division was able to grow turnover by over 13 per cent. to £14.7 million and this was due to increased revenue in EP and Varley. Such revenue growth was driven by improvements in production in EP and a buoyant marine diesel market in the case of Varley. In spite of this performance the EP operation made a significant loss mainly as a result of raw material cost inflation (which it was not able to pass onto customers). In addition, EP incurred higher freight costs and an increase in production overheads as a result of a net increase in headcount of around 30 people to enhance quality control, project management and ensure improved future on-time delivery. As a result the Manufacturing Division had an operating loss of £4.1 million.

Southbank Group gross margin reduced to £4.8 million (2007: £5.7 million) primarily as a result of raw material cost inflation as the price of metals and other commodities rose in the year by an average of over 30 per cent. This led raw material costs to increase, as a proportion of turnover, by 12 per cent. A significant part of this expenditure is denominated in Euros and the strengthening of the Euro relative to Sterling exacerbated the rise in raw material costs. During the year Hayward Tyler revised its standard terms of business so that wherever possible new contracts contain clauses that afford Southbank protection from future price rises on such contracts.

Distribution costs, which include volume related sales commissions, rose by £0.5 million to £2.3 million, in line with the increase in turnover. Administrative expenses rose by £2.0 million, which relates to the continuation of external consultants and contractors to complete the turnaround of the EP business and the significant increase in headcount, a necessary investment to manage the future growth of Hayward Tyler that underpins the growing order book.

The overall operating result for Southbank was a loss of £2.5 million (2007: profit of £0.8 million).

#### *Balance sheet*

Hayward Tyler capitalised a further £0.6 million (2007: £0.9 million) of costs associated with the development of the subsea motor in 2008. During the year Hayward Tyler shipped the final units for the Tyrihans project.

#### *Cashflow*

The net cash used in operating activities was £0.5 million (2007: outflow of £1.9 million). This performance was driven by the operating loss for the year, taxes paid of £0.5 million (2007: £1.1 million) and interest paid of £0.9 million (2007: £0.9 million) offset by the net reduction in working capital. This net reduction resulted from an improvement in Hayward Tyler's standard terms of business, which were revised during the period to provide for customers to make stage payments during the course of a contract, offset by an increase in stock reflecting the high activity level at year end and an increase in trade debtors reflecting the growth in turnover.

Net cash used in investing activities of £1.3 million (2007: £2.7 million) comprised tangible capital expenditure of £0.6 million (2007: £0.4 million), the acquisition of intangible assets relating to the development costs of the subsea motor of £0.6 million (2007: £0.9 million) and the payment of the second tranche of deferred consideration to the Hayward Tyler vendors of £0.4 million (2007: £1.5 million) offset by interest received of £0.2 million (2007: £0.1 million).

Scheduled loan and finance lease repayments in the year were £0.3 million (2007: £0.3 million) which gave net cash used in financing activities of £0.3 million (2007: net cash generated of £3.1 million).

The cash balance at the end of the year was a net overdraft balance of £1.2 million (2007: cash of £0.9 million).

#### *Order book*

At the end of the period the order book was approximately £43.7 million. Order intake for the period was £40.6 million.

#### *Historical financial performance – six months ended 30 June 2009*

Against a background of turbulence in the financial markets and the tightening of credit across the industry, Southbank continued to make strong underlying progress in its core business areas having re-structured facilities with its main banking provider, Lloyds Banking Group, in April. This restructuring and renegotiation took a considerable amount of time and management effort. The pressures imposed on companies such as Southbank have been unprecedented and unfortunately Southbank has suffered a knock-on impact in terms of reduced credit facilities, worsening credit terms, withdrawn credit insurance and a general squeeze on working capital availability. This had a negative impact on cash balances and the net asset position.

Despite this tightening of liquidity the Hayward Tyler management team in their first full year of operation continued to make progress in terms of underlying business improvements, the benefits of which started to flow through into the financial performance.

#### *Profit and loss*

Group revenues increased by 30 per cent. to £18.4 million (30 June 2008: £14.1 million) driven by both the Services and Manufacturing Divisions.

In the Services Division the US operation grew significantly and continued to expand in the nuclear and 'cleaner' energy markets. In the UK the division opened an additional sales office in Aberdeen to focus on Hayward Tyler's installed equipment in the North Sea and the UK operation also won a significant order to maintain and supply new gate valves for the London ring main.

In the Manufacturing Division, steady progress was seen with the shipping of a number of topside oil and gas related legacy projects, which have now freed up the manufacturing facilities to focus on the production of power generation related units for the remainder of the year. In terms of new business Hayward Tyler secured an additional contract for a new deep sea submersible motor with General Electric and orders worth £4.8 million over the next 18 months for 18 BCPs in India.

As a result, for the first time in two years, the Southbank Group recorded an operating profit in the half year of £1.3 million with a swing of over £3.0 million over the same period last year.

#### *Cashflow*

The net cash used in operating activities was £2.6 million (30 June 2008: cash generated £0.9 million). This performance was driven by the net increase in working capital mainly as a result of payments to suppliers due to the tightening of credit referred to above together with taxes paid of £0.6 million (30 June 2008: £0.1 million) and interest paid of £0.5 million (30 June 2008: £0.4 million).

Net cash used in investing activities was £0.2 million (30 June 2008: £0.7 million), which represented tangible capital expenditure of £0.1 million (30 June 2008: £0.3 million), and the payment of the final tranche of deferred consideration to the Hayward Tyler vendors of £0.1 million (30 June 2008: £0.4 million).

The net cash used in finance activities which represented scheduled loan and finance lease repayments in the first half of the year was £0.2 million (30 June 2008: £0.5 million).

The cash balance at the end of the half year was a net overdraft balance of £4.3 million (30 June 2008: £1.2 million).

#### *Order Book*

At the period end the order book was at £34.6 million. The order book reduced from 31 December 2008 as a result of high activity levels and an increase in the volume of orders shipped.

### **13. RESEARCH AND DEVELOPMENT**

#### **Nviro**

Clean fuels remain the primary focus for the Company. The Directors believe that the key to the future remains the use of thermal and other processes to modify both coal and biomass resources, selectively applied for effective economic processing. Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the Group's business development of its various clean technologies is recognised only if all of the following conditions are met:

- an asset is created that can be identified;
- it is probable that the asset created will generate future economic benefits;
- the development cost of the asset can be measured reliably;
- the product or process is technically and commercially feasible; and
- sufficient resources are available to complete the development and to either sell or use the asset.

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 will be amortised on a straight-line basis over their useful lives by reference to their sale and use.

Information on the historical research and development spend by Nviro is contained the Operating and Financial Review in section 12 of this Part I and in the financial statements contained in Part II of this document.

#### **Southbank**

The vast majority of Hayward Tyler's technology and IPR is contained within the technical expertise and know-how of its people and the knowledge relating to its installed base of 2,230 BCPs. Many of the technologies originally developed for the BCP are now time expired from a patent perspective and it is only since the appointment of the Hayward Tyler Group Technology Director, Kenneth Sears that a more proactive policy of patent protection and Research and Development has been initiated. Historically research and development has not been managed as a separate exercise but rather been included within the costs relating to a particular job or as part of the central engineering overhead. Significant improvements have made been recently to improve the accountability and auditability of any related research and development work. Recent research and development work includes the development of the world's largest wet-wound subsea motor, a 2.5MW unit designed to be used at depths of up to 3000 metres below sea level. Given the long term growth prospects this expenditure is amortised over ten years.

Southbank's accounting policy for research and development is set out below. Southbank incurred development costs relating to the subsea motor technology of £0.9 million in 2007 and £0.6 million in 2008, which it funded from its own resources. Southbank's current policy is to have research and development costs funded by its customers.

#### ***Southbank Accounting Policy***

Other intangible assets include capitalised development costs used in production or administration within the business.

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

Costs that are directly attributable to the development phase of subsea motor technology are recognised as an intangible asset, provided they meet the following recognition requirements:

- completion of the intangible to the development phase of the pump is technically feasible, so that it will be available for use or sale;
- the Group intends to complete the intangible asset and use or sell it;
- the Group has the ability to use or sell the intangible asset;

- the intangible asset will generate probable future economic benefits. Among other things, this requires that there be a market for the output from the intangible asset or for the intangible asset itself, or, if it is to be used internally, the asset will be used in generating such benefits;
- there are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the expenditure attributable to the intangible asset during its development can be measured reliably.

Development costs not meeting these criteria for capitalisation are expensed as incurred.

Directly attributable costs include employee costs incurred on the development along with an appropriate portion of relevant overheads. Development costs recognised as an intangible asset are subject to the same subsequent measurement method as externally acquired intangible assets. However, until completion of the development project, the assets are subject to impairment testing only as described in the note on impairments.

Current research and development work is focused on ongoing improvements to the BCP technology and further improvements to the subsea motor range. The current expenditure on these projects is not considered to be material.

Further information on the research and development expenditure incurred by Southbank is set out in the financial statements in Part III of this document.

#### **14. CAPITAL RESOURCES**

##### **Nviro**

The source of Nviro's cash resources of £2.7 million as at close of business on 21 December 2009, being the latest practicable date prior to the publication of this document, was the issue of shares for cash in July 2008 as described in section 12 of this Part I. As at 22 December 2009, being the latest practicable date prior to publication of this document, Nviro had no indebtedness and the Company's cash balances exceeded its cash commitments.

Nviro's cash flows for the 12 month period to 30 September 2008 are set out in the cash flow statement in section A of Section 3 of Part II of this document. Nviro's cash flows for the six months ended 31 March 2009 are set out in the cash flow statement in Section 4 of Part II of this document which shows net funds of £5.95 million. Cash flow subsequent to 31 March 2009 has been consistent with the cost savings outlined in section 12 of this Part I.

A large majority of Nviro's cash balances are held in sterling with a small amount held in dollars and are deposited with Nviro's bankers to generate interest.

##### **Southbank**

Southbank is financed from a number of sources including its operating activities, overdraft facilities and long-term debt financing. At 21 December 2009, being the latest date prior to publication of this document, undrawn overdraft facilities were £0.4 million and \$0.75 million. In addition a bonding facility is employed to provide performance related bank guarantees where relevant. Southbank's long-term borrowing consists of term debt secured against Southbank's freehold property.

As at 30 June 2009 the ratio of net debt to earnings before interest, tax, depreciation and amortisation (on an annualised basis) was 4.7 and interest cover (operating profit to net interest) was 3.7 times.

Information on Southbank's existing capital resources can be found in the following parts of this document:

- Information concerning Southbank's capital resources (both long and short term) can be found in the financial statements for the year ended 31 December 2008, in section A of Section 2 of Part III of this document.
- A narrative description and the amount of Southbank's cash flows is outlined in the cash flow statement for the year ended 31 December 2008, in section A of Section 2 of Part III of this document, and for the six months ended 30 June 2009 in Section 3 of Part III of this document and in the operating and financial review in section 12 of this Part I.

- There is no seasonality to Southbank's borrowings. Information on the borrowing requirements and funding structure of Southbank is set out in the financial statements for the year ended 31 December 2008 and in Section 2 of Part III of this document.
- Southbank has various borrowings, maturing at various times, the principal overdraft facility of £4.35 million is subject to an annual renewal, the next date being 3 April 2010. The principal elements of Southbank's long-term borrowings at 30 June 2009 were a term loan of £6.25 million and a term loan of £3.63 million. Subject to note 28.4 and to note 32 to the financial statements for the year ended 31 December 2008, in Section 2 of Part III of this document, the term loan of £6.25 million is repaid during the course of its life and has a final repayment date of 11 May 2021 and the term loan of £3.63 million is repaid during the course of its life and has a final repayment date of 5 October 2032. Both of these facilities are fully drawn.
- Information concerning covenants that Southbank has entered into with lenders can be found in note 28.4 to the financial statements for the year ended 31 December 2008, in Section 2 of Part III of this document.
- A narrative description of Southbank's funding and treasury policies and objectives is outlined in note 26 to the financial statements for the year ended 31 December 2008, in Section 2 of Part III of this document.

The capital resources of the Enlarged Group will derive from Nviro, Southbank, and the successfully renegotiated terms for the various Southbank borrowing facilities which are as follows:

- Committed revolving credit facilities of £4.35 million.
- A committed term loan of up to £6.15 million with quarterly repayments and a final repayment date of 31 December 2011.
- A term loan of up to £3.68 million with quarterly repayments and a final repayment date of 15 January 2012.

Further details on the borrowing facilities are set out in paragraph 13 of Part VI of this document.

## 15. CAPITALISATION AND INDEBTEDNESS

### Nviro

#### *Capitalisation*

As at close of business on 21 December 2009, being the last practicable date prior to publication of this document, Nviro had cash balances and cash equivalents of £2.7 and no indebtedness. The table below sets out Nviro's total capitalisation and indebtedness as at 31 March 2009, extracted without material adjustment from Nviro's unaudited interim consolidated financial statements for the six months ended 31 March 2009. This table should be read together with the financial review from those statements incorporated in Part II of this document.

	£'000
<b>Total current debt</b>	–
<b>Total non-current debt</b>	–
<b>Shareholder's equity:</b>	
Share capital	66
Legal reserve	16,017
Other reserves	4,966
	<hr/>
	21,049
	<hr/>

There has been no material change to the capitalisation of Nviro since 31 March 2009.

#### *Indebtedness*

Nviro has no indebtedness.

### Southbank

#### *Capitalisation and indebtedness*

As at close of business on 21 December 2009, being the last practicable date prior to publication of this document, Southbank had cash balances of \$0.5 million, cash equivalents of £nil and indebtedness of

£14.2 million. The table below sets out Southbank's total capitalisation and indebtedness as at 30 June 2009, extracted without material adjustment from Southbank's unaudited interim condensed consolidated financial statements for the six months ended 30 June 2009. This table should be read together with the financial review from those statements incorporated in Part III of this document.

	£'000
<b>Total current debt:</b>	
Guaranteed	–
Secured	4,856*
Unguaranteed/unsecured	–
	<u>4,856</u>
<b>Total non-current debt:</b>	
Guaranteed	–
Secured	9,900*
Unguaranteed/unsecured	–
	<u>9,900</u>
<b>Shareholder's equity:</b>	
Share capital	155
Legal reserve	5,531
Other reserves	372
	<u>6,058</u>

\* Further details of the assets on which Southbank's debt is secured can be found in Note 16 of section A of Section 2 of Part III of this document.

There has been no material change to the capitalisation and indebtedness of Southbank since 30 June 2009 except that net financial indebtedness had reduced to £13.9 million as at the close of business on 21 December 2009, being the last practicable date prior to publication of this document.

#### *Net indebtedness*

The table below sets Southbank's net indebtedness as at 30 June 2009, extracted without material adjustment from Southbank's unaudited interim condensed consolidated financial statements for the six months ended 30 June 2009. This table should be read together with the financial review from those statements incorporated in Part III of this document.

	£'000
Cash	15
Cash equivalent	–
Trading securities	–
<b>Liquidity</b>	<u>15</u>
<b>Current Financial Receivable</b>	–
Current bank debt	4,277
Current portion of non current debt	579
Other current financial debt	–
<b>Current Financial Debt</b>	<u>4,856</u>
<b>Net Current Financial Indebtedness</b>	4,841
Non current bank loans	9,900
Bonds issued	–
Other non current loans	–
	<u>9,900</u>
<b>Net Financial Indebtedness</b>	<u>14,741</u>

Net financial indebtedness had reduced to £13.9 million as at the close of business on 21 December 2009, being the last practicable date prior to the publication of this document.

In the ordinary course of their trade engineering businesses such as Southbank provide performance bonds issued by financial institutions to their customers. Southbank had bonds outstanding of £2.4 million as at 30 November 2009, being the last practicable date prior to the publication of this document.

## **16. CURRENT TRADING AND PROSPECTS**

### **Current Trading – Nviro**

The Directors have continued to work with prospective clients from the power generation sector in Europe, the USA and parts of Asia through relationships developed over recent years, but the impact of the withdrawal from the CBT project in early 2009 along with the global market changes has had a negative impact on the commercialisation progress of Vertus. The exercise to establish a new marketing approach in the market place has commenced.

In addition, the Company is pursuing opportunities of working closely under formal arrangements with new strategic partners. One of these is a major resource group with coal resources in Asia and another is a European based group that is active in supporting coal fired plants. These discussions are ongoing and are expected to come to a conclusion before the end of 2009.

Suitable partnerships or buyers are being actively sought for the Air Technologies and Microrelease which has the added advantage of a substantial grant (€780,000 from the European Union) in support of industrialising the project provided that the funding is matched on a four for one basis.

### **Current Trading – Southbank**

The directors of Southbank are encouraged by the continuing improvement in the performance of Hayward Tyler, both in terms of revenue growth and operating profit growth. Trading in Hayward Tyler's Manufacturing Division continues to improve in terms of units shipped although there remain issues relating to potential delays in the shipping of some units. These delays have been exacerbated due to tightened credit conditions meaning that working capital management remains a key focus in the business. Debtor levels have reduced slightly with the decrease in the proportion of longer term debtors being a key focus. Creditor levels have increased slightly although are still below historic levels. Stock levels have increased, mainly as a result of the focus of the Manufacturing Division to build up to shipping a number of important units prior to the year end.

Trading in Hayward Tyler's Services Division remains strong with the US operations enjoying significant profitable growth and the order book for the UK operations continuing to hit record levels. The Proposed Directors believe that an appropriate cost structure exists to ensure Hayward Tyler's longer term revenue and profitable growth. The wider macro economic environment, particularly the continued GDP growth of India and China also provide positive indications for the power market. Whilst this market remains competitive in India, due to a large part because of the emphasis placed on open tenders, the Proposed Directors believe that Hayward Tyler is well placed to continue to benefit from the region's growth.

### **Prospects – Enlarged Group**

The Hayward Tyler order book for the EP division is full for over 12 months and the main export markets of China and India continue to exhibit strong GDP growth characteristics which is the main driver for power generation demand. In addition, the development of enhanced oil recovery techniques and the continuing exploration of offshore oil reserves highlight the growth potential of the subsea market. Taking into account these positive macro-economic factors, the Proposed Directors believe that, following completion of the Placing and its corresponding positive impact on the Enlarged Group's capital structure, the future prospects for the Enlarged Group are encouraging.

## **17. PROPERTY, PLANTS AND EQUIPMENT**

### **Nviro**

Nviro property, plant and equipment amounted to £0.91 million at 31 March 2009 and has not changed materially since that date. This represents fixed assets held in storage for disposal or use in future clean fuel projects.

### **Southbank**

The main tangible assets of Southbank comprise freehold land and buildings and plant and machinery. The freehold land and buildings, which had a value of £8.5 million at 30 June 2009, are represented by

Southbank's operating sites in Luton and East Kilbride in the UK. In addition, Southbank has leased premises, principally for its business in the USA. Plant and machinery, which had a value of £1.3 million at 31 December 2008, is held at these three sites and comprise a large number of mechanical engineering machinery. The current principal banking arrangements of Southbank are secured on the freehold properties and plant and machinery situated in the UK.

Further information on property, plant and equipment can be found in the following parts of this document:

- Information concerning the risks in relation to Southbank's property can be found under the heading "Southbank Specific Risks" in the Risk Factors section of this document.
- Information concerning Southbank's existing property, plant and equipment can be found in note 16 to the historical financial information of Southbank contained in section A of Section 2 of Part III of this document.
- Information concerning Southbank's planned property, plant and equipment can be found in Reasons for the Placing and Use of Proceeds in section 6 of this Part I.

## **18. ENVIRONMENTAL ISSUES**

The business of the Enlarged Group will involve the manufacture of products for the energy industry. As such the manufacture and production of these products will be the subject of environmental legislation and regulation and of risks inherent with the manufacturing industry. Compliance with this legislation can require significant expenditures and a breach of applicable environmental legislation may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants during these manufacturing processes into the air, soil or water may give rise to liabilities to governments and third parties and may require the Enlarged Group to incur costs to remedy such discharge. Additionally, certain activities of the Enlarged Group may be suspended if it has not complied with environmental laws and regulations.

The Enlarged Group will own and lease various real estate property and in this connection will be effected by environmental risks associated with land ownership, for instance clean up costs of toxic and hazardous substances on contaminated land.

## **19. DIVIDEND POLICY**

The Group does not currently declare dividends. The Proposed Directors currently propose to reinvest the Enlarged Group's earnings to finance the growth of the business in the short to medium term and intend to commence the payment of dividends only when they consider it commercially prudent to do so having regard to the availability of the Enlarged Group's distributable profits, available cash balances and the retention of funds required to finance future growth.

## **20. ACCOUNTING POLICIES**

The Enlarged Group will adopt Southbank's accounting policies.

## **21. CORPORATE GOVERNANCE AND INTERNAL CONTROLS**

### **Corporate governance as at the date of this document**

The Company is an Isle of Man incorporated company and there is no specific corporate governance regime under Isle of Man law equivalent to the Combined Code. The Directors recognise the importance of sound corporate governance commensurate with the size and stage of development of the Company and the interests of Shareholders and the extent of the Company's voluntary compliance with the Combine Code is as follows:

The Directors hold regular board meetings at which operating and financial reports are considered. The Board is responsible for formulating, reviewing and approving the Group's strategy, budgets, major items of capital expenditure and senior personnel appointments.

An Audit Committee, chaired by Philip Hollobone, consists of Libby Cooper and Andrew Cosentino. It meets at least twice each year and is responsible for ensuring that the financial performance of the Group is properly reported and monitored, for meeting the auditors and reviewing the reports from the auditors relating to accounts and internal control systems.



A Remuneration Committee, chaired by Libby Cooper, consists of Philip Hollobone and Andrew Cosentino. It meets at least twice each year and has a primary responsibility to review the performance of executive Directors and senior employees and set the scale and structure of their remuneration having due regard to the interests of shareholders. It is also responsible for administering the Share Option Scheme.

An AIM Compliance Committee consisting of Libby Cooper and Andrew Cosentino meets at least twice each year. It is responsible for ensuring that the Company complies at all times with the AIM Rules for Companies, in particular compliance with the obligations relating to disclosure.

The Board has the responsibility for establishing and maintaining the Group's system of internal controls and reviewing its effectiveness. The procedures which include *inter alia*, financial, operational and compliance matters and risk management are reviewed on an ongoing basis. The Board approves the annual budget and performance against budget is monitored and reported to the Board. The Board has considered the guidance published by the Institute of Chartered Accounts in England & Wales concerning the internal control requirements of the Combined Code and has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Group.

Given the Group's size and the nature of its business, the Board does not consider it would be appropriate to have its own internal audit function. An internal audit function will be established as and when the Group is of an appropriate size but meanwhile the audit of internal financial controls form part of the responsibilities of the Group's finance function.

The Board remains fully committed to maintaining regular communication with its shareholders. There is regular dialogue with major institutional shareholders. Press releases are issued throughout the year and the Company maintains a website, [www.nvirocleantech.com](http://www.nvirocleantech.com) on which all press releases are posted and which also contains the report and accounts in accordance with AIM Rule 26.

The Company has adopted a code based on the Model Code for Directors' Dealings and will take all proper and reasonable steps to ensure compliance by the Directors and relevant employees.

#### **Corporate governance following Admission**

The Proposed Directors recognise the importance of sound corporate governance commensurate with the size and stage of development of the Company and the interests of Shareholders. In the absence of any equivalent provisions in the Company's jurisdiction of incorporation, the Isle of Man and due to the Enlarged Group's expected size and nature, it does not intend to comply with all aspects of the Combined Code and as an AIM company is not obliged to. In particular, the Enlarged Group does not intend to establish a nominations committee. However, it is the Proposed Directors' intention that as the Company grows, policies and procedures be developed that more fully reflect the recommendations of the Combined Code so far as is practicable and taking into account the size and nature of the Enlarged Group.

Immediately following Admission the audit committee will comprise John May and Nicholas Winks with John May as chairman. The remuneration committee will comprise John May and Nicholas Winks, with John May as chairman.

The Enlarged Group will have no administrative, management or supervisory bodies other than the Proposed Board, the remuneration committee and the audit committee; all of whose members will be Proposed Directors.

## **22. EXTRAORDINARY GENERAL MEETING**

A notice convening an Extraordinary General Meeting of the Company, to be held at 11.00 a.m. on 15 January 2010 at Burleigh Manor, Peel Road, Douglas, Isle of Man IM1 5EP, is set out in the Circular. At that meeting a resolution will be proposed in order to obtain Shareholder approval for the Acquisition.

In addition, resolutions will be proposed at the Extraordinary General Meeting regarding several matters including an increase in the authorised share capital, powers of allotment and disapplication of pre-emption rights in respect of the Placing and the Acquisition and for the future grant of options, consolidation of the authorised share capital, a change in the Company's name and to amend the Articles by removing certain borrowing restrictions and the restriction on directors' fees, to assist the Enlarged Group going forward.

### **23. ADMISSION TO AIM**

The first closing date of the Offer is 1.00 p.m. on 18 January 2010. As soon as is reasonably practicable after the Offer becoming or being declared unconditional in all respects (save for Admission), application will be made to the London Stock Exchange for the Consideration Shares to be issued in respect of acceptances of the Offer received at such time and the Enlarged Share Capital to be admitted to trading on AIM. It is expected that Admission will become effective and that dealings will commence in the Enlarged Share Capital as soon as practicable, in accordance with the AIM Rules for Companies, within 21 days of the Offer becoming or being declared unconditional (save only for the Admission).

### **24. CREST**

The Articles permit Ordinary Shares to be issued and transferred in uncertificated form in accordance with the 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.

The Enlarged Share Capital will be 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 Shareholders so wish.

### **25. LOCK-IN ARRANGEMENTS**

Each of Christopher Every, Ewan Lloyd-Baker, John May and Tristan Lloyd-Baker who in aggregate will hold 3,106,667 New Ordinary Shares (approximately 12.38 per cent. of the Enlarged Share Capital) have agreed not to dispose of any interest in New Ordinary Shares held by them or their associates (within the meaning of section 345 of the 2006 Act) at the date of Admission for a period of 12 months following Admission (subject to certain limited exceptions). Further details of these lock-in agreements are set out in paragraph 13.1 of Part VI of this document.

### **26. SHARE OPTIONS**

The Company currently has two share option plans in place, further details of which are set out in paragraph 9 of Part VI of this Document. Following Admission, the Proposed Directors may issue options pursuant to these schemes to assist in the recruitment, retention and motivation of high quality management and employees in the future.

However, it is the Proposed Directors intention not to have any more than 10 per cent. of the issued share capital of the Company under option at any one time.

Further details on the outstanding options currently granted under these schemes are set out in paragraph 9.3 of Part VI of this document.

### **27. TAXATION**

Information regarding United Kingdom and Isle of Man taxation is set out in paragraph 16 of Part VI of this document. These details are, however, intended only as a general guide to the current tax position under UK and Isle of Man 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 and Isle of Man are strongly advised to consult their own independent financial adviser immediately.

### **28. FURTHER INFORMATION**

Your attention is drawn to the remaining parts of this document which contain further information on Nviro, Southbank and the Proposals. In particular, your attention is drawn to the Risk Factors set out on pages 8 to 12 of this document.

## **PART II**

### **FINANCIAL INFORMATION ON NVIRO CLEANTECH LIMITED AND NVIRO CLEANTECH PLC**

#### **SECTION 1 – Historical Financial Information of Nviro Cleantech Limited**

Set out below is financial information and reporting accountants report for the period from 28 October 2005 to 30 September 2006 which has been extracted from the Company's AIM Admission Document dated 26 July 2007 without material adjustment. Both the financial information and the independent auditors' reports have been reproduced verbatim and, as such, page numbers and other references may no longer be valid.

Nviro Cleantech Limited was incorporated on 28 October 2005.

The historical consolidated financial information of Nviro Cleantech Limited in respect of the period from incorporation to 30 September 2006 is set out in Section A of Part IV of this document.

The financial information does not constitute statutory accounts for the period.

The Directors are required to prepare the financial information in a form consistent with that which will be adopted in the issuer's next published annual financial statements having regard to the accounting standards and policies and legislation applicable to such annual financial statements. In accordance with the International Accounting Standards Board's framework, the financial information is required to give a fair presentation of the state of affairs of the company for that period. In preparing that financial information, the Directors are required to:

- (a) select suitable accounting policies and then apply them consistently;
- (b) make judgements and estimates that are reasonable and prudent;
- (c) state that the financial information complies with International Financial Reporting Standards as adopted by the European Union; and
- (d) prepare the financial information on the going concern basis unless it is inappropriate to presume that the company will continue in business.

Section B of Section 1 of Part II of this document sets out a report from Baker Tilly Corporate Finance LLP, the Reporting Accountants, required by Paragraph 20.1 of Annex I of the AIM Rules and is given for the purpose of complying with that paragraph in relation to the Company's Admission Document dated 26 July 2007 and for no other purpose.

## Section A

### Consolidated financial information for the period from 28 October 2005 to 30 September 2006

#### CONSOLIDATED INCOME STATEMENT

For the period ended 30 September 2006

	Notes	Period from 28 October 2005 to 30 September 2006 £'000
<b>Continuing Operations</b>		
Administrative expenses		(857)
<b>Operating Loss</b>	2	(857)
Finance costs		–
<b>Loss Before Taxation</b>		(857)
Taxation	4	–
<b>Loss for the Period</b>	12	(857)
<b>Loss Per Share</b>		
From continuing operations:		
Basic and diluted	5	(18.5)p

#### CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

For the period ended 30 September 2006

	Period from 28 October 2005 to 30 September 2006 £'000
Exchange differences on translation of overseas operations	19
Net income recognised directly in equity	19
Loss for the period	(857)
Total recognised income and expense for the period	(838)

#### CONSOLIDATED BALANCE SHEET

As at 30 September 2006

	Notes	2006 £'000
<b>Current Liabilities</b>		
Trade and other payables	9	(803)
<b>Net Current Liabilities</b>		(803)
<b>Net Liabilities</b>		(803)
<b>Equity</b>		
Share Capital	11	21
Translation Reserve	12	19
Share based payment reserve	12	14
Retained Earnings	12	(857)
Total Equity		(803)

#### CONSOLIDATED CASHFLOW STATEMENT

For the period ended 30 September 2006

Nviro Cleantech Limited has incurred neither cash inflows nor cash outflows and has held neither cash nor cash equivalents from the date of incorporation to 30 September 2006. Accordingly no cash flow statement information is presented. Note 13 provides a reconciliation between the operating loss for the period and the nil cash flow from operating activities for the period.

## **ACCOUNTING POLICIES**

### **General Information**

Nviro Cleantech Limited is a company incorporated on 28 October 2005 in England and Wales, under the Companies Act 1985. The address of the registered office is Savannah House 5th floor, 11-12 Charles II Street, London, SW1Y 4QU and the company is domiciled in the United Kingdom. The nature of the group's operations and its principal activities are set out in note 6.

### **Basis of Preparation**

The financial information has been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union.

The financial information has been prepared on the historical cost basis.

No comparative information has been presented as the financial information relates to the first period from incorporation.

At the date of authorisation of this financial information, the following standards and interpretations which have not been applied in this financial information were in issue but not yet effective:

- IFRS 4 Insurance Contracts
- IFRS 6 Exploration and Evaluation of Mineral Resources
- IFRS 7 Financial Instruments – Disclosures; and the related amendment to IFRS 1 on capital Disclosures
- IFRS 8\* Operating Segments Amendment to IAS 1 Capital Disclosures
- Amendment to IAS 1 Capital Disclosures
- Amendment to IAS 23 Borrowing Costs\*
- Amendment to IAS 19 Employee Benefits
- Amendments to IAS 39 Financial Instruments
- IFRIC 4 Determining Whether an Arrangement Contains a Lease
- IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IFRIC 6 Liabilities arising from Participation in a Specific Market: Waste Electrical and Electronic Equipment
- IFRIC 7 Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies
- IFRIC 8 Scope of IFRS 2
- IFRIC 9 Reassessment of embedded derivatives
- IFRIC 10 Interim financial reporting and impairments
- IFRIC 11 IFRS 2 – Group and treasury share transactions
- IFRIC 12\* Service Concession Arrangements
- IFRIC 13\* Customer Loyalty Programmes

\* Not endorsed by the EU at the date of authorisation of this financial information.

The Directors anticipate that the adoption of these standards and Interpretations in future periods will have no material impact on the financial information of the Group.

### **Basis of Consolidation**

The consolidated financial information, incorporating the financial information of Nviro Cleantech Limited and entities under its control (its subsidiaries), is made up to 30 September each year. Control is

achieved where the company has the power to govern the operational and financial policies of an entity so as to gain from its activities.

The results of subsidiaries acquired during the period are included in the consolidated income statement from the effective date of acquisition.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

### **Business Combinations**

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the group in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised.

### **Goodwill**

Goodwill arising on consolidation represents the excess of the cost of acquisition over the group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. If the recoverable amount is less than the carrying value of goodwill an impairment loss is required. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

### **Revenue Recognition**

Revenue is measured at the fair value of the consideration receivable and represents amounts receivable for goods and services in the normal course of business, net of value added tax.

### **Foreign Currencies**

The individual financial information of each group company is presented in the currency of the primary economic environment in which it operates, (its functional currency). For the purposes of the consolidated financial information, the results and financial position of each group company are expressed in pounds sterling, which is the functional currency of the company and the presentational currency for the consolidated financial information.

In preparing the financial information of the individual companies, transactions in currencies other than the entities functional currency, (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Exchange differences arising are included in the profit or loss for the period.

The assets and liabilities of the group's foreign operations are translated at the exchange rate prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the group's translation reserve. Such translation differences are recognised as profit or loss in the period in which the operation is disposed of.

### **Borrowing Costs**

Borrowing costs are recognised in income or expense in the period in which they are incurred.

### **Operating Loss**

Operating loss is stated before investment income and finance costs.

## **Taxation**

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. 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 periods and it further excludes items that are never taxable or deductible. The group'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 the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial information and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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 period when the liability is settled or the asset is realised. Deferred tax is charged or credited in 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.

## **Internally-Generated Intangible Assets – Research and Development Expenditure**

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

An internally generated intangible asset arising from the group's development activities is recognised only if the following conditions are met:

- An asset is created that can be identified;
- It is probable that the asset created will generate future economic benefits;
- The development cost of the asset can be measured reliably;
- The product is technically feasible; and
- Sufficient resources are available to complete the development and use or sell the intangible asset.

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

## **Financial Instruments**

### *Trade Receivables*

Trade receivables are measured at their initial recognition at fair value and subsequently at amortised cost. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

### *Cash and Cash Equivalents*

Cash and cash equivalents comprise cash on hand and on demand deposits.

### *Trade Payables*

Trade payables are stated at their fair value.

### *Equity Instruments*

Equity instruments issued by the company are recorded at the proceeds received net of direct issue costs.

### **Share Based Payments**

The group has applied the requirements of IFRS 2 Share based payment. The group issues equity settled share based payments to employees and other third party contractors. Equity settled share based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity settled share based payments is expensed on a straight line basis over the vesting period, based on the group's estimate of shares that will eventually vest and adjusted for the effect of non market based vesting conditions.

Fair value is measured by use of the Black Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

### **Operating Leases**

Rentals under operating leases are charged to the income statement on a straight line basis over the period of the relevant lease.

### **Management Estimation**

In the process of applying the group's accounting policies above, management has made the following judgements and estimates that have the most significant effect on the amounts recognised in the financial information.

#### ***Share Based Payments***

Management have made numerous judgements regarding the calculation of the share based payment expense in the accounts, including, the expected volatility of the company's shares, the share price to be used in the calculation and the most appropriate risk free rate to use. In making these judgements, management considered the share price volatility of a number of the company's competitors and current interest rates. The actual figures used in the calculation are shown in note 14 along with the total share based payment expense reflected in the accounts.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the period ended 30 September 2006**

**1. Segment Reporting**

The group currently operates in two geographical markets, the United Kingdom and the USA. This is the basis on which the group records its primary segment information.

	USA £'000	United Kingdom £'000
Non-cash expenses	–	35
Segment result	(478)	(379)
Loss before and after tax	(478)	(379)
Segment Assets	–	–
Segment Liabilities	(460)	(343)

The operations of the group in the period comprised of one class of business, the development of clean technology.

There has been no revenue in the period and hence none is disclosed.

**2. Loss For The Period**

	Period from 28 October 2005 to 30 September 2006 £'000
The Loss for the year has been arrived at after charging:	
Research costs	50
Consultancy	251
Director's consultancy payments	118
Legal and professional fees	137
Operating lease charges	22
Share based payment expense	35
Goodwill impairment	214
Other	42
Fees payable to the company's auditor:	
Other services (non-statutory audit fees)	10

**3. Employees' and Directors' Emoluments**

See note 18 for details of transactions with directors. There were no other employees in the period to 30 September 2006.

Two directors were granted share options on 15 July 2006, totalling 450,000 shares, at an exercise price of £0.10 per share. Neither director exercised any share options during the period.

#### 4. Taxation

	Period from 28 October 2005 to 30 September 2006 £'000
Current tax:	
UK corporation tax on losses of period	—
Total current tax	—
Deferred tax:	
Origination and reversal of timing differences	—
Total deferred tax	—
Tax on loss on ordinary activities	—
Factors affecting tax charge for the period	
The tax assessed for the period is lower than the standard rate of corporation tax for small companies (19%) as explained below:	
Loss before taxation	(857)
Loss before taxation multiplied by the standard rate of corporation tax for small companies (19%)	(163)
Effects of:	
Tax losses carried forward	156
Disallowed expenses	7
Current tax charge for the period	—

At the balance sheet date, the group has unused tax losses of £822,000 available for offset against future profits. No deferred tax asset has been recognised in respect of these losses due to the unpredictability of future profit streams.

#### 5. Loss Per Share

The calculation of basic loss per share is based on the loss for the period after taxation of £857,000 and 4,626,560 ordinary shares, being the weighted average number of shares in issue for the period. As there is a loss for the period, there is no dilutive effect of the share options and therefore no difference between the basic and diluted earnings per share.

#### 6. Goodwill

	£'000
Cost:	
At incorporation	—
Recognised on acquisition of a subsidiary	214
30 September 2006	214
Accumulated Impairment Losses:	
At incorporation	—
Impairment losses for the period	214
30 September 2006	214
Carrying amount 30 September 2006	—

Goodwill of £214,000 which arose from the acquisition of Nviro Cleantech Inc has been impaired during the period. Nviro Cleantech Inc is an administrative support company for the group and it is not anticipated that it will be revenue generating. For this reason the goodwill has been impaired.

## 7. Subsidiaries

As at the balance sheet date, the company had an interest in the following companies:

Name	Country of Incorporation	Ownership interest	Nature of business
Organetect Inc.	USA	65%	Dormant
Stillclear Environmental Limited	United Kingdom	100%	Dormant
Laseair Limited	United Kingdom	100%	Dormant
Microrelease Limited	United Kingdom	100%	Dormant
Nviro Cleantech Inc	USA	100%	Administrative support

## 8. Credit Risk

The group does not have any financial asset and therefore has no credit risk.

Whilst the company had no assets as at the date of this financial information, it had an available credit facility in an amount to meet all of the company's existing liabilities. Subsequent to the period end, the company raised funds to meet these liabilities.

## 9. Trade and Other Payables

	2006 £'000
Trade creditors	18
Due to related party undertaking	355
Other creditors	180
Accruals and deferred income	250
	<hr/>
	803
	<hr/>

The amount in other creditors of £180,000 represents a loan from Life Science Ventures Limited. Further details regarding the capitalisation of this loan after 30 September 2006 are disclosed in note 15 to these accounts.

## 10. Loan Facility

At 30 September 2006, the group had available £1.32 million of undrawn borrowing facilities.

## 11. Share Capital

	2006 £'000
Authorised:	
50,000,000 ordinary shares of £0.001 each	50
	<hr/>
21,000,000 ordinary shares of £0.001 each	21
	<hr/>

The company was incorporated with an authorised share capital of 1,000 ordinary shares of £1 each, of which two shares were allotted.

On 18 July 2006, the authorised share capital of the company was increased to £50,000 via the creation of 49,000 ordinary shares of £1 each, ranking *pari passu* with the existing ordinary shares. On the same date, the £1 ordinary shares were subdivided into 50 million shares of £0.001 each.

On 1 August 2006, 21 million ordinary shares of £0.001 each were issued at par, in exchange for consultancy services received. Of this amount, 1 million were issued as consideration for the purchase of Nviro Cleantech Inc in March 2006.

On 13 December 2006, a further 8,257,471 ordinary shares of £0.001 each were issued, fully paid, for £0.43 per share, giving total consideration of £3,550,713.

On 23 May 2007, a further 2,570,581 ordinary shares of £0.001 each were issued, fully paid, for £0.51 per share, giving total consideration of £1,310,996.

At 30 September 2006, 2.5 million shares from the total authorised share capital, were set aside for the issue of share options.

## 12. Share Capital and Reserves

	Share Capital £'000	Translation Reserve £'000	Share based payment reserve £'000	Accumulated losses £'000	Total £'000
Balance at 28 October 2005	–	–	–	–	–
Issue of share capital	21	–	–	–	21
Exchange differences	–	19	–	–	19
Share based payments	–	–	14	–	14
Loss for the period	–	–	–	(857)	(857)
Balance at 30 September 2006	<u>21</u>	<u>19</u>	<u>14</u>	<u>(857)</u>	<u>(803)</u>

Included within share capital issued are 20 million shares of £0.001 each issued in payment for consultancy services.

## 13. Notes to the Cashflow Statement

	2006 £'000
Operating Activities:	
Operating loss for the period	(857)
Share based payment expense	35
Operating cash flows before movements in working capital	<u>(822)</u>
Increase in payables	22
Net cash from operating activities	<u>–</u>

## 14. Share Based Payments

The Company has a share option scheme for certain employees of the group and other third party contractors. During the period options were granted on 15 July 2006 at 10p per share, with an exercise period of 10 years. Options are forfeited if the employee leaves the group before the options vest. The options have a variety of vesting periods, ranging from those that have already vested to 27 months from the date of these accounts.

Details of the share options outstanding during the year are as follows:

	Number of share options	Weighted average exercise price £
Granted during the period	800,000	0.10
Outstanding at 30 September 2006	<u>800,000</u>	<u>0.10</u>
Exercisable at 30 September 2006	<u>87,500</u>	<u>0.10</u>

The options outstanding at 30 September 2006 had a weighted average exercise price of £0.10 and a weighted average remaining contractual life of 10 years.

The inputs into the Black Scholes model are as follows:

Weighted average share price (pence)	10p
Weighted average exercise price (pence)	10p
Expected volatility	33.12%
Expected life (months)	17
Risk free rate	6%
Expected dividend yield	<u>3%</u>

Expected volatility was determined by calculating the historical volatility of the share price of a number of the company's competitors over the previous year. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

The group recognised total expenses of £14,435 related to equity settled share based payment transactions, (as a result of the implementation of the share option scheme) during the period of which £7,132 related to employees, (including Executive Directors of the group). An expense of £21,000 was also recognised as a result of the issue of shares in consideration for the provision of consultancy services. The total share based payment expense recognised in the accounts is £35,435.

During the period, 20 million ordinary shares of £0.001 each were issued at par in exchange for consultancy services received.

## 15. Operating Lease Commitments

	2006 £'000
Minimum lease payments under operating leases recognised in income and expense for the period.	22
At the balance sheet date, the group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:	
Within one year	30

## 16. Subsequent Events

On 27 November 2006 the group incorporated a new subsidiary, Clean Coal Technologies Inc., which subsequently changed its name to Vertus Technologies US, LLC.

On 27 December 2006, a total of 310,000 options were granted at an exercise price of £0.43. 130,000 vested immediately, 90,000 at the end of 2007 and 90,000 at the end of 2008. The exercise period for the options was 10 years.

A further 232,558 options were granted on 27 February 2007, again with an exercise period of 10 years and an exercise price of £0.43.

542,791 options were granted on 28 February 2007, also with an exercise period of 10 years and an exercise price of £0.43.

A further 379,295 options were granted on 14 June 2007, with an exercise period of 10 years and an exercise price of £0.51.

On 8 December 2006, the group incorporated two new subsidiaries in the Cayman Islands, Nviro Cleantech Limited and CCT Global Limited, which subsequently changed its name to Vertus Technologies Limited.

On 13 December 2006, the total amount due to Life Science Ventures of £910,712 was capitalised. 2,117,934 shares were issued at £0.43 per share.

On the same date a further 6,139,537 ordinary shares of £0.001 each were issued, fully paid, for consideration of £0.43 per share, giving total consideration of £2,640,000.

On 23 May 2007, a further 2,570,581 ordinary shares of £0.001 each were issued, fully paid, for £0.51 per share, giving total consideration of £1,310,996.

On 7 June 2007, a further 88,147 ordinary shares of £0.001 each were issued, fully paid for £0.51 per share.

On 3 July 2007, the company's entire share capital was purchased by Nviro Cleantech plc, the consideration being 31,916,199 ordinary shares of £0.001 each in Nviro Cleantech plc.

Pursuant to the share for share exchange, all outstanding options over shares in Nviro Cleantech Limited were replaced by commensurate options over ordinary shares in Nviro Cleantech plc on 3 July 2007.

On 1 June 2007, Vertus Technologies Limited entered into a commercial development agreement with 3R Environmental Technologies Limited under which 3R Environmental Technologies Limited was granted an option to acquire 30 per cent. of Vertus Technologies Limited for consideration of £1. Such option becomes exercisable upon: an offer being made by a third party for the entire issued share capital of Vertus Technologies Limited or for more than 50 per cent. of the assets of Vertus Technologies Limited; or Vertus Technologies Limited becoming irrevocably committed to the process of an IPO; or Vertus Technologies Limited achieving three successive months positive cash flow.

On 16 February 2007 Balama Nviro Limited was incorporated in the British Virgin Islands, with 50 per cent. of its issued share capital held by Vertus Technologies Limited.

**17. Related Party Transactions**

The transactions between the company and its subsidiaries, which are related parties have been eliminated on consolidation. No amounts were owed to or by such subsidiaries at the period end and there were no material transactions between the group companies during the period.

Core Capital Holdings LLC are a shareholder of the company. During the period, they provided consultancy services to the group totalling £34,761 of which the whole amount was outstanding at the period end.

**18. Transactions With Directors**

Services provided by directors of the company to the group during the period are as follows:

C Every - Consultancy                      £117,833

All amounts were outstanding at the period end and are included in current liabilities.

Share based payments to directors are disclosed in Note 14.

**19. Staff Costs**

The directors were the only members of staff and key management in the period and their services were provided under consultancy contracts rather than as employees. Details of remuneration are provided in Note 18 above.

**20. Acquisition of Subsidiary**

On 23 March 2006, the group acquired 100 per cent. of the issued share capital of Nviro Cleantech Inc for consideration of £1,000. Nviro Cleantech Inc provides administrative support to the Group. The transaction has been accounted for using the purchase method of accounting.

	<b>Book value and Fair value £'000</b>
Net liabilities acquired:	
Trade and other payables	(213)
Goodwill	214
	<hr/>
Total consideration	1
	<hr/>
Satisfied by:	
Shares in Nviro Cleantech Limited	1
	<hr/>

The fair value of all liabilities acquired was also their book value.

The consideration for the acquisition was 1,000 shares of £1 each in Nviro Cleantech Limited

Between the date of acquisition and the 30 September 2006, Nviro Cleantech Inc contributed £478,000 to the group's loss before taxation.

## Section B

### Report of the Reporting Accountants for the period to 30 September 2006

The following reproduces the Accountant's Report which was prepared for and contained in the Company's AIM Admission Document dated 26 July 2007.

The following reproduces the full text of a report on Nviro Cleantech Limited from Baker Tilly Corporate Finance LLP, the Reporting Accountants, to the Directors of Nviro Cleantech plc (the "Company") for the purpose of the Admission document dated 26 July 2007.

The Directors  
Nviro Cleantech plc  
Burleigh Manor  
Peel Road  
Douglas  
Isle of Man IM1 5EP

2 Bloomsbury Street  
London WC1B 3ST  
www.bakertilly.co.uk

26 July 2007

Dear Sirs

#### **Nviro Cleantech Limited**

We report on the financial information set out in Section A of Part IV. This financial information has been prepared for inclusion in the Admission Document dated 26 July 2007 ("Admission Document") of Nviro Cleantech plc on the basis of the accounting policies set out on pages 44 to 47.

This report is required by paragraph 20.1 of Annex I of the Prospectus Rules as applied by part (a) of Schedule Two to the AIM Rules and is given for the purpose of complying with that paragraph and for no other purpose.

Save for any responsibility arising under paragraph 20.1 of Annex I of the Prospectus Rules as applied by part (a) of Schedule Two to the AIM Rules 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 paragraph 20.1 of Annex I of the Prospectus Rules as applied by part (a) of Schedule Two to the AIM Rules, consenting to its inclusion in the Admission Document.

#### **Responsibilities**

As described on page 41 the Directors of the Company are responsible for preparing the financial information on the basis of preparation set out on page 44 of the Historical Financial Information and 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.

#### **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 entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations 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, a true and fair view of the state of affairs of Nviro Cleantech Limited as at the date stated and of its losses and changes in equity for the period then ended in accordance with the basis of preparation set out on page 44 and in accordance with International Financial Reporting Standards as adopted by the European Union as described on pages 44 to 47.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in any jurisdictions other than the United Kingdom and accordingly should not be relied upon as if it had been carried out in accordance with those other standards and practices.

**Declaration**

For the purposes of part (a) of Schedule Two to 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.

Yours faithfully

**Baker Tilly Corporate Finance LLP**

Regulated by the Institute of Chartered Accountants in England and Wales

Baker Tilly Corporate Finance LLP is a limited liability partnership registered in England and Wales, registered no. OC325347. A list of the names of members is open to inspection at the registered office 2 Bloomsbury Street London WC1B 3ST



## SECTION 2 – Historical Financial Information of Nviro Cleantech plc

Set out below is financial information and auditors report for Nviro Cleantech plc for the period to 30 September 2007 extracted from the published audited accounts of Nviro Cleantech plc without material adjustment. Both the financial information and the independent auditors' reports have been reproduced verbatim and, as such, page numbers and other references may no longer be valid.

### Section A

#### Audited financial information for the period to 30 September 2007

#### CONSOLIDATED INCOME STATEMENT

Year ended 30 September 2007

	Note	Year ended 30 September 2007 £'000	11 months ended 30 September 2006 £'000
Research and development expenses		(2,124)	(50)
Administrative expenses		(2,111)	(807)
<b>Operating loss</b>		<b>(4,235)</b>	<b>(857)</b>
Finance income	3	40	–
Finance costs		–	–
<b>Loss before tax</b>		<b>(4,195)</b>	<b>(857)</b>
Tax	5	–	–
<b>Loss for the financial year</b>		<b>(4,195)</b>	<b>(857)</b>
Basic and diluted loss per share	6	(13.81)p	(22.53)p

No minority interest in the losses has been recognised within these financial statements as the minority does not have a binding obligation to make additional investment to cover the losses.

All results in the current and preceding financial year derive from continuing operations.

#### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 30 September 2007

	Share capital £'000	Share premium £'000	Merger reserve £'000	Share based payment reserve £'000	Translation reserve £'000	Retained Earnings £'000	Total Equity £'000
<b>At 28 October 2005</b>	–	–	–	–	–	–	–
Loss for the period	–	–	–	–	–	(857)	(857)
Acquisition of subsidiary	21	–	–	–	–	–	21
Share based payment charge	–	–	–	14	–	–	14
Foreign currency translation	–	–	–	–	19	–	19
<b>At 30 September 2006</b>	<b>21</b>	<b>–</b>	<b>–</b>	<b>14</b>	<b>19</b>	<b>(857)</b>	<b>(803)</b>
Loss for the year	–	–	–	–	–	(4,195)	(4,195)
Foreign currency translation	–	–	–	–	(19)	–	(19)
Issue of share capital, (net of issue expenses)	12	6,582	–	–	–	–	6,594
Issue of share capital (see notes 17 and 19)	11	–	4,585	–	–	–	4,596
Share based payment charge	–	–	–	272	–	–	272
<b>At 30 September 2007</b>	<b>44</b>	<b>6,582</b>	<b>4,585</b>	<b>286</b>	<b>–</b>	<b>(5,052)</b>	<b>6,445</b>

## COMPANY STATEMENT OF CHANGES IN EQUITY

16 month period ended 30 September 2007

	Share capital £'000	Share premium £'000	Merger reserve £'000	Share based payment reserve £'000	Retained Earnings £'000	Total Equity £'000
<b>At Incorporation</b>	-	-	-	-	-	-
Loss for the year	-	-	-	-	(598)	(598)
Issue of share capital, (net of issue expenses)	12	6,582	-	-	-	6,594
Issue of share capital (see notes 17 and 19)	32	-	20,075	-	-	20,107
Share based payment charge	-	-	-	286	-	286
<b>At 30 September 2007</b>	<u>44</u>	<u>6,582</u>	<u>20,075</u>	<u>286</u>	<u>(598)</u>	<u>26,389</u>

## CONSOLIDATION AND COMPANY BALANCE SHEETS

As at 30 September 2007

	Note	2007 £'000	Group 2006 £'000	Company 2007 £'000
<b>Assets</b>				
<b>Non-current assets</b>				
Licence fees	8	1,028	-	-
Goodwill	8	-	-	-
Investments	9	-	-	20,201
Property, plant and equipment	10	35	-	2
Due from group undertakings	11	-	-	1,085
<b>Total non-current assets</b>		<u>1,063</u>	<u>-</u>	<u>21,288</u>
<b>Current assets</b>				
Trade and other receivables	12	385	-	431
Cash and cash equivalents	13	5,962	-	5,718
<b>Total current assets</b>		<u>6,347</u>	<u>-</u>	<u>6,149</u>
<b>Total assets</b>		<u>7,410</u>	<u>-</u>	<u>27,437</u>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Trade and other payables	14	(935)	(803)	(1,048)
Bank overdrafts and loans	15	(30)	-	-
Current tax liabilities		-	-	-
<b>Total current liabilities</b>		<u>(965)</u>	<u>(803)</u>	<u>(1,048)</u>
<b>Total liabilities</b>		<u>(965)</u>	<u>(803)</u>	<u>(1,048)</u>
<b>Net assets/(liabilities)</b>		<u>6,445</u>	<u>(803)</u>	<u>26,389</u>
<b>Equity</b>				
Share capital	17	44	21	44
Share Premium reserve	18	6,582	-	6,582
Merger reserve	19	4,585	-	20,075
Share based payment reserve	20	286	14	286
Translation reserve	21	-	19	-
Retained earnings	22	(5,052)	(857)	(598)
<b>Equity attributable to equity holders of the parent</b>		<u>6,445</u>	<u>(803)</u>	<u>26,389</u>
Minority Interest	29	-	-	-
<b>Total Equity</b>		<u>6,445</u>	<u>(803)</u>	

## CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS

For the period ended 30 September 2007

		Group	Company
		11 months ended	16 months ended
	Year ended 30 September 2007	30 September 2006	30 September 2007
	Note	£'000	£'000
<b>Operating activities</b>			
Net cash outflow from operations	24	(4,165)	–
Interest paid		–	–
Tax paid		–	–
<b>Net cash outflow from operating activities</b>		<b>(4,165)</b>	<b>(914)</b>
<b>Investing activities</b>			
Interest received		40	–
Purchase of intangible assets		(1,054)	–
Purchase of property, plant and equipment		(36)	(2)
<b>Net cash outflow/inflow from investing activities</b>		<b>(1,050)</b>	<b>38</b>
<b>Financing activities</b>			
Proceeds on issue of shares		12,362	–
Costs on issue of shares		(1,215)	(906)
<b>Net cash inflow from financing activities</b>		<b>11,147</b>	<b>6,594</b>
<b>Net increase in cash and cash equivalents</b>		<b>5,932</b>	<b>5,718</b>
Cash and cash equivalents at beginning of year		–	–
<b>Cash and cash equivalents at end of year</b>	13	<b>5,932</b>	<b>5,718</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Accounting Policies

#### *Basis of accounting*

The Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations adopted by the European Union and as applied in accordance with the provisions of the Companies Act 1985 and using accounting policies that are consistent with those as stated in the prospectus dated 26th July 2007.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are set out below.

#### *Standards issued but not yet effective*

At the date of authorisation of these financial statements the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

IFRS 2	Share Based Payment – Amendment relating to vesting conditions and cancellations
IFRS 3	Business Combinations – Comprehensive revision on applying the acquisition method
IFRS 8	Operating Segments
IFRIC 11	IFRS 2 – Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements
IFRIC 13	Customer Loyalty Programmes
IFRIC 14	IAS 19 – The limit on a Defined Benefit Asset Minimum Funding Requirements and their interaction
IAS 1	Presentation of Financial Statements – Comprehensive revision including requiring a statement of comprehensive income

IAS 23	Borrowing costs – Comprehensive revision to prohibit immediate expensing
IAS 27	Consolidated and Separate Financial Statements – Consequential amendments arising from amendments to IFRS 3
IAS 28	Investments in Associates - Consequential amendments arising from amendments to IFRS 3
IAS 31	Interests in Joint Ventures - Consequential amendments arising from amendments to IFRS 3
IAS 32	Financial Instruments Presentation – Amendments relating to puttable instruments and obligations arising on liquidation

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group when the relevant standards and interpretations come into effect.

The company has taken advantage of the exemption under section 230 of the Companies Act 1985 and has not presented its income statement in these financial statements. The Group loss for the year includes a loss after tax of £597,456 which is dealt with in the accounts of the Company.

#### ***Basis of consolidation***

The consolidated financial statements incorporate the financial statements of Nviro Cleantech plc and all its subsidiaries made up to 30 September each year.

Control is achieved where the Company has the power to govern the financial and operational policies of an entity so as to gain benefit from its activities.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the group's equity therein. Minority interests consist of the amount of those interests at the date of the business combination and the minority's share of changes in equity since the date of the combination. No minority interest in the losses has been recognised within these financial statements as the minority does not have a binding obligation to make additional investment to cover the losses. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

#### ***Business Combinations***

The company's controlling interest in its directly held, wholly owned subsidiary, Nviro Cleantech Limited was acquired through a transaction under common control, as defined in IFRS3, Business Combinations. The directors note that transactions under common control are outside the scope of IFRS 3 and that there is no guidance elsewhere in IFRS covering such transactions.

IAS contain guidance where a transaction falls outside the scope of IFRS. This guidance is covered in Paragraphs 10-12 of IAS 8, Accounting policies, Changes in Accounting Estimates and Errors. This requires, *inter alia*, that where IFRS does not contain guidance on a particular issue, the Directors may also consider the most recent pronouncements of other standard setting bodies that use a similar conceptual framework to develop accounting standards. In this regard it is noted that The United Kingdom Financial Reporting Standard No. 6 (FRS 6), outlines the situation when there is a transaction under common control. The guidance within the standard allows for merger accounting to be the method of accounting used.

Having considered the requirements of IAS 8 and the guidance included within FRS 6, it is considered appropriate to use a form of accounting which is similar to pooling of interests when dealing with the transaction in which the Group acquired its controlling interest in Nviro Cleantech Limited. Merger accounting has therefore been used to account for the transaction.

The use of this method of accounting impacts upon the comparative numbers in the financial statements. The comparative figures are altered by including the results of all of the combining entities for the previous year and their balance sheets for the previous balance sheet date.

#### ***Goodwill***

Goodwill arising on consolidation represents the excess of the cost of acquisition over the group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss.

### ***Investments***

Investments are recognised and derecognised on a trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost, including transaction costs.

### ***Property, plant and equipment***

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment loss. They are depreciated over their estimated useful lives on the following annual bases:

Plant and machinery	3 to 10 years	3.3% straight line
Computer Equipment		33.3% straight line

The gain or loss ensuing on the disposal or retirement of an asset is determined on the difference between sales proceeds and the carrying amount of the asset and is recognised in the income statement.

### ***Licences***

Licences are stated at cost less accumulated depreciation and are depreciated over their estimated useful lives on the following annual bases:

Licences	Over the licence period
----------	-------------------------

### ***Impairment of Property, Plant and Intangible Assets***

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

### ***Financial Instruments***

Financial assets and financial liabilities are recognised on the group's balance sheet when the group has become a party to the contractual priorities of the instrument.

### ***Cash and cash equivalents***

Cash and cash equivalents comprise cash balances and deposits held at call with banks.

### ***Borrowings***

All borrowing costs are recognised in the income statement in the period in which they incurred.

### ***Financial liabilities and equity***

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

### ***Equity instruments***

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

### ***Trade receivables***

Trade receivables are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit and loss when there is objective evidence that the asset is impaired.

### ***Trade payables***

Trade payables are initially measured at fair value and are subsequently measured at amortised cost using the effective interest rate method.

### ***Operating loss***

Operating loss is stated before finance income and finance costs.

### ***Leases***

All leases are classified as operating leases. Rentals payable under operating leases are charged to income on a straight line basis over the term of the relevant lease.

### ***Segmental Reporting***

A business segment is a group of assets and operations that provide a product or service and that is subject to risks and returns that are different from other business segments. A geographic segment is a group of assets and operations that provide a product or service within a particular economic environment and that is subject to risks and returns that are different from segments operating in different economic environments.

### ***Research and Development***

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

An internally-generated intangible asset arising from the Group's business development of its various clean technologies is recognised only if all of the following conditions are met:

- an asset is created that can be identified (such as software and new processes);
- it is probable that the asset created will generate future economic benefits;
- the development cost of the asset can be measured reliably;
- the product or process is technically and commercially feasible; and
- sufficient resources are available to complete the development and to either sell or use the asset.

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 will be amortised on a straight-line basis over their useful lives.

### ***Taxation***

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax 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 Group's liability for current tax is calculated by using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based upon tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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.

#### *Foreign currencies*

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates, (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group company are expressed in pounds sterling, which is the functional currency of the Company and the presentational currency for the consolidated financial statements.

Transactions in currencies other than sterling are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing on the balance sheet date. Profits and losses arising on retranslation are included in the income statement.

On consolidation, the assets and liabilities of the Group's overseas operations are translated into sterling at exchange rates prevailing on the balance sheet date. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or expenses in the period in which the operation is disposed of. Income and expense items are translated at the average exchange rates for the period.

#### *Share Based Payment*

The Group has applied the requirements of IFRS 2 Share based payment. The Group issues equity settled share based payments to certain employees and third parties. Equity settled share based payments are measured at fair value at the date of the grant. The fair value determined at the grant date of the equity settled share based payments is expensed on a straight line basis over the vesting period, based on the group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

Fair value is measured by use of the Black Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects on non-transferability, exercise restrictions and behavioural considerations.

#### *Going Concern basis*

After making enquiries, the directors have formed a judgment, at the time of approving the financial statements, that there is a reasonable expectation that the group has access to secure adequate resources to continue in operational existence for the foreseeable future. The company intends to raise additional funds in 2008 from research and development grants, economic development grants, debt, equity, or a combination of sources. Further detail on this can be found below. For this reason the directors continue to adopt the going concern basis in preparing the financial statements.

The Company continues to talk to both existing and new potential institutional investors. It retains communication with these well recognised institutions so they have good current knowledge of our technology and objectives in the market in the expectation that provided we do what we are projecting in meeting milestones they remain enthusiastic to support the company now and in the future as revenues begin to flow.

Meanwhile we are facing the greatest opportunity to support our cash position from other resources with the Vertus and Microrelease projects. At this point in time we are in negotiation with a number of biomass fuel based systems for the Far East and Americas, in each case the project has the opportunity of being a CDM project, which can provide substantial capital support for projects and additional ongoing revenue opportunities. The names and details of these projects remain commercially sensitive presently as a result of which the names of the Carbon Credit Consultancies dealing with the projects also remain confidential. However both those appointed client consultants and our prospective clients remain committed to the involvement in the Carbon Trading market subject to project approvals, the requirements of which we remain cognoscente of at each stage of development. In addition for the coal based projects we are actively looking for local funding sources and once having made public announcement of the planned installations can pursue these sources more specifically such as the State grant aid available in certain US States for reduction of emissions from power generation. In summary, the objective of seeking out specific finance relevant to a project is core to the negotiations and set up of each of those we are currently negotiating with.

In the case of Microrelease a significant turning point in the project accompanies the decision to build a commercial scale unit and once we have the relevant criteria for the build program completed it is intended to seek out the potential for a portion of regionally based grant funding related to the location and nature of the recycling project, for which we may or may not qualify in the final analysis.

In addition to working to acquire or qualify for external sources of funding there has been significant effort to establish engineering partnerships for the building of units for Vertus that have focused on rationalizing the building program for commercialisation and implementing production approaches for the systems that maximise performance while reducing costs. As a result of these efforts we have working partnerships with two of the world largest and most experienced manufacturers for this type of equipment and expect to announce those relationships formally over the coming months as they supply directly systems for the initial installations in 2008.

A similar approach is being taken with other projects but they are at a early stage where they are as yet not mature enough to attract funds that would have a significant impact on the investment in commercialising them and are too late to qualify for research grant aid hence needing our capital to progress at this point in time.

As at the end of January 2008, the Group had cash reserves of £4.69 million. Based on current projections of Group expenditure, that could be reduced in certain circumstances; this amount would be fully utilised by September 2008. The Group currently has a loan facility available to it of £1.5 million, which based on current projections would be utilised from September 2008 onwards. Plans are also in place to raise further capital funding in the near term from markets in the UK or the US, including leasing, supplier finance, development grants, debt or equity, thus meaning that the Group will be able to continue as a going concern from 12 months from the date of signing these financial statements.

## 2. Business and Geographical Segments

The Group currently operates in several geographical markets, the UK, the United States of America and the Cayman Islands. It also has a number of different business segments, being the development of certain individual technologies. Business segments are the basis on which the Group records its primary segment information. Unallocated operating expenses, assets and liabilities, relate to the general management, financing and administration of the Group.

Year ended 30 September 2007	Vertus RTP £'000	Microrelease £'000	Laseair £'000	Stillclear* £'000	Organotect* £'000	Unallocated £'000	Total £'000
<b>Revenue</b>	-	-	-	-	-	-	-
<b>Segment result</b>	(646)	(155)	(209)	(933)	(312)	(1,980)	(4,235)
Finance income							40
Finance costs							-
<b>Loss before tax</b>							(4,195)
Tax							-
<b>Loss for the financial year</b>							(4,195)
<b>Other information</b>							
Capital expenditure	1,004	50	33	-	-	3	1,090
Depreciation/Amortisation	21	5	1	-	-	-	27
<b>Balance sheet</b>							
Segment assets	983	71	56	157	-	6,143	7,410
Deferred tax asset							-
<b>Total assets</b>							7,410
Segment liabilities	(75)	(51)	(98)	(347)	(16)	(378)	(965)
Current tax liabilities							-
Deferred tax liabilities							-
<b>Total liabilities</b>							(965)
<b>Total net assets/(liabilities)</b>	908	20	(42)	(190)	(16)	5,765	6,445

\*Organotect is the development of a field portable micro-fluidics plasma detection system, allowing the rapid analysis of hazardous chemical in the air. Stillclear is a new ignition technology enabling the firing of clean and energy efficient carbon powder as a fuel in existing heat and power boilers and steam plants.



All of the capital expenditure in the year is on assets that are expected to be used in more than one period. The location of these assets is £1,004,000 of intangibles in the Cayman Islands and £50,000 in the UK. There is also £36,000 of plant and machinery in the UK.

11 months ended 30 September 2006	Vertus						Total £'000
	RTP £'000	Microrelease £'000	Laseair £'000	Stillclear £'000	Organotect £'000	Unallocated £'000	
Revenue	-	-	-	-	-	-	-
<b>Segment result</b>	-	-	-	-	-	(857)	(857)
Finance income							-
Finance costs							-
<b>Loss before tax</b>							(857)
Tax							-
<b>Loss for the financial year</b>							(857)
<b>Other information</b>							
Capital expenditure	-	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-	-
<b>Balance sheet</b>							
Segment assets	-	-	-	-	-	-	-
Deferred tax asset							-
<b>Total assets</b>							-
Segment liabilities	-	-	-	-	-	(803)	(803)
Current tax liabilities							-
Deferred tax liabilities							-
<b>Total liabilities</b>							(803)
<b>Total net assets/(liabilities)</b>	-	-	-	-	-	(803)	(803)

Of the loss for the financial year of £857,000, £214,000 is a non cash expense relating to the impairment of goodwill.

The secondary reporting format for the group is geographical segments. There are two geographical locations whose segment assets account for greater than 10 per cent. of the group's total assets, the UK, £6,143,000 (2006: £nil) and the Cayman Islands £983,000 (2006: £nil).

### 3. Finance Income

	Year ended 30 September 2007 £'000	11 months ended 30 September 2006 £'000
Bank interest receivable	40	-

### 4. Loss For The Financial Year

	Year ended 30 September 2007 £'000	11 months ended 30 September 2006 £'000
Loss for the financial year is arrived at after charging:		
Net foreign exchange gains	1	-
Depreciation on owned assets	1	-
Amortisation expense	26	-
Research expense	2,124	50
Rentals payable under operating leases	29	22
Staff costs	195	118
Auditors' remuneration for audit services	74	-
Share based payment expense	316	35
Impairment of goodwill	-	214

The amortisation charge of £25,917 is included within administrative expenses within the income statement.

Amounts payable to Baker Tilly UK Audit LLP and its related entities, in respect of both audit and non-audit services are set out below:

	Year ended 30 September 2007 £'000	11 months ended 30 September 2006 £'000
Fees payable to the auditors for the statutory audit of the parent and consolidated accounts	35	–
Fees payable to the auditors for other services:		
The audit of the company's subsidiaries	35	–
Taxation services – Compliance Services	15	–
Corporate finance transactions	155	–
	<u>240</u>	<u>–</u>

Baker Tilly UK Audit LLP were appointed as auditors in July 2007 and the fees disclosed in 2007 represent the directors' estimate of the fees payable for the audit for the year ended 30 September 2007.

## 5. Tax

	Year ended 30 September 2007 £'000	11 months ended 30 September 2006 £'000
<i>Current tax</i>		
Corporation tax	–	–
Adjustment in respect of prior years	–	–
Total current tax	<u>–</u>	<u>–</u>
<i>Deferred tax</i>	–	–
Adjustment in respect of prior years	–	–
Total tax charge	<u>–</u>	<u>–</u>

The charge for the year can be reconciled to the loss per the income statement as follows:

	Year ended 30 September 2007 £'000	11 months ended 30 September 2006 £'000
<b>Loss before tax</b>	<u>(4,195)</u>	<u>(857)</u>
Tax at the UK corporation tax rate of 30%	(1,259)	(257)
<b>Factors affecting charge for the year</b>		
Expenses not deductible for tax purposes	438	11
Capital allowances for the period in excess of depreciation	63	–
Tax losses not utilised	798	246
Other timing differences	(40)	–
Group tax charge	<u>–</u>	<u>–</u>

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. As the availability of future profits against which to utilise a deferred tax asset is uncertain, no asset has been recognised in the period.

## 6. Loss Per Share

Basic loss per share of 13.81p (2006: 22.53p) is based on the loss for the financial year of £4,195,000 (2006: loss of £857,000) and on 30,371,435 ordinary shares (2006: 3,803,187 ordinary shares) being the weighted average number of shares in issue throughout the year. As there is a loss for the year, there is no difference between the basic and the diluted loss per share.

## 7. Staff Costs

The average monthly number of employees, (including executive directors) during the year was:

	Group Number 2007	Group Number 2006	Company Number 2007
Administration	3	2	3

The costs incurred in respect of these employees were:

	Group Year ended 30 September 2007 £'000	Group 11 months ended 30 September 2006 £'000	Company 16 months ended 30 September 2007 £'000
Wages and salaries	195	118	-
Share based payments (see note 23)	271	14	-
Social security costs	50	2	-
	<u>516</u>	<u>134</u>	<u>-</u>

## 8. Other Intangible Assets

<b>Group</b>	<b>Licence fees £'000</b>
<i>Cost</i>	
At 1 October 2006	-
Additions	1,054
At 30 September 2007	<u>1,054</u>
<i>Amortisation</i>	
At 1 October 2006	-
Charge for the year	26
At 30 September 2007	<u>26</u>
<i>Net Book Value: 30 September 2007</i>	<u>1,028</u>

During the comparative period from 28 October 2005 to 30 September 2006, goodwill of £214,000 was incurred on the acquisition of Nviro Cleantech Limited which was then fully impaired during the period.

## 9. Investments

<b>Company</b>	<b>Investment in subsidiary undertakings £'000</b>
<i>Cost</i>	
Upon Incorporation	-
Additions	20,201
At 30 September 2007	<u>20,201</u>
<i>Provision for Impairment</i>	
Upon Incorporation	-
Addition	-
At 30 September 2007	<u>-</u>
<i>Net Book Value: Upon Incorporation and at 30 September 2007</i>	<u>20,201</u>

The company owns more than 20 per cent. of the following entities:

<b>Name of Undertaking</b>	<b>Place of Incorporation</b>	<b>% Ownership/ voting power</b>	<b>Principal Activity</b>
Nvirocleantech Limited	England & Wales	100	Holding company
Stillclear Limited	England & Wales	100	Development & exploitation of clean technologies
Laseair Limited	England & Wales	80	Development & exploitation of clean technologies
Microrelease Limited	England & Wales	80	Development & exploitation of clean technologies
Organotect Limited	United States	65	Development & exploitation of clean technologies
Nvirocleantech Inc	United States	100	Holding company
Vertus Technologies US LLC	United States	100	Development & exploitation of clean technologies
Vertus Technologies Limited	Cayman Islands	100	Development & exploitation of clean technologies
Nvirocleantech Cayman Islands Limited	Cayman Islands	100	Holding Company
Balama Nviro Limited	British Virgin Islands	50	Development & exploitation of clean technologies

All companies are owned indirectly by Nvirocleantech plc except for Nvirocleantech Limited.

An impairment review has been undertaken on the value of the company's investment in its subsidiary undertakings. The future revenues and profits of each business segment have been calculated on a discounted basis for a five year period. On this basis, no provision for impairment has been recognised.

## **10. Property, Plant and Equipment**

<b>Group</b>	<b>Plant and Machinery £'000</b>	<b>Computer Equipment £'000</b>	<b>Total £'000</b>
<i>Cost</i>			
At 1 October 2006	–	–	–
Additions	33	3	36
At 30 September 2007	33	3	36
<i>Depreciation</i>			
At 1 October 2006	–	–	–
Charge for the year	1	–	1
At 30 September 2007	1	–	1
<i>Net book value</i>			
At 30 September 2006	–	–	–
At 30 September 2007	32	3	35

During the comparative period from 28 October 2005 to 30 September 2006, the group had no property, plant or equipment.

<b>Company</b>	<b>Computer Equipment £'000</b>
<i>Cost</i>	
Upon Incorporation	–
Additions	2
At 30 September 2007	<u>2</u>
<i>Depreciation</i>	
Upon Incorporation	–
Charge for the year	–
At 30 September 2007	<u>–</u>
<i>Net book value</i>	
Upon Incorporation	–
At 30 September 2007	<u>2</u>

#### 11. Other Non Current Asset

	<b>Group</b>	<b>Company</b>
	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
Due from group undertakings	–	–
	<u>–</u>	<u>1,085</u>

The loan due from group undertakings is repayable after 5 years and is interest free.

#### 12. Other Receivables

	<b>Group</b>	<b>Company</b>
	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
Due within one year:		
Other receivables	372	–
Prepayments and accrued income	13	–
Due from group undertakings	–	–
	<u>385</u>	<u>431</u>

The directors consider that the carrying amount of other receivables approximates to their fair value. All of the groups other receivables are denominated in sterling except for £16,712 denominated in \$US.

#### 13. Cash and Cash Equivalents

	<b>Group</b>	<b>Company</b>
	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
Cash and cash equivalents per balance sheet	5,962	–
Bank overdrafts	(30)	–
Cash and cash equivalents per cash flow statement	<u>5,932</u>	<u>5,718</u>

All of the groups cash and cash equivalents at 30 September 2007 are at floating interest rates.

All of the groups cash and cash equivalents at 30 September 2007 are in sterling except for £39,000 (2006: £nil) held in \$US.

The directors consider that the carrying amount of cash and cash equivalents approximates their fair value.

#### 14. Trade and Other Payables

	Group		Company
	2007	2006	2007
	£'000	£'000	£'000
Trade payables	580	18	20
Other payables	218	180	18
Accruals and deferred income	137	250	102
Amounts owed to related parties	-	355	-
Due to group undertakings	-	-	908
	<u>935</u>	<u>803</u>	<u>1,048</u>

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 36 days (2006: 11 days).

The directors consider that the carrying amount of trade and other payables approximates to their fair value.

#### 15. Bank Overdrafts and Loans

	Group		Company
	2007	2006	2007
	£'000	£'000	£'000
Bank overdrafts	<u>30</u>	<u>-</u>	<u>-</u>

The bank overdraft is repayable on demand.

#### 16. Financial Management Risk

The group's principal financial assets are bank balances and cash, other receivables and investments. The group is exposed to the following risks – foreign currency risk, credit risk liquidity risk and interest rate risk. The policy for managing these risks is outlined below;

##### *Foreign currency risk*

Foreign currency risk arises on purchases from overseas markets, namely the United States of America, the transactions being denominated in \$US. Purchases from these markets however are minimal hence the risk is not considered to be significant.

##### *Liquidity risk*

The group maintains good relationships with its banks, all of whom are banks with high credit ratings and its cash requirements are anticipated via the budgetary process.

##### *Credit risk*

The group is mainly exposed to credit risk from its other receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. Management considers the above measures to be sufficient to control the credit risk exposure.

##### *Interest rate risk*

The Group is exposed to interest rate risk on its interest-bearing financial assets and liabilities. Cash and cash equivalents are the only interest-bearing financial assets held by the group. All cash and cash equivalents are held in floating rate deposit accounts.

## 17. Share Capital

	2007 £'000	2006 £'000
<i>Authorised:</i>		
100,000,000 ordinary shares of 0.1p each	100	
	<u>100</u>	
<i>Allotted, called up and fully paid:</i>		
43,822,959 ordinary shares of 0.1p each	44	21
	<u>44</u>	<u>21</u>

The company was incorporated on 26 May 2006 with an authorised share capital of £2,000, being 2,000 shares of £1 each, of which 2 were allotted at par.

On 26 June 2007, the authorised share capital of the company was increased by £98,000 to £100,000 as a result of the creation of 98,000 ordinary shares of £1.00 each to rank *pari passu* with the existing issued and unissued share capital of the company and then subdivided into 100,000,000 ordinary shares of 0.1p each.

The share capital figure of £21,000 at 30 September 2006 represents the share capital figure for Nviro Cleantech Limited, as under merger accounting, these shares are expressed as shares of Nviro Cleantech plc.

On 3 July 2007, 31,916,199 ordinary shares of 0.1p each were issued at par as consideration for the acquisition of Nviro Cleantech Limited. The fair value of these shares was taken to be 63p per share.

On 6 August 2007, 11,904,760 ordinary shares of 0.1p each were issued at 63p per share as part of an IPO on the AIM.

The company has one class of ordinary shares which carry no right to fixed income.

### *Share Options*

A total of 1,860,055 options over the ordinary share capital of the company were granted to a number of employees and third parties during the course of the year as follows,

Grant date	Number of options		Exercise price	Exercise period
27/12/2006	310,000	Employee	£0.43	130,000 over 10 years from 27/12/06 90,000 over 10 years from 31/12/07 90,000 over 10 years from 31/12/08
01/03/2007	232,558	Employee	£0.43	10 years from 01/03/07
28/02/2007	542,791	Third party	£0.43	5 years from 28/02/07
12/05/2007	51,411	Third party	£0.51	5 years from 12/05/07
26/06/2007	379,295	Employee	£0.51	126,431 over 10 years from 26/06/07 126,431 over 10 years from 31/12/07 126,433 over 10 years from 31/12/08
26/09/2007	344,000	Employee	£0.58	38,000 over 10 years from 26/09/07 28,000 over 10 years from 31/12/07 28,000 over 10 years from 31/12/08

## 18. Share Premium Reserve

	Group	Company
	2007 £'000	2006 £'000
At 1 October 2006	-	-
Issue of share capital	7,488	7,488
Expenses connected to issue of share capital	(906)	(906)
At 30 September 2007	<u>6,582</u>	<u>6,582</u>

## 19. Merger Reserve

	2007 £'000	2006 £'000
<b>Group</b>		
At 1 October 2006	–	–
Issue of share capital	4,585	–
At 30 September 2007	4,585	–
		2007 £'000
<b>Company</b>		
At incorporation		–
Issue of share capital		20,075
At 30 September 2007		20,075

On 3 July 2007, the Group entered into a share swap agreement whereby the shareholding of Nviro Cleantech Limited agreed to swap their interest in the shares of Nviro Cleantech Limited for shares in Nviro Cleantech plc, a newly incorporated company. The consideration for the share swap was the issue of 31,916,199 ordinary shares of £0.001 each. This transaction has been accounted for as a group reconstruction and consequently merger accounting has been adopted. In the Nviro Cleantech plc company accounts, £20,075,000 has been credited to the merger reserve being the difference between the fair value of the share capital issued and the share capital of Nviro Cleantech Limited. In the group accounts, a total of £4,585,000 has been taken to the merger reserve, being the total of the share capital and share premium in Nviro Cleantech Limited.

## 20. Share Based Payment Reserve

	2007 £'000	2006 £'000
<b>Group</b>		
At 1 October 2006	14	–
Share based payment charge	272	14
At 30 September 2007	286	14
		2007 £'000
<b>Company</b>		
At Incorporation		–
Share based payment charge		286
At 30 September 2007		286

## 21. Translation Reserve

	2007 £'000	2006 £'000
<b>Group</b>		
1 October 2006	19	–
Exchange differences	(19)	19
30 September 2007	–	19



## 22. Retained Earnings

	2007 £'000	2006 £'000
<b>Group</b>		
1 October 2006	(857)	–
Loss for the year	(4,195)	(857)
30 September 2007	<u>(5,052)</u>	<u>(857)</u>
<b>Company</b>		2007 £'000
Upon Incorporation		–
Loss for the period		(598)
30 September 2007		<u>(598)</u>

## 23. Share Based Payments

As outlined in note 17, the group granted share options to various employees and third parties during the year. Pursuant to the share for share exchange outlined in note 19, all outstanding options over shares in Nviro Cleantech Limited were replaced by commensurate options over ordinary shares in Nviro Cleantech plc on 3 July 2007. Details of the share options outstanding during the year are as follows.

	2007		2006	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Outstanding at beginning of year	800,000	£0.10	–	–
Granted during year	1,860,055	£0.48	800,000	£0.10
Cancelled during the year	(100,000)	£0.10	–	–
Outstanding at end of year	<u>2,560,055</u>	<u>£0.37</u>	<u>800,000</u>	<u>£0.10</u>
Exercisable at end of year	<u>1,950,122</u>	<u>£0.37</u>	<u>87,500</u>	<u>£0.10</u>

A share based payment charge has been calculated using the Black-Scholes model to calculate the fair value of the share options. The inputs into the Black Scholes model are as follows;

	2007	2006
Weighted average share price	£0.37	£0.10
Weighted average exercise price	£0.37	£0.10
Expected volatility	18.73%	33.12%
Expected life	9 years 9 months	10 years
Risk free rate	6.00%	6.00%
Expected dividends	<u>0.00%</u>	<u>3.00%</u>

The expected volatility percentage was calculated by reference to the share price of the Company over a nine week period from the listing of the Company to the end of October 2007 and the share price of a close competitor Company for an eighty week period from April 2006. The expected life used in the model has been adjusted based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

The weighted average remaining contractual life of the options outstanding at 30 September 2007 was 8 years 10 months. The outstanding options can be exercised at prices ranging from £0.10 to £0.58 and can be exercised over a 5 to 10 year period.

The Group recognised total expenses related to equity settled share based payment transactions in the form of options of £271,205 (2006: £14,000). Of this total, £206,191 related to employees including executive directors, (2006: £7,132). An expense of £44,955 was also recognised as a result of the issue of shares in consideration for the provision of consultancy services. The fair value of the services provided was calculated according to the value of the shares at the time of grant. The total share based payment expense recognised in the accounts is £316,160.

## 24. Notes to the Cash Flow Statement

	<b>Group</b>	<b>Company</b>
	<b>Year ended 30 September 2007 £'000</b>	<b>11 months ended 30 September 2006 £'000</b>
		<b>16 months ended 30 September 2007 £'000</b>
Operating loss	(4,235)	(500)
Adjustments for:		
Depreciation of property, plant and equipment	1	–
Amortisation of intangible assets	26	–
Share based payment expense	316	158
Currency translation adjustments	–	–
Operating cashflows before movements in working capital	<u>(3,892)</u>	<u>(342)</u>
Changes in working capital:		
(Increase) in trade and other receivables	(385)	(1,516)
Increase in trade and other payables	112	944
Net cash outflow from operations	<u>(4,165)</u>	<u>(914)</u>

## 25. Operating Lease Arrangements

	<b>2007 £'000</b>	<b>2006 £'000</b>
Minimum lease payments under operating leases recognised in the Income Statement for the year	<u>29</u>	<u>22</u>

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	<b>2007 £'000</b>	<b>2006 £'000</b>
Within one year	<u>3</u>	<u>30</u>
	<u>3</u>	<u>30</u>

Operating lease payments represent rentals payable by the Group for office property. The lease is an open ended lease that can be terminated with one month's notice.

## 26. Related Party Transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the company and its subsidiaries were as follows:

	<b>2007 £'000</b>	<b>2006 £'000</b>
Amounts due from subsidiary undertakings	293	–
Loan due from subsidiary undertakings due in five years	1,085	–
Amounts owed to subsidiary undertakings	<u>(908)</u>	<u>–</u>

Core Capital Holdings LLC and Inflect Technologies Limited are both related parties by virtue of their shareholding in the Company. During the year they provided consultancy services to the Group totalling £105,601, (2006: £34,761) and £135,000, (2006: £nil) respectively. At 30 September 2007 the Group owed the companies £3,332 and £10,000 respectively, (2006: £34,761 and £nil respectively). The University of Glasgow is a related party by virtue of its shareholding in one of the Groups' subsidiaries. During the year, the University of Glasgow provided consultancy services to the Group totalling £111,474 (2006 £:nil). At 30 September 2007, the Group owed the company £63,271, (2006: £nil). FIRA International Limited is also a related party by virtue of the shareholding of Chiltern Ventures Limited in one of Nvirocleantech plc's subsidiaries. During the year, FIRA International Limited provided consultancy services to the Group

totalling £60,593. At 30 September 2007, the Group owed the company £25,329, (2006: £nil). Huntfield Investments Limited are a related party by virtue of their shareholding in the Company. During the year they provided consultancy services to the Group totalling £174,000 (2006: £nil). At 30 September 2007, a balance of £nil was outstanding.

Andrew Cosentino was appointed as a director of the Company on 26 September 2007. Prior to this date he received consultancy fees of £52,000, (2006: £nil).

The remuneration of the directors, who are the key management personnel of the Group, is set out below.

	2007 £'000	2006 £'000
Short term employee benefits		
Directors' emoluments and fees (including non executive directors)	258	118
Share based payments	212	14
The remuneration paid to the highest paid director is as follows:		
Emoluments	55	
Fees	55	
	110	

There are no retirement benefits accruing to directors. Further information about the remuneration of individual directors is provided in the directors' remuneration report.

## **27. Critical Accounting Judgements and Key Sources of Estimation and Uncertainty**

### *Impairment of Investments*

Determining whether the investment in the company accounts has been impaired involves the calculation of discounted cash flows to establish future revenue and profitability of the Group. This has been calculated on a five year basis for each business unit of the group, using a suitable discount rate. The outcome of this is that no impairment is required.

### *Contingent Liability*

As at the date of signing these financial statements, the Group is in dispute with a supplier regarding the amount of monies due to them by the Group. There is a significant difference in perception between the two parties valuations of how much monies are due. The directors believe that sufficient liabilities have been included within these financial statements to cover all monies that may become due.

### *Share based payment*

Management have made numerous judgements regarding the calculation of the share based payment expense in the accounts, including, the expected volatility of the company's shares, the share price to be used in the calculation and the most appropriate risk free rate to use. In making these judgements, management considered the share price volatility of a number of the company's competitors and current interest rates. The actual figures used in the calculation are shown in note 23.

No other material judgements have been made by management that could have a significant effect on the amounts recognised in the financial statements.

## **28. Minority Interest**

Equity attributable to the minority interest is £nil at both 30 September 2007 and 30 September 2006, as the minority does not have a binding obligation to make additional investment to cover the losses of the Group.

## **29. Post Balance Sheet Events**

In October 2007, a memorandum of understanding was signed with CLP India in the Vertus RTP market, to proceed with preliminary work to test various fuel sources with a view to proceeding to building a plant for CLP in India. These tests are currently progressing positively.

### 30. Acquisition Subsidiary

On 3 July 2007, the group purchased the entire issued share capital of Nviro Cleantech Limited and its subsidiary undertakings. This acquisition was a transaction under common control and has been accounted for by the use of the 'pooling of interests' method. The consideration for the acquisition was the issue of 31,916,199 ordinary shares of £0.001 each. The fair value of the consideration has been calculated by reference to the price of the shares issued in the Group's IPO on 6 August 2007 of £0.63 per share.

On 23 March 2006, the Group acquired 100 per cent. of the issued share capital of Nviro Cleantech Inc. for consideration of £1,000. Nviro Cleantech Inc. provides administrative support to the Group. The transaction has been accounted for using the purchase method of accounting.

<b>Net liabilities acquired:</b>	<b>Fair Value £'000</b>
Trade and other payables	(213)
Goodwill	214
	<hr/>
Total Consideration	1
Satisfied by	
Shares in Nviro Cleantech Limited	1
	<hr/>

The fair value of all liabilities acquired was the same as their book value. The consideration for the acquisition was 1,000 shares of £1 each in Nviro Cleantech Limited. Between the date of acquisition and the 30 September 2006, Nviro Cleantech Inc. contributed £478,000 to the Group's losses before taxation.

## **Section B:**

### **Report of the Independent Auditors for the period to 30 September 2007**

The following reproduces the Auditor's Report which was prepared for and contained in the Company's 2007 annual report.

#### **Report of the Independent Auditors**

We have audited the group and parent company financial statements on pages 28 to 55.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union ("EU") are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Director's Report includes that specific information presented in the Chairman and Chief Executive's statement that is cross referenced from the Business Review section of the Director's Report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises the Directors' Report, Corporate Governance Statement, Remuneration Report and the Chairman and Chief Executive's Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

#### **Basis of audit opinion**

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

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

## **Opinion**

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, as applied in accordance with the provisions of the Companies Act 1985, of the state of the group's affairs as at 30 September 2007 and of its loss for the period then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 30 September 2007;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

### **Baker Tilly UK Audit LLP**

Registered Auditor  
Chartered Accountants  
2 Bloomsbury Street  
London WC1B 3ST  
14 February 2008

### SECTION 3 – Historical Financial Information of Nviro Cleantech plc

Set out below is financial information and auditors report for Nviro Cleantech plc for the period to 30 September 2008 extracted from the published audited accounts of Nviro Cleantech plc without material adjustment. Both the financial information and the independent auditors' reports have been reproduced verbatim and, as such, page numbers and other references may no longer be valid.

#### Section A

#### Audited financial information for the period to 30 September 2008

#### CONSOLIDATED INCOME STATEMENT

For the year ended 30 September 2008

		Year ended 30 September 2008 £'000	Year ended 30 September 2007 £'000
Research expenses		(329)	(2,124)
Administrative expenses	4	(3,108)	(2,111)
<b>Operating loss</b>		<b>(3,437)</b>	<b>(4,235)</b>
Share of results of joint venture	16	(19)	–
<b>Loss before interest</b>		<b>(3,456)</b>	<b>(4,235)</b>
Finance income	2	283	40
<b>Loss before tax</b>		<b>(3,173)</b>	<b>(4,195)</b>
Tax	5	–	–
<b>Loss for the financial year</b>		<b>(3,173)</b>	<b>(4,195)</b>
<b>Basic and diluted loss per share</b>	6	<b>(6.44)p</b>	<b>(13.81)p</b>

No minority interest in the losses has been recognised within these financial statements as the minority does not have a binding obligation to make additional investment to cover the losses. The loss is therefore wholly attributable to the equity holders of the parent.

All results in the current and preceding financial year derive from continuing operations.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 September 2008

	Share capital £'000	Share premium £'000	Merger reserve £'000	Share based payment reserve £'000	Translation reserve £'000	Retained Earnings £'000	Total Equity £'000
<b>At 1 October 2006</b>	21	–	–	14	19	(857)	(803)
Loss for the year	–	–	–	–	–	(4,195)	(4,195)
Foreign currency translation	–	–	–	–	(19)	–	(19)
Total recognised income and expense	–	–	–	–	(19)	(4,195)	(4,214)
Issue of share capital, (net of issue expenses)	12	6,582	–	–	–	–	6,594
Issue of share capital	11	–	4,585	–	–	–	4,596
Share based payment charge	–	–	–	272	–	–	272
<b>At 30 September 2007</b>	44	6,582	4,585	286	–	(5,052)	6,445
Loss for the year	–	–	–	–	–	(3,173)	(3,173)
Foreign currency translation	–	–	–	–	(3)	–	(3)
Total recognised income and expense	–	–	–	–	(3)	(3,173)	(3,176)
Transfer on exercise of share options	–	–	–	(10)	–	10	–
Issue of share capital, (net of issue expenses)	22	9,435	–	–	–	–	9,457
Share based payment charge	–	–	–	90	–	–	90
<b>At 30 September 2008</b>	66	16,017	4,585	366	(3)	(8,215)	12,816

All income and expenses are attributable to the shareholders of the parent company. None is attributable to the minority interest.

## COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 30 September 2008

	Share capital £'000	Share premium £'000	Merger reserve £'000	Share based payment reserve £'000	Retained Earnings £'000	Total Equity £'000
<b>At Incorporation</b>	–	–	–	–	–	–
Loss for the year	–	–	–	–	(598)	(598)
Total recognised income and expense	–	–	–	–	(598)	(598)
Issue of share capital, (net of issue expenses)	12	6,582	–	–	–	6,594
Issue of share capital	32	–	20,075	–	–	20,107
Share based payment charge	–	–	–	286	–	286
<b>At 30 September 2007</b>	44	6,582	20,075	286	(598)	26,389
Loss for the year	–	–	–	–	(150)	(150)
Total recognised income and expense	–	–	–	–	(150)	(150)
Transfer on exercise of share options	–	–	–	(10)	10	–
Issue of share capital, (net of issue expenses)	22	9,435	–	–	–	9,457
Share based payment charge	–	–	–	90	–	90
<b>At 30 September 2008</b>	66	16,017	20,075	366	(738)	35,786



## CONSOLIDATED AND COMPANY BALANCE SHEETS

As at 30 September 2008

	Note	Group		Company	
		2008 £'000	2007 £'000	2008 £'000	2007 £'000
<b>ASSETS</b>					
<b>Non-current assets</b>					
Licence	8	923	1,028	-	-
Development costs	8	867	-	-	-
Investment in subsidiaries	9	-	-	20,161	20,201
Property, plant and equipment	10	1,220	35	1	2
Due from group undertakings	11	-	-	1,085	1,085
<b>Total non-current assets</b>		<b>3,010</b>	<b>1,063</b>	<b>21,247</b>	<b>21,288</b>
<b>Current assets</b>					
Other receivables	12	145	385	4,223	431
Cash and cash equivalents	13	10,946	5,962	10,470	5,718
<b>Total current assets</b>		<b>11,091</b>	<b>6,347</b>	<b>14,693</b>	<b>6,149</b>
<b>Total assets</b>		<b>14,101</b>	<b>7,410</b>	<b>35,940</b>	<b>27,437</b>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Trade and other payables	14	(926)	(598)	(154)	(1,048)
Borrowings	15	-	(30)	-	-
Provisions		(337)	(337)	-	-
<b>Total current liabilities</b>		<b>(1,263)</b>	<b>(965)</b>	<b>(154)</b>	<b>(1,048)</b>
<b>Non current liabilities</b>					
Interests in joint ventures	16	(22)	-	-	-
<b>Total non current liabilities</b>		<b>(22)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total liabilities</b>		<b>(1,285)</b>	<b>(965)</b>	<b>(154)</b>	<b>(1,048)</b>
<b>Net assets</b>		<b>12,816</b>	<b>6,445</b>	<b>35,786</b>	<b>26,389</b>

## CONSOLIDATED AND COMPANY BALANCE SHEETS

As at 30 September 2008 continued

	Note	Group		Company	
		2008 £'000	2007 £'000	2008 £'000	2007 £'000
<b>Equity</b>					
Share capital	17	66	44	66	44
Share premium reserve	18	16,017	6,582	16,017	6,582
Merger reserve	19	4,585	4,585	20,075	20,075
Share based payment reserve	20	366	286	366	286
Translation reserve	21	(3)	-	-	-
Retained losses	22	(8,215)	(5,052)	(738)	(598)
<b>Equity attributable to equity holders of the parent</b>		<b>12,816</b>	<b>6,445</b>	<b>35,786</b>	<b>26,389</b>
Minority Interest	29	-	-	-	-
<b>Total Equity</b>		<b>12,816</b>	<b>6,445</b>	<b>35,786</b>	<b>26,389</b>

## CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS

For the year ended 30 September 2008

	Note	Group		Company	
		Year ended 30 September 2008 £'000	Year ended 30 September 2007 £'000	Year ended 30 September 2008 £'000	16 months ended 30 September 2007 £'000
<b>Operating activities</b>					
Net cash (outflow) from operations	24	(2,649)	(4,165)	(4,988)	(914)
Interest paid		–	–	–	–
Tax paid		–	–	–	–
<b>Net cash (outflow) from operating activities</b>		<u>(2,649)</u>	<u>(4,165)</u>	<u>(4,988)</u>	<u>(914)</u>
<b>Investing activities</b>					
Interest received		283	40	283	40
Purchase of intangible assets		(867)	(1,054)	–	–
Purchase of property, plant and equipment		(1,210)	(36)	–	(2)
<b>Net cash (outflow)/inflow from investing activities</b>		<u>(1,794)</u>	<u>(1,050)</u>	<u>283</u>	<u>38</u>
<b>Financing activities</b>					
Proceeds on issue of shares		10,005	12,362	10,005	7,500
Costs on issue of shares		(548)	(1,215)	(548)	(906)
<b>Net cash inflow from financing activities</b>		<u>9,457</u>	<u>11,147</u>	<u>9,457</u>	<u>6,594</u>
<b>Net increase in cash and cash equivalents</b>		<u>5,014</u>	<u>5,932</u>	<u>4,752</u>	<u>5,718</u>
Cash and cash equivalents at beginning of year		5,932	–	5,718	–
<b>Cash and cash equivalents at end of year</b>	13	<u>10,946</u>	<u>5,932</u>	<u>10,470</u>	<u>5,718</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Accounting Policies

#### Basis of accounting

The Group financial statements have been prepared in accordance with International Financial Reporting Standards and interpretations adopted by the European Union and as applied in accordance with the provisions of the Companies Acts 1931 to 2004 (IFRS).

In the current year, the Group has adopted IFRS 7 Financial Instruments: disclosures along with a complementary amendment to IAS 1, Presentation of financial statements – Capital disclosures, which is effective for annual reporting periods beginning on or after 1 January 2007. IFRS 7 introduces new disclosures to improve information reported in relation to financial instruments. It requires the disclosure of qualitative and quantitative information about exposures to risks arising from financial instruments including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity to market risk.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are set out below.

#### Going Concern

As at the end of September 2008, the group had cash reserves of £10.95 million and £8.0 million at 31 December 2008. Based on current projections of group expenditure this amount would be fully utilised by the end of the current financial year. The group currently has a loan facility available to it of £1.5 million which based on current projections would therefore be utilised from that date. It is anticipated that cash flow will start to be generated from revenue operations in the first half of 2009. Additionally, a review of capital and revenue expenditure is underway to identify and effect further cost savings and also to identify opportunities to raise further funding in the UK or the US, including project finance, leasing, supplier finance, development grants, debt or equity, thus enabling the group to continue as a going concern for 12 months from the date of signing of these financial statements.

#### Standards issued but not yet effective

At the date of authorisation of these financial statements the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

<b>International Accounting Standards (IAS/IFRS)</b>		<b>Effective date – Annual periods beginning on or after</b>
IFRS 1	First-time adoption of International Financial Reporting Standards – Amendment relating to cost of an investment on first-time adoption	1 July 2009
IFRS 2	Share Based Payment – Amendment relating to vesting conditions and cancellations	1 January 2009
IFRS 3	Business Combinations – Comprehensive revision on applying the acquisition method	1 July 2009
IFRS 7 & IAS 39	Financial instruments: Disclosures – reclassification of financial assets	1 January 2009
IFRS 8	Operating Segments	1 January 2009
IFRIC 12	Service Concession Arrangements	1 January 2008
IFRIC 13	Customer Loyalty Programmes	1 July 2008
IFRIC 14	IAS 19 – The limit on a Defined Benefit Asset Minimum Funding Requirements and their interaction	1 January 2008
IFRIC 15	Agreements for the Construction of Real Estate	1 January 2009

IFRIC 16	Hedges of a Net Investment in a Foreign Operation	1 October 2008
IFRIC 17	Distributions of non cash assets to owner	1 July 2009
IAS 1	Presentation of Financial Statements – Amendments relating to disclosure of puttable instruments and obligations arising on liquidation	1 January 2009
IAS 1	Presentation of Financial Statements – Amendments resulting from May 2008 annual improvements to IFRS's and other amendments	1 January 2009
IAS 23	Borrowing costs – Comprehensive revision to prohibit immediate expensing	1 January 2009
IAS 27	Consolidated and Separate Financial Statements – Consequential amendments arising from amendments to IFRS 3	1 July 2009
IAS 28	Investments in Associates – Consequential amendments arising from amendments to IFRS 3	1 July 2009
IAS 31	Interests in Joint Ventures – Consequential amendments arising from amendments to IFRS 3	1 July 2009
IAS 31	Interests in Joint Ventures – Amendments resulting from May 2008 annual improvements to IFRS's	1 January 2009
IAS 32	Financial Instruments: Presentation – Amendments relating to puttable instruments and obligations arising on liquidation	
IAS 36	Impairment of Assets – Amendments resulting from May 2008 annual improvements to IFRS	1 January 2009
IAS 39	Financial Instruments: Recognition and Measurement – Amendments resulting from May 2008 annual improvements to IFRS and other amendments	1 January 2009
IAS 39	Financial Instruments: Recognition and Measurement – Amendments for eligible hedged items	1 July 2009

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group when the relevant standards and interpretations come into effect.

As it is not obliged to do so, the company has not presented its income statement in these financial statements. The Group loss for the year includes a loss after tax of £150,868 (2007: £597,456) which is dealt with in the accounts of the Company.

### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of Nviro Cleantech plc and all its subsidiaries made up to 30 September each year.

Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to gain benefit from its activities.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the group's equity therein. Minority interests consist of the amount of those interests at the date of the business combination and the minority's share of changes in equity since the date of the combination. No minority interest in the losses has been recognised within these financial statements as the minority does not have a binding obligation to make additional investment to cover the losses. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

### **Business Combinations**

The company's controlling interest in its directly held, wholly owned subsidiary, Nviro Cleantech Limited was acquired through a transaction under common control, as defined in IFRS3, Business Combinations.

The directors note that transactions under common control are outside the scope of IFRS 3 and that there is no guidance elsewhere in IFRS covering such transactions.

IAS contain guidance where a transaction falls outside the scope of IFRS. This guidance is covered in Paragraphs 10-12 of IAS 8, Accounting policies, Changes in Accounting Estimates and Errors. This requires, *inter alia*, that where IFRS does not contain guidance on a particular issue, the Directors may also consider the most recent pronouncements of other standard setting bodies that use a similar conceptual framework to develop accounting standards. In this regard it is noted that The United Kingdom Financial Reporting Standard No. 6 (FRS 6), outlines the situation when there is a transaction under common control. The guidance within the standard allows for merger accounting to be the method of accounting used.

Having considered the requirements of IAS 8 and the guidance included within FRS 6, it is considered appropriate to use a form of accounting named 'pooling of interests' when dealing with the transaction in which the Group acquired its controlling interest in Nviro Cleantech Limited. Pooling of interests has therefore been used to account for the transaction.

**Joint Ventures**

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control.

Jointly controlled entities are accounted for using the equity method. Investments in joint ventures are carried in the balance sheet at the Group's share of the net assets of the joint venture and the Group's share of profits or losses for each financial year are recognised in the consolidated income statement.

**Goodwill**

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss.

**Investments**

Investments are recognised and derecognised on a trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost, including transaction costs.

**Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment loss. They are depreciated over their estimated useful lives on the following annual bases:

Assets under construction	No depreciation until construction of the assets is completed
Leasehold Improvements	Over the length of the lease
Plant and machinery	3 to 10 years straight line
Computer Equipment	33.3% straight line

The gain or loss ensuing on the disposal or retirement of an asset is determined as the difference between sales proceeds and the carrying amount of the asset and is recognised in the income statement.

**Licences**

Licences are stated at cost less accumulated depreciation and are depreciated over their estimated useful lives on the following annual bases:

Licences	over the licence period
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**Impairment of Property, Plant and Equipment and Intangible Assets other than Goodwill**

At each balance sheet date, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets other than goodwill to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated

in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of an impairment is treated as a revaluation increase.

### **Financial Instruments**

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group has become a party to the contractual priorities of the instrument.

### **Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and deposits held at call with banks.

### **Borrowings**

All borrowing costs are recognised in the income statement over the term of the instrument using an effective rate of interest.

### **Financial liabilities and equity**

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

### **Equity instruments**

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

### **Trade receivables**

Trade receivables are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit and loss when there is objective evidence that the asset is impaired. Objective evidence of impairment could include, the payment of debts becoming significantly overdue. The receivables are disclosed as loans and receivables in these financial statements.

### **Trade payables**

Trade payables are initially measured at fair value and are subsequently measured at amortised cost using the effective interest rate method. They are disclosed as other financial liabilities in these financial statements.

### **Operating loss**

Operating loss is stated before finance income, finance costs, interests in joint ventures and taxation.

## **Leases**

All leases are classified as operating leases. Rentals payable under operating leases are charged to income on a straight line basis over the term of the relevant lease.

## **Segmental Reporting**

A business segment is a group of assets and operations that provide a product or service and that is subject to risks and returns that are different from other business segments. A geographic segment is a group of assets and operations that provide a product or service within a particular economic environment and that is subject to risks and returns that are different from segments operating in different economic environments.

## **Research and Development**

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

An internally-generated intangible asset arising from the Group's business development of its various clean technologies is recognised only if all of the following conditions are met:

- an asset is created that can be identified;
- it is probable that the asset created will generate future economic benefits;
- the development cost of the asset can be measured reliably;
- the product or process is technically and commercially feasible; and
- sufficient resources are available to complete the development and to either sell or use the asset.

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 will be amortised on a straight-line basis over their useful lives by reference to their sale and use.

## **Taxation**

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax 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 Group's liability for current tax is calculated by using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based upon tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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.

## **Foreign currencies**

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates, (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in pounds sterling, which is the functional currency of the Company and the presentational currency for the consolidated financial statements.

On consolidation, the assets and liabilities of the Group's overseas operations are translated into sterling at exchange rates prevailing on the balance sheet date. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or expenses in the period in which the operation is disposed of. Income and expense items are translated at the average exchange rates for the period.

Transactions in currencies other than the functional currency are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing on the balance sheet date. Profits and losses arising on retranslation are included in the income statement.

### Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle that obligation. Provisions are measured at the director's 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.

### Share Based Payment

The Group has applied the requirements of IFRS 2 Share based payment. The Group issues equity settled share based payments to certain employees and third parties. Equity settled share based payments are measured at fair value at the date of the grant. The fair value determined at the grant date of the equity settled share based payments is expensed on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

Fair value is measured by use of the Black Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects on non-transferability, exercise restrictions and behavioural considerations.

## 2. Finance Income

	Year ended 30 September 2008 £'000	Year ended 30 September 2007 £'000
Bank interest receivable	283	40

## 3. Loss for the Financial Year

	Year ended 30 September 2008 £'000	Year ended 30 September 2007 £'000
Loss for the financial year is arrived at after charging:		
Net foreign exchange losses	70	1
Depreciation on owned assets	25	1
Amortisation expense	105	26
Research expense	329	2,124
Rentals payable under operating leases	29	29
Staff costs	1,006	195
Auditors' remuneration for audit services	75	75
Share based payment expense	90	316

The amortisation and depreciation charge of £130,000 (2007: £27,000) and the staff costs expense of £1,006,000 (2007: £195,000) are included within administrative expenses within the income statement.

Amounts payable to Baker Tilly Isle of Man LLC and its related entities, in respect of both audit and non-audit services are set out below:



	Year ended 30 September 2008 £'000	Year ended 30 September 2007 £'000
Fees payable to the auditors and associates for the statutory audit of the parent and consolidated accounts	35	35
Fees payable to the auditors and associates for other services:		
The audit of the company's subsidiaries	40	40
Taxation services – Compliance services	16	15
Taxation services – Advisory services	21	–
Services relating to corporate finance transactions entered into or proposed to be entered into by or on behalf of the company or any of its associates	–	155
	<u>112</u>	<u>245</u>

Baker Tilly Bennett Roy LLC were appointed as auditors in February 2008 and the fees disclosed in 2008 represent the directors' estimate of the fees payable for the audit for the year ended 30 September 2008.

#### 4. Administrative Expenses

	Year ended 30 September 2008 £'000	Year ended 30 September 2007 £'000
Staff costs	1,006	195
Professional fees	1,174	991
Travelling expenses	336	72
Rent and premises expenses	34	164
Other costs	558	689
	<u>3,108</u>	<u>2,111</u>

#### 5. Tax

	Year ended 30 September 2008 £'000	Year ended 30 September 2007 £'000
<i>Current tax</i>		
Corporation tax	–	–
Adjustment in respect of prior years	–	–
Total current tax	–	–
<i>Deferred tax</i>		
Adjustment in respect of prior years	–	–
Total tax charge	–	–

The Company is subject to Isle of Man taxation at the rate of 0 per cent.

The charge for the year can be reconciled to the loss per the income statement as follows:

	Year ended 30 September 2008 £'000	Year ended 30 September 2007 £'000
<b>Loss before tax</b>	(3,173)	(4,195)
Tax at the UK corporation tax rate of 29% (2007: 30%)	(920)	(1,259)
<b>Factors affecting charge for the year</b>		
Expenses not deductible for tax purposes	7	438
Capital allowances for period in excess of depreciation	–	63
Tax losses not utilised	819	798
Timing differences not recognised for deferred tax purposes	(136)	–
Losses not available for tax	230	–
Other timing differences	–	(40)
Group tax charge	–	–

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. As the availability of future profits against which to utilise a deferred tax asset is uncertain, no asset has been recognised in the year. The unrecognised deferred tax asset at 30 September 2008 is £2,795,567 (2007: £909,000).

## 6. Loss per share

Basic loss per share of 6.44p (2007: 13.81p) is based on the loss for the financial year of £3,173,000 (2007: loss of £4,195,000) and on 49,298,469 ordinary shares (2007: 30,371,435 ordinary shares) being the weighted average number of shares in issue throughout the year. As there is a loss for the year, there is no difference between the basic and the diluted loss per share. There are 2,670,055 (2007: 2,560,055) share options in issue that could potentially dilute basic earnings per share in the future, but have not been included in the calculation of diluted earnings per share because they are anti dilutive for the periods presented.

## 7. Staff costs

The average monthly number of employees, (including executive directors) during the year was:

	Group	
	2008 Number	2007 Number
Management and finance	4	3
Technical	5	–
Administration	2	–
	11	3

The costs incurred in respect of these employees were:

	Group	
	Year ended 30 September 2008 £'000	Year ended 30 September 2007 £'000
Wages and salaries	1,006	195
Share based payments (see note 23)	90	271
Social security costs	115	50
	1,211	516

The elements of remuneration received by each Director in respect of the year ended 30 September 2008 were as follows:

	Fees and salaries £	Total 2008 £	Fees and salaries £	Total 2007 £
<i>Executive</i>				
Christopher Every	230,000	230,000	110,000	110,000
Peter Rugg	100,000	100,000	33,332	33,332
Mustapha Omar	100,000	100,000	58,333	58,333
	430,000	430,000	201,665	201,665
<i>Non-Executive</i>				
James Leach	20,700	20,700	15,525	15,525
Libby Cooper	18,000	18,000	13,500	13,500
Philip Hollobone	18,000	18,000	13,500	13,500
Duncan Sedgwick	18,000	18,000	13,500	13,500
Andrew Cosentino	18,000	18,000	-	-
	92,700	92,700	56,025	56,025
<b>Total</b>	<b>522,700</b>	<b>522,700</b>	<b>257,690</b>	<b>257,690</b>

- Mustapha Omar was appointed a director on 1 March 2007 hence the remuneration for the prior year shown above is for a 7 month period.
- James Dickson Leach, Libby Cooper, Philip Hollobone and Duncan Sedgwick were all appointed directors on 11 December 2006 hence their remuneration for the prior year is for a 9 month period.
- Of the amounts paid to Christopher Every, James Dickson Leach and Duncan Sedgwick above, totals of £nil, £20,700 and £18,000 (2007: £55,000, £15,525 and £13,500 respectively) were paid as consultancy fees.
- Peter Rugg received £nil (2007: £26,346), from Inflect Technologies Limited, (a shareholder of Nviro Cleantech plc) for his services as a director of Nviro Cleantech plc.
- Amounts paid to Chris Every in 2008 included a payment of £120,000 for consultancy work in starting the Company for which Mr Every had not previously been paid.

## 8. Intangible Assets

<b>Group</b>	<b>Licence £'000</b>	<b>Development costs £'000</b>	<b>Total £'000</b>
<i>Cost</i>			
At 1 October 2006	–	–	–
Additions	1,054	–	1,054
At 30 September 2007	1,054	–	1,054
Additions	–	867	867
At 30 September 2008	1,054	867	1,921
<i>Amortisation</i>			
At 1 October 2006	–	–	–
Charge for the year	26	–	26
At 30 September 2007	26	–	26
Charge for the year	105	–	105
At 30 September 2008	131	–	131
<i>Net Book Value</i>			
1 October 2006	–	–	–
30 September 2007	1,028	–	1,028
30 September 2008	923	867	1,790

No impairment in Intangible assets has been identified in the year (2007: £nil). No amortisation has been charged on development expenditure as the cash generating units to which the assets have been allocated are not yet revenue generating.

## 9. Investments

<b>Company</b>	<b>Investment in subsidiary undertakings £'000</b>
<i>Cost</i>	
Upon incorporation	–
Additions	20,201
At 30 September 2007	20,201
Adjustment in the year	(40)
At 30 September 2008	20,161
<i>Provision for Impairment</i>	
At incorporation, 30 September 2007 and 2008	–
<i>Net Book Value</i>	
30 September 2007	20,201
30 September 2008	20,161

The company owns more than 20 per cent. of the following entities:

Name of Undertaking	Place of Incorporation	% Ownership/ voting power	Principal Activity
Nviro Cleantech Limited	England & Wales	100	Administration
Stillclear Environmental Limited*	England & Wales	100	Development & exploitation of clean technologies
Laseair Limited	England & Wales	80	Development & exploitation of clean technologies
Microrelease Limited	England & Wales	80	Development & exploitation of clean technologies
Organotect Limited	United States	65	Development & exploitation of clean technologies
Nviro Cleantech Inc	United States	100	Administration
Vertus Technologies US LLC	United States	100	Development & exploitation of clean technologies
Vertus Technologies Industrial LLC	United States	100	Development & exploitation of clean technologies
Vertus Technologies Limited	Cayman Islands	100	Development & exploitation of clean technologies
Nviro Cleantech Limited	Cayman Islands	100	Holding Company
Balama Nviro Limited	British Virgin Islands	50	Holding Company
Balama Nviro Limited	Hong Kong	50	Development & exploitation of clean technologies

\*This company was liquidated 12 December 2008.

All companies are owned indirectly by Nviro Cleantech plc except for Nviro Cleantech Limited.

An impairment review has been undertaken on the value of the company's investment in its subsidiary undertakings. The future revenues and profits of each business segment have been calculated on a discounted basis for a five year period. On this basis, no provision for impairment has been recognised.

## 10. Property Plant and Equipment

Group	Leasehold improvements £'000	Assets in the course of construction £'000	Plant & Machinery £'000	Computer Equipment £'000	Total £'000
<i>Cost</i>					
At 1 October 2006	-	-	-	-	-
Additions	-	-	33	3	36
At 30 September 2007	-	-	33	3	36
Additions	46	1,141	20	3	1,210
At 30 September 2008	46	1,141	53	6	1,246
<i>Depreciation</i>					
At 1 October 2006	-	-	-	-	-
Charge for the year	-	-	1	-	1
At 30 September 2007	-	-	1	-	1
Charge for the year	9	-	14	2	25
At 30 September 2008	9	-	15	2	26
<i>Net book value</i>					
1 October 2006	-	-	-	-	-
30 September 2007	-	-	32	3	35
30 September 2008	37	1,141	38	4	1,220

<b>Company</b>	<b>Computer equipment £'000</b>
<i>Cost</i>	
At Incorporation	–
Additions	2
At 30 September 2007	2
Additions	–
At 30 September 2008	2
<i>Depreciation</i>	
At Incorporation	–
Charge for the period	–
At 30 September 2007	–
Charge for the year	1
At 30 September 2008	1
<i>Net book value</i>	
At incorporation	–
30 September 2007	2
30 September 2008	1

#### 11. Other non-current asset

	<b>Group</b>		<b>Company</b>	
	<b>2008 £'000</b>	<b>2007 £'000</b>	<b>2008 £'000</b>	<b>2007 £'000</b>
Due from group undertakings	–	–	1,085	1,085

The loan due from group undertakings is repayable between 2 and 5 years and is interest free and unsecured.

#### 12. Other receivables

	<b>Group</b>		<b>Company</b>	
	<b>2008 £'000</b>	<b>2007 £'000</b>	<b>2008 £'000</b>	<b>2007 £'000</b>
Due within one year:				
Other receivables	61	372	–	127
Prepayments and accrued income	84	13	21	11
Due from group undertakings	–	–	4,202	293
	<u>145</u>	<u>385</u>	<u>4,223</u>	<u>431</u>

The directors consider that the carrying amount of other receivables approximates to their fair value. No other receivables are past their due settlement date and no impairment has been deemed necessary during the year, (2007: £nil). All of the groups other receivables are denominated in sterling except for £102,981 (2007:£16,712) denominated in \$US. All of the Company's other receivables are denominated in sterling at 30 September 2008 and 2007. There are no specific repayment terms attached to the amounts due from Group undertakings.

### 13. Cash and cash equivalents

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Cash and cash equivalents per balance sheet	10,946	5,962	10,470	5,718
Bank overdrafts	–	(30)	–	–
Cash and cash equivalents per cash flow statement	<u>10,946</u>	<u>5,932</u>	<u>10,470</u>	<u>5,718</u>

All of the Groups cash and cash equivalents at 30 September 2008 and 2007 are at floating interest rates except for £200,000 (2007: £200,000), which is held on deposit, accruing interest at 0.75 per cent. below the Bank of England base rate per annum. All of the Company's cash and cash equivalents at 30 September 2008 and 2007 are at floating interest rates.

All of the Groups cash and cash equivalents at 30 September 2008 are in sterling except for £201,741 (2007: £39,000) held in \$US. All of the Company's cash and cash equivalents at 30 September 2008 and 2007 are in sterling.

The directors consider that the carrying amount of cash and cash equivalents approximates their fair value.

### 14. Trade and other payables

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Trade payables	504	242	19	20
Other payables	41	218	–	18
Accruals and deferred income	381	138	108	102
Due to group undertakings	–	–	27	908
	<u>926</u>	<u>598</u>	<u>154</u>	<u>1,048</u>

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 42 days (2007: 36 days). The directors consider that the carrying amount of trade and other payables approximates to their fair value.

The Group and Company have financial risk management policies in place to ensure that all payables are paid within the credit timeframe and no interest has been charged by any suppliers as a result of late payment of invoices during the year.

### 15. Borrowings

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Bank overdrafts	–	30	–	–

The bank overdraft is repayable on demand.

## 16. Joint venture undertakings

The Group holds a 50 per cent. investment in Balama Nviro Limited, a company incorporated in the British Virgin Islands. Through this company, it holds a 50 per cent. investment in Balama Nviro Limited, a company incorporated in Hong Kong. In both instances, the Group holds the ownership of 50 per cent. of the ordinary share capital of the entities. The principal activity of the joint venture is the development and exploitation of clean technologies.

At 30 September 2008 the joint venture had no capital commitments or contingent liabilities. The results of the joint venture for the period ended 30 September 2008 have not been audited.

A summary of the results of the joint ventures for the year ended 30 September 2008 is shown below;

<b>Group share of results</b>	<b>2008</b> <b>£'000</b>
Revenue	–
Operating loss	(19)
Finance Income	–
Loss before tax	(19)
Tax	–
Loss after tax	(19)
<b>Group share of net liabilities</b>	<b>2008</b> <b>£'000</b>
Non current assets	–
Current assets	1
Current liabilities	(23)
Share of net liabilities	(22)

## 17. Share capital

	<b>2008</b> <b>£'000</b>	<b>2007</b> <b>£'000</b>
<i>Authorised:</i>		
200,000,000 (2007: 100,000,000) ordinary shares of 0.1p each	200	100
	<u>200</u>	<u>100</u>
<i>Allotted, called up and fully paid:</i>		
At 1 October 2007	44	21
Issues during the year	22	23
At 30 September 2008	<u>66</u>	<u>44</u>

On 27 March 2008 the authorised share capital of the Company was increased by £100,000 being 100,000,000 ordinary shares of 0.1p each.

On 13 June 2008, 50,000 ordinary shares of 0.1p each were issued due to an exercise of share options. On 2 July 2008, there was a secondary placing of 22,222,223 ordinary shares of 0.1p each, on the AIM. The shares were issued at 45p per share.

The Company has one class of ordinary shares which carry no right to fixed income.



### Share Options

A total of 160,000 (2007: 1,860,055) options over the ordinary share capital of the company were granted to a number of employees and third parties during the course of the year as follows,

Grant date	Number of options	Exercise price	Exercise period
07/02/08	160,000 employees	£0.47	40,000 exercisable immediately upon grant until 06/02/18 40,000 exercisable between 01/01/09 – 31/12/18 40,000 exercisable between 01/01/10 – 31/12/19 40,000 exercisable between 01/01/11 – 31/12/20

### 18. Share premium reserve

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
At 1 October 2007	6,582	–	6,582	–
Issue of share capital	9,983	7,488	9,983	7,488
Expenses connected to issue of share capital	(548)	(906)	(548)	(906)
At 30 September 2008	<u>16,017</u>	<u>6,582</u>	<u>16,017</u>	<u>6,582</u>

### 19. Merger reserve

Group	£'000
At 30 September 2007 and 2008	4,585
Company	£'000
At 30 September 2007 and 2008	20,075

On 3 July 2007, the Group entered into a share swap agreement whereby the shareholding of Nviro Cleantech Limited agreed to swap their interest in the shares of Nviro Cleantech Limited for shares in Nviro Cleantech plc, a newly incorporated company. The consideration for the share swap was the issue of 31,916,199 ordinary shares of £0.001 each. This transaction was accounted for as a group reconstruction and consequently merger accounting has been adopted.

### 20. Share based payment reserve

Group	2008	2007
	£'000	£'000
At 1 October 2007	286	14
Share based payment charge	90	272
Transfer to profit and loss reserve on exercise of share options	(10)	–
At 30 September 2008	<u>366</u>	<u>286</u>
Company	2008	2007
At 1 October 2007	286	–
Share based payment charge	90	286
Transfer to profit and loss reserve on exercise of share options	(10)	–
At 30 September 2008	<u>366</u>	<u>286</u>

## 21. Translation reserve

<b>Group</b>	<b>2008</b>	<b>2007</b>
	<b>£'000</b>	<b>£'000</b>
1 October 2007	–	19
Exchange differences	(3)	(19)
30 September 2008	<u>(3)</u>	<u>–</u>

## 22. Retained losses

<b>Group</b>	<b>2008</b>	<b>2007</b>
	<b>£'000</b>	<b>£'000</b>
1 October 2007	(5,052)	(857)
Loss for the year	(3,173)	(4,195)
Transfer from share based payment reserve on exercise of options	10	–
30 September 2008	<u>(8,215)</u>	<u>(5,052)</u>

<b>Company</b>	<b>2008</b>	<b>2007</b>
	<b>£'000</b>	<b>£'000</b>
1 October 2007	(598)	–
Loss for the year	(150)	(598)
Transfer from share based payment reserve on exercise of options	10	–
30 September 2007	<u>(738)</u>	<u>(598)</u>

## 23. Share based payments

As outlined in note 17, the group granted share options to various employees and third parties during the year. Details of the share options outstanding during the year are as follows.

	<b>2008</b>		<b>2007</b>	
	<b>Number of share options</b>	<b>Weighted average exercise price</b>	<b>Number of share options</b>	<b>Weighted average exercise price</b>
Outstanding at beginning of year	2,560,055	£0.37	800,000	£0.10
Granted during year	160,000	£0.47	1,860,055	£0.48
Exercised during the year	(50,000)	£0.10	–	–
Cancelled during the year	–	–	(100,000)	£0.10
Outstanding at end of year	<u>2,670,055</u>	<u>£0.38</u>	<u>2,560,055</u>	<u>£0.37</u>
Exercisable at end of year	<u>1,940,122</u>	<u>£0.38</u>	<u>1,950,122</u>	<u>£0.37</u>

A share based payment charge has been calculated using the Black Scholes model to calculate the fair value of the share options. The inputs into the Black Scholes model are as follows;

	<b>2008</b>	<b>2007</b>
Weighted average share price	£0.38	£0.37
Weighted average exercise price	£0.38	£0.37
Expected volatility	36.0%	18.73%
Expected life	9 years 0 months	9 years 9 months
Risk free rate	5.25%	6.00%
Expected dividends	<u>0.00%</u>	<u>0.00%</u>

The expected volatility percentage was calculated by reference to the share price of the Company over a 61 week period from the listing of the Company to 30 September 2008. The expected life used in the model has been adjusted based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

The weighted average remaining contractual life of the options outstanding at 30 September 2008 was 8 years 11 months (2007: 8 years 10 months). The outstanding options can be exercised at prices ranging from £0.10 to £0.58 and can be exercised over a 5 to 10 year period.

The Group recognised total expenses related to equity settled share based payment transactions in the form of options of £90,030 (2007: £271,205). Of this total, all related to employees including executive directors, (2007: £206,191). An expense of £nil (2007: £44,955) was also recognised as a result of the issue of shares in consideration for the provision of consultancy services. The fair value of the services provided was calculated according to the value of the shares at the time of grant. The total share based payment expense recognised in the accounts is therefore £90,030 (2007: £316,160). The majority of the options in existence have no performance criteria.

#### 24. Notes to the cash flow statement

	Group		Company	
	Year ended 30 September 2008 £'000	Year ended 30 September 2007 £'000	Year ended 30 September 2008 £'000	16 months ended 30 September 2007 £'000
Operating loss	(3,437)	(4,235)	(434)	(500)
Adjustments for:				
Depreciation of property, plant and equipment	25	1	1	–
Amortisation of intangible assets	105	26	–	–
Share based payment expense	90	316	90	158
Operating cashflows before movements in working capital	(3,217)	(3,892)	(343)	(342)
Changes in working capital:				
(Increase)/decrease in trade and other receivables	240	(385)	(3,973)	(1,516)
(Decrease)/Increase in trade and other payables	328	112	(672)	944
Net cash (outflow) from operations	(2,649)	(4,165)	(4,988)	(914)

#### 25. Operating lease arrangements

	2008 £'000	2007 £'000
Minimum lease payments under operating leases recognised in the Income Statement for the year	29	29

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2008 £'000	2007 £'000
Within one year	7	3
Between one and two years	15	–
Between two and five years	143	–
	165	3

Operating lease payments represent rentals payable by the Group for office property. The various leases expire at the end of April 2009, December 2009 and November 2010.

## 26. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the company and its subsidiaries were as follows:

<b>Company</b>	<b>2008</b> <b>£'000</b>	<b>2007</b> <b>£'000</b>
Amounts due from subsidiary undertakings (central funding)	4,256	293
Loan due from subsidiary undertakings due in five years	–	1,085
Loan due from subsidiary undertakings due between two and five years	1,085	–
Amounts owed to subsidiary undertakings	(27)	(908)

### Group

Transactions with related parties who are not members of the Group:

Core Capital Holdings LLC and Inflect Technologies Limited are both related parties by virtue of their shareholding in the Company. During the year they provided consultancy services to the Group totalling £164,280 (2007: £105,601) and £82,500 (2007: £135,000) respectively. At 30 September 2008 the Group owed the companies £13,529 and £23,500 respectively (2007: £3,332 and £10,000 respectively). The University of Glasgow is a related party by virtue of its shareholding in one of the Groups' subsidiaries. During the year, the University of Glasgow provided consultancy services to the Group totalling £282,845 (2007 £:111,474). At 30 September 2008, the Group owed the company £nil (2007: £63,271). FIRA International Limited is also a related party by virtue of the shareholding of Chiltern Ventures Limited in one of Nviro Cleantech plc's subsidiaries. During the year, FIRA International Limited provided consultancy services to the Group totalling £138,300 (2007: £60,593). At 30 September 2008, the Group owed the company £nil (2007: £25,329). Huntfield Investments Limited are a related party by virtue of their shareholding in the Company. During the year, they provide consultancy services to the Group totalling, £nil (2007: £174,000). At 30 September 2008 a balance of £nil (2007: £nil) was outstanding.

Transactions with joint ventures:

During the year the Group recharged £21,390 (2007: £nil) of expenses to its joint venture undertaking, Balama Nviro Limited.

The remuneration of the directors and other key management personnel of the Group is set out below.

	<b>2008</b> <b>£'000</b>	<b>2007</b> <b>£'000</b>
Short term employee benefits (including non executive directors)	683	280
Share based payments	54	212
	<u>737</u>	<u>492</u>

The remuneration paid to the highest paid director is as follows:

– Emoluments	230	55
– Fees	–	55
	<u>230</u>	<u>110</u>

There are no retirement benefits accruing to directors. Further information about the remuneration of individual directors is provided in the report of the remuneration committee.

## 27. Financial instruments

### Group

The Group is exposed to the risks that arise from its use of financial instruments. This note describes the objectives, policies and processes of the Group for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

### *Capital risk management*

The Group manages its capital to ensure that entities within the Group will be able to continue as a going concern while maximising the return to stakeholders. The Group funds itself through equity financing and as at the balance sheet date, did not employ any debt financing.

The capital structure of the group consists of equity, comprising issued capital, reserves and retained earnings.

The group has no externally imposed capital requirements.

### *Significant Accounting Policies*

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to these financial statements.

### *Principal financial instruments*

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- Cash at bank
- Trade and other payables

### *Categories of financial instruments*

At 30 September 2008, the Group held the following financial assets:

	2008	2007
	£'000	£'000
<b>Loans and receivables</b>		
Other receivables	61	372
Cash and cash equivalents	10,946	5,962
	<u>11,007</u>	<u>6,334</u>

There have been no gains or losses during the year, (2007: £nil) on loans and receivables.

At 30 September 2008, the Group held the following financial liabilities:

	2008	2007
	£'000	£'000
<b>Other financial liabilities</b>		
Bank loans and overdrafts	–	30
Trade and other payables	544	460
	<u>544</u>	<u>490</u>

### *Market risk*

The group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

### *Foreign currency risk management*

During the year, the group had a number of overseas subsidiaries based in the Cayman Islands and the United States of America, (as outlined in note 9). The Group trades overseas, mostly in the United States and hence owns foreign currency denominated assets and liabilities. The Group also pays for invoices denominated in a foreign currency in the same currency as the invoice. The Group therefore does suffer from a level of foreign currency risk. This risk is reduced by holding money in the currency that invoices are received in. The directors currently believe that foreign currency risk is at an acceptable level.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at 30 September 2008 is as follows:

	Assets		Liabilities	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
United States Dollar	202	39	370	–
Euro	–	–	–	18
	<u>202</u>	<u>39</u>	<u>370</u>	<u>18</u>

#### *Foreign currency risk sensitivity*

As highlighted above, as at 30 September 2008, the Group had no significant exposure to foreign currency risk. No sensitivity analysis on changes between the value of sterling compared with foreign currencies has therefore been prepared.

#### *Interest rate risk management*

The Group has minimal exposure to interest rate risk. As outlined earlier, it has no exposure to debt financing and has no interest rate bearing liabilities. It is exposed to interest rate risk on its financial assets being its cash at bank balances. The interest rate receivable on these balances is 0.75 per cent. below the Bank of England base rate. The Group gave careful consideration to which organisation it should use for its banking services and interest rates available was one aspect of the decision. The directors currently believe that interest rate risk is at an acceptable level.

#### *Interest rate sensitivity*

The sensitivity analyses below have been determined based on the exposure to interest rates for all interest bearing financial assets at the balance sheet date. For floating rate assets, the analysis is prepared assuming the amount of the liability outstanding at the balance sheet date was outstanding for the whole year. A 0.5 per cent. increase or decrease is used when reporting interest rate risk internally to key management and represents management's assessment of the reasonable possible change in interest rates.

At 30 September 2008, if interest rates had been 0.50 per cent. higher or (lower) and all other variables were held constant, the Group's net loss would increase/(decrease) by £53,730 (2007: increase/(decrease) by £29,660). This is attributable to the Group's exposure to interest rates on its variable rate cash balances. There would be no impact on the Group's equity balances.

At 30 September 2008, the Group had £nil (2007: £30,000) of borrowings subject to variable rate interest.

#### *Credit risk management*

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk arises principally from the Group's cash balances, with further minimal risk arising due to other receivables. The Group gives careful consideration to which organisations it uses for banking services in order to minimise credit risk. As the Group is in the pre-revenue stage of its development, it has no customers and therefore no need for a credit check policy. Such a policy will be introduced as and when required. Management considers the above measures to be sufficient to control the credit risk exposure.

The concentration of the Group's credit risk is considered by counterparty, geography and currency. The Group has a significant concentration of cash held on deposit with one large bank in the United Kingdom. At 30 September 2008, the concentration of credit risk held with that bank was £10,745,968 (2007: £5,762,791). There are no other significant concentrations of credit risk at the balance sheet date.

At 30 September 2008, the Group held no collateral (2007: nil) as security against any financial asset. No financial assets (2007: £nil) were past their due date and there were no problems with the credit quality of any financial asset in either year.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained. At both 30 September 2008 and 30 September 2007, no financial assets were past their due date. As a result, there has been no impairment of financial assets during the year.

### *Liquidity risk management*

Liquidity risk is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. Ultimate responsibility for liquidity risk management rests with the board of directors. The board manages liquidity risk by regularly reviewing the group's gearing levels, cash flow projections and associated headroom and ensuring that excess banking facilities are available for future use. The group maintains good relationships with its banks, all of whom are banks with high credit ratings and its cash requirements are anticipated via the budgetary process. At 30 September 2008, the Group had £10.95 million of cash reserves. In a worst case scenario, from November 2009 onwards, the Group may need to rely on a £1.5 million funding facility that is has in place.

### *Maturity of financial assets and liabilities*

All of the Group's non derivative financial liabilities and its financial assets in both the year to 30 September 2008 and the year to 30 September 2007 are either payable or receivable within one year.

### **Company**

The Company is exposed to the risks that arise from its use of financial instruments. This note describes the objectives, policies and processes of the Company for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

### *Capital risk management*

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders. The Company funds itself through equity financing and as at the balance sheet date, did not employ any debt financing.

The capital structure of the Company consists of equity, comprising issued capital, reserves and retained earnings.

The Company has no externally imposed capital requirements.

### *Significant Accounting Policies*

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to these financial statements.

### *Principal financial instruments*

The principal financial instruments used by the Company, from which financial instrument risk arises, are as follows:

- Cash at bank
- Trade and other payables
- Other receivables

### *Categories of financial instruments*

At 30 September 2008, the Company held the following financial assets:

	<b>2008</b>	<b>2007</b>
	<b>£'000</b>	<b>£'000</b>
Loans and receivables:		
Other receivables (including amounts due from group undertakings)	5,287	1,505
Cash and cash equivalents	10,470	5,718
	<u>15,757</u>	<u>7,223</u>

There have been no gains or losses during the year, (2007: £nil) on loans and receivables.

At 30 September 2008, the Company held the following financial liabilities:

	2008 £'000	2007 £'000
Other financial liabilities:		
Trade and other payables (including amounts due to group undertakings)	45	946
	<u>45</u>	<u>976</u>

#### *Market risk*

The Company has extremely minimal assets and liabilities held in foreign currencies and does not trade in overseas markets. The Company therefore has minimal exposure to foreign exchange risk. The Company is exposed to interest rate risk on its cash at bank balances.

#### *Interest rate risk management*

The Company has minimal exposure to interest rate risk. As outlined above, it has no exposure to debt financing and has no interest rate bearing liabilities. It is exposed to interest rate risk on its financial assets being its cash at bank balances. The interest rate receivable on these balances is 0.75 per cent. below the Bank of England base rate. The Company gave careful consideration to which organisation it should use for its banking services and interest rates available was one aspect of the decision. The directors currently believe that interest rate risk is at an acceptable level.

The Company's exposures to interest rates on financial assets are detailed in the liquidity risk management section of this note.

#### **Interest rate sensitivity**

The sensitivity analyses below have been determined based on the exposure to interest rates for all interest bearing financial assets at the balance sheet date. For floating rate assets, the analysis is prepared assuming the amount of the liability outstanding at the balance sheet date was outstanding for the whole year. A 0.50 per cent. increase or decrease is used when reporting interest rate risk internally to key management and represents management's assessment of the reasonably possible change in interest rates.

At 30 September 2008, if interest rates had been 0.50 per cent. higher or (lower) and all other variables were held constant, the Company's net loss would increase/(decrease) by £52,350 (2007: increase/(decrease) by £28,590). This is attributable to the Company's exposure to interest rates on its variable rate cash balances. There would be no impact on the Company's equity balances.

At 30 September 2008, the Company had £nil (2007: £nil) of borrowings subject to variable rate interest.

#### *Credit risk management*

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. Credit risk arises principally from the Company's cash balances and the balances due to it from other Group undertakings. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. Management considers the above measures to be sufficient to control the credit risk exposure.

The concentration of the Company's credit risk is considered by counterparty, geography and currency. The Company has a significant concentration of cash held on deposit with one large bank in the United Kingdom. At 30 September 2008, the concentration of credit risk held with that bank was £10,469,871 (2007: £5,718,495). Other concentrations of credit risk are with a number of the Company's subsidiary undertakings. At 30 September 2008 the Company was owed £4,256,039 (2007: £292,707) by group undertakings all of which is denominated in Sterling. £2,244,791 (2007: £166,563) is due from undertakings based in the United States, £120,681 (2007: £120,681) from undertakings in the Cayman Islands and £1,890,567 (2007: £5,463) from undertakings in the United Kingdom.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Company's maximum exposure to credit risk without taking account of the value of any collateral obtained. At both 30 September 2008 and 30 September 2007, no financial assets were past their due date. As a result, there has been no impairment of financial assets during the year.



At 30 September 2008, the Company held no collateral (2007: nil) as security against any financial asset. No financial assets (2007: £nil) were past their due date and there were no problems with the credit quality of any financial asset in either year.

#### *Liquidity risk management*

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due. Ultimate responsibility for liquidity risk management rests with the board of directors. The board manages liquidity risk by regularly reviewing the group's gearing levels, cash flow projections and associated headroom and ensuring that excess banking facilities are available for future use. The Company maintains good relationships with its banks, all of whom are banks with high credit ratings and its cash requirements are anticipated via the budgetary process. At 30 September 2008, the Company had £10.47 million of cash reserves. In a worst case scenario, from November 2009 onwards, the Company may need to rely on a £1.5 million funding facility that is has in place.

#### *Maturity of financial assets and liabilities*

All of the Company's non derivative financial liabilities for both the years ending 30 September 2008 and 2007 are due within one year. The maturity profile of the Company's financial assets is shown in the table below:

	Receivable in less than one year £'000	Receivable between 2-5 years £'000
<b>2008</b>		
Other receivables (including amounts due from group undertakings)	4,202	1,085
Cash and cash equivalents	10,470	–
	<u>14,672</u>	<u>1,085</u>
	<b>Receivable in less than one year £'000</b>	<b>Receivable between 2-5 years £'000</b>
<b>2007</b>		
Other receivables (including amounts due from group undertakings)	420	1,085
Cash and cash equivalents	5,718	–
	<u>6,138</u>	<u>1,085</u>

## **28. Critical accounting judgements and key sources of estimation and uncertainty**

In the process of applying the accounting policies of both the Company and the Group, as described in note 1, management have made the following judgements that have the most significant effect on the amounts recognised in the financial statements

#### *Impairment of Investments*

Determining whether the investment in the company accounts has been impaired involves the calculation of discounted cash flows to establish future revenue and profitability of the Group. This has been calculated on a five year basis for each business unit of the group. The outcome of this is that no impairment is required.

#### *Share based payment*

Management have made numerous judgements regarding the calculation of the share based payment expense in the accounts, including, the expected volatility of the company's shares, the share price to be used in the calculation and the most appropriate risk free rate to use. In making these judgments, management considered the share price volatility of the company and current interest rates. The actual figures used in the calculation are shown in note 23.

#### *Development costs*

In the Group financial statements, a total of £867,000 has been capitalised as development expenditure at 30 September 2008. The key judgment that needed consideration from management was when to begin capitalising costs as the Group's various projects moved from the research phase into the development phase. Management considered that all of the criteria set out in the relevant IFRS that must be met in order to classify project spend as development, had been met for all of the Group's projects. If the criteria had not been met, then the spend would have been classified as research expenses.

No other material judgements have been made by management that could have a significant effect on the amounts recognised in the financial statements.

**29. Minority interest**

Equity attributable to the minority interest is £nil at both 30 September 2008 and 30 September 2007, as the minority does not have a binding obligation to make additional investment to cover the losses of the Group. There are net liabilities in the relevant companies.

**30. Contingent liability**

As at the date of signing these financial statements, the Group is in dispute with a supplier regarding the amount of monies due to them by the Group. There is a significant difference in perception between the two parties valuations of how much monies are due. The directors believe that sufficient liabilities have been included within these financial statements to cover all monies that may become due.

**31. Capital commitments**

At 30 September 2008, the Group had committed itself to future expenditure on capital contracts to the value of \$1,550,000 (£861,000), (2007:£nil).

## **Section B**

### **Report of the Independent Auditors for the period to 30 September 2008**

The following reproduces the Auditor's Report which was prepared for and contained in the Company's 2008 annual report.

#### **Report of the Independent Auditors**

We have audited the Group and parent company financial statements on pages 24 to 56.

This report is made solely to the company's members, as a body, in accordance with section 15 of the Companies Act 1982. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union ("EU") are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Acts 1931 to 2004. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Director's Report includes that specific information presented in the Chairman and Chief Executive's statement that is cross referenced from the Business Review section of the Director's Report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises the Directors' Report, Corporate Governance Statement, Remuneration Report and the Chairman and Chief Executive's Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

#### **Basis of audit opinion**

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

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

**Opinion**

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, as applied in accordance with the provisions of the Companies Acts 1931 to 2004, of the state of the group's affairs as at 30 September 2008 and of its loss for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Acts 1931 to 2004, of the state of the parent company's affairs as at 30 September 2008;
- the financial statements have been properly prepared in accordance with the Companies Acts 1931 to 2004; and
- the information given in the Directors' Report is consistent with the financial statements.

**Emphasis of Matter – Going Concern**

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosures made in note 1 of the financial statements concerning the uncertainty as to the generation of cash flows from revenue operations and the company's ability to raise further additional funding as required. In view of the significance of this uncertainty we consider that it should be drawn to your attention.

**Baker Tilly Isle of Man LLC**

2A Lord Street

Douglas

Isle of Man

IM99 1HP

28 January 2009

## SECTION 4 – Historical Financial Information of Nviro Cleantech plc

Set out below is the financial information for the six month period to 31 March 2009, prepared under IFRS. The financial information for the six month period to 31 March 2009 was neither audited nor reviewed.

### Nviro Cleantech plc (“Nviro” or “the Company”) Interim Statement for the six months to 31 March 2009

#### Financial Highlights

- Loss before tax £5.3 million after impairment charge of £2.9 million.
- Cash balance of £6.0 million as at 31 March 2009.

#### Operational Highlights

- **Clean Fuel**
  - Withdrawal from the build programme at the Cincinnati site in response to unfavourable market conditions and their impact on system design and capability.
  - Completion of the laboratory facilities in Cincinnati.
  - A continuing substantive and wide ranging fuel evaluation programme utilising the laboratory, enabling the Company to target its technology to potential clients.
  - Identification of three substantial volume sectors of the clean fuels market where technology can be targeted effectively and economically.
  - Ongoing prospective client fuel and project evaluations.
- **Recycling**
  - Successful trial production of MDF with recycled content of 20 per cent.
  - Successful fit out of retail store site with the new boards.
- **Air Treatment**
  - Follow on projects reach the conclusion of their development programmes as originally planned, in preparation for partnering or alternative exit in due course.

Chris Every, CEO of Nviro Cleantech plc, said: “In what has been a challenging period, Nviro has made significant progress in each of its technologies. This is especially the case with necessary adjustments made to the clean coal technology programme which commenced following the issues arising at the beginning of 2009. In addition a programme to control costs has been effective in significantly reducing overheads while the business adjusts to changes required. We have taken the opportunity to be prudent in recognising the adjustments in the accounts for the half year.

We are continuing to pursue negotiations with potential strategic partners to strengthen the business, which were mentioned in our trading statement of 15 May 2009. We are endeavouring to bring these to a positive conclusion as quickly as possible and for the benefit of shareholders.”

An extract of the financial report for the six months ending 31 March 2009 is presented below. A full version of this will be available on the Company’s website, [www.nvirocleantech.com](http://www.nvirocleantech.com).

## **CHIEF EXECUTIVE'S STATEMENT**

### **Review of Activities**

The first six months of this financial year have seen significant changes in our business reflecting both internal and external pressures stimulating the restructuring of the Vertus clean fuels business and leading the Company to reshape its staff structure and overall strategy going forward.

As the financial year opened in October 2008, the Group was set to build its first commercial clean coal treatment plant in Cincinnati and shortly thereafter, in November, obtained the necessary Ohio State and Cincinnati City air emission permits required to commence the build, but some intricate and costly re-design in the off gas management systems was required to meet the locally higher level emission requirements. As announced in March 2009, at the turn of the calendar year the Company suffered the combined impact of the global economic downturn and local influences upon coal pricing in the US fuel economy which initially resulted in a temporary halt in construction. Subsequently, in May 2009, the Company announced the cessation of development of the first Vertus commercial site in Cincinnati because of regulatory requirements and the changing economic costs of production at that site. As a consequence of these events, the Company started an engineering review of the thermal process the Company had envisaged using and an economic review of the application of clean fuels technologies commercially. In this connection we utilised the recently completed laboratory facility in Cincinnati to test a wide range of clean fuels.

We devoted the early months of 2009 working to understand better the range of our technical capability with the Vertus reductive thermal processes and in reducing costs and operating overhead to conserve cash for the longer run. Extensive testing was carried out in the laboratory at Cincinnati across the full range of coal rankings and included biomass in the programme. Positive results have enabled us to define key market sectors where we can continue commercialisation of our clean fuels business.

Additionally, the Directors have taken actions to reduce operational expenditure and stop new capital spend. Since the turn of the year substantial cuts have been made in employee numbers, reducing staff costs by approximately 44 per cent. Additional reductions in consultancy support and other costs have helped to reduce operating costs by 50 per cent in May 2009 compared to January 2009.

As mentioned above, on the basis of the economic costs of production and regulatory conditions, the Company has withdrawn from building the plant at Cincinnati Bulk Terminals ("CBT") site. However the Company is moving towards specific customer-driven opportunities to implement alternative sites with CBT in the Cincinnati region. Currently, we are seeking to establish jointly a treatment plant at one of CBT's client sites and are presently conducting an early stage review of another potential location. As a result of this the Company has taken the prudent step of impairing the assets acquired specifically for the original site. On account of the above stated factors the Board expects a delay in the timetable for generation of revenues coming from the first clean fuel project and consequently the Board is considering options that can help sustain the Company in these circumstances. Simultaneously, the Board sought to address the structure of client business models endeavouring to accelerate access to income where possible.

Meanwhile the Board has been pursuing the option of strategic relationships that can assist the long term sustainability of the business in the current financial market place and strengthen the business in the markets where it intends to operate. The trading update of 15 May 2009 contains details of initial discussions concerning this aspect of change which the Board believe will transform the opportunities for the business. Since then, the Board has continued to work towards reaching constructive conclusions on this matter and will keep the market updated with further developments when appropriate.

### **Vertus Technologies & Clean Fuels Production**

As a consequence of worldwide, national and local economic changes, December 2008 saw a dramatic convergence of prices between Environmental Protection Agency Air Quality compliant coal and the non-compliant grades, highlighting for us potential issues with our technology's capability to deliver product with the economic benefits we had envisaged. The perceived value differential between a compliant fuel and non compliant fuel fell from over US\$60/ton to US\$6/ton in a short span of time.

The economic changes highlighted the pressure on the engineering and performance of the CBT installation design to operate cost effectively and profitably to an acceptable economic margin. The result of these events led to an extensive test programme, which was run this year spanning over twenty fuels from various coal

quality rankings and locations around the world. This test programme is expected to continue throughout the year as additional fuel samples from various world regions are received. Results to date from this programme have enabled us to define very clearly the target markets, the primary technologies and clean fuel services that we are effectively able to provide prospective clients.

Clean fuels remain the primary focus for the Company. The Board believes that the key to the future remains the use of thermal and other processes to modify both coal and biomass resources, selectively applied for effective economic processing. The ability to blend and apply additives and biomass has combined to focus the Company's future efforts on three clean fuel sectors which include:

- the manipulation of high ranking fuels like anthracite to meet specific tailored requirements;
- the drying and upgrading of low ranking fuels for power generation; and
- the blending of thermally pre-treated biomass for CO<sub>2</sub> reduction and additives.

The latter sector combines the technologies specifically for reduction of hazardous air pollutants in coal as well as CO<sub>2</sub>, carefully targeted to meet current and planned legislation on climate change in the core fuel volume of the power generation market.

The resulting refinement of the focus for applying our technology has been combined with an updated business model that seeks a greater degree of partnering with the client, managing design, build and operations of the pre-treatment plant in which they invest. This will enable the output to be tailored for their precise needs and to cope with subsequent changes in fuel resources, legislation and market pricing that may demand the alteration of their fuel specifications in the future. Currently we are in the process of applications for full grant funding of a plant in conjunction with clients in the USA and in discussion with European, North American and Asian clients who have the ability to invest in plants to meet their fuel requirements in future.

Over the last six months while reducing the number of staff in the Vertus and clean fuels area we have also been successful in strengthening the relevant skill sets in the team and have seen benefit from appointing a new Director of Engineering, Bernard Gray, in January to implement, coordinate and direct the latest phase of technology testing and process development. In addition a number of IP opportunities have been identified by the team and are being prepared for submission. The primary objective for the coming period is the consolidation of our initial efforts to implement the outcomes of the first half year in the form of new locations and commitments to the first full industrial scale site for an Nviro clean fuels application while seeking further revenue earning opportunities as early as possible.

### **Microrelease Limited**

Over the period the project team has been in detailed discussions with MDF manufacturers and continues to monitor closely trial activities to develop the technology, against targeted specific requirements from potential commercial partners in the MDF board manufacturing industry and in other application sectors utilising recycled fibre. While many of the technical issues for installation at an industrial scale have been overcome, the intervention of a new process in well tuned existing MDF board production lines is an exercise that demands careful analysis by the parties and that process continues in parallel with commercial discussions upon which installation will proceed.

Batches of finished boards of up to 20 per cent. blended recycled material produced by different manufacturers earlier in the period have now been utilised in a number of smaller applications in fitting out retail sites. These results encouraged a successful large application fit out for a major eco-store in the second quarter. In addition, some success on smaller scale projects has been achieved where fibre has been used in non-board applications, which has encouraged demand for additional quantities of recycled fibre from those prospective users.

The Board is keeping its options open to implement a first full scale industrial plant or the build of an interim small industrial plant to produce more substantial ongoing volume of fibre for a combination of further board manufacturing tests and supply to non board applications, depending on the ongoing investment and commercialisation path selected by the Company and influenced by the prospective partners' market interest.

### **Laseair Ltd**

The development of Laseair is almost at the end of its performance testing programme and has already stimulated some interest in partnering development which will be pursued in the next period to find a suitable route to commercialisation for this technology.

### **Organotect Ltd**

Completion of prototypes and further testing of the capabilities of the individual processes combined in the unit have been successful in adding to the potential ways to apply this technology in the market and in generating initial interest in integration of the technology by third parties. The next period will focus on developing that interest to a commercial level.

### **Financial Results**

During the period to 31 March 2009 the Group reported a pre-tax loss of £5.3 million which, translates to a loss per share of 8.03p. As a consequence of the withdrawal from the CBT site in Cincinnati, the Group booked an impairment charge of £2.9 million against assets under construction at that site. Cash balances at the end of the period were £6.0 million (September 2008: £10.9 million).

### **The Outlook**

In spite of a global economic slowdown the energy industry remains relatively buoyant with growth and refurbishment still planned in territories around the globe and the pressures to meet clean air and climate change legislation continue unabated. In a difficult period, Nviro has been able to record some significant positives in the clear definition of target sectors and ability of the technologies available to us in the clean fuel market place. The interest from prospective clients in the Company's technology remains strong and Nviro continues to maintain its market focus as a clean fuels technology provider. Identification of a commercial site to replace the planned CBT installation is central to the actions for this half year. At the same time, the follow on projects and Microrelease provide fundamentally sound supporting value at this stage for a global opportunity in clean fuels. In addition, since restructuring, the business is leaner and better able to conserve cash while completing the exercise that has been initiated in seeking out partnerships and strengthening the long term ability to derive value from the Nviro technology portfolio for shareholders.

**Chris Every**

*Chief Executive*

26 June 2009



## CONSOLIDATED INCOME STATEMENT

For the six months ended 31 March 2009

		6 months ended 31 March 2009 £'000 Unaudited	6 months ended 31 March 2008 £'000 Unaudited	12 months ended 30 September 2008 £'000 Audited
<b>Continuing Operations</b>				
Research expenses		(164)	(263)	(329)
Administrative expenses		(2,671)	(1,264)	(3,108)
Impairment of property plant & equipment		(2,907)	–	–
Other operating income		338	76	–
<b>Operating loss</b>		(5,404)	(1,451)	(3,437)
Share of results of joint venture		(12)	–	(19)
Finance income		111	96	283
<b>Loss before tax</b>		(5,305)	(1,355)	(3,173)
Tax		–	–	–
<b>Loss for the financial period</b>		(5,305)	(1,355)	(3,173)
Basic and diluted loss per share	4	(8.03)p	(3.09)p	(6.44)p

## CONSOLIDATED BALANCE SHEET

As at 31 March 2009

	Notes	31 March 2009 £'000 Unaudited	31 March 2008 £'000 Unaudited	30 September 2008 £'000 Audited
<b>ASSETS</b>				
<b>Non-Current Assets</b>				
Licence fees	5	870	975	923
Patents	5	39	–	–
Development costs	5	1,022	554	867
Property, plant & equipment	6	911	427	1,220
<b>Total Non-Current Assets</b>		<b>2,842</b>	<b>1,956</b>	<b>3,010</b>
<b>Current Assets</b>				
Other receivables		295	33	145
Cash and cash equivalents	7	5,953	4,031	10,946
<b>Total Current Assets</b>		<b>6,248</b>	<b>4,064</b>	<b>11,091</b>
<b>Total Assets</b>		<b>9,090</b>	<b>6,020</b>	<b>14,101</b>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Trade and other payables		(1,098)	(836)	(926)
Provisions	8	(420)	–	(337)
Bank overdraft and loans	7	–	(30)	–
<b>Total Current Liabilities</b>		<b>(1,518)</b>	<b>(866)</b>	<b>(1,263)</b>
<b>Non-Current Liabilities</b>				
Interests in joint ventures		(43)	–	(22)
<b>Total Non-Current Liabilities</b>		<b>(43)</b>	<b>–</b>	<b>(22)</b>
<b>Total Liabilities</b>		<b>(1,561)</b>	<b>(866)</b>	<b>(1,285)</b>
<b>Net Assets</b>		<b>7,529</b>	<b>5,154</b>	<b>12,816</b>
<b>EQUITY</b>				
Called up share capital		66	44	66
Share premium reserve		16,017	6,582	16,017
Merger reserve		4,585	4,585	4,585
Share based payment reserve		399	350	366
Translation reserve		(18)	–	(3)
Retained earnings		(13,520)	(6,407)	(8,215)
<b>Equity Attributable to Equity Holders of the Parent</b>		<b>7,529</b>	<b>5,154</b>	<b>12,816</b>
Minority Interest	11	–	–	–
<b>Total Equity</b>		<b>7,529</b>	<b>5,154</b>	<b>12,816</b>

## CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31 March 2009

		6 months ended 31 March 2009 £'000	6 months ended 31 March 2008 £'000	12 months ended 30 September 2008 £'000
	Notes	Unaudited	Unaudited	Audited
<b>Continuing Operations</b>				
<b>Operating Activities</b>				
Net cash (outflow) from operations	9	(2,427)	(1,063)	(2,649)
<b>Net cash (outflow) from operating activities</b>		<b>(2,427)</b>	<b>(1,063)</b>	<b>(2,649)</b>
<b>Investment Activities</b>				
Finance income		110	96	283
Purchase of intangible assets		(194)	(555)	(867)
Purchase of property, plant and equipment		(2,482)	(409)	(1,210)
<b>Net cash (outflow) from investing activities</b>		<b>(2,566)</b>	<b>(868)</b>	<b>(1,794)</b>
<b>Financing Activities</b>				
Proceeds from issue of shares		–	–	10,005
Costs on issue of shares		–	–	(548)
<b>Net cash inflow from financing activities</b>		<b>–</b>	<b>–</b>	<b>9,457</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(4,993)</b>	<b>(1,931)</b>	<b>5,014</b>
Cash and equivalents at beginning of period		10,946	5,932	5,932
<b>Cash and cash equivalents at end of period</b>		<b>5,953</b>	<b>4,001</b>	<b>10,946</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 March 2009

	Share capital £'000	Share premium £'000	Merger reserve £'000	Share based payment reserve £'000	Translation reserve £'000	Retained Earnings £'000	Total Equity £'000
<b>As at 30 September 2007</b>							
<b>(Audited)</b>	44	6,582	4,585	286	–	(5,052)	6,445
Loss for the 6 month period	–	–	–	–	–	(1,355)	(1,355)
Total recognised income and expense	–	–	–	–	–	(1,355)	(1,355)
Share based payment charge	–	–	–	64	–	–	64
<b>As at 31 March 2008</b>							
<b>(Unaudited)</b>	44	6,582	4,585	350	–	(6,407)	5,154
Loss for the 6 month period	–	–	–	–	–	(1,818)	(1,818)
Foreign currency translation	–	–	–	–	(3)	–	(3)
Total recognised income and expense	–	–	–	–	(3)	(1,818)	(1,821)
Share based payment charge	–	–	–	26	–	–	26
Transfer on exercise of share options	–	–	–	(10)	–	10	–
Issue of share capital, (net of issue expenses)	22	9,435	–	–	–	–	9,457
<b>As at 30 September 2008</b>							
<b>(Audited)</b>	66	16,017	4,585	366	(3)	(8,215)	12,816
Loss for the 6 month period	–	–	–	–	–	(5,305)	(5,305)
Foreign currency translation	–	–	–	–	(15)	–	(15)
Total recognised income and expense	–	–	–	–	(15)	(5,305)	(5,320)
Share based payment charge	–	–	–	33	–	–	33
<b>As at 31 March 2009</b>							
<b>(Unaudited)</b>	66	16,017	4,585	399	(18)	(13,520)	7,529

## **NOTES TO THE UNAUDITED INTERIM REPORT**

### **For the six months ended 31 March 2009**

#### **1. General Information**

Nviro Cleantech plc is a company incorporated in the Isle of Man under the provisions of the Companies Acts 1931 to 2004. The address of the registered office is Burleigh Manor, Peel Road, Douglas, Isle of Man IM1 5EP.

Copies of the interim statement may be obtained from the above address or the investors' section of the Company's website.

#### **2. Basis of Information**

These interim consolidated financial statements are for the six months ended 31 March 2009. The interim financial report, which is unaudited, has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards and IFRIC interpretations adopted for use in the European Union ("IFRS"). The accounting policies and methods of computation used are consistent with those used in the Group annual report for the year ended 30 September 2008 and are expected to be used in the Group Annual Report for the year ended September 2009.

The financial information for the year ended 30 September 2008 does not constitute statutory information. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors' report on these accounts was not qualified and did not contain statements under section 15(4) or (6) of the Companies Act 1982.

The interim consolidated financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the group operates. All values are rounded to the nearest thousand pounds (£'000) except when otherwise stated.

At the end of March 2009, the Group had cash reserves of £6.0 million and £4.7 million at 31 May 2009. As previously announced, capital expenditure at the CBT site has been halted and substantial cost savings have been identified and implemented, enabling the Group to continue as a going concern for twelve months from the date of approval of these unaudited interim financial statements. It is envisaged that funding for the Group's ongoing capital projects will be obtained through government grants or strategic partnerships currently under discussion.

#### **3. Accounting Policies**

All accounting policies are consistent with those stated in the Group's financial statements for the year ended 30 September 2008.

#### **4. Loss per Share**

Basic loss per share of 8.03p (30 September 2008: 6.44p; 31 March 2008: 3.09p) is based on the loss for the financial period of £5,305,000 (30 September 2008: £3,173,000; 31 March 2008: £1,355,000) and on 66,091,184 (30 September 2008: 49,298,469; 31 March 2008: 43,822,959) ordinary shares being the weighted average number of shares in issue throughout the period. As there is a loss for the period there is no difference between the basic and diluted loss per share.

## 5. Intangible Assets

	Licence fees £'000	Patents £'000	Development costs £'000	Total £'000
<i>Cost</i>				
At 1 October 2007	1,054	–	–	1,054
Additions	–	–	554	554
At 31 March 2008	1,054	–	554	1,608
Additions	–	–	313	313
At 30 September 2008	1,054	–	867	1,921
Additions	–	39	155	194
At 31 March 2009	1,054	39	1,022	2,115
<i>Amortisation</i>				
At 1 October 2007	26	–	–	26
Charge for the period	53	–	–	53
At 31 March 2008	79	–	–	79
Charge for the period	52	–	–	52
At 30 September 2008	131	–	–	131
Charge for the period	53	–	–	53
At 31 March 2009	184	–	–	184
<i>Net Book Value</i>				
31 March 2008	975	–	554	1,529
30 September 2008	923	–	867	1,790
31 March 2009	870	39	1,022	1,931

## 6. Property Plant and Equipment

	Leasehold improvements £'000	Assets in the course of construction £'000	Plant & Machinery £'000	Computer equipment £'000	Total £'000
<i>Cost</i>					
At 1 October 2007	–	–	33	3	36
Additions	–	396	10	2	408
At 31 March 2008	–	396	43	5	444
Additions	46	745	10	1	802
At 30 September 2008	46	1,141	53	6	1,246
Additions	38	2,366	–	11	2,415
At 31 March 2009	84	3,507	53	17	3,661
<i>Depreciation</i>					
At 1 October 2007	–	–	1	–	1
Charge for the period	–	8	7	1	16
At 31 March 2008	–	8	8	1	17
Charge for the period	9	(8)	7	1	9
At 30 September 2008	9	–	15	2	26
Charge for the period	27	–	9	1	37
Impairment charge	48	2,639	–	–	2,687
At 31 March 2009	84	2,639	24	3	2,750
<i>Net Book Value</i>					
31 March 2008	–	388	35	4	427
30 September 2008	37	1,141	38	4	1,220
31 March 2009	–	868	29	14	911

As a consequence of the decision, based on currently prevailing economic conditions and on grounds of economic non viability, not to proceed at the CBT site in Cincinnati and the associated deferral of revenues, an impairment charge of £2.69 million has been booked against fixed assets under construction and leasehold improvements at that site. A further provision of £0.22 million has been made against assets contracted for but not yet acquired at the balance sheet date (see note 8).

## 7. Cash and Cash Equivalents

	6 months ended 31 March 2009 £'000 Unaudited	6 months ended 31 March 2008 £'000 Unaudited	12 months ended 30 September 2008 £'000 Audited
Cash and cash equivalents per balance sheet	5,953	4,031	10,946
Bank overdrafts	–	(30)	–
Cash and cash equivalents per cash flow statement	5,953	4,001	10,946

## 8. Provisions

	6 months ended 31 March 2009 £'000 Unaudited	6 months ended 31 March 2008 £'000 Unaudited	12 months ended 30 September 2008 £'000 Audited
Provision for impairment of contracted assets	220	–	–
Other provisions	200	–	337
	420	–	337

## 9. Notes to the Cashflow Statement

	6 months ended 31 March 2009 £'000 Unaudited	6 months ended 31 March 2008 £'000 Unaudited	12 months ended 30 September 2008 £'000 Audited
<i>Operating Loss</i>	(5,404)	(1,451)	(3,437)
Adjustments for:			
Depreciation of property plant and equipment	37	17	25
Impairment of property, plant and equipment	2,907	–	–
Amortisation of intangible assets	53	53	105
Share based payment expense	33	64	90
Effect of foreign exchange fluctuations	35	–	–
<i>Operating cashflows before movements in working capital</i>	(2,339)	(1,317)	(3,217)
Changes in working capital			
(Increase)/decrease in other receivables	(127)	352	240
(Decrease)/increase in trade and other payables	39	(98)	328
<i>Cash generated by Operations</i>	(2,427)	(1,063)	(2,649)

## 10. Dividend

The Directors are unable to recommend the payment of a dividend.

## 11. Minority of Interest

Equity attributable to the minority interest is £nil at 31 March 2009, 30 September 2008 and 31 March 2008, as the minority does not have a binding obligation to make additional investment to cover the losses of the group. There are net liabilities in the relevant companies.

## 12. Approval of Interim Consolidated Financial Statements

These interim consolidated financial statements (unaudited) were approved by the Board of Directors on 26 June 2009.

## PART III

### FINANCIAL INFORMATION ON SOUTHBANK

#### SECTION 1 – Historic Financial Information on Southbank

Set out below is financial information and auditor's report for Southbank UK plc for the period to 31 December 2006 extracted from the published audited accounts of Southbank UK plc without material adjustment. Both the financial information and the independent auditors' reports have been reproduced verbatim and, as such, page numbers and other references may no longer be valid.

#### Section A

##### Audited consolidated financial information for the period to 31 December 2006 prepared under UK GAAP

#### CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	2006 £'000	Restated 2005 £'000
Turnover	1	24,719	–
Cost of sales		(18,360)	–
Gross profit		6,359	–
Other operating charges	2	(3562)	(47)
<b>Operating profit/(loss)</b>	3	2,797	(47)
Interest receivable and similar income	6	89	1
Interest payable and similar charges	7	(651)	–
<b>Profit/(loss) on ordinary activities before taxation</b>		2,235	(46)
Tax on profit/(loss) on ordinary activities	8	(807)	–
Profit/(loss) for the financial year	9	1,428	(46)
Earnings per share (pence) – basic	10	0.206	–
Earnings per share (pence) – diluted	10	0.169	–

Turnover includes £24,719k and the operating profit includes £2,818k relating to results from acquisitions made in the period. All of the remaining activities of the group are classed as continuing.

#### CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

	Note	Year to 31 December 2006 £'000	Period from 12 July to 31 December 2005 £'000
Profit/(loss) for the year	3	1,428	(46)
Actuarial (loss) for the period	19	(488)	–
Deferred tax on actuarial movement		112	–
Unrealised surplus on revaluation of property		1,100	–
Gain on translation of overseas subsidiary reserves		(206)	–
Total recognised (loss) for the period		1,946	(46)
Total gains/recognised since last annual report		1,946	–



## CONSOLIDATED BALANCE SHEET

	Note	Year to 31 December 2006 £'000	Period from 12 July to 31 December 2005 £'000
<b>Fixed Assets</b>			
Intangible assets	11	2,489	–
Tangible assets	12	11,139	–
Investments	13	150	250
		<u>13,778</u>	<u>250</u>
<b>Current Assets</b>			
Stocks	14	4,633	–
Debtors	15	4,623	73
Cash at bank and in hand		2,313	114
		<u>11,569</u>	<u>187</u>
Creditors: amounts falling due within one year	16	9,785	50
Net current assets		<u>1,784</u>	<u>137</u>
Total assets less current liabilities		<u>15,562</u>	<u>387</u>
Creditors: amounts falling due after more than one year	17	7,633	–
Pension Liability	19	332	–
		<u>7,965</u>	<u>–</u>
		<u>7,597</u>	<u>387</u>
<b>Capital and reserves</b>			
Called-up equity share capital	23	155	57
Share premium account	24	5,531	365
Revaluation reserve	24	1,100	–
Profit and loss account	24	811	(35)
<b>Shareholders' funds</b>	25	<u>7,597</u>	<u>387</u>

## COMPANY BALANCE SHEET

	Note	Year to 31 December 2006 £'000	Period from 12 July to 31 December 2005 £'000
<b>Fixed assets</b>			
Investments	13	13,233	250
		<u>13,233</u>	<u>250</u>
<b>Current assets</b>			
Debtors due within one year	15	107	73
Cash at bank and in hand		1,447	114
		<u>1,554</u>	<u>187</u>
Creditors: amounts falling due within one year	16	1,639	50
Net current assets/(liabilities)		<u>(85)</u>	<u>137</u>
Total assets less current liabilities		<u>13,148</u>	<u>387</u>
Creditors: amounts falling due after more than one year	17	7,920	–
		<u>5,228</u>	<u>387</u>
<b>Capital and reserves</b>			
Called-up equity share capital	23	155	57
Share premium account	24	5,531	365
Profit and loss account	24	(458)	(35)
		<u>5,228</u>	<u>387</u>

## CONSOLIDATED CASHFLOW STATEMENT

	Year to 31 December 2006 £'000	Period from 12 July to 31 December 2005 £'000	
<b>Net cash outflow from operating activities</b>	26	5,108	(22)
<b>Returns on investments and servicing of finance</b>			
Interest received		89	1
Interest paid		(651)	–
Net cash outflow from returns on investments and servicing of finance		(562)	1
Taxation		(619)	–
<b>Capital expenditure and financial investment</b>			
Payments to acquire tangible fixed assets		(251)	–
Payments to acquire other fixed assets investments		–	(250)
Receipts from sale of fixed assets		4	–
Net cash inflow/(outflow) for capital expenditure and financial investment		(247)	(250)
<b>Acquisitions and Disposals</b>			
Acquisitions of subsidiary undertakings		(9,009)	–
Cash acquired with subsidiaries		1,376	–
Net cashflow from acquisitions and subsidiaries		(7,633)	–
<b>Cash outflow before financing</b>		(3,953)	(271)
<b>Financing</b>			
Issue of equity share capital		98	20
Share premium on issue of equity share capital		4,271	365
Share issue expenses		(1,146)	–
Loan finance raised		12,020	–
Loan finance repaid		(9,091)	–
<b>Net cash inflow from financing</b>		6,152	385
<b>Increase/(decrease) in cash</b>	27	2,199	114

## **PRINCIPAL ACCOUNTING POLICIES**

### **Basis of accounting**

The financial statements have been prepared under UK GAAP under the historical cost convention and in accordance with applicable accounting standards. The principal accounting policies of the group are set out below and have remained unchanged from the previous year, except as set out below:

### **Share-based payment**

#### *Equity-settled share-based payment*

All share-based payment arrangements granted after 7 November 2002 that had not vested prior to 1 January 2006 are recognised in the financial statements.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets).

All equity-settled share-based payments are ultimately recognised as an expense in the profit and loss account with a corresponding credit to the profit and loss reserve.

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are revised subsequently if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options that have vested are not exercised.

Upon exercise of share options, the proceeds received net of attributable transaction costs are credited to share capital, and where appropriate share premium.

The prior year profit and loss statement has been restated, increasing the loss after taxation from £35k to £46k as a consequence of this change in accounting policy. There was no impact on the consolidated or company profit and loss account in the current year. There is no impact on the consolidation or company balance sheets.

### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the company and all subsidiary undertakings (see note 13). The financial statements of all group companies are adjusted, where necessary, to ensure the use of consistent accounting policies. Acquisitions are accounted for under the acquisition method. The results of companies acquired or disposed of are included in the group profit and loss account from or up to the date that control passes respectively.

A separate profit and loss account for the parent company is not presented with the group financial statements as permitted by section 230 of the Companies Act 1985.

### **Goodwill**

Goodwill arising on consolidation, representing the excess of the fair value of consideration given over the fair value of the identifiable net assets acquired, is capitalised and amortised on a straight line basis over its useful economic life. The useful economic life of Hayward Tyler Group Limited has been determined as 20 years, the maximum permitted, on the basis of its strong brands.

### **Turnover**

Turnover represents the value of goods dispatched and services rendered during the period. For major long-term contracts turnover and profit is recognised on a prudent basis when the outcome of the contract can be foreseen with reasonable certainty. Provision is made for any losses which are foreseen. Amounts recoverable on contracts are included in debtors and represent turnover recognised in excess of payments on account.

### **Research and development costs**

All research and development costs are written off in the year of expenditure.

### **Warranties**

Warranties covering labour and materials are given on sales. The warranty periods vary depending on the product sold. A provision is made in the accounts for the anticipated costs of future warranty work.

Movements of warranty provisions are charged as a trading expense.

### **Tangible fixed assets and depreciation**

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment.

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset on a straight line basis as follows:

Freehold property	2.5%
Leasehold property improvements	10%
Plant and machinery	20%
Patterns and moulds	33%
Motor vehicles	33%
Office and EDP equipment	20%

### **Stocks**

Stocks and work in progress are stated at the lower of cost and net realisable value. Provisions are made for slow moving, defective and obsolete stock as appropriate.

Payments on account are offset against the applicable work in progress and any balance is shown in creditors falling due within one year. The value of work in progress and finished goods includes attributable production overheads where appropriate.

### **Leasing and hire purchase commitments**

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the company, and hire purchase contracts, are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet.

The interest elements of the rental obligations are charged in the consolidated profit and loss account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Rentals payable under operating leases are charged in the consolidated profit and loss account on a straight line basis over the lease term.

### **Pension costs**

#### *Defined contribution pension scheme*

The pension costs charged against operating profits are the contributions payable to the scheme in respect of the accounting period.

#### *Defined benefit pension scheme*

Scheme assets are measured at fair values. Scheme liabilities are measured on an actuarial basis using the project unit method and are discounted at appropriate high quality corporate bond rates. The net surplus or deficit, adjusted for deferred tax, is presented separately from other net assets on the balance sheet. A net surplus is recognised only to the extent that is recoverable by the company.

The current service cost and costs from settlements are charged against operating profit. Past service costs are spread over the period until the benefit vests. Interest on the scheme liabilities and the expected return on the scheme assets are included in other financial costs. Actuarial gains and losses are reported as recognised gains and losses in the Statement of Total Recognised Gains and Losses.

## **Deferred taxation**

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exception: deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

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

## **Foreign currencies**

Monetary assets and liabilities denominated in foreign currencies for which forward exchange contracts are held are translated at the rate of the forward contract. The closing rate/net investment method is used to translate the financial statements of overseas subsidiaries.

Long term loans and inter-company deferred trading balances used to finance investments in overseas subsidiaries, are translated at the year end rate and any exchange differences are transferred to reserves.

Other assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Transactions denominated in foreign currencies entered into during the year are translated at the rate ruling at the date of the transaction. All differences in exchange arising from translation of foreign currencies are taken to the profit and loss account.

## **Investments**

Investments are included at cost less amounts written off.

## **Financial instruments**

### *Classification as equity or financial liability*

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

A financial liability exists where there is a contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities under potentially unfavourable conditions. In addition, contracts which result in the entity delivering a variable number of its own equity instruments are financial liabilities. Shares containing such obligations are classified as financial liabilities.

Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. The carrying amount of the liability is increased by the finance cost and reduced by payments made in respect of that liability. Finance costs are calculated so as to produce a constant rate of charge on the outstanding liability.

An equity instrument is any contract that evidences a residual interest in the assets of the group/company after deducting all of its liabilities. Dividends and distributions relating to equity instruments are debited directly to reserves.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Turnover

The geographical analysis of turnover is as follows:

	2006 £'000	2005 £'000
United Kingdom	3,543	–
Europe	1,878	–
Rest of the world	19,298	–
	<u>24,719</u>	<u>–</u>

### 2. Other operating charges

	2006 £'000	Restated 2005 £'000
Distributes expenses	1,732	–
Administrative expenses	1,830	47
	<u>3,562</u>	<u>47</u>

### 3. Operating profit/(loss)

Operating profit/(loss) is stated after charging:

	2006 £'000	2005 £'000
Research and development expenditure written off	15	–
Amortisation of Goodwill	109	–
Depreciation of owned fixed assets	258	–
Amounts written off investments	100	–
Auditors' remuneration:		
Audit fees – company only	17	6
Non audit services:		
Audit of Subsidiary Undertakings	41	–
IPO related cost	20	–
Acquisition of Hayward Tyler	132	–
Tax compliance	10	2
Operating lease costs:		
Land and buildings	10	5
Plant and equipment	–	–
Foreign currency exchange (gain)/loss	322	–
	<u>322</u>	<u>–</u>

### 4. Particulars of employees directors and employees

The monthly average number of staff employed by the group during the financial year excluding directors amounted to:

	2006 Number	2005 Number
Manufacturing	149	–
General and administration	75	–
Selling	34	–
	<u>258</u>	<u>–</u>

The aggregate payroll costs of the above were:

	2006 £'000	Restated 2005 £'000
Wages and salaries	6,292	11
Social security costs	631	–
Other pension costs	303	–
	<u>7,226</u>	<u>11</u>

#### 5. Directors' remuneration

	Basic salary or fees £'000	Bonus £'000	Pension £'000	2006 Total Emoluments £'000	Restated 2005 Total Emoluments £'000
E Lloyd-Baker	72	25	–	97	5
J May	25	–	–	25	–
K McGovern	79	25	–	104	–
	<u>176</u>	<u>50</u>	<u>–</u>	<u>226</u>	<u>5</u>

#### 6. Interest receivable and similar income

	2006 £'000	2005 £'000
Bank interest received	89	1
	<u>89</u>	<u>1</u>

#### 7. Interest payable and similar income

	2006 £'000	2005 £'000
Interest payable on bank borrowing	651	–
Finance charges	–	–
	<u>651</u>	<u>–</u>

#### 8. Taxation on ordinary activities

	2006 £'000	2005 £'000
Current tax:		
UK corporation tax based on the results for the year at 30%	211	–
Adjustment in respect of prior years	–	–
Total UK Corporation tax	<u>211</u>	<u>–</u>
Overseas taxation	731	–
Total current tax	<u>942</u>	<u>–</u>
Deferred tax:		
Origination and reversal of timing difference	(135)	–
Total deferred tax	<u>(135)</u>	<u>–</u>
Total tax on profit on ordinary activities	<u>807</u>	<u>–</u>

The group has tax losses of approximately £75k (2005: £33k) carried forward and available for offset against future taxable trading profits. There is a net deferred tax asset of £17k (2005: £10k), which has not been recognised as the timing of its recoverability cannot be assessed with any certainty. The tax would become recoverable once the group achieves taxable trading profits.

The tax assessed for the period is different than the standard rate of corporation tax in the UK of 30 per cent. (2005: 30 per cent.). The differences are explained as follows:

Factors affecting current tax charge

	2006 £'000	2005 £'000
Profit on ordinary activities before taxation	2,235	(46)
Profit on ordinary activities by rate of tax	671	(15)
Expenses not deductible for tax purposes	(45)	3
Amortisation of Goodwill	34	–
Tax losses not utilised	17	–
Overseas tax rate differences	81	–
Accelerated capital allowances and other timing differences	184	12
Total current tax	942	–

### 9. Profit attributable to members of the parent company

The loss for the financial year dealt with in the accounts of the parent company was £423k (2005: £46k loss).

### 10. Earnings per share

The calculation of basic loss per ordinary share is based on the earnings for the financial year of £1,428k and on shares of 692,785,685 being the weighted average number of equity shares outstanding during the year.

The calculation of diluted loss per ordinary share is based on the earnings for the financial year of £1,428k and on shares of 845,558,570 being the weighted average number of equity shares outstanding during the year.

### 11. Intangible fixes assets

	Note	Purchased goodwill £'000
<b>Group and Company</b>		
<i>Cost</i>		
At 1 January 2006		–
Additions	29	2,598
At 31 December 2006		2,598
<i>Amortisation</i>		
At 1 January 2006		–
Charge for the year		(109)
Charge for the year		(109)
<i>Net book value</i>		
At 31 December 2006		2,489
At 31 December 2005		–

Taking into account the long standing nature of the business acquired, the useful economic life of all goodwill is considered to be 20 years.



## 12. Tangible fixed assets

	Freehold land and buildings £'000	Short leasehold improvements £'000	Plant and machinery £'000	Fixtures, fittings, tools and equipment £'000	Total £'000
<b>Group</b>					
<i>Cost</i>					
At 1 January 2006	-	-	-	-	-
On acquisition	8,622	387	9,363	2,758	21,130
Additions	-	-	161	142	303
Property revaluation	1,100	-	-	-	1,100
Disposals	-	-	(59)	-	(59)
At 31 December 2006	9,722	387	9,465	2,900	22,474
<i>Depreciation</i>					
At 1 January 2006	-	-	-	-	-
Acquisition	-	349	8,346	2,437	11,132
Charge for the year	-	4	148	106	258
On disposals	-	-	(55)	-	(55)
At 31 December 2006	-	353	8,439	2,543	11,335
<i>Net book value</i>					
At 31 December 2006	9,722	34	1,026	357	11,139
At 31 December 2005	-	-	0	-	-

The net book value of plant and machinery includes amounts of £52k (2005: £nil) in respect of assets held under finance leases.

### Company

There were no tangible fixed assets held by the company.

## 13. Investments

	Other investments in unlisted equities £'000
<b>Group</b>	
<i>Cost</i>	
At 1 January 2006	250
Amounts written off in period	(100)
At 31 December 2006	150
<i>Net book value</i>	
At 31 December 2006	150
At 31 December 2005	250

<b>Company</b>	<b>Other investments in unlisted equities £'000</b>	<b>Investments in subsidiary undertakings £'000</b>	<b>Total £'000</b>
<i>Cost</i>			
At 1 January 2006	250	–	250
Additions	–	13,083	13,083
Amounts written off in period	(100)	–	(100)
At 31 December 2006	150	13,083	13,233
<i>Net book value</i>			
At 31 December 2006	150	13,083	13,233
At 31 December 2005	250	–	250

The details of the acquisition made in the period is in note 29.

The company held 100 per cent. of the allotted ordinary share capital of the following companies:

<b>Name</b>	<b>Country of incorporation</b>	<b>Principal activity</b>	<b>Percentage of issued share capital</b>	<b>Note</b>
Redglade Investments Limited	England	Property	100%	
Redglade Associates Limited	England	Property	100%	
Hayward Tyler Group Limited	England	Holding Co.	100%	
Hayward Tyler Holdings Limited	England	Holding Co.	100%	1
Hayward Tyler Holdings Inc	USA	Holding Co.	100%	2
Hayward Tyler Limited (formerly Hayward Tyler Engineered Products Limited)	England	Manufacturer	100%	1
Varley Pumps Limited	England	Manufacturer	100%	1
Hayward Tyler Pumps (Kunshan) Co Ltd	China	Manufacturer	100%	1
Hayward Tyler Inc	USA	Manufacturer	100%	3

**Notes:**

1. Shares held by Hayward Tyler Group Limited
2. Shares held by Hayward Tyler Holdings Limited
3. Shares held by Hayward Tyler Holdings Inc.

**14. Stocks**

	<b>The Group</b>		<b>The Company</b>	
	<b>2006 £'000</b>	<b>2005 £'000</b>	<b>2006 £'000</b>	<b>2005 £'000</b>
Raw materials and consumable stores	2,463	–	–	–
Work in progress	1,961	–	–	–
Finished goods and goods for resale	797	–	–	–
Payments on account	(588)	–	–	–
	4,633	–	–	–

**15. Debtors**

	<b>The Group</b>		<b>The Company</b>	
	<b>2006 £'000</b>	<b>2005 £'000</b>	<b>2006 £'000</b>	<b>2005 £'000</b>
Trade debtors	3,760	–	77	–
Deferred tax assets	266	–	–	–
VAT recoverable	–	–	–	–
Other debtors	–	73	–	73
Prepayments and accrued income	597	–	30	–
	4,623	73	107	73

**16. Creditors: amounts falling due within one year**

	The Group		The Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Bank overdrafts and loans	345	–	–	–
Invoice Discounting	1,158	–	–	–
Trade creditors	2,949	9	32	9
Amounts due under finance leases	17	–	–	–
Taxation	160	–	–	–
Social security and other taxation	521	–	–	–
Deferred consideration	1,533	–	1,533	–
Other Creditors	–	41	–	41
Accruals and deferred income	3,102	–	74	–
	<u>9,785</u>	<u>50</u>	<u>1,639</u>	<u>50</u>

The bank overdrafts and loans are secured by fixed and floating charges over the groups assets.

Amounts due under finance leases and hire purchase agreements are secured over the assets to which they relate.

**17. Creditors: amounts falling due after more than one year**

	The Group		The Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Bank loans	7,098	–	–	–
Deferred consideration	500	–	500	–
Amounts due under finance leases	35	–	–	–
Amounts owed to group companies	–	–	7,420	–
	<u>7,633</u>	<u>–</u>	<u>7,920</u>	<u>–</u>

**18. Borrowings**

Future commitments under borrowing arrangements are as follows:

	The Group		The Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
<i>Bank loans</i>				
Amounts payable within 1 year	345	–	–	–
Amounts payable between 1 and 2 years	638	–	–	–
Amounts payable between 3 and 5 years	574	–	–	–
Amounts payable after 5 years	5,886	–	–	–
	<u>7,443</u>	<u>–</u>	<u>–</u>	<u>–</u>
<i>Deferred consideration</i>				
Amounts payable within 1 year	1,533	–	1,533	–
Amounts payable between 1 and 2 years	500	–	500	–
Amounts payable between 3 and 5 years	–	–	–	–
	<u>2,033</u>	<u>–</u>	<u>2,033</u>	<u>–</u>
<i>Amounts due under finance lease</i>				
Amounts payable within 1 year	17	–	–	–
Amounts payable between 1 and 2 years	35	–	–	–
Amounts payable between 3 and 5 years	–	–	–	–
	<u>52</u>	<u>–</u>	<u>–</u>	<u>–</u>

## 19. Pensions

### *Defined benefit scheme*

#### *FRS 17 disclosures*

To take account of the requirements of FRS 17 an actuarial valuation was made by an independent actuary in order to assess the assets and liabilities of the scheme as at 31 December 2006, 30 November 2005 and 30 November 2004.

#### *Economic assumptions*

The assumptions used to calculate the scheme liabilities under FRS 17 are:

	<b>31 December 2006</b>	<b>30 November 2005</b>	<b>30 November 2004</b>
Inflation assumption	2.9%	2.8%	2.75%
Rate of increase in salaries (scheme is paid up)	–	–	–
Rate of increase in pensions in payment – accrued prior to 6 April 1997	2.9%	2.8%	2.75%
Rate of increase in pensions in payment – accrued after 6 April 1997	2.9%	2.8%	2.75%
Rate of increase in deferred pensions	2.9%	2.8%	2.75%
Discount rate	5.4%	5.1%	5.25%

#### *Assets and liabilities*

The assets and liabilities of the Scheme and the expected rates of return as at 31 December 2006 were:

	<b>31 December 2006</b>		<b>30 November 2005</b>		<b>30 November 2004</b>	
	<b>Long term rate of return</b>	<b>Value of assets £'000</b>	<b>Long term rate of return</b>	<b>Value of assets £'000</b>	<b>Long term rate of return</b>	<b>Value of assets £'000</b>
Equities	8.0%	4,007	7.2%	3,549	7.5%	3,001
Self-related equities	8.0%	1,200	–	–	–	–
Bonds	5.4%	8,152	5.0%	8,680	5.0%	9,143
Cash and other	5.0%	689	4.5%	871	4.0%	244
Total market value of assets		14,048		13,100		12,388
Present value of scheme liabilities		(14,522)		(14,253)		(14,169)
Scheme deficit		(474)		(1,153)		(1,781)
Related deferred tax asset		142		346		534
Net pension liability		(332)		(807)		(1,247)

The defined benefit pension scheme was acquired on acquisition of Hayward Tyler Group. As part of the consideration the company issue shares to the value of £1,200,000 into the scheme to reduce the deficit.

#### *Change in deficit during the year*

	<b>2006 £'000</b>	<b>2005 £'000</b>
Deficit on acquisition	1,296	–
Shares issued to scheme	(1,200)	–
Contributions paid	(113)	–
Other finance cost	3	–
Actuarial (gain)/loss	488	–
Movement in deferred taxation	(142)	–
Deficit at the end of the year	332	–

*Other pension costs charged in arriving at operating profit*

	2006 £'000	2005 £'000
Current service cost	–	–
Past service cost	–	–
Curtailement gain	–	–
Total cost	<u>–</u>	<u>–</u>

*Amounts included in other finance cost*

	2006 £'000	2005 £'000
Expected return on assets	769	–
Interest on liabilities	(766)	–
Net finance cost	<u>3</u>	<u>–</u>

*Analysis of amount included in statement of total recognised gains and losses*

	2006 £'000	2005 £'000
Actual less expected return on assets	(174)	–
Net experience loss	(193)	–
Changes in assumptions	(121)	–
Actuarial gain/(loss) recognised in statement of total recognised gains and losses	<u>(488)</u>	<u>–</u>

*History of experience gains and losses*

	31 December 2006 £'000	30 November 2005 £'000	30 November 2004 £'000	30 November 2003 £'000
Actual less expected return on assets	(174)	851	465	(411)
Percentage of year end scheme assets	(1.2)%	6.5%	3.75%	3.4%
Net experience gain/(loss)	(193)	242	160	209
Percentage of year end scheme liabilities	(1.3)%	1.7%	1.13%	1.6%
Changes in assumptions	(121)	(412)	(936)	347
Percentage of year end scheme liabilities	(0.8)%	(29)%	(7.5)%	2.7%
Actuarial gain/(loss) recognised in statement of total recognised gains and losses	<u>(488)</u>	<u>–</u>	<u>–</u>	<u>–</u>

The total contribution made by the group to the scheme for the year was £1,313,000 (2005: £nil).

*Defined contribution scheme*

The total contribution made by the group to the scheme for the year were £303k (2005: £nil)

**20. Financial instruments**

The group uses financial instruments comprising cash, invoice discounting, letters of credit, trade debtors and trade creditors, that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the group's operations.

The main risks arising from the group financial instruments are interest rate risk, currency exchange risk and liquidity risk.

Short term debtors and creditors have been excluded from the following disclosures, other than the currency risk disclosures.

The group finances its operation through invoice discounting. The group exposure to interest rate fluctuations on its borrowings is managed by the use of floating facilities.

At 31 December 2006 the interest rate exposure of the financial liabilities was at floating rate. The floating rate borrowings bear interest at rates based on LIBOR.

The group seeks to manage financial risk, to ensure financial liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. Short term flexibility is achieved by confidential invoice discounting.

The group operates in overseas markets and is subject to currency exposures on transactions undertaken during the year. The group did not hedge any transactions during the year, hedging facilities have been put in place subsequent to balance sheet date.

The directors have given serious consideration and have reached the conclusion that there is no significant difference between book and fair value of assets and liabilities of the Group at the balance sheet date.

## 21. Commitments under operating leases

At 31 December 2006 the group had annual commitments under non-cancellable operating leases as set out below.

	2006		2005	
	Land and buildings £'000	Other items £'000	Land and buildings £'000	Other items £'000
<b>The Group</b>				
Operating leases which expire:				
Within 1 year	20	–	20	–
Within 2 to 5 years	–	52	–	–
	<u>20</u>	<u>52</u>	<u>20</u>	<u>–</u>

	2006		2005	
	Land and buildings £'000	Other items £'000	Land and buildings £'000	Other items £'000
<b>The Company</b>				
Operating leases which expire:				
Within 1 year	20	–	20	–
Within 2 to 5 years	–	–	–	–
More than 5 years	–	–	–	–
	<u>20</u>	<u>–</u>	<u>20</u>	<u>–</u>

## 22. Related party transactions

During the year the company undertook transactions with First Merchant Capital UK Limited, a company which Ewan Lloyd-Baker is a Director of.

First Merchant Capital UK Ltd received rent from Southbank UK Plc amounting to £10k (2005: £5k). As at 31 December 2006 the amount outstanding was £nil (2005: £nil).

The group paid First Merchant Capital UK Ltd £149k during the year for provision of Directors, management services and other head office operating costs, including £42k for Mr Lloyd-Baker. This sum is included in his total remuneration as disclosed in note 5.

Mr Lloyd-Baker is a partner of Lloyd-Baker & Associates. Lloyd-Baker & Associates were paid £200,000 for the introduction of the Hayward Tyler Group acquisition and subsequent work through to completion.

Lloyd-Baker & Associates were paid £12,000 for the provision of other corporate finance services. These services were provided on an arms length basis and discussed and agreed by the Board of Southbank excluding Mr Lloyd-Baker.

## 23. Share capital

	2006 £'000	2005 £'000
<i>Authorised share capital</i>		
1,000,000,000 Ordinary shares of 0.02p each	200	200

	2006		2005	
	Number	£'000	Number	£'000
<i>Allotted, called up and fully paid:</i>				
Ordinary shares of 0.02p each	526,230,000	105	37,250,000	7
<i>Allotted, called up and partly paid:</i>				
Ordinary shares of 0.02p each	250,000,000	50	250,000,000	50

### *Allotment of shares*

During the year the company allotted 489,980,000 0.02p ordinary shares with an aggregate nominal value of £98k. The difference between total net consideration of £5,264k and the nominal value of £98k has been transferred to the share premium account, net of associated expenses.

### *Share options*

Options to subscribe for ordinary shares of 0.02p equal in aggregate to 18 per cent. of the issued share capital of the company (which in this case includes these options) before 30 June 2015 were issued in 2005.

The exercise price of the options is 0.02 pence per option share. Until the options have been exercised in full the consent of the option holders will be required if the company proposes to issue a class of share with any right which is preferential to the shares.

These options have been valued on the basis of their estimated fair market value at the date of the grant and the prior year profit and loss account has been restated to reflect the £11k charge following the adoption of FRS 20 "share based payments".

During the year nil options lapsed, nil were issued and nil were exercised.

## 24. Reserves

	Share premium account £'000	Revaluation reserve £'000	Profit and loss account £'000
<b>Group</b>			
At 1 January 2006	365	–	(35)
Profit for the year	–	–	1,428
New equity share capital subscribed	6,312	–	–
Share issue costs	(1,146)	–	–
Surplus on revaluation of property	–	1,100	–
Gains on revaluation of overseas subsidiary reserves	–	–	(206)
Actuarial loss of pension scheme	–	–	(488)
Deferred tax movement on actuarial loss	–	–	112
At 31 December 2006	5,531	1,100	811
<b>Company</b>			
At 1 January 2006	365	–	(35)
Profit for the year	–	–	(423)
New equity share capital subscribed	6,312	–	–
Share issue costs	(1,146)	–	–
At 31 December 2006	5,531	–	(458)

**25. Reconciliation of movements in shareholders' funds**

	2006 £'000	Restated 2005 £'000
Profit/(loss) for the financial year	1,428	(46)
New equity share capital subscribed	98	57
Share based payment	–	11
Premium on new share capital subscribed	6,312	365
Share issue costs	(1,146)	–
Other recognised losses	(582)	–
Surplus on revaluation of property	1,100	–
Net increase/(reduction) to shareholders' equity funds	7,210	387
Opening shareholders' equity funds	387	–
Closing shareholders' equity funds	7,597	387

**26. Reconciliation of operating profit to net cash outflow from operating activities**

	2006 £'000	Restated 2005 £'000
Operating profit/(loss)	2,797	(46)
Pension Contributions	(113)	–
Share based payments	–	11
Amounts written off Investments	100	–
Amortisation	109	–
Depreciation	258	–
Decrease in stocks	2,473	–
Increase/(decrease) in debtors	(2,185)	(37)
Increase/(decrease) in creditors	1,669	50
Net cash outflow from operating activities	5,108	(22)

**27. Reconciliation of net cash flow to movement in net debt**

	2006 £'000	Restated 2005 £'000
Increase/(decrease) in cash in the period	2,199	114
Net cash inflow/(outflow) from bank loans	(2,929)	–
Change in net debt resulting from cash flows	(730)	114
Non-cash item – deferred consideration	(2,033)	–
New finance leases	(52)	–
Debt acquired with subsidiary	(4,514)	–
Net asset funds at 1 January 2006	114	–
Net (debt)/funds at 31 December 2006	(7,215)	114



## 28. Analysis of changes in net debt

	At 1 January 2006 £'000	Cash flows £'000	On acquisition £'000	Non-cash items £'000	At 31 December 2006 £'000
Net cash:					
Cash in hand and at bank	114	2,199	-	-	2,313
	<u>114</u>	<u>2,199</u>	<u>-</u>	<u>-</u>	<u>2,313</u>
Debt:					
Deferred consideration	-	-	-	(2,033)	(2,033)
Amounts under finance lease	-	-	-	(52)	(52)
Bank Loans	-	(2,929)	(4,514)	-	(7,443)
Net debt bank loans	<u>114</u>	<u>(730)</u>	<u>(4,514)</u>	<u>(2,085)</u>	<u>(7,215)</u>

## 29. Acquisition

Details of acquisition during the year set out below. Goodwill arising on the acquisition has been capitalised. All purchases have been accounted for under the acquisition method of accounting. All fair values are provisional.

On the 6 March 2006 the group acquired 100 per cent. of the issued capital of Hayward Tyler Group Limited.

The total assets and liabilities acquired were as follows:

	Book value £'000	Fair value adjustments £'000	Fair value £'000
Tangible	9,998	-	9,998
Stock	7,106	-	7,106
Debtors	2,936	(706)	2,230
Bank and Cash	1,376	-	1,376
Total assets	<u>21,416</u>	<u>(706)</u>	<u>20,710</u>
Trade creditors	2,363	12	2,375
Other creditors	7,601	249	7,850
Total liabilities	<u>9,964</u>	<u>261</u>	<u>10,225</u>
Net assets	11,452	(967)	10,485
Goodwill	1,631	967	2,598
	<u>13,083</u>	<u>-</u>	<u>13,083</u>
Satisfied by:			
Cash	8,626	-	8,626
Deferred consideration	2,033	-	2,033
Equity issued in Southbank	2,041	-	2,041
Cost of acquisition	383	-	383
	<u>13,083</u>	<u>-</u>	<u>13,083</u>

The equity issued in Southbank was included at its fair value by reference to arms length transactions.

The subsidiary undertakings and other acquisitions acquired during the year made the following contributions to and utilisation of group cash flow.

	<b>10 months ended 31 December 2006 £'000</b>	<b>12 months ended 31 December 2005 £'000</b>
Net cash inflow/(outflow) from operating activities	4,166	2,224
Return on investment and servicing of finance	(235)	(407)
Taxation	(355)	(850)
Capital expenditure and financial investment	(340)	(464)
Finance	(2,643)	(915)
Increase in cash	<u>593</u>	<u>412</u>

The loss after taxation of Hayward Tyler Group Limited and its subsidiary undertakings from 1 December 2005 to the date of acquisitions was £825k, made up as follows:

	<b>£000</b>
Turnover	4,378
Operating Loss	652
Net Interest payable	76
Loss before tax	728
Tax	97
Loss after tax	<u>825</u>

The profit after tax for the year ended 30th November 2005 was £1,915k.

## Section B

### Report of the Independent Auditors for the period to 31 December 2006

The following reproduces the Auditor's Report which was prepared for and contained in Southbank's 2006 annual report.

#### **Report of the independent auditor's to the members of Southbank UK plc**

We have audited the group and parent company financial statements (the "financial statements") of Southbank UK plc for the year ended 31 December 2006 which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the consolidated and company balance sheets, the consolidated cash flow statement, the principal accounting policies and notes 1 to 29. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's statement, the Chief Executive's review, Market review and Financial review that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the highlights, Chairman's statement, Chief Executive's review, Market review, Financial review and Corporate governance report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

#### **Basis of audit opinion**

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

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

**Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2006 and of the group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

**Grant Thornton UK LLP**

Registered auditors

Chartered accountants

## SECTION 2 – Historic Financial Information on Southbank

### Section A

Audited consolidated financial information for the period to 31 December 2007 and 2008 prepared under IFRS

#### CONSOLIDATED STATEMENT OF INCOME AND EXPENDITURE

		Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Revenue	Note 6	32,340	25,659
Cost of sales		(27,579)	(19,979)
<b>Gross profit</b>		<u>4,761</u>	<u>5,680</u>
Other income		20	20
Operating charges		(7,301)	(4,904)
<b>Operating (loss)/profit</b>	Note 7	(2,520)	796
Finance income	Note 9	196	64
Finance costs	Note 9	(4,092)	(1,286)
Loss before tax		(6,416)	(426)
Taxation	Note 10	1,774	27
<b>Loss for the year</b>		<u>(4,642)</u>	<u>(399)</u>
Earnings per share (expressed in pence) – basic and diluted loss per share	Note 12	<u>(0.60)</u>	<u>(0.05)</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		At 31 December 2008 £'000	At 31 December 2007 £'000	At 1 January 2007 IFRS£'000
	Note			
<b>ASSETS</b>				
<b>Non-current assets</b>				
Goodwill	13	2,288	2,288	2,288
Other intangible assets	14	1,351	861	–
Property, plant and equipment	15	10,341	10,015	10,039
Investments	27	–	150	150
Deferred tax assets	18	3,591	1,159	430
Other receivables	17	98	110	–
		<u>17,669</u>	<u>14,583</u>	<u>12,907</u>
<b>Current assets</b>				
Inventories	16	6,085	4,511	2,141
Trade and other receivables	17	9,535	6,496	5,721
Other current assets	17	1,010	929	597
Current tax assets	11	21	123	–
Cash and cash equivalents	19	989	872	2,313
		<u>17,640</u>	<u>12,931</u>	<u>10,772</u>
<b>Total assets</b>		<u>35,309</u>	<u>27,514</u>	<u>23,679</u>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Share capital	32	155	155	155
Share premium account	34	5,531	5,531	5,531
Foreign currency translation reserve	34	676	(49)	–
Retained earnings	34	(5,659)	(1,142)	(219)
		<u>703</u>	<u>4,495</u>	<u>5,467</u>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Pension and other employee obligations	24	669	975	474
Borrowings	27	10,010	10,186	6,758
		<u>10,679</u>	<u>11,161</u>	<u>7,232</u>
<b>Current liabilities</b>				
Trade and other payables	20	6,378	4,469	3,470
Borrowings	27	3,428	2,647	1,895
Current tax liabilities	11	187	24	160
Provisions	22	1,928	1,035	3,134
Financial liabilities – derivatives	27	3,381	597	–
Other liabilities	21	8,625	3,086	2,321
		<u>23,927</u>	<u>11,858</u>	<u>10,980</u>
<b>Total liabilities</b>		<u>34,606</u>	<u>23,019</u>	<u>18,212</u>
<b>Total equity and liabilities</b>		<u>35,309</u>	<u>27,514</u>	<u>23,679</u>

## CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
<b>Cash flows from operating activities</b>		
Loss after taxation	(4,642)	(399)
Adjustments for:		
Depreciation and amortisation of non-financial assets	574	426
Loss on disposal of fixed assets	–	4
Interest received	(196)	(64)
Foreign exchange differences	559	(59)
Tax expense	(1,774)	(27)
Finance costs	4,092	1,286
Change in inventories	(1,270)	(450)
Change in loans and receivables	(3,006)	(1,280)
Change in trade and other payables	5,743	429
Change in provisions	893	199
Cash generated from operations	973	65
Taxes paid	(544)	(1,055)
Interest paid	(923)	(860)
<b>Net cash used in operating activities</b>	<u>(494)</u>	<u>(1,850)</u>
<b>Cash flows from investing activities</b>		
Acquisition of subsidiary, net of cash acquired and dividends due to former shareholders	(350)	(1,533)
Purchases of property, plant and equipment (PPE)	(590)	(396)
Purchase of other intangible assets	(582)	(861)
Interest received	196	127
<b>Net cash used in investing activities</b>	<u>(1,326)</u>	<u>(2,663)</u>
<b>Cash flows from financing activities</b>		
Proceeds from bank loans	–	3,330
Repayment of bank loans	(245)	(287)
Proceeds from new finance leases	–	93
Repayment of finance leases	(48)	(64)
Net cash (used in)/generated from financing activities	<u>(293)</u>	<u>3,072</u>
<b>Net decrease in cash</b>	<u>(2,113)</u>	<u>(1,441)</u>
Cash at beginning of period	872	2,313
<b>Cash at end of period</b>	<u>(1,241)</u>	<u>872</u>

**CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSES**

	<b>2008</b>	<b>2007</b>
	<b>£'000</b>	<b>£'000</b>
Currency translation differences	725	(49)
Actuarial gains/(losses) on post-retirement employee benefits	173	(728)
Recognition of deferred tax relating to post-retirement employee benefits	(48)	204
<b>Net income/(expense) recognised directly in equity</b>	<b>850</b>	<b>(573)</b>
Loss for the year	(4,642)	(399)
<b>Total recognised income and expense for the year</b>	<b>(3,792)</b>	<b>(972)</b>
<b>Attributable to</b>		
Equity shareholders of the Company	(3,792)	(972)

The accompanying accounting policies and notes form part of these financial statements.



## NOTES TO THE FINANCIAL STATEMENTS

### 1. General information

Southbank UK plc is the Group's ultimate parent company. The Company is incorporated and resident in Great Britain. The address of Southbank UK plc's registered office and principal place of business is 19 Crown Passage, St. James, London SW1Y 6PP. Southbank UK plc's shares are listed on the Channel Island Stock Exchange.

Southbank UK's consolidated financial statements are presented in Pounds Sterling (£), which is also the functional currency of the ultimate parent company.

These consolidated financial statements have been approved for issue by the Board of Directors on 11 December 2009. The directors have not recommended a dividend.

Established in 1815 in the UK, the Hayward Tyler Group Ltd (wholly owned subsidiary of Southbank UK plc) manufactures and services a comprehensive range of Fluid Filled Electric Motors and Pumps. These units are custom designed to meet the most demanding of applications and environments. Focused on the power generation (conventional and nuclear), oil & gas (topside and deep subsea) and industrial markets, the company is a market leader in its technology solutions. Furthermore, Hayward Tyler supplies and services a range of mission critical motors and pumps for the Royal Navy submarine fleet in the UK. The Company also undertakes service, overhaul and upgrading of third party motor and pump equipment across all sectors.

In addition to the head office in Luton, England, Hayward Tyler has manufacturing and service support facilities in Kunshan, China, Delhi, India, East Kilbride, Scotland and Vermont, USA. These facilities and staff provide cover 24 hours 7 days a week for maintenance, overhaul and repair.

### 2. Summary of significant accounting policies

#### 2.1 Basis of preparation

This consolidated financial information for Southbank UK plc and its subsidiaries is for the twelve months ended 31 December 2008 with comparative financial information for the twelve months ended 31 December 2007. This financial information has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, in order to comply with the A.I.M rules.

The financial information has been prepared on the historical cost basis for the purposes of inclusion in this document with the exception of some financial instruments which are carried at fair value (see note 27). The accounting policies set out below have been consistently applied to all the years presented.

The policies have changed from the previous year when the financial statements were prepared under applicable United Kingdom Generally Accepted Accounting Policies (UK GAAP). The comparative information has been restated in accordance with IFRS. The changes to accounting policies are explained in note 35, together with the reconciliation of the opening balances. The date of transition to IFRS was 1 January 2007 (transition date).

The Group has taken advantage of certain exemptions available under IFRS 1 First Time Adoption of International Financial Reporting Standards. The exemptions applied are explained in note 35.

The financial information set out in this document does not constitute the Group's statutory accounts as defined in s240 of the Companies Act 1985 for the years ended 31 December 2008 or 2007, which were prepared in accordance with UK generally accepted accounting principles (UK GAAP) and have been delivered to the registrar of Companies. The auditors reported on those accounts. Their reports were unqualified and did not contain a statement under s237(2) or (3) of the Companies Act 1985.

Reconciliations and descriptions of the effect of the transition from UKGAAP to IFRS on the Group's equity and its net income and cash flows are provided in Note 35.

#### 2.2 Basis of consolidation

The Group financial statements consolidate those of the parent company and all subsidiary undertakings drawn up to 31 December 2008. Subsidiaries are all entities over which the Group has

the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

### 2.3 *Business combinations*

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised.

### 2.4 *Segment reporting*

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments. The Group's business segments are the primary basis of segment reporting.

### 2.5 *Foreign currency translation*

The consolidated financial statements are presented in pounds sterling, which is the Company's functional and presentational currency.

#### (a) *Functional and presentational currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). In the Group's financial statements, all assets, liabilities and transactions of the Group entities, with a functional currency other than the pound sterling (the Group's presentation currency) are translated into pounds sterling upon consolidation. The functional currency of the entities in the Group have remained unchanged during the reporting period.

On consolidation, assets and liabilities have been translated into pounds sterling at the closing rate at the reporting date. Income and expenses have been translated into the Group's presentation currency at the average rate over the reporting period. Exchange differences are charged/credited to the Statement of Recognised Income and Expense.

#### (b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency of the respective Group entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction (not retranslated). Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

## 2.6 *Property, Plant and Equipment*

Land held for use in production or administration is stated at historical cost. As no finite useful life for land can be determined, related carrying amounts are not depreciated.

Property and equipment held under finance leases are capitalised and included in property, plant and equipment. Such assets are depreciated over their expected useful lives (determined by reference to comparable owned assets) or over the term of the lease, if shorter.

Buildings, equipment and furniture and fittings are stated at cost less depreciation and impairment losses. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

Buildings	-	4%
Patterns and moulds	-	20%
Plant and equipment	-	10%
Fixtures and fittings	-	20%
Leasehold improvements	-	over period of lease
Office equipment	-	20%

Material residual value estimates and estimates of the useful life are updated as required, but at least annually, whether or not the asset is revalued.

Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognised in profit or loss within 'other income' or 'other expenses'.

## 2.7 *Leased assets*

In accordance with IAS 17 *Leases*, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is then recognised at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any. A corresponding amount is recognised as a finance leasing liability. Leases of land and buildings are classified separately and are split into a land and a building element, in accordance with the relative fair values of the leasehold interests at the date the asset is recognised initially.

Depreciation methods and useful lives for assets held under finance lease agreements correspond to those applied to comparable assets which are legally owned by the Group. The corresponding finance leasing liability is reduced by lease payments, less finance charges, which are expensed as part of finance costs.

The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to profit or loss over the period of the lease.

All other leases are treated as operating leases. Payments on operating lease agreements are recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

## 2.8 *Goodwill*

Goodwill represents the excess of the acquisition cost in a business combination over the fair value of the Group's share of the identifiable net assets acquired. Goodwill is tested annually for impairment and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

## 2.9 *Other intangible assets*

Other intangible assets include capitalised development costs used in production or administration within the business.

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

Costs that are directly attributable to the development phase of subsea motor technology are recognised as an intangible asset, provided they meet the following recognition requirements:

- completion of the intangible to the development phase of the pump is technically feasible, so that it will be available for use or sale;
- the Group intends to complete the intangible asset and use or sell it;
- the Group has the ability to use or sell the intangible asset;
- the intangible asset will generate probable future economic benefits. Among other things, this requires that there be a market for the output from the intangible asset or for the intangible asset itself, or, if it is to be used internally, the asset will be used in generating such benefits;
- there are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the expenditure attributable to the intangible asset during its development can be measured reliably.

Development costs not meeting these criteria for capitalisation are expensed as incurred.

Directly attributable costs include employee costs incurred on the development along with an appropriate portion of relevant overheads. Development costs recognised as an intangible asset are subject to the same subsequent measurement method as externally acquired intangible assets. However, until completion of the development project, the assets are subject to impairment testing only as described above in the note on impairments.

#### *Impairment loss*

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors goodwill.

Cash-generating units to which goodwill has been allocated are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. At each balance sheet date, the group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and the value in use of the asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately. Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining loss is charged pro rata to the other assets in the cash-generating unit.

With the exception of goodwill, where an impairment loss for an asset (or cash-generating unit) subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. The reversal of an impairment loss is recognised as income immediately.

#### 2.10 *Inventories*

Inventories are stated at the lower of cost and net realisable value. Cost comprises the direct purchase price, including all expenses directly attributable to the manufacturing process as well as suitable

portions of related production overheads, based on normal operating capacity. Costs are assigned using the first in, first out cost formula. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

#### 2.11 *Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand and short-term deposits that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

#### 2.12 *Equity, reserves and dividend payments*

Share capital represents the nominal value of shares that have been issued.

Share premium includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits.

The foreign currency translation reserve represents differences arising on the retranslation of net investments in overseas subsidiary undertakings, based on the rate of exchange ruling at the balance sheet date.

Retained earnings include all current and prior period retained profits.

Dividend distributions payable to equity shareholders are included in 'other liabilities' when the dividends have been approved in a general meeting prior to the reporting date.

#### 2.13 *Taxation*

The tax expense recognised in profit or loss represents the sum of the current tax and deferred tax, not recognised in the Statement of Recognised Income and Expense.

The current tax 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 Group'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 the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that the taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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 period when the liability is settled or the asset is realised, provided that they are enacted or substantially enacted by the end of the reporting period. Deferred tax liabilities are always provided for in full.

Deferred tax assets and liabilities are offset only when the Group has a right and intention to set off current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognised as a component of tax income or expense in profit or loss, except where they relate to items that are recognised in the Statement of Recognised Income and Expense (such as the revaluation of land) or directly in equity, in which case the related deferred tax is also recognised in the Statement of Recognised Income and Expense or equity, respectively.

#### 2.14 *Post employment benefits*

The Group provides post employment benefits through defined benefit plans as well as various defined contribution plans.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into an independent entity. The Group has no legal or constructive obligations to pay further contributions after its payment of the fixed contribution. The contributions are recognised as an employee benefit expense when they are due.

Plans that do not meet the definition of a defined contribution plan are defined benefit plans. The defined benefit plans sponsored by the Group defines the amount of pension benefit that an employee will receive on retirement by reference to length of service and final salary. The legal obligation for any benefits remains with the Group, even if plan assets for funding the defined benefit plan have been set aside. Plan assets may include assets specifically designated to a long-term benefit fund as well as qualifying insurance policies.

The liability recognised in the statement of financial position for defined benefit plans is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs.

Management estimates the defined benefit obligation annually with the assistance of independent actuaries. The estimate of its post-retirement benefit obligations is based on standard rates of inflation, medical cost trends and mortality. It also takes into account the Group's specific anticipation of future salary increases. Discount factors are determined close to each year-end by reference to high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses are recognised in the Statement of Recognised Income and Expense for the year. Past service costs are recognised immediately in profit or loss, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

Interest expenses related to pension obligations and expected return on plan assets are included net in 'other finance costs' in profit or loss. All other post employment benefit expenses are included in "employee benefits expense".

Short-term employee benefits, including holiday entitlement, are current liabilities included in 'pension and other employee obligations', measured at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

#### 2.15 *Share-based employee remuneration*

The Group operates equity-settled share-based remuneration plans for its employees. None of the Group's plans feature any options for a cash settlement.

Where employees are rewarded using share-based payments, the fair values of the employees' services are determined indirectly by reference to the fair value of the equity instruments granted. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions.

All share-based remuneration is ultimately recognised as an expense in profit or loss with a corresponding credit to 'retained earnings'.

If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to share capital with any excess being recorded as share premium.

## 2.16 *Provisions, contingent liabilities and contingent assets*

Provisions are recognised when present obligations as a result of a past event will probably lead to an outflow of economic resources from the Group and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, product warranties granted, legal disputes or onerous contracts.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognised as a separate asset. However, this asset may not exceed the amount of the related provision. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognised, unless it was assumed in the course of a business combination. In a business combination contingent liabilities are recognised in the course of the allocation of the purchase price to the assets and liabilities acquired in the business combination. They are subsequently measured at the higher amount of a comparable provision as described above and the amount initially recognised, less any amortisation.

Possible inflows of economic benefits to the Group that do not yet meet the recognition criteria of an asset are considered contingent assets.

## 2.17 *Revenue recognition*

Revenue comprises revenue from the sale of goods and the rendering of services.

Revenue is measured at the fair value of consideration received or receivable and represents amounts obtained through trading activities, net of value added tax and trade discounts. The Group applies the revenue recognition criteria set out below to each separately identifiable component of the sales or service transaction in order to reflect the substance of the transaction. The consideration received from these transactions is allocated to the separately identifiable component by taking into account the relative fair value of each component.

Revenue is recognised when the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity, the costs incurred or to be incurred can be measured reliably, and when the criteria for each of the Group's different activities has been met. These activity-specific recognition criteria are based on the goods or solutions provided to the customer and the contract conditions in each case, and are described below.

### (a) *Sale of goods*

Sale of goods comprises the sale of spare parts and scrap metal, and is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods supplied. Significant risks and rewards are generally considered to be transferred to the buyer when the customer has taken undisputed delivery of the goods.

### (b) *Pump manufacture*

The Group provides pumps specifically customised to each customer. These contracts specify a fixed price for the development and installation of pumps.

When the outcome can be assessed reliably, contract revenue and associated costs are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the reporting date. Revenue is measured at the fair value of consideration received or receivable in relation to that activity.

When the Group cannot measure the outcome of a contract reliably, revenue is recognised only to the extent of the contract costs incurred and to the extent that such revenue are recoverable. Contract costs are recognised in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately in profit or loss.

The stage of completion of any construction contract is assessed by management by taking into consideration all information available at the reporting date. The percentage of completion is calculated by comparing costs incurred to date with the total estimated costs of the contract.

The gross amount due from customers for contract work is presented as an asset within 'trade and other receivables' for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceeds progress billings. The gross amount due to customers for contract work is presented as a liability within 'other liabilities' for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less losses).

(c) *Interest income*

Interest income and expenses are recorded on an accrual basis using the effective interest method.

(d) *Rental income*

Rental income from operating leases of the Group's properties is recognised on a straight-line basis over the term of the lease.

2.18 *Operating expenses*

Operating expenses are recognised in profit or loss upon utilisation of the service or at the date of their origin. Expenditure for warranties is recognised and charged against the associated provision when the related revenue is recognised.

2.19 *Borrowing costs*

Borrowing costs primarily comprise interest on the Group's borrowings. All borrowing costs, including borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset, are expensed in the period in which they are incurred and reported within 'finance costs'.

2.20 *Financial instruments*

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

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Financial assets and financial liabilities are measured initially at fair value plus transactions costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

Financial assets and financial liabilities are measured subsequently as described below.

*Financial assets*

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- loans and receivables
- financial assets at fair value through profit or loss
- held to maturity investments, and
- available-for-sale financial assets



The category determines subsequent measurement and whether any resulting income and expense is recognised in profit or loss or in the Statement of Recognised Income and Expense.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within 'finance costs' or 'finance income', except for impairment of trade receivables which is presented within 'other expenses'.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents and trade and most other receivables fall into this category of financial instruments.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other available features of shared credit risk characteristics. The percentage of the write down is then based on recent historical counterparty default rates for each identified group. Impairment of trade receivables is presented within 'other expenses'.

#### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets.

The investment classified as available for sale is measured at cost less any impairment charges, as its fair value cannot currently be estimated reliably. Impairment charges are recognised in profit or loss.

All other available-for-sale financial assets are measured at fair value. Gains and losses are recognised in other comprehensive income and reported within the available-for-sale reserve within equity, except for impairment losses and foreign exchange differences on monetary assets, which are recognised in profit or loss. When the asset is disposed of or is determined to be impaired the cumulative gain or loss recognised in other comprehensive income is reclassified from the equity reserve to profit or loss and presented as a reclassification adjustment within other comprehensive income. Interest calculated using the effective interest method and dividends are recognised in profit or loss within 'finance income'. Reversals of impairment losses are recognised in other comprehensive income, except for financial assets that are debt securities, which are recognised in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognised.

#### *Financial liabilities*

The Group's financial liabilities include borrowings, trade and other payables and derivative financial instruments.

Financial liabilities are measured subsequently at amortised cost using the effective interest method, except for financial liabilities held for trading or designated at fair value through profit or loss, that are carried subsequently at fair value with gains or losses recognised in profit or loss.

All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at fair value through profit or loss.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within 'finance costs' or 'finance income'.

### *Derivative financial instruments*

Derivatives are financial assets or financial liabilities classified as held for trading and recorded at fair value through profit and loss.

Due to certain customer contracts being settled in foreign currencies, the Group enters into forward exchange contracts and swaps in order to reduce their exposure to foreign currency risk. The Group also uses fixed rate swaps to fix the rate of interest payable on some its borrowings. Refer to note 28 for more details regarding the Group's use of derivatives.

### **3. Standards, amendments and interpretations to existing standards that are not yet effective and have not yet effective and have not been adopted early by the group**

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Group.

Management anticipates that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Group's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Group's financial statements.

New standards and interpretations currently in issue but not effective for accounting periods commencing on 1 January 2008 are:

- IAS 1 Presentation of Financial Statements (revised 2007) (effective 1 January 2009)
- IAS 23 Borrowing Costs (revised 2007) (effective 1 January 2009)
- Amendment to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (effective 1 January 2009)
- IAS 27 Consolidated and Separate Financial Statements (Revised 2008) (effective 1 July 2009)
- Amendment to IFRS 2 Share-based Payment – Vesting Conditions and Cancellations (effective 1 January 2009)
- Improvements to IFRSs (effective 1 January 2009 other than certain amendments effective 1 July 2009)
- IFRS 8 Operating Segments (effective 1 January 2009)
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective 1 October 2008)

IAS 1 *Presentation of Financial Statements* (Revised 2007) will result in changes to the presentation of the Group's financial statements as the format currently adopted for the Statement of Changes in Equity will no longer be permitted.

IAS 23 *Borrowing Costs* (Revised 2007) requires that borrowing costs that are directly attributable to the acquisition or construction of a qualifying asset are capitalised as part of the cost of that asset. The standard must be applied for accounting periods beginning on or after 1 January 2009. The Group's current accounting policy is to recognise borrowing costs in the income statement as incurred. Where the Group has funded the acquisition or construction of property, plant and equipment or development costs through borrowings, application of the standard is expected to increase the cost of the asset and the depreciation charge and reduce finance costs.

The other Standards and Interpretations are not expected to have any significant impact on the Group's financial statements, in their periods of initial application, except for the additional disclosures on operating segments when IFRS 8 Operating Segments comes into effect for periods commencing on or after 1 January 2009.

### **4. Significant management judgement in applying accounting policies**

The following are significant management judgements in applying accounting policies of the Group that have the most significant effect on the financial statements.

#### *Internally generated development costs*

Management monitors progress of internal research and development projects by using a project management system. Significant judgement is required in distinguishing research from the development phase. Development costs are recognised as an asset when all the criteria are met, whereas research costs are expensed as incurred.

To distinguish any research-type project phase from the development phase, it is the Group's accounting policy to also require a detailed forecast of sales or cost savings expected to be generated by the intangible asset. The forecast is incorporated into the group's overall budget forecast as the capitalisation of development costs commences. This ensures that managerial accounting, impairment testing procedures and accounting for internally-generated intangible assets is based on the same data.

The Group's management also monitors whether the recognition requirements for development costs continue to be met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems after the time of recognition.

#### *Revenue recognition*

The Group has historically not been able to reliably estimate the costs to complete contracts and accordingly has only recognised revenue to the extent of the contract costs incurred where this revenue is recoverable.

#### *Leases*

In applying the classification of leases in IAS 17, management considers its leases of equipment as finance lease arrangements. In some cases, the lease transaction is not always conclusive, and management uses judgement in determining whether the lease is a finance lease arrangement that transfers substantially all the risks and rewards incidental to ownership.

#### *Deferred tax assets*

The assessment of the probability of future taxable income in which deferred tax assets can be utilised is based on the Group's latest approved budget forecast, which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. The tax rules in the numerous jurisdictions in which the Group operates are also carefully taken into consideration. If a positive forecast of taxable income indicates the probable use of a deferred tax asset, especially when it can be utilised without a time limit, that deferred tax asset is usually recognised in full. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties is assessed individually by management based on the specific facts and circumstances.

### **5. Estimation uncertainty**

When preparing financial statements management undertakes a number of judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses.

The actual results may differ from the judgements, estimate and assumptions made by management, and will seldom equal the estimated results.

Information about significant judgements, estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses are discussed below.

#### *Manufacturing revenue*

The stage of completion of any contract is assessed by management by taking into consideration all information available at the reporting date. In this process management formulates estimates regarding actual work performed and the estimated costs to complete the work.

#### *Impairment*

An impairment loss is recognised for the amount by which an asset's or cash-generating unit's carrying amount exceeds its recoverable amount. To determine the recoverable amount, management estimates expected future cash flows from each asset or cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows management makes assumptions about future gross profits. These assumptions relate to future events and circumstances. The actual results may vary, and may cause significant adjustments to the Group's assets within the next financial year. In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors.

The total impairment charge to profit and loss in 2008 amounts to £150,000 (2007: £nil) and relates to impairment of the investment in China Pub Company Ltd.

***Impairment of goodwill – refer to note 13***

The Group has not recognised impairment losses for goodwill in its 2 cash-generating units. Management is not currently aware of any reasonable possible changes in key assumptions that would cause the carrying amount of goodwill to exceed its recoverable amount.

***Defined benefit liability – refer to note 24***

Management estimates the defined benefit liability annually with the assistance of independent actuaries; however, the actual outcome may vary due to estimation uncertainties. The estimate of its defined benefit liability £11.3 million (2007: £14.6 million) is based on standard rates of inflation, medical cost trends and mortality. It also takes into account the Group's specific anticipation of future salary increases. Discount factors are determined close to each year-end by reference to high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability. Estimation uncertainties exist particularly with regard to medical cost trends, which may vary significantly in future appraisals of the Group's defined benefit obligations.

***Fair value of financial instruments – refer to note 27***

Management uses valuation techniques in measuring the fair value of financial instruments, where active market quotes are not available. Details of the assumptions used are given in the notes regarding financial assets and liabilities. In applying the valuation techniques management makes maximum use of market inputs, and uses estimates and assumptions that are, as far as possible, consistent with observable data that market participants would use in pricing the instrument. Where applicable data is not observable, management uses its best estimate about the assumptions that market participants would make. These estimates may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

***Provisions – refer to note 22***

The amount recognised for warranties for which customers are covered for the cost of repairs is estimated based on management's past experience and the future expectations of defects.

***Other liabilities – refer to note 21***

The amount recognised for deferred service income £31,000 (2007: £91,000) has been estimated by management after observation of the services actually performed and detailed consideration of the types of service arrangements entered into. However, the actual outcome may vary due to unexpected changes in the pattern of services performed.

## **6. Segment Information**

The business segment of Southbank UK plc consists of the manufacturing and service businesses, while the geographical segment consists of operations carried out in the United Kingdom, United States of America, China and India.

The activities undertaken by the Manufacturing segment include the manufacture of pumps. The activities of the Services division include the servicing of a wide range of pumps.

The measurement policies the Group uses for segment reporting are the same as those used in its financial statements, except that:

- post-employment benefit expenses;
- expenses relating to share-based payments;
- research costs relating to new business activities; and
- revenue, costs and fair value gains from investment property

are not included in arriving at the operating profit of the operating segments. In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss. No asymmetrical allocations have been applied between segments.

*Primary reporting format – business segments*

The segment information can be analysed as follows:

	<b>Manufacturing £'000</b>	<b>Services £'000</b>	<b>Shared Costs and Assets £'000</b>	<b>Group Elimination £'000</b>	<b>Total £'000</b>
<b>31 December 2008</b>					
Revenue	14,749	18,161	37	(607)	32,340
Profit/(loss) before tax	(7,027)	4,029	(4,638)	1,221	(6,415)
Segment assets	8,734	13,655	21,657	(10,962)	33,084
Segment liabilities	(12,248)	(2,075)	(17,742)	(316)	(32,381)
<b>31 December 2007</b>					
Revenue	13,017	13,749	61	(1,168)	25,659
Profit/(loss) before tax	(2,085)	2,603	(1,986)	1,042	(426)
Segment assets	9,375	9,525	17,793	(11,099)	25,594
Segment liabilities	(8,577)	(3,092)	(9,032)	(398)	(21,099)

*Secondary reporting format – geographic segments*

	<b>UK £'000</b>	<b>USA £'000</b>	<b>ROW £'000</b>	<b>Group Elimination £'000</b>	<b>Total £'000</b>
<b>31 December 2008</b>					
Revenue	23,694	9,641	396	(1,391)	32,340
Profit/(loss) before tax	(9,660)	2,129	70	1,046	(6,415)
Segment assets	33,567	9,725	754	(10,962)	33,084
Segment liabilities	(28,211)	(3,228)	(626)	(316)	(32,381)
<b>31 December 2007</b>					
Revenue	20,289	6,734	262	(1,626)	25,659
Profit/(loss) before tax	(2,572)	1,316	(38)	868	426
Segment assets	33,605	2,555	533	(11,099)	25,594
Segment liabilities	(20,921)	878	(658)	(398)	(21,099)

The Group's sales occur worldwide and are allocated as follows by region of destination:

	<b>2008 £'000</b>	<b>2007 £'000</b>
United Kingdom	5,998	4,469
Europe	3,168	1,859
China	6,608	4,215
USA	11,028	8,947
Rest of the world	5,538	6,169
	<u>32,340</u>	<u>25,659</u>

The totals presented for the Group's operating segments reconcile to the entity's key financial figures as presented in its financial statements as follows:

	<b>2008</b> <b>£'000</b>	<b>2007</b> <b>£'000</b>
<b>Segment revenues</b>		
Total segment revenues	33,731	27,285
Elimination of intersegment revenues	(1,391)	(1,626)
Group revenues	<u>32,340</u>	<u>25,659</u>
<b>Segment profit or loss</b>		
Segment operating profit	989	2,055
Post-employment benefit expenses	(120)	(121)
Other operating income not allocated	(4,435)	(2,006)
Elimination of intersegment profits	1,046	868
Group operating profit/(loss)	<u>(2,520)</u>	<u>796</u>
Finance costs	(4,092)	(1,286)
Finance income	196	64
Group loss before tax	<u>(6,416)</u>	<u>(426)</u>

Segment net assets can be reconciled to Group assets as follows:

	<b>2008</b> <b>£'000</b>	<b>2007</b> <b>£'000</b>
<b>Segment net assets</b>		
Total segment net assets	11,981	15,992
Group elimination	(11,278)	(11,497)
Group net assets	<u>703</u>	<u>4,495</u>

## 7. Operating (loss)/profit

This is stated after charging:

	<b>Year ended</b> <b>31 December</b> <b>2008</b> <b>£'000</b>	<b>Year ended</b> <b>31 December</b> <b>2007</b> <b>£'000</b>
Depreciation of owned assets	459	406
Depreciation of assets held under finance leases	23	20
Amortisation of other intangible assets	92	–
Auditors' remuneration:		
– Group audit fees	16	18
– Audit fees in respect of subsidiaries	49	36
– Taxation advice fees	15	44
– Other services	–	7
Rentals under operating leases:		
– Land and buildings	249	79
– Plant and equipment	155	338
Foreign currency exchange differences	276	297

## 8. Employee remuneration

### Employee benefits expense

The employee benefit expense during the year was as follows:

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Wages and salaries	9,227	7,228
Social security costs	937	796
Pension costs	493	468
	<u>10,657</u>	<u>8,492</u>

The average number of employees during the year were as follows:

	Year ended 31 December 2008 Number	Year ended 31 December 2007 Number
Manufacturing	184	152
General and administration	96	83
Selling	41	39
	<u>321</u>	<u>274</u>

### *Key management personnel*

Key management of the Group are members of the board of directors in Southbank UK plc.

Remuneration in respect of directors and key management was as follows:

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Short-term employee benefits	239	156
	<u>239</u>	<u>156</u>

The amounts set out above include remuneration in respect of the highest paid director as follows:

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Short-term employee benefits	75	62
	<u>75</u>	<u>62</u>

During 2008 key management did not exercise share options granted in the share-based employee remuneration scheme (2007: nil).

## 9. Finance costs and finance income

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Finance income:		
Interest income from cash and cash equivalents	196	64
	<u>196</u>	<u>64</u>
Finance costs:		
Interest payable on bank borrowing	1,164	781
Finance charges	7	15
Finance costs of pensions	(13)	(107)
Losses arising on fair value of derivative contracts	2,784	597
Impairment of investment in China Pub Company	150	–
	<u>4,092</u>	<u>1,286</u>

## 10. Income tax expense

### (a) Analysis of total tax credit

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Current tax		
UK corporation tax at 28% (2007: 30%)	–	–
Amounts (over)/under provided in prior years	(94)	44
	<u>(94)</u>	<u>44</u>
Overseas taxation	801	514
Amounts under/(over) provided in prior years	–	(60)
Total current tax	<u>707</u>	<u>498</u>
<i>Deferred tax</i>		
Accelerated capital allowances	(308)	315
Revaluation of foreign exchange contracts to fair value	(769)	(179)
Losses available for offset against future taxable income	(1,112)	(360)
Retirement benefit obligations	86	(131)
Less movement recorded in S.O.R.I.E.	(48)	(204)
Other temporary differences	(330)	–
Changes in tax rates	–	34
Total deferred tax	<u>(2,481)</u>	<u>(525)</u>
Tax credit reported in the income statement	<u>(1,774)</u>	<u>(27)</u>



(b) **Reconciliation of loss before tax to total tax credit**

The relationship between the expected tax expense based on the domestic effective tax rate of Southbank UK plc at 28 per cent. (2007: 30 per cent.) and the reported tax expense in the income statement can be reconciled as follows, also showing major components of tax expense:

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Loss before tax	(6,416)	(426)
Domestic tax rate for Southbank UK plc	28%	30%
Expected tax credit	(1,797)	(128)
Adjustment for tax-rate differences in foreign jurisdictions	218	106
Timing differences:		
– change of taxation rate	–	34
– other	–	2
Amounts (over)/underprovided in prior years	(94)	44
Adjustment for non-deductible expenses:		
– depreciation in excess of capital allowances	–	315
– other non-deductible expenses	(101)	(346)
Tax credit	(1,774)	(27)

Note 17 provides information on the entity's deferred tax assets and liabilities, including the amounts recognised directly in other comprehensive income.

**11. Income tax liability**

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Current tax assets	21	123
Current tax liabilities	(187)	(24)
Income tax (payable)/receivable	(166)	99

**12. Earnings per share**

The calculation of the basic loss per share is based on the loss attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year.

The calculation of diluted loss per share is based on the basic loss per share, adjusted to allow for the issue of shares and the post tax effect of dividends and/or interest, on the assumed conversion of all dilutive options and other dilutive potential ordinary shares.

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Loss attributable to ordinary shareholders (£'000)	(4,642)	(399)
Weighted average number of shares (used for basic loss per share)	774,880,175	774,880,175
Dilutive effect of options	170,095,648	170,095,648
Weighted average number of shares (used for diluted loss per share)	944,975,823	944,975,823
Basic and diluted loss per share in pence	(0.60)	(0.05)

**Dividends**

No dividends have been declared during the current year (2007: nil).

### 13. Goodwill

The net carrying amount of goodwill can be analysed as follows:

	2008 £'000	2007 £'000
<b>Gross carrying amount</b>		
Carrying amount at 1 January	2,288	2,288
Additions	–	–
Impairment	–	–
	<hr/>	<hr/>
Carrying amount at 31 December	<u>2,288</u>	<u>2,288</u>

For the purposes of annual impairment testing the carrying amount of goodwill is allocated to the following cash generating units. These are the smallest groupings of assets to which management is able to reliably attribute cash flows.

	2008 £'000	2007 £'000
Manufacturing	437	437
Services	1,851	1,851
	<hr/>	<hr/>
	<u>2,288</u>	<u>2,288</u>

At the date of transition the amount of goodwill was tested for impairment.

The recoverable amounts of the cash-generating units were determined based on value-in-use calculations.

The key assumptions used in the calculations were:

- The forecast operating cash flows for the next five years based on approved budgets and plans. These budgets and plans are based on past performance and expectations for the market development of the CGU, taking into account the current economic climate and forecast assumptions (both internal and external where appropriate) around the relevant product markets.
- An estimate of the long-term effective tax rate for the CGU of between 28 per cent. and 30 per cent.
- An estimate of the long-term growth rate for the CGU of 1 per cent. for the manufacturing division and 3 per cent. for the services division. These growth rates represent management's best estimate of future long-term growth in the respective divisions.

A discount rate of 14 per cent. was used to discount future cash flows and reflects the weighted average cost of capital of the company.

Following the requirement to allocate the goodwill between the two asset groupings, management identified an impairment of £1,020,000 against the manufacturing division. This goodwill impairment was identified following a comparison of future cash flows to the assets of the manufacturing division. This impairment has been recognised in reserves on transition, see note 34. Further impairment tests were carried out at each reporting date and indicate headroom of circa £2,500,000 (2007: £900,000) in respect of manufacturing and therefore management does not believe that any reasonably possible change in assumptions would lead to any further impairment of the manufacturing goodwill. The present values of future cash flows in respect of the service division are far in excess of the carrying values of the associated assets including goodwill that management considers the likelihood of any impairment arising to be remote.

Final fair value adjustments were made to the goodwill number in 2007 following a review of the assets and liabilities purchased in 2006.

#### 14. Other intangible assets

The Group's other intangible assets comprise solely of internally generated development costs. The net carrying amounts for the reporting periods under review can be analysed as follows:

	2008 £'000	2007 £'000
<b>Gross carrying amount at 1 January</b>		
Balance at 1 January	861	–
Additions	582	861
Balance at 31 December	<u>1,443</u>	<u>861</u>
<b>Accumulated amortisation and impairment</b>		
Balance at 1 January	–	–
Amortisation	92	–
Balance at 31 December	<u>92</u>	<u>–</u>
Carrying amount at 31 December	<u>1,351</u>	<u>861</u>

No research and development costs were expensed in the current year (2007: nil).

The amortisation charge for the year is included within operating charges and disclosed in note 8.

#### 15. Property, plant and equipment

The Group's property, plant and equipment comprise primarily land, buildings, plant and machinery and fixtures and fittings. The carrying amount can be analysed as follows:

	Freehold land and buildings £'000	Short leasehold improvements £'000	Plant and machinery £'000	Fixtures and fittings £'000	Total £'000
<b>Gross carrying amount</b>					
Balance at 1 January 2008	8,622	387	9,699	3,052	21,760
Exchange adjustments	–	136	876	177	1,189
Additions	–	20	356	288	664
Disposals	–	–	(26)	(193)	(219)
Balance at 31 December 2008	<u>8,622</u>	<u>543</u>	<u>10,905</u>	<u>3,324</u>	<u>23,394</u>
<b>Depreciation and impairment</b>					
Balance 1 January 2008	64	347	8,652	2,682	11,745
Disposals	–	–	(26)	(193)	(219)
Exchange adjustments	–	127	752	166	1,045
Depreciation	59	9	230	184	482
Balance 31 December 2008	<u>123</u>	<u>483</u>	<u>9,608</u>	<u>2,839</u>	<u>13,053</u>
<b>Carrying amount 31 December 2008</b>	<u>8,499</u>	<u>60</u>	<u>1,297</u>	<u>485</u>	<u>10,341</u>
<b>Gross carrying amount</b>					
Balance at 1 January 2007	8,622	387	9,465	2,900	21,374
Exchange adjustments	–	–	–	–	–
Additions	–	10	234	162	406
Disposals	–	(10)	–	(10)	(20)
Balance at 31 December 2007	<u>8,622</u>	<u>387</u>	<u>9,699</u>	<u>3,052</u>	<u>21,760</u>
<b>Depreciation and impairment</b>					
Balance 1 January 2007	–	353	8,439	2,543	11,335
Disposals	–	(10)	(6)	(16)	–
Exchange adjustments	–	–	–	–	–
Depreciation	64	4	213	145	426
Balance 31 December 2007	<u>64</u>	<u>347</u>	<u>8,652</u>	<u>2,682</u>	<u>11,745</u>
<b>Carrying amount 31 December 2007</b>	<u>8,558</u>	<u>40</u>	<u>1,047</u>	<u>370</u>	<u>10,015</u>

All depreciation charges are included within operating charges and disclosed in note 8.

The Group's land and buildings have been pledged as security for 'other bank borrowings'.

## 16. Inventories

Inventories recognised in the statement of financial position can be analysed as follows:

	2008 £'000	2007 £'000
Raw materials and consumables	4,050	2,649
Work in progress	813	1,012
Finished goods and goods for resale	1,222	850
	<u>6,085</u>	<u>4,511</u>

In 2008, no inventories were required to be written off (2007: nil).

No reversal of previous write-downs was recognised as a reduction of expense in 2007 or 2008.

In 2008 total inventory included in expenses amounted to £14,235,000 (2007: £8,926,000).

## 17. Trade and other receivables

	2008 £'000	2007 £'000
<b>Current</b>		
Trade receivables	9,460	6,440
Less: provision for impairment of receivables	(60)	(16)
Trade receivables – net	<u>9,400</u>	<u>6,424</u>
Other receivables	135	71
<b>Trade and other receivables</b>	<u>9,535</u>	<u>6,495</u>
Prepayments	741	788
Vat recoverable	269	141
<b>Other current assets</b>	<u>1,010</u>	<u>929</u>
<b>Non-current</b>		
Other receivables	<u>98</u>	<u>110</u>

The directors believe that the carrying amounts of trade and other receivables approximate their fair values. The loans and receivables are short term and non-interest bearing.

The non-current receivable relates to partly paid shares and deposits that are not considered to be receivable within 12 months and as such have been reclassified as non-current.

All of the Group's trade and other receivables have been reviewed for indicators of impairment. Certain trade receivables were found to be impaired and a provision for impairment of receivables of £60,000 (2007: £16,000) has been recorded accordingly within other expenses. The impaired trade receivables are due from customers in the business-to-business market that are experiencing financial difficulties.

The Group periodically enters into a financing arrangement with the bank whereby ownership of certain trade receivables is transferred to the bank in exchange for cash. In these instances a corresponding liability for the amount owing to the bank will be recognised.

The movement in the provision for impairment of receivables can be reconciled as follows:

	2008 £'000	2007 £'000
Balance at 1 January	16	51
Charge for the year	623	16
Impairment reversals	(582)	(51)
Currency adjustment	3	–
Balance at 31 December	<u>60</u>	<u>16</u>

An analysis of unimpaired trade receivables that are past due is given in note 25.

## 18. Deferred tax assets and liabilities

Deferred taxes arising from temporary differences and unused tax losses can be summarised as follows:

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Deferred tax liabilities	–	–
Deferred tax assets	3,591	1,159

The movement for the year in the Group's net deferred tax position was as follows:

	2008 £'000	2007 £'000
Balance at 1 January	1,159	430
Credit to income for the year (note 10)	2,481	525
(Charge)/credit to equity for the year	(49)	204
Balance at 31 December	3,591	1,159

### *Deferred tax assets*

	Balance at 1 January 2008 £'000	Charge to income for the year £'000	Charge to equity for the year £'000	Balance at 31 December 2008 £'000
Accelerated tax depreciation	(121)	308	–	187
Retirement benefit obligations	273	(37)	(49)	187
Derivatives	179	768	–	947
Tax losses	842	1,112	–	1,954
Temporary differences	(14)	330	–	316
Total	1,159	2,481	(49)	3,591

## 19. Cash and cash equivalents

Cash and cash equivalents included the following components:

	2008 £'000	2007 £'000
Cash at bank and in hand	989	872
	989	872

At 31 December 2008, the Group had the following undrawn facilities:

	2008 £'000	2007 £'000
Principal overdraft facility	–	1,656
Open credit facility	1	1
Corporate charge card facility	8	8

The bank overdrafts and loans are secured by fixed and floating charges over the Group's assets.

The short term bank overdraft has been classified under trade and other payables in Southbank UK plc, therefore, for purposes of the cash flow statement, the net cash and bank balance would be as follows:

	2008 £'000	2007 £'000
Cash and bank	989	872
Short term overdraft	(2,230)	–
Net cash	(1,241)	872

The directors consider that the carrying amount of the cash and cash equivalents approximates their fair value.

## 20. Trade and other payables

	2008 £'000	2007 £'000
Current:		
Trade payables	3,888	2,346
Payments on account	2,224	1,920
Social security and other taxes	266	203
	<u>6,378</u>	<u>4,469</u>

The carrying amounts of trade and other payables approximate to their fair values. All amounts shown above are short-term liabilities and are accruing no interest.

## 21. Other liabilities

Other liabilities can be summarised as follows:

	2008 £'000	2007 £'000
Accruals and deferred income	8,422	2,410
Other payables	53	176
Deferred consideration	150	500
	<u>8,625</u>	<u>3,086</u>

Deferred income in 2008 amounted to £31,000 (2007: £91,000) and is considered current, as the timing of the service commitments is not at the discretion of the Group.

## 22. Provisions

	2008 £'000	2007 £'000
Annual leave	104	32
Warranty	627	826
Liquidated damages	697	177
Loss making contracts	500	–
	<u>1,928</u>	<u>1,035</u>

All provisions are considered current. The carrying amounts may be analysed as follows:

	Annual leave	Warranty	Liquidated damages	Loss making contracts	Total
Carrying amount at 1 January 2008	32	826	177	–	1,035
Additional provisions	72	–	520	500	1,092
Amount utilised	–	–	–	–	–
Reversals	–	(199)	–	–	(199)
Carrying amount at 31 December 2008	<u>104</u>	<u>627</u>	<u>697</u>	<u>500</u>	<u>1,928</u>

### *Annual leave provision*

Paid holidays are regarded as an employee benefit and are charged to the income statement as the benefit is earned. A provision is made at the balance sheet date to reflect the fair value of the holidays earned but not taken.

### *Warranty provision*

Provisions for warranty work represent the estimated cost of work provided under the terms of the contracts with customers with reference to the length and unexpired portion of the terms provided.

### *Liquidated damages*

Provisions for liquidated damages are the liabilities estimated to arise on the expected delay in shipment of finished contracts.

### *Loss making contracts*

A provision is immediately recognised in the income statement whenever the costs incurred plus the estimated costs to complete the contract are greater than the expected revenue from the contract. A provision is made for the total expected loss on the contract.

## **23. Leases**

### *Finance leases*

The Group leases various equipment under finance lease arrangements. £184,000 of the net carrying amount recognised as 'Plant and machinery' (see note 15) relates to leased equipment (2007: £80,000).

The future aggregate minimum finance lease payments are as follows:

	2008		2007	
	Minimum payments £'000	Present value of payments £'000	Minimum payments £'000	Present value of payments £'000
No later than 1 year	52	45	43	38
Later than 1 year and no later than 5 years	55	47	48	43
	<u>107</u>	<u>92</u>	<u>91</u>	<u>81</u>
Less: amounts representing finance charges	(15)		(10)	
Present value of minimum lease payments	92		81	

The lease agreement for the equipment includes fixed lease payments and a purchase option at the end of the lease term. The agreement is non-cancellable but does not contain any further restrictions.

### *Operating leases*

The Group leases various offices, vehicles and equipment under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2008 £'000	2007 £'000
No later than 1 year	240	223
Later than 1 year and no later than 5 years	709	640
Later than 5 years	12	156
	<u>961</u>	<u>1,019</u>

Lease payments recognised as an expense during the period are shown in note 7.

## **24. Pensions and other employee obligations**

Within the UK, the Group operated a defined benefit plan with benefits linked to final salary and a defined contribution plan. With effect from 1 June 2003, the defined benefit plan was closed to accruals and new UK employees who are offered membership of the defined contribution plan. The majority of UK employees are members of one of these arrangements.

The method used in assessing the scheme liabilities is the projected unit method.

A full valuation of the pension scheme is produced every three years (the last one being as at 1 January 2008) and updated annually to 31 December by independent qualified actuaries.

The liabilities recognised for pensions and other employee remuneration in the statement of financial position consist of the following amounts:

	2008 £'000	2007 £'000
Net obligation	<u>669</u>	<u>975</u>

### *Scheme liabilities*

The defined benefit obligation for the reporting periods under review are as follows:

	<b>2008</b>	<b>2007</b>
	<b>£'000</b>	<b>£'000</b>
Defined benefit obligation 1 January	14,574	14,522
Interest cost	848	763
Actuarial (gain)/loss	(3,133)	86
Benefits paid	(948)	(797)
Defined benefits obligation 31 December	<u>11,341</u>	<u>14,574</u>

For determination of the pension obligation, the following actuarial assumptions were used:

	<b>2008</b>	<b>2007</b>
	<b>%</b>	<b>%</b>
Discount rate	6.7	6.0
Expected rate of return on plan assets	6.5	6.5
Expected rate of salary increases	–	–
Expected rate of pension increases	2.7	3.3
Inflation assumption	2.7	3.3
Mortality assumption	PA92 YOB	PA92 C2020

These assumptions were developed by management under consideration of expert advice provided by Alexander Forbes, independent actuarial appraisers. These assumptions have led to the amounts determined as the Group's defined benefit obligations for the reporting periods under review and should be regarded as management's best estimate. However, the actual outcome may vary.

### *Scheme assets*

The assets held by the pension fund can be reconciled from the opening balance to the reporting date as follows:

	<b>2008</b>	<b>2007</b>
	<b>£'000</b>	<b>£'000</b>
Fair value of plan assets at 1 January	13,599	14,048
Expected returns on plan assets	861	870
Actuarial loss	(2,960)	(642)
Contributions by the Group	120	120
Contributions by beneficiaries	–	–
Benefits paid	(948)	(797)
Fair value of plan assets at 31 December	<u>10,672</u>	<u>13,599</u>
Actual return on plan assets	(2,099)	228

Based on historical data, the Group expects contributions of £185k to be paid for 2009.

Plan assets include 30 million shares in Southbank UK plc. Plan assets can be broken down into the following major categories of investments:

	<b>2008</b>	<b>2007</b>
	<b>£'000</b>	<b>£'000</b>
Real estate funds	1,632	–
Equity investment funds	3,018	4,262
Self related equities	1,200	1,200
Corporate bonds	4,786	7,411
Liquid funds	36	726
Total value of assets	<u>10,672</u>	<u>13,599</u>



The Group's defined benefit obligations and plan assets may be reconciled to the amounts presented on the face of the statement of financial position for each of the reporting periods under review as follows:

	<b>2008</b> <b>£'000</b>	<b>2007</b> <b>£'000</b>
Defined benefit obligation	(11,341)	(14,574)
Fair value of plan assets	10,672	13,599
Total deficit	<u>(669)</u>	<u>(975)</u>

#### *Scheme expenses*

Total expenses resulting from the Group's defined benefit plans can be analysed as follows:

	<b>2008</b> <b>£'000</b>	<b>2007</b> <b>£'000</b>
Interest costs	(849)	(763)
Expected returns on plan assets	861	870
Total expenses recognised in finance costs	<u>(12)</u>	<u>(107)</u>

The employee benefits expense for the year is £nil (2007: £nil).

Expected returns on plan assets is based on a weighted average of expected returns of the various assets in the plan, and include an analysis of historical returns and predictions about future returns. Expected returns on plan assets are estimated by independent pension scheme appraisals undertaken by external valuers in close co-ordination with each fund's treasury board. In 2008, the actual return on plan assets was £2,099,000 (2007: £228,000).

The actuarial gains and losses recorded in the statement of recognised income and expense as follows:

	<b>2008</b> <b>£'000</b>	<b>2007</b> <b>£'000</b>
Actuarial gains/(losses) on liabilities	3,133	(86)
Actuarial gains/(losses) on assets	(2,960)	(642)
Total expenses recognised in shareholders funds	<u>173</u>	<u>(728)</u>

#### *Experience gains and losses*

	<b>2008</b> <b>£'000</b>	<b>2007</b> <b>£'000</b>
Defined benefit obligation	(11,341)	(14,574)
Fair value of plan assets	10,672	13,599
Plan deficit	(669)	(975)
Experience adjustments:		
Plan assets	(2,960)	(642)
Plan liabilities	1,593	(19)

## **25. Risk management objectives and policies**

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk, cash flow risk and fair value interest-rate risk. The Group's overall risk management programmes focus on both credit risk and the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

The Group's risk management is co-ordinated at its headquarters, in close co-operation with the board of directors, and focuses on actively securing the Group's short to medium-term cash flows by minimising the exposure to financial markets.

While the Group does use derivatives in order to hedge its exposure to foreign currency risk and cashflow interest rate risk (see below) it does not engage in the trading of derivatives for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed are described below.

The Group is exposed to market risk through its use of financial instruments and specifically to currency risk, interest rate risk and certain other price risks, which result from both its operating and investing activities.

### *Foreign currency sensitivity*

The Group operates in overseas markets and is subject to currency exposures of transactions undertaken during the year. Management's overarching objective is to minimise the extent of the Group's exposure to currency risk. In respect of transactional foreign currency risk the Group maintains a policy that all exposures on material committed transactions should be hedged as far as possible. The Group prepares quarterly rolling cash flow forecasts to enable currency exposures to be identified and then subsequently hedged.

The Group uses forward exchange contracts and forward extra contracts to hedge the impact on receipts and payments of the volatility in exchange rates of US Dollar to Sterling and to the Euro. The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2008 were \$3.75 million (2007: \$3.75 million) and the principal amounts of the outstanding forward extra contracts were \$12.9 million (\$:£ hedge) and €2.4 million (\$:€ hedge). There were no outstanding forward extra contracts in 2007. Hedge accounting is not applied in respect of these hedged transactions.

Derivative contracts are recognised at fair value on the balance sheet with the corresponding entry in the income statement.

Currency exposures comprise the monetary assets and monetary liabilities of the Group that are not denominated in the functional currency of the operating unit involved. The significant currency risk arises from contracts raised in US Dollars.

The following table illustrates the sensitivity of profit and equity to a reasonably possible change in the GBP/USD exchange rate of +/-10 per cent. These changes are considered to be reasonably possible based on observation of recent volatility in the currency markets. The calculations are based on a change in average GBP/USD exchange rate for each period, and the financial instruments held at each reporting date that are sensitive to changes in the GBP/USD exchange rate. All other variables are held constant.

	<b>Profit for the year £'000</b>	
	<b>+10%</b>	<b>-10%</b>
31 December 2008	25	(30)
31 December 2007	27	(33)

There is no impact on equity arising from foreign exchange fluctuations as the Group does not use hedge accounting. Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's exposure to currency risk.

### *Interest rate sensitivity*

The Group's borrowings are at variable rates of interest and thus expose the Group to cash flow risk. The Group's policy is to minimise interest costs and changes in the market value of debt. Interest rate risk is regularly monitored to ensure that the mix of variable and fixed rate borrowing is appropriate for the Group. Interest rate swaps are utilised that have the economic effect of converting borrowings from floating to fixed rates.

The Group has used fixed rate swaps to fix the rate of interest payable on £9.5 million (after unamortised issue costs) of its borrowings. The notional principal amounts of the outstanding interest rate swaps at 31 December 2008 were £6.25 million (2007: £6.25 million). At 31 December 2008, the fixed interest rates payable are 4.87 per cent. on £6.25 million net and 6.515 per cent. on £3.6 million. £1.6 million of the Group's borrowings is at a floating rate based on Libor. Gains and losses on interest rate swaps are recognised in profit and loss account.

The Group's policy is to minimise interest rate cash flow risk exposures on long-term financing. The interest rate profile of the financial assets of the Group at 31 December 2008 and 31 December 2007 is as follows:

### Interest rate profile

	Fixed £'000	Floating £'000	Zero £'000	Total £'000
<b>Debtors</b>				
Trade and other receivables	–	–	9,535	9,535
<b>Creditors</b>				
Trade and other payables	–	–	4,154	4,154
Invoice discounting	–	627	–	627
Bank loans	9,512	977	–	10,489
Deferred consideration in the form of loan notes	–	–	150	150
Amounts due under finance lease agreements	92	–	–	92
	<u>9,604</u>	<u>1,604</u>	<u>4,304</u>	<u>15,512</u>

The classification of the rate of interest on the bank loans of £9,512k as fixed is after consideration of the impact of the floating-to-fixed interest rate swap.

The following table illustrates the sensitivity of profit and equity to a reasonably possible change in interest rates of +/-1 per cent. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on a change in average market interest rate for each period, and the financial instruments held at each reporting date that are sensitive to changes in interest rates. All other variables are held constant.

	Profit for the year £'000	
	+1%	-1%
31 December 2008	(124)	124
31 December 2007	(95)	95

### Credit risk analysis

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The Group's policy is to deal only with creditworthy counterparties.

The Group's most significant exposure to credit risk is in respect of the possibility of any individual customer being unable to settle their debts as they fall due. The credit risk associated with customers is considered as part of the tender review process and is addressed initially via contract payment terms and, where appropriate payment security.

The Group's maximum exposure to credit risk is limited to the carrying amount of financial assets recognised at the reporting date, as summarised below:

	2008 £'000	2007 £'000
Classes of financial assets – carrying amounts		
Trade and other receivables	9,535	6,495
Cash and cash equivalents	989	4,635

The Group's management considers that all the above financial assets that are not impaired or past due for each of the reporting dates under review are of good credit quality.

None of the Group's financial assets are secured by collateral or other credit enhancements. The Group uses trade credit insurance to help manage commercial risk.

Some of the unimpaired trade receivables are past due as at the reporting date. Financial assets past due but not impaired can be shown as follows:

	2008 £'000	2007 £'000
Not more than 3 months	914	1,023
More than 3 but less than 6 months	759	160
More than 6 but less than 12 months	335	166
More than 12 months	–	–
	<u>2,008</u>	<u>1,349</u>

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Trade receivables consist of a large number of customers in various industries and geographical areas. Based on historical information about customer default rates management consider the credit quality of trade receivables that are not past due or impaired to be good.

The credit risk for cash and cash equivalents is considered to be negligible since the counterparties are reputable banks with high quality external credit ratings.

#### *Liquidity risk analysis*

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term liabilities as well as forecast cash inflows and outflows due in day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis as well as on the basis of a rolling 30-day forecast and a rolling 13-week projection. Long-term liquidity needs for a 360-day lookout period are identified quarterly. Net cash requirements are compared to available borrowing facilities in order to determine headroom or any shortfalls.

The Group maintains cash and headroom to meet its liquidity requirements for 30-day periods at a minimum. Funding for long-term liquidity needs is additionally secured by an adequate amount of credit facilities and the ability to sell long-term financial assets.

As at 31 December 2008, the Group's liabilities have contractual maturities (including interest payments where applicable) as summarised below:

	Current (<1 year)	Non-current
<b>31 December 2008</b>		
Trade payables	3,888	–
Accruals and other payables	8,625	–
Invoice discounting liabilities	627	–
Short-term bank overdrafts	2,230	–
Finance lease liabilities	52	55
Bank loans	526	9,963
Derivatives	3,381	–
<b>31 December 2007</b>		
Trade payables	2,549	–
Accruals and other payables	3,086	–
Invoice discounting liabilities	2,265	–
Short-term bank overdrafts	3,763	–
Finance lease liabilities	43	48
Bank loans	344	10,143
Derivatives	597	–

The above amounts reflect the contractual undiscounted cash flows, which may differ to the carrying values of the liabilities at the reporting date. Where the counterparty has a choice of when an amount is paid the liability has been included on the earliest date on which payment can be required. The directors are of the view that the fair value of borrowings approximate carrying value.

## **26. Capital management policies and procedures**

The Group's capital management objectives are:

- to ensure the Group's ability to continue as a going concern, and
- to provide an adequate return to shareholders

by pricing products and services commensurately with the level of risk. The Group monitors capital on the basis of equity and debt which is defined as bank borrowings and finance leases.

## 27. Financial assets and liabilities

### 27.1 Categories of financial assets and liabilities

The carrying amounts presented in the financial statements relate to the following categories of assets and liabilities:

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
<b>Financial assets</b>		
<b>Current:</b>		
Loans and receivables:		
- Trade and other receivables	10,276	7,383
- Cash and cash equivalents	989	4,635
<b>Non-current:</b>		
Available-for-sale financial assets:		
- Investments (see note 10)	-	150
<b>Financial liabilities</b>		
<b>Current:</b>		
Financial liabilities measured at amortised cost:		
- Trade and other payables	6,385	5,635
- Borrowings	3,428	6,410
Financial liabilities at fair value through profit and loss:		
- Derivative financial instruments – held for trading	3,381	597
<b>Non-current:</b>		
Financial liabilities measured at amortised cost:		
- Borrowings	10,010	10,186

See note 2.22 for a description of the accounting policies for each category of financial instrument. The fair values are presented in the related notes. A description of the Group's risk management objectives and policies for financial instruments is given in note 25.

### 27.2 Derivative financial instruments

The fair value of forward and forward extras foreign currency contracts is calculated by reference to current market rates for contracts with similar maturity profiles. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

The derivative financial liabilities can be summarised as follows:

	2008 £'000	2007 £'000
Forward exchange contracts – held for trading	(703)	(56)
Forward extra contracts – held for trading	(1,456)	-
Interest rate swap	(786)	(106)
Inflation swap	(436)	(435)
Fair value of derivative financial liabilities	<u>(3,381)</u>	<u>(597)</u>

### 27.3 Financial results by category of financial instruments

The financial results by category of financial instruments can be summarised as follows:

	2008 £'000	2007 £'000
Loans and receivables – interest received	196	64
Financial liabilities measured at amortised cost – interest paid	(1,158)	(689)
Fair value movements on derivative financial instruments	(2,784)	(597)
Impairment of available for sale financial assets	(150)	-
	<u>(3,896)</u>	<u>(1,222)</u>

The directors consider the investment in China Pub Company to be fully impaired.

#### 27.4 Borrowings

Borrowings comprise the following financial liabilities:

	Current		Non-current	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Financial liabilities measured at amortised cost:				
Bank overdraft and loans	2,756	344	9,963	10,143
Invoice discounting liabilities	627	2,265	–	–
Finance lease liabilities	45	38	47	43
	<u>3,428</u>	<u>2,647</u>	<u>10,010</u>	<u>10,186</u>

The bank loans are secured by fixed and floating charges over the group assets.

The rates of interest on the loans are detailed in note 25.

The above bank loans contain terms and conditions that are normal for the commercial banking market. The group's bankers, Lloyds Banking Group, have notified the group that, as a result of a fall in the value of commercial property, they reserve their rights in respect of the loans. The banker's rights include, inter alia, the ability to recall banking facilities forthwith. Notwithstanding these rights Lloyds Banking Group have not called for repayment, continue to be supportive and have renewed the group's working capital facilities for a further 12 months.

#### 28. Related party transactions

The Group's related parties include its subsidiaries, key management, post-employment benefit plans for the Group's employees and others as described below.

Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

##### *Transactions with subsidiaries*

Transactions and balances within the Group have been eliminated on consolidation.

##### *Transactions with key management personnel*

The transactions with directors and key management are disclosed in note 8, apart from this, during the year the group undertook transactions with First Merchant Capital UK Limited, a company of which Ewan Lloyd-Baker is a director.

First Merchant Capital UK Ltd received £144,000 (2007: £33,000) from the group relating to a charge for a serviced office. As at 31 December 2008 the amount outstanding was £12,000 (2007: £nil).

The group paid First Merchant Capital UK Ltd £104,000 (2007: £68,000) during the year for provision of directors' and management services.

Mr Lloyd-Baker is a partner of Lloyd-Baker & Associates. Lloyd-Baker & Associates were paid £35,000 for the provision of directors' services and other corporate finance services. These services were provided on an arms length basis and discussed and agreed by the board of Southbank excluding Mr Lloyd-Baker.

##### *Transactions with post-employment benefit plans*

The defined benefit plan referred to in note 9 is a related party to the Group.

The assets in the pension scheme include shares in Southbank UK PLC. The Group's transactions with the pension scheme include contributions paid to the plan, which are disclosed in note 9. The Group has not entered into other transactions with the pension scheme, neither has it any outstanding balances at the reporting dates under review.

#### 29. Contingencies

The Group has contingent liabilities in respect of legal claims arising in the ordinary course of business, however, it is not anticipated that any material liabilities will arise from these contingent liabilities.



### 34. Reconciliation of shareholder funds

	Share Capital £'000	Share Premium £'000	Retained Earnings £'000	Translation Reserve £'000	Total £'000
<b>Balance at 1 January 2007</b>	155	5,531	(219)	–	5,467
Loss for the period	–	–	(399)	–	(399)
Actuarial loss for the period on pension scheme (see note 24)	–	–	(728)	–	(728)
Deferred tax on actuarial movement on pension scheme	–	–	204	–	204
Loss on translation of overseas subsidiaries	–	–	–	(49)	(49)
<b>Balance at 31 December 2007</b>	<u>155</u>	<u>5,531</u>	<u>(1,142)</u>	<u>(49)</u>	<u>4,495</u>
Loss for the period	–	–	(4,642)	–	(4,642)
Actuarial gain for the period on pension scheme (see note 24)	–	–	173	–	173
Deferred tax on actuarial movement on pension scheme	–	–	(48)	–	(48)
Profit on translation of overseas subsidiaries	–	–	–	725	725
<b>Balance at 31 December 2008</b>	<u>155</u>	<u>5,531</u>	<u>(5,659)</u>	<u>676</u>	<u>703</u>

### 35. First-time adoption of IFRS

#### 35.1 *Basis of transition to IFRS* *Application of IFRS 1*

The Group's financial statements for the year ended 31 December 2008 are the first annual financial statements that comply with IFRS. These financial statements have been prepared as described in note 2.1.

The Group has applied IFRS 1 *First-time Adoption of International Financial Reporting Standards* in preparing these consolidated financial statements. The effect of the transition to IFRS on equity, total comprehensive income and reported cash flows is presented in this section and is further explained in the notes that accompany the tables.

Southbank UK plc's transition date is 1 January 2007. The Group prepared its opening IFRS balance sheet at that date. The reporting date of these consolidated financial statements at 31 December 2008.

Under SSAP 9 Stocks and long term contracts (applied in UK GAAP statutory accounts) the Group has deferred costs in respect of long term contracts in the balance sheet where the outcome of the contract was uncertain. However for the purposes of this document the group has applied IAS 11 which requires that where the outcome of the contract cannot be estimated reliably, no profit should be taken. Instead contract revenue has been recognised only to the extent that contract costs incurred are expected to be recoverable and contract costs have been expensed as incurred.

The Group has prepared the historical financial information within this document under the requirement of IAS 11. The relevant adjustments have been included in the reconciliation provided (note 35.2)

#### 35.2 *Exemptions from full retrospective application elected by the Group*

IFRS 1 permits companies adopting IFRS for the first time to take certain exemptions from the full requirements of IFRS in the transition period. The Group has applied the mandatory exemptions and certain optional exemptions, as described below.

Southbank UK plc has elected to apply the following optional exemptions from full retrospective application.

- (a) business combinations prior to 1 January 2007, the Group's date of transition to IFRS, have not been restated to comply with IFRS 3 'Business Combinations'.



- (b) The Group has deemed the cumulative translation differences for foreign operations at the date of transition to be zero. Adjustments to give effect to this are recorded against opening equity. After the date of transition, translation differences arising on translation of foreign operations are recognised in other comprehensive income and included in a separate 'translation reserve' within equity.
- (c) The Group has elected to use facts and circumstances existing at the date of transition to determine whether an arrangement contains a lease.
- (d) The Group has used estimates under IFRS that are consistent with those applied under previous GAAP (with adjustment for accounting policy differences) unless there is objective evidence those estimates were in error.

### 35.3 Reconciliations between IFRS and UKGAAP

The following reconciliations provide a quantification of the effect of the transition to IFRS.

- Equity at 1 January 2007 (note 35.3.1)
- Net income at 31 December 2007 (note 35.3.2)
- Equity at 31 December 2007 (note 35.3.3)
- Net income at 31 December 2008 (note 35.3.4)
- Equity at 31 December 2008 (note 35.3.5)

#### 35.3.1 Reconciliation of equity at 1 January 2007

	Note	UKGAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
<b>Assets</b>				
Property, plant and equipment	A	11,139	(1,100)	10,039
Goodwill	B,C	2,489	(201)	2,288
Investments		150	-	150
Deferred income tax assets	D	408	22	430
Inventories	B,E	4,633	(2,492)	2,141
Trade and other receivables	E	3,760	1,961	5,721
Other current assets		597	-	597
Cash and cash equivalents		2,313	-	2,313
<b>Total assets</b>		<b>25,489</b>	<b>(1,810)</b>	<b>23,679</b>
<b>Equity</b>				
<b>Capital and reserves attributable to equity holders</b>				
Share capital		155	-	155
Share premium account		5,531	-	5,531
Other reserves	A	1,100	(1,100)	-
Retained earnings	C,D,F	811	(1,030)	(219)
<b>Total equity</b>		<b>7,597</b>	<b>(2,130)</b>	<b>5,467</b>
<b>Liabilities</b>				
Pension liability		474	-	474
Borrowings		8,653	-	8,653
Trade and other payables		3,470	-	3,470
Current income tax liabilities		160	-	160
Other liabilities	B	2,033	288	2,321
Provisions	F	3,102	32	3,134
<b>Total liabilities</b>		<b>17,892</b>	<b>320</b>	<b>18,212</b>
<b>Total equity and liabilities</b>		<b>25,489</b>	<b>(1,810)</b>	<b>23,679</b>

<b>Explanation of adjustments to equity at 1 January 2007</b>		<b>£'000</b>
A	Reversal of property revaluation following decision to adopt historic cost basis for property, plant and equipment.	(1,100)
B	Fair value adjustments made to finalise goodwill on acquisition: Increase to goodwill	819
	– additional stock provisions	(531)
	– other accruals.	(288)
C	Goodwill impairment on transition – see note 14.	(1,020)
D	Recognition of additional deferred tax asset relating to available tax losses.	22
E	Recognition of sales and costs of sale in respect of projects deferred in WIP. This adjustment had no profit impact.	–
F	Recognition of provision for holidays earned but not taken – not provided under UK GAAP	(32)
	<b>Total impact of IFRS restatement</b>	<b>(2,130)</b>

### 35.3.2 Reconciliation of net income for year ended 31 December 2007

	<b>Note</b>	<b>UKGAAP £'000</b>	<b>Effect of transition to IFRS £'000</b>	<b>IFRS £'000</b>
Revenue	A,C	24,726	933	25,659
Cost of sales	A,B	(18,943)	(1,036)	(19,979)
<b>Gross profit</b>		<b>5,783</b>	<b>(103)</b>	<b>5,680</b>
Other income	C	–	20	20
Operating charges	D	(5,078)	174	(4,904)
<b>Operating profit</b>		<b>705</b>	<b>91</b>	<b>796</b>
Finance costs – net	E	(625)	(597)	(1,222)
<b>Profit/(Loss) before tax</b>		<b>80</b>	<b>(506)</b>	<b>(426)</b>
Income tax expense	F	(146)	173	27
<b>Loss for the period</b>		<b>(66)</b>	<b>(333)</b>	<b>(399)</b>

<b>Explanation of adjustments to net income for the year ended 31 December 2007</b>		<b>£'000</b>
A	Accelerated recognition of revenue (£953,000) to match expenses incurred in year in relation to contracts which were not completed at year end. The costs of which under UK GAAP were deferred on the balance sheet within work-in-progress. A corresponding entry has been made to cost of sales to write off the expenses incurred during the period. This adjustment has no profit impact.	–
B	Additional provisions recorded in respect of loss-making contracts identified in the course of work performed to identify the revenue adjustment noted above.	(83)
C	Reclassification of rental income from revenue (£20,000). This adjustment has no profit impact.	–
D	Reversal of goodwill amortisation charge for the year.	174
E	Fair value losses on derivative financial instruments.	(597)
F	Deferred tax credit relating to recognition of additional tax losses and the temporary difference arising on recognition of derivative financial instruments.	173
	<b>Total impact of IFRS restatement</b>	<b>(333)</b>

35.3.3 Reconciliation of equity at 31 December 2007

	Note	UKGAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
<b>Assets</b>				
Property, plant and equipment	A	11,115	(1,100)	10,015
Intangible assets		861	–	861
Goodwill	B,C	3,134	(846)	2,288
Investments		150	–	150
Deferred income tax assets	D	964	195	1,159
Inventories	E,F,I	3,627	884	4,511
Trade and other receivables	E	5,653	953	6,606
Other current assets		1,052	–	1,052
Cash and cash equivalents		872	–	872
<b>Total assets</b>		<b>27,248</b>	<b>86</b>	<b>27,514</b>
<b>Equity</b>				
<b>Capital and reserves attributable to equity holders</b>				
Share capital		155	–	155
Share premium account		5,531	–	5,531
Other reserves	A	1,100	(1,100)	–
Foreign currency translation reserve	G	–	(49)	(49)
Retained earnings	C,D,F	172	(1,314)	(1,142)
<b>Total equity</b>		<b>6,958</b>	<b>(2,463)</b>	<b>4,495</b>
<b>Liabilities</b>				
Pension liability		975	–	975
Borrowings		12,833	–	12,833
Trade and other payables	I	2,549	1,920	4,469
Current income tax liabilities		24	–	24
Derivative financial liabilities	H	–	597	597
Other liabilities		3,086	–	3,086
Provisions	J	1,003	32	1,035
<b>Total liabilities</b>		<b>20,470</b>	<b>2,549</b>	<b>23,019</b>
<b>Total equity and liabilities</b>		<b>27,428</b>	<b>86</b>	<b>27,514</b>

**Explanation of adjustments to equity at 31 December 2007**

	£'000
A Reversal of property revaluation following decision to adopt historic cost basis for property, plant and equipment.	(1,100)
B Impairment of goodwill recognised on transition.	(1,020)
C Reversal of goodwill amortisation charge for the year.	174
D Recognition of additional deferred tax asset relating to available tax losses and the temporary difference arising on recognition of derivative financial instruments.	195
E Recognition of sales and costs of sale in respect of projects deferred in WIP (£953,000). This adjustment had no profit impact.	–
F Additional provisions recorded in respect of loss-making contracts identified in the course of work performed to identify the revenue adjustment noted above.	(83)
G Recording cumulative translation differences in a separate component within equity. This adjustment had no profit impact.	–
H Fair value losses on derivative financial instruments.	(597)
I Reclassification of payments on account (£1,920,000) – this adjustment has no profit impact	–
J Recognition of provision for holidays earned but not taken – not provided for under UK GAAP.	(32)
<b>Total impact of IFRS restatement</b>	<b>(2,463)</b>

35.3.4 Reconciliation of net income for year ended 31 December 2008

	Note	UKGAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
Revenue	A,B,C,D	30,227	2,113	32,340
Cost of sales	A,B,C	(25,018)	(2,561)	(27,579)
<b>Gross profit</b>		5,209	(448)	4,761
Other income	D	–	20	20
Operating charges	E,F	(7,403)	102	(7,301)
<b>Operating loss</b>		(2,194)	(326)	(2,520)
Finance costs – net	G,H	(962)	(2,934)	(3,896)
<b>Loss before tax</b>		(3,156)	(3,260)	(6,416)
Income tax expense	I	(783)	2,557	1,774
<b>Loss for the period</b>		(3,939)	(703)	(4,642)

**Explanation of adjustments to net income for the year ended 31 December 2008**

	£'000
A Accelerated recognition of revenue (£3,086,000) to match expenses incurred in year in relation to contracts which were not completed at year end. The costs of which under UK GAAP were deferred on the balance sheet within work-in-progress. A corresponding entry has been made to cost of sales to write off the expenses incurred during the period. This adjustment has no profit impact.	–
B Reversal of revenue and cost of sale adjustments recorded in prior period.	83
C Additional provisions recorded in respect of loss-making contracts identified in the course of work performed to identify the revenue adjustment noted above.	(511)
D Reclassification of other income (£20,000). This adjustment has no profit impact.	–
E Reversal of goodwill amortisation charge for the year.	174
F Increase in provision for holiday pay.	(72)
G Fair value losses on derivative financial instruments.	(2,784)
H Impairment of investment in China Pub Company.	(150)
I Deferred tax credit relating to recognition of additional tax losses and the temporary difference arising on recognition of derivative financial instruments.	2,557
Total impact of IFRS restatement	(703)

35.3.5 Reconciliation of equity at 31 December 2008

	Note	UKGAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
<b>Assets</b>				
Property, plant and equipment		10,341	–	10,341
Intangible assets		1,351	–	1,351
Goodwill	A,B	2,960	(672)	2,288
Investments	C	150	(150)	–
Deferred income tax assets	D	839	2,752	3,591
Inventories	E,F,H	6,958	(873)	6,085
Trade and other receivables	E	6,547	3,086	9,633
Other current assets		1,031	–	1,031
Cash and cash equivalents		989	–	989
<b>Total assets</b>		<b>31,166</b>	<b>4,143</b>	<b>35,309</b>
<b>Equity</b>				
<b>Capital and reserves attributable to equity holders</b>				
Share capital		155	–	155
Share premium account		5,531	–	5,531
Foreign currency translation reserve		–	676	676
Retained earnings		(2,917)	(2,742)	(5,659)
<b>Total equity</b>		<b>2,769</b>	<b>(2,066)</b>	<b>703</b>
<b>Liabilities</b>				
Pension liability		669	–	669
Borrowings		13,438	–	13,438
Trade and other payables	H	4,154	2,224	6,378
Current income tax liabilities		187	–	187
Derivative financial liabilities	G	–	3,381	3,381
Other liabilities		8,625	–	8,625
Provisions	F,I	1,324	604	1,928
<b>Total liabilities</b>		<b>28,397</b>	<b>6,209</b>	<b>34,606</b>
<b>Total equity and liabilities</b>		<b>31,166</b>	<b>4,143</b>	<b>35,309</b>
<b>Explanation of adjustments to equity at 31 December 2008</b>				<b>£'000</b>
A	Impairment of goodwill recognised on transition.			(1,020)
B	Reversal of goodwill amortisation.			348
C	Impairment of investment in China Pub Company.			(150)
D	Deferred tax credit relating to recognition of additional tax losses and the temporary difference arising on recognition of derivative financial instruments.			2,752
E	Accelerated recognition of revenue (£3,086,000) to match expenses incurred in year in relation to contracts which were not completed at year end. The costs of which under UK GAAP were deferred on the balance sheet within work-in-progress. A corresponding entry has been made to cost of sales to write off the expenses incurred during the period. This adjustment has no profit impact.			–
F	Additional provisions recorded in respect of loss-making contracts identified in the course of work performed to identify the revenue adjustment noted above.			(511)
G	Fair value losses on derivative financial instruments.			(3,381)
H	Reclassification of payments on account (£2,224,000) – this adjustment has no profit impact			–
I	Recognition of provision for holidays earned but not taken			(104)
	<b>Total impact of IFRS restatement.</b>			<b>(2,066)</b>

## Section B

### Report of the Reporting Accountants for the periods to 31 December 2007 and 2008

23 December 2009

#### **SOUTHBANK**

We report on the historical financial information of Southbank set out in Part III, Section 2. This financial information has been prepared for inclusion in the Prospectus dated 23 December 2009 of Nviro on the basis of the accounting policies set out on pages 153 to 162.

This report is required by 20.1 of Annex 1 to the PD Regulation and is given for the purpose of complying with that regulation and for no other purpose.

#### **Responsibilities**

Save for any responsibility arising under 20.1 of Annex 1 to the PD Regulation 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 20.1 of Annex 1 to the PD Regulation, consenting to its inclusion in the Prospectus.

The Directors and Proposed Directors of Nviro are responsible for preparing the financial information for the following periods:

- 12 months to 31 December 2007, audited and under IFRS
- 12 months to 31 December 2008, audited and under IFRS

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

#### **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 the significant estimates and judgements made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity'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 Prospectus dated 23 December 2009, a true and fair view of the state of affairs of Southbank as at the dates stated and of its profits, cash flows and changes in equity for the periods then ended in accordance with the basis of preparation set out in note 2.1 and in accordance with International Financial Reporting Standards as adopted by the European Union as described in note 2.1.

#### **Declaration**

For the purposes of Prospectus Rule 5.5.3R(2)(f) we are responsible for this report as part of the Prospectus 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 Prospectus in compliance with item 1.2 of annex 1 of the Prospectus Regulation.

Yours faithfully

**Grant Thornton UK LLP**

### SECTION 3 – Historical Financial Information of Southbank

Set out below is the financial information for the six month period to 30 June 2009, prepared under IFRS. The financial information for the six month period to 30 June 2009 was neither audited nor reviewed.

#### CONDENSED CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2009

##### CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

	Unaudited 6 months to June 2009 £'000	Unaudited 6 months to June 2008 £'000	Unaudited 12 months to December 2008 £'000
	Note		
Revenue	18,385	14,094	32,340
Cost of sales	(13,252)	(12,434)	(27,579)
<b>Gross profit</b>	<b>5,133</b>	<b>1,660</b>	<b>4,761</b>
Other Income	10	10	20
Operating charges	5 (3,861)	(3,434)	(7,301)
<b>Operating profit/(loss)</b>	<b>1,282</b>	<b>(1,764)</b>	<b>(2,520)</b>
Finance income	–	79	196
Finance costs	(97)	(856)	(4,092)
<b>Profit/(Loss) before taxation</b>	<b>1,185</b>	<b>(2,541)</b>	<b>(6,416)</b>
<b>Income tax expense</b>	<b>(1,090)</b>	<b>(285)</b>	<b>1,774</b>
<b>Profit/(Loss) for the period</b>	<b>95</b>	<b>(2,826)</b>	<b>(4,642)</b>
Basic profit/(loss) per share (pence)	0.01	(0.36)	(0.60)
Diluted profit/(loss) per share (pence)	0.01	(0.36)	(0.60)

##### CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	Unaudited 6 months to June 2009 £'000	Unaudited 6 months to June 2008 £'000	Unaudited 12 months to December 2008 £'000
Profit/(Loss) for the financial period	95	(2,826)	(4,642)
Other comprehensive income:			
Actuarial gain for the period on pension scheme	–	–	173
Deferred tax on actuarial movement on pension scheme	–	–	(48)
(Loss)/gain on translation of overseas subsidiaries	(304)	2	725
Other comprehensive(expense)/income, net of tax	(304)	2	850
Total comprehensive income for the period	(209)	(2,824)	(3,792)
Attributable to equity holders of the parent	(209)	(2,824)	(3,792)

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

	Unaudited As at 30 June 2009 £'000	Unaudited As at 30 June 2008 £'000	Unaudited As at 31 December 2008 £'000
<b>ASSETS</b>			
<b>Non-current</b>			
Goodwill	2,288	2,288	2,288
Other intangible assets	1,278	888	1,351
Property, plant and equipment	10,269	10,131	10,341
Deferred tax asset	3,128	1,160	3,591
Other receivables	125	515	98
Available for sale investments	–	150	–
	17,088	15,132	17,669
<b>Current</b>			
Derivatives	–	141	–
Inventories	3,640	2,001	6,085
Trade and other receivables	6,760	4,585	10,566
Cash and cash equivalents	15	181	989
	10,415	6,908	17,640
<b>Total current assets</b>	10,415	6,908	17,640
<b>Total assets</b>	27,503	22,040	35,309
<b>LIABILITIES</b>			
<b>Non-current</b>			
Pension and other employee obligations	669	975	669
Borrowings	9,900	10,043	10,010
	10,569	11,018	10,679
<b>Non-current liabilities</b>			
<b>Current</b>			
Financial liabilities – derivatives	1,734	771	6,378
Trade and other payables	5,035	2,010	4,154
Borrowings	4,856	1,429	3,428
Provisions	1,455	2,224	1,928
Current tax liabilities	236	260	187
Other liabilities	3,124	2,657	8,625
	16,440	9,351	23,927
<b>Current liabilities</b>	16,440	9,351	23,927
<b>Total Liabilities</b>	27,009	20,369	34,606
<b>EQUITY</b>			
Called-up equity share capital	155	155	155
Share premium account	5,531	5,531	5,531
Foreign Currency translation reserve	372	(47)	676
Retained earnings	(5,564)	(3,968)	(5,659)
	494	1,671	703
<b>Total Equity</b>	494	1,671	703
<b>Total Equity and liabilities</b>	27,503	22,040	35,309



## STATEMENT OF CHANGES IN EQUITY

	Share Capital £'000	Share Premium £'000	Currency Translation Adjustments £'000	Retained Earnings £'000	Total £'000
<b>Balance at 1 January 2008</b>	155	5,531	(49)	(1,142)	4,495
Loss for the financial period	–	–	–	(2,826)	(2,826)
Foreign exchange differences on retranslation of foreign subsidiaries	–	–	2	–	2
<b>Balance at 30 June 2008</b>	155	5,531	(47)	(3,968)	1,671
Total comprehensive expense	–	–	2	(2,826)	(2,824)
<b>Balance at 1 January 2008</b>	155	5,531	(49)	(1,142)	4,495
Loss for the period	–	–	–	(4,642)	(4,642)
Actuarial gains and losses on pension scheme	–	–	–	173	173
Deferred tax thereon	–	–	–	(48)	(48)
Foreign exchange differences on retranslation of foreign subsidiaries	–	–	725	–	725
<b>Balance at 31 December 2008</b>	155	5,531	676	(5,659)	703
Total comprehensive income	–	–	725	(4,517)	(3,792)
<b>Balance at 1 January 2009</b>	155	5,531	676	(5,659)	703
Loss for the financial period	–	–	–	95	95
Foreign exchange differences on retranslation of foreign subsidiaries	–	–	(304)	–	(304)
<b>Balance at 30 June 2009</b>	155	5,531	372	(5,564)	494
Total comprehensive income	–	–	(304)	95	(209)

## CONDENSED CONSOLIDATED INTERIM CASHFLOW STATEMENTS

	Unaudited 6 months to June 2009 £'000	Unaudited 6 months to June 2008 £'000	Unaudited 12 months to December 2008 £'000
<b>Cash flows from operating activities</b>			
Profit/(loss) after tax	95	(2,826)	(4,642)
Adjustments for:			
Depreciation of tangible fixed assets	222	215	482
Amortisation of intangible assets	73	42	92
Finance costs	97	856	4,092
Interest income	–	(79)	(196)
Tax charge	1,090	285	(1,774)
Foreign Exchange differences	(304)	2	559
Changes in working capital			
Movement in inventories	221	590	(1,270)
Movement in loans and receivables	3,758	2,435	(3,006)
Movement in trade and other payables	(6,239)	(3,168)	5,743
Movement in provisions	(473)	1,189	893
Cash generated/used from operations	(1,460)	(459)	973
Taxation Paid	(646)	(50)	(544)
Interest paid	(515)	(435)	(923)
<b>Net cash used in operating activities</b>	<b>(2,621)</b>	<b>944</b>	<b>(494)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	(150)	(331)	(590)
Purchase of intangible assets	–	(69)	(582)
Deferred consideration relating to acquisition of Hayward Tyler Group	(81)	(350)	(350)
Interest received	–	79	196
<b>Net cash used in investing activities</b>	<b>(231)</b>	<b>(671)</b>	<b>(1,326)</b>
<b>Cash flows from financing activities</b>			
Repayment of bank loans	(147)	(424)	(245)
Repayment of finance leases	(22)	(81)	(48)
<b>Net cash used in financing activities</b>	<b>(169)</b>	<b>(505)</b>	<b>(293)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(3,021)</b>	<b>(2,120)</b>	<b>(2,113)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>(1,241)</b>	<b>872</b>	<b>872</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>(4,262)</b>	<b>(1,248)</b>	<b>(1,241)</b>

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## **NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS**

### **1. Nature of Operations and General Information**

The primary business activity of Southbank UK and subsidiaries ('the Group') plc is niche engineering.

Southbank UK plc is the Group's ultimate parent company. It is incorporated in and domiciled in Great Britain. The address of Southbank UK plc's registered office is 19 Crown Passage, London, United Kingdom. Southbank UK plc's shares are listed on the Channel Island Stock Exchange (CISX).

Southbank UK plc's consolidated interim financial statements are presented in Pounds Sterling (£), which is also the functional currency of the ultimate parent company.

These consolidated condensed interim financial statements have been approved for issue by the Board of Directors on 11 December 2009

The financial information set out in this interim report does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. The Group's statutory financial statements for the year ended 31 December 2008, prepared under UK GAAP, have been filed with the Registrar of Companies. The auditor's report on those financial statements was unqualified and did not contain a statement under Section 237(2) of the Companies Act 1985.

### **2. Basis of Preparation**

These interim condensed consolidated financial statements are for the six months ended 30 June 2009. These interim financial statements have been prepared for the purpose of inclusion in this document in accordance with the recognition and measurement principles of International Financial Reporting Standards (IFRS) as adopted by the European Union, in order to comply with the A.I.M rules. These interim financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated historical financial information of the Group for the year ended 31 December 2008, included in this document.

These interim financial statements have been prepared under the historical cost convention, except for revaluation of financial instruments. The principal accounting policies of the Group are set out in the historical financial information for the years ended 31 December 2007 and 2008. The policies have remained unchanged from the previous annual report apart from the following: the Group has adopted IAS1 (Revised 2007) Presentation of Financial Statements and IFRS 8 Operating Segments. The effect of adopting these two standards has only impacted the presentation of results under IFRS and not on the recognition or measurement of assets or liabilities. Following the adoption of IAS 1, some items that were recognised directly in equity are now recognised in other comprehensive income. IAS 1(Revised 7) affects the presentation of owner changes in equity and introduces a "Statement of Comprehensive Income". In accordance with the new standard the entity does not provide a "Statement of Recognised Income and Expense" (SORIE) as was presented in the 2008 consolidated financial statements. Further a "Statement of Changes in Equity" is prepared. The accounting policies have been applied consistently across the Group.

The interim financial information in this report has neither been audited nor reviewed by the company's auditors.

### **3. Segment Analysis**

Southbank UK plc operates two main business segments: Manufacturing and Services. These two segments are those for which separate financial information is available that is evaluated by the chief operating decision maker and are consistent with the business segments identified in accordance with the Group's previous accounting policy for segment reporting. The activities undertaken by the Manufacturing segment include the manufacture of pumps. The activities of the Services division include the servicing of a wide range of pumps.

	Manufacturing £000	Services £000	Shared Costs and Assets £000	Group Elimination £000	Total £000
<b>30 June 2009</b>					
Revenues from external customers	7,573	11,575	7	(770)	18,385
Profit/(loss) before tax	676	3,083	(2,748)	174	1,185
<b>30 June 2008</b>					
Revenues from external customers	5,873	8,625	8	(322)	14,094
Profit/(loss) before tax	(3,934)	2,347	(1,528)	574	(2,541)
<b>31 December 2008</b>					
Revenues from external customers	14,749	18,161	37	(607)	32,340
Profit/(loss) before tax	(7,027)	4,029	(4,638)	1,220	(6,416)

#### 4. Intangible Assets

Intangible assets recognised in the statement of financial position can be analysed as follows:

	Unaudited 6 months to June 2009 £'000	Unaudited 6 months to June 2008 £'000	Unaudited 12 months to December 2008 £'000
Balance as at start of period	1,351	861	861
Additions	–	69	582
Amortisation	(73)	(42)	(92)
Balance as at end of period	1,278	888	1,351

#### 5. Other Operating Expenses

	Unaudited 6 months to June 2009 £'000	Unaudited 6 months to June 2008 £'000	Unaudited 12 months to December 2008 £'000
Sales costs	1,387	1,204	2,319
Administrative expenses	2,176	1,963	4,408
Depreciation and amortisation	295	257	573
Research and development	3	10	–
	3,861	3,434	7,301

#### 6. Cash and Cash Equivalents

Cash and cash equivalents for cash flow purposes included the following components:

	Unaudited 6 months to June 2009 £'000	Unaudited 6 months to June 2008 £'000	Unaudited 12 months to December 2008 £'000
Cash at bank and in hand	15	181	989
Overdraft	(4,277)	(1,429)	(2,230)
Cash and cash equivalents	(4,262)	(1,248)	(1,241)

#### 7. Earnings Per Share

The calculation of the basic earnings per share is based on the earnings attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year. Shares held in employee share trusts are treated as cancelled for the purposes of this calculation.

The calculation of diluted earnings per share is based on the basic earnings per share, adjusted to allow for the issue of shares and the post tax effect of dividends and/or interest, on the assumed conversion of all dilutive options and other dilutive potential ordinary shares.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below.

	Unaudited 6 months to June 2009 £'000	Unaudited 6 months to June 2008 £'000	Unaudited 12 months to December 2008 £'000
Profit/(Loss) on ordinary activities after taxation	95	(2,826)	(4,642)
Weighted average number of ordinary shares in issue	774,880,175	774,880,175	774,880,175
Basic profit/(loss) per share	0.01	(0.36)	(0.60)
Dilutive effect of weighted average options	170,095,648	170,095,648	170,095,648
Total of weighted average shares together with dilutive effect of weighted options	944,975,823	944,975,823	944,975,823
Diluted profit/(loss) per share	0.01	(0.36)	(0.60)

The effect of options is not taken into account in determining dilutive earnings per share in both comparatives because they were anti-dilutive

#### **8. Dividends**

The Directors have not recommended a dividend (first six months of 2008: nil, 2008: nil).

#### **9. Contingencies**

There have been no changes in contingent liabilities or contingent assets since 31 December 2008.

#### **10. Subsequent Events**

No material events have occurred subsequent to the end of the interim reporting period.

**PART IV**

**PROFORMA FINANCIAL INFORMATION**

**SECTION A**

The following is an unaudited pro forma statement of the consolidated net assets of the Company post the Acquisition and the Placing and has been prepared in accordance with the notes below.

The unaudited pro forma statement of the consolidated net assets has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and therefore does not represent the actual financial position or results of the Company. Its purpose is to illustrate the effect on the consolidated net assets of Nviro as if the Acquisition and Placing had been effected on 31 March 2009.

**PRO FORMA STATEMENT OF NET ASSETS OF THE ENLARGED GROUP**

	Nviro as at 31 March 2009 Unaudited (note 1) £000	Adjustments relating to the acquisition of Southbank as at 30 June 2009 Unaudited (note 2) £000	Transaction adjustments relating to the Placing and Offer (note 3) £000	Consolidation adjustments (note 4) £000	Group adjusted pro forma net assets £000
<b>ASSETS</b>					
<b>Fixed Assets</b>					
Intangible assets	1,931	3,566		(2,529)	2,968
Tangible assets	911	10,269			11,180
Deferred tax asset	0	3,128			3,128
Other receivables	0	125			125
Investments	0	0	5,000	(5,000)	0
	2,842	17,088	5,000	(7,529)	17,401
<b>Current Assets</b>					
Inventories	0	3,640			3,640
Trade and other receivables	295	6,760			7,055
Cash and cash equivalents	5,953	15	2,405		8,373
	6,248	10,415	2,405		19,068
<b>Total Assets</b>	9,090	27,503	7,405	(7,529)	36,469
<b>LIABILITIES</b>					
<b>Non-current Liabilities</b>					
Pension and other employee obligations	0	(669)			(699)
Borrowings	0	(9,900)			(9,900)
<b>Non-current Liabilities</b>	0	(10,569)	0	0	(10,569)
<b>Current Liabilities</b>					
Derivatives	0	(1,734)			(1,734)
Trade and other payables	(1,518)	(5,035)			(6,553)
Borrowings	0	(4,856)			(4,856)
Provisions	0	(1,455)			(1,455)
Current tax liabilities	0	(236)			(236)
Other liabilities	0	(3,124)			(3,124)
Interests in joint ventures	(43)	0			(43)
	(1,561)	(16,440)	0	0	(18,001)
<b>Total Liabilities</b>	(1,561)	(27,009)	0	0	(28,570)
<b>Net Assets</b>	7,529	494	7,405	(7,529)	7,899

**Notes:**

1. The consolidated net assets of Nviro have been extracted, without material adjustment, from the unaudited interim consolidated financial statements of Nviro for the six months ended 31 March 2009. The financial statements of Nviro are prepared in accordance with International Financial Reporting Standards as adopted by the EU.
2. The consolidated net assets of Southbank have been extracted, without material adjustment, from the unaudited interim consolidated financial statements of Southbank for the six months ended 30 June 2009. The financial statements of Southbank are prepared in accordance with International Financial Reporting Standards as adopted by the EU.
3. The transaction adjustment assumes a £4,000,032 share placing (less associated transaction and placing costs of £1.56 million) and a £5,000,000 investment in Nviro.
4. The consolidation adjustment relates to the reverse takeover consolidation and consequential transactions, specifically goodwill of -£2,529,000 being the difference between the price paid of £5,000,000 for the investment in Nviro and the net asset position of Nviro at 31 March 2009.
5. No trading has been taken into account since 31 March and 30 June 2009 for Nviro and Southbank respectively.
6. As the results of Southbank for the year ended 31 December 2008 indicated a loss after taxation of £4,642,000, if the Placing and acquisition of Southbank had been undertaken on 1 October 2007, the loss after taxation reported within Nviro for the year ended 30 September 2008 would have increased accordingly.

## SECTION B

Letter from Grant Thornton Reporting Accountants LLP in relation to the unaudited pro forma financial information of the Company

The Directors and Proposed Directors

Nviro Cleantech plc

Burleigh Manor

Peel Road

Douglas

Isle of Man

IM1 5EP

23 December 2009

Dear Sirs

### **Pro forma financial information of Nviro Cleantech plc (the Company)**

We report on the pro forma statement of net assets (the "Pro forma financial information") set out in Part IV of the Prospectus dated 23 December 2009, which has been prepared on the basis described in Part IV, Section A, for illustrative purposes only, to provide information about how the transaction might have affected the financial information presented on the basis of the accounting policies adopted by the Company in preparing the financial statements for the period ended 31 March 2009.

This report is required as agreed between us in writing and is given for the purpose of complying with that requirement and for no other purpose.

### **Responsibilities**

Save for any responsibility arising under item 5.5.3(f) of the Prospectus Rules to the PD Regulation 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 accordance with this report or our statement required by and given solely for the purposes of complying with item 23.1 of Annex 1 of the Prospectus Regulation, consenting to its inclusion in the Prospectus.

It is the responsibility of the Directors of the Company to prepare the pro forma financial information in accordance with paragraph 20.2 of Annex I of the Prospectus Regulation.

It is our responsibility to form an opinion as required by paragraph 7 of Annex II of the PD Regulation as to the proper compilation of the Pro forma financial information and to report that opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro forma financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

### **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. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro forma financial information with the directors of the Company.

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 reasonable assurance that the Pro forma financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.



Our work has not been carried out in accordance with auditing standards generally accepted in the United States of America or other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

**Opinion**

In our opinion:

- (a) the Pro forma financial information has been properly compiled on the basis stated; and
- (b) such basis is consistent with the accounting policies of the Company.

**Declaration**

For the purposes of Prospectus Rule 5.5.3R(2)(f) we are responsible for this report as part of the Prospectus 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 Prospectus in compliance with item 1.2 of annex I of the PD Regulation.

Yours faithfully

**Grant Thornton UK LLP**

## PART V

### CONDITIONS AND FURTHER TERMS OF THE OFFER

#### Part A

##### Conditions of the Offer

The Offer is subject to the following conditions:

- (a) valid acceptances being received (and not, where permitted, withdrawn) by not later than 1.00 p.m. (London time) on 18 January 2010 (or such later time(s) and/or date(s) as Nviro may, subject to the rules of the City Code, decide) in respect of not less than 75 per cent. (or such lower percentage as Nviro may decide) in nominal value of the Southbank Shares to which the Offer relates, provided that this condition will not be satisfied unless Nviro and/or its wholly owned subsidiaries shall have acquired or agreed to acquire (whether pursuant to the Offer or otherwise) Southbank Shares carrying in aggregate more than 50 per cent. of the voting rights then normally exercisable at a general meeting of Southbank, including for this purpose (except to the extent otherwise agreed by the Panel) any such voting rights attaching to any Southbank Shares that are unconditionally allotted or issued before the Offer becomes or is declared unconditional as to acceptances, whether pursuant to the exercise of any outstanding subscription or conversion rights or otherwise; and for this purpose:
  - (i) the expression "Southbank Shares to which the Offer relates" shall be construed in accordance with sections 979 to 982 of the 2006 Act;
  - (ii) Southbank Shares which have been unconditionally allotted shall be deemed to carry the voting rights which they will carry upon issue; and
  - (iii) valid acceptances shall be deemed to have been received in respect of Southbank Shares which are treated for the purposes of section 979 of the 2006 Act as having been acquired or contracted to be acquired by Nviro by virtue of acceptances of the Offer;
- (b) the passing by Nviro Shareholders of resolutions to be proposed at a general meeting of Nviro to approve: the Acquisition, all resolutions necessary for Nviro to issue the Consideration Shares and the Placing Shares (including relating to the increase in Nviro's authorised share capital, the grant of power of allotment and the disapplication of pre-emption rights in respect of the allotment and issue of Consideration Shares and the Placing Shares, and for the future grant of options), a 1 for 10 consolidation of share capital, to amend the Articles by removing certain borrowing restrictions and the restriction on directors' fees and a change of name to Specialist Energy Group plc;
- (c) the admission of the Consideration Shares to trading on AIM becoming effective in accordance with the AIM Rules for Companies;
- (d) no Third Party having intervened and there not continuing to be outstanding any statute, regulation or order of any Third Party in each case which would or might reasonably be expected (in any case to an extent which is material in the context of the Nviro Group or the Southbank Group, as the case may be, taken as a whole) to:
  - (i) make the Offer, its implementation or the acquisition or proposed acquisition by Nviro or any member of the Wider Nviro Group of any shares or other securities in, or control or management of, Southbank or any member of the Wider Southbank Group void, illegal or unenforceable in any jurisdiction, or otherwise directly or indirectly restrain, prevent, prohibit, restrict, or delay the same or impose additional conditions or obligations with respect to the Offer or such acquisition, or otherwise impede, challenge or interfere with the Offer or such acquisition, or require amendment to the terms of the Offer or the acquisition or proposed acquisition of any Southbank Shares or the acquisition of control of Southbank or the Wider Southbank Group by Nviro or any member of the Wider Nviro Group.
  - (ii) limit or delay the ability of any member of the Wider Nviro Group or any member of the Wider Southbank Group to acquire or to hold or to exercise effectively, directly or indirectly, all or any rights of ownership in respect of shares or other securities in, or to exercise voting

- or management control over, any member of the Wider Southbank Group or any member of the Wider Nviro Group;
- (iii) require, prevent or delay the divestiture or alter the terms envisaged for any proposed divestiture by any member of the Wider Nviro Group of any shares or other securities in Southbank;
  - (iv) require, prevent or delay the divestiture or alter the terms envisaged for any proposed divestiture by any member of the Wider Nviro Group or by any member of the Wider Southbank Group of all or any portion of their respective businesses, assets or properties or limit the ability of any of them to conduct any of their respective businesses or to own or control any of their respective assets or properties or any part thereof;
  - (v) except pursuant to Chapter 3 of Part 28 of the 2006 Act, require any member of the Wider Nviro Group or of the Wider Southbank Group to acquire, or to offer to acquire, any shares or other securities (or the equivalent) in any member of either group owned by any third party;
  - (vi) limit the ability of any member of the Wider Nviro Group or of the Wider Southbank Group to conduct or integrate or co-ordinate its business, or any part of it, with the businesses or any part of the businesses of any other member of the Wider Nviro Group or of the Wider Southbank Group;
  - (vii) result in any member of the Wider Southbank Group or the Wider Nviro Group ceasing to be able to carry on business under any name under which it presently does so; or
  - (viii) otherwise adversely affect the business, assets, profits, financial or trading position or prospects of any member of the Wider Southbank Group or of the Wider Nviro Group, and all applicable waiting and other time periods during which any Third Party could intervene under the laws of any relevant jurisdiction having expired, lapsed or been terminated;
- (e) all notifications and filings which are necessary or are reasonably considered appropriate by Nviro having been made, all appropriate waiting and other time periods (including any extensions of such waiting and other time periods) under any applicable legislation or regulation of any relevant jurisdiction having expired, lapsed or been terminated (as appropriate) and all statutory or regulatory obligations in any relevant jurisdiction having been complied with in each case in connection with the Offer or the acquisition or proposed acquisition of any shares or other securities in, or control of, Southbank or any other member of the Wider Southbank Group by any member of the Wider Nviro Group or the carrying on by any member of the Wider Southbank Group of its business;
- (f) all Authorisations which are necessary or are reasonably considered necessary or appropriate by Nviro in any relevant jurisdiction for or in respect of the Offer or the acquisition or proposed acquisition of any shares or other securities in, or control of, Southbank or any other member of the Wider Southbank Group by any member of the Wider Nviro Group or the carrying on by any member of the Wider Southbank Group of its business having been obtained, in terms and in a form reasonably satisfactory to Nviro, from all appropriate Third Parties or from any persons or bodies with whom any member of the Wider Southbank Group has entered into contractual arrangements in each case where the absence of such Authorisation would have a material adverse effect on the Southbank Group taken as a whole and all such Authorisations remaining in full force and effect and there being no notice or intimation of any intention to revoke, suspend, restrict, modify or not to renew any of the same;
- (g) except as publicly announced by Southbank (by the delivery of an announcement to a Regulatory Information Service) prior to 23 December 2009 or as fairly disclosed in writing to Nviro by or on behalf of Southbank prior to 23 December 2009, there being since 31 December 2008, no provision of any arrangement, agreement, licence, permit, franchise or other instrument to which any member of the Wider Southbank Group is a party, or by or to which any such member or any of its assets is or are or may be bound, entitled or subject or any circumstance, which, in each case as a consequence of the Offer or the acquisition or proposed acquisition of any shares or other securities in, or control of, Southbank or any other member of the Wider Southbank Group by any member of the Wider Nviro Group or otherwise, could or might reasonably be expected to result in, (in any case to an extent which is or would be material in the context of the Southbank Group taken as a whole):

- (i) any monies borrowed by or any other indebtedness or liabilities (actual or contingent) of, or any grant available to, any member of the Wider Southbank Group being or becoming repayable or capable of being declared repayable immediately or prior to its stated repayment date or the ability of any member of the Wider Southbank Group to borrow monies or incur any indebtedness being withdrawn or inhibited or becoming capable of being withdrawn;
  - (ii) the creation or enforcement of any mortgage, charge or other security interest over the whole or any part of the business, property, assets or interests of any member of the Wider Southbank Group or any such mortgage, charge or other security interest (wherever created, arising or having arisen) becoming enforceable;
  - (iii) any such arrangement, agreement, licence, permit, franchise or instrument, or the rights, liabilities, obligations or interests of any member of the Wider Southbank Group thereunder, being, or becoming capable of being terminated or adversely modified or affected or any adverse action being taken or any obligation or liability arising thereunder;
  - (iv) any asset or interest of any member of the Wider Southbank Group being or falling to be disposed of or ceasing to be available to any member of the Wider Southbank Group or any right arising under which any such asset or interest could be required to be disposed of or could cease to be available to any member of the Wider Southbank Group otherwise than in the ordinary course of business;
  - (v) any member of the Wider Southbank Group ceasing to be able to carry on business under any name under which it presently does so;
  - (vi) the creation of liabilities (actual or contingent) by any member of the Wider Southbank Group;
  - (vii) the rights, liabilities, obligations or interests of any member of the Wider Southbank Group under any such arrangement, agreement, licence, permit, franchise or other instrument or the interests or business of any such member in or with any other person, firm, company or body (or any arrangement or arrangements relating to any such interests or business) being terminated, adversely modified or affected; or
  - (viii) the financial or trading position or the prospects of the value of any member of the Wider Southbank Group being prejudiced or adversely affected, and no event having occurred which, under any provision of any such arrangement, agreement, licence, permit or other instrument, could result in any of the events or circumstances which are referred to in paragraphs (i) to (viii) of this condition (g) in any case to an extent which is or would be material in the context of the Southbank Group taken as a whole;
- (h) since 31 December 2008 and except as disclosed in Southbank's annual report and accounts for the year then ended or in Southbank's interim results for the six months ended 30 June 2009 or as otherwise publicly announced by Southbank (by the delivery of an announcement to a Regulatory Information Service) prior to 23 December 2009 or as otherwise fairly disclosed in writing to Nviro by or on behalf of Southbank prior to 23 December 2009 no member of the Wider Southbank Group having:
- (i) issued or agreed to issue, or authorised the issue of, additional shares of any class, or securities convertible into or exchangeable for, or rights, warrants or options to subscribe for or acquire, any such shares or convertible securities other than as between Southbank and wholly-owned subsidiaries of Southbank or pursuant to the exercise of options in Southbank;
  - (ii) purchased or redeemed or repaid any of its own shares or other securities or reduced or made any other change to any part of its share capital;
  - (iii) recommended, declared, paid or made any bonus, dividend or other distribution whether payable in cash or otherwise (other than to Southbank or a wholly-owned subsidiary of Southbank);
  - (iv) made or authorised any change in its loan capital;
  - (v) (other than any acquisition or disposal in the ordinary course of business or a transaction between Southbank and a wholly-owned subsidiary of Southbank) merged with, demerged or

- acquired or disposed of or transferred, mortgaged or charged or created any security interest over any assets or any right, title or interest in any assets (including shares in any undertaking and trade investments) or authorised the same (which in any case is material in the context of the Southbank Group taken as a whole);
- (vi) issued or authorised the issue of, or made any change in or to, any debentures or (except in the ordinary course of business) incurred or increased any indebtedness or liability (actual or contingent) which in any case is material in the context of the Southbank Group taken as a whole;
  - (vii) entered into, varied or authorised any agreement, transaction, arrangement or commitment (whether in respect of capital expenditure or otherwise) which:
    - A. is of a long term, onerous or unusual nature or magnitude or which is or could involve an obligation of such nature or magnitude; or
    - B. could restrict the business of any member of the Wider Southbank Group; or
    - C. is other than in the ordinary course of business, and which in any case is material in the context of the Southbank Group taken as a whole;
  - (viii) entered into, implemented, effected or authorised any merger, demerger, reconstruction, amalgamation, scheme, commitment or other transaction or arrangement in respect of itself or another member of the Wider Southbank Group otherwise than in the ordinary course of business which in any case is material in the context of the Southbank Group taken as a whole;
  - (ix) entered into or varied the terms of, any contract, agreement or arrangement with any of the directors or senior executives of any member of the Wider Southbank Group;
  - (x) taken any corporate action or had any legal proceedings instituted or threatened against it or petition presented or order made for its winding-up (voluntarily or otherwise), dissolution or reorganisation or for the appointment of a receiver, administrator, administrative receiver, trustee or similar officer of all or any material part of its assets and revenues or any analogous proceedings in any jurisdiction or appointed any analogous person in any jurisdiction which in any case is material in the context of the Southbank Group taken as a whole;
  - (xi) been unable, or admitted in writing that it is unable, to pay its debts or having stopped or suspended (or threatened to stop or suspend) payment of its debts generally or ceased or threatened to cease carrying on all or a substantial part of its business in any case with a material adverse effect on the Southbank Group taken as a whole;
  - (xii) waived or compromised any claim which is material in the context of the Southbank Group taken as a whole;
  - (xiii) made any alteration to its memorandum or articles of association which is material in the context of the Offer;
  - (xiv) entered into any agreement, commitment or arrangement or passed any resolution or made any offer (which remains open for acceptance) or proposed or announced any intention with respect to any of the transactions, matters or events referred to in this condition (h);
- (i) since 31 December 2008 and except as disclosed in Southbank's annual report and accounts for the year then ended or in Southbank's interim results for the six months ended 30 June 2009 or as otherwise publicly announced by Southbank (by the delivery of an announcement to a Regulatory Information Service) prior to 23 December 2009 or as otherwise fairly disclosed in writing to Nviro by or on behalf of Southbank prior to 23 December 2009:
- (i) there having been no adverse change or deterioration in the business, assets, financial or trading positions or profit or prospects of any member of the Wider Southbank Group which in any case is material in the context of the Southbank Group taken as a whole;
  - (ii) no contingent or other liability of any member of the Wider Southbank Group having arisen or become apparent or increased which in any case is material in the context of the Southbank Group taken as a whole;

- (iii) no litigation, arbitration proceedings, prosecution or other legal proceedings to which any member of the Wider Southbank Group is or may become a party (whether as plaintiff, defendant or otherwise) having been threatened, announced, implemented or instituted by or against or remaining outstanding against or in respect of any member of the Wider Southbank Group which in any case is material in the context of the Southbank Group taken as a whole; and
  - (iv) (other than as a result of the Offer) no enquiry or investigation by, or complaint or reference to, any Third Party having been threatened, announced, implemented, instituted by or against or remaining outstanding against or in respect of any member of the Wider Southbank Group which in any case is material in the context of the Southbank Group taken as a whole;
- (j) Nviro not having discovered:
- (i) that any financial or business or other information concerning the Wider Southbank Group disclosed at any time by or on behalf of any member of the Wider Southbank Group, whether publicly, to any member of the Wider Nviro Group or otherwise, is misleading or contains any misrepresentation of fact or omits to state a fact necessary to make any information contained therein not misleading and which was not subsequently corrected before 23 December 2009 by disclosure either publicly or otherwise to Nviro to an extent which in any case is material in the context of the Southbank Group as a whole;
  - (ii) that any member of the Wider Southbank Group is subject to any liability (actual or contingent) which is not disclosed in Southbank's annual report and accounts for the financial year ended 31 December 2008 and which in any case is material in the context of the Southbank Group taken as a whole; or
  - (iii) any information which affects the import of any information disclosed at any time by or on behalf of any member of the Wider Southbank Group to an extent which is material in the context of the Southbank Group taken as a whole;

For the purpose of these conditions:

- “**Third Party**” means any government, government department or governmental, quasi-governmental, supranational, statutory, regulatory or investigative body, authority (including any national anti-trust or merger control authority), court, trade agency, association, institution or professional or environmental body or any other person or body whatsoever in any relevant jurisdiction;  
a Third Party shall be regarded as having “**intervened**” if it has decided to take, institute, implement or threaten any action, proceeding, suit, investigation, enquiry or reference or made, proposed or enacted any statute, regulation, decision or order or taken any measures or other steps or required any action to be taken or information to be provided or otherwise having done anything and “**intervene**” shall be construed accordingly;
- “**Authorisations**” means authorisations, orders, grants, recognitions, determinations, certificates, confirmations, consents, licences, clearances, provisions and approvals;
- “**Wider Nviro Group**” means Nviro and its subsidiaries and subsidiary undertakings and associated undertakings (including any company in which any member of the Nviro Group is interested or any undertaking in which Nviro and such undertakings (aggregating their interests) have a direct or indirect interest in 20 per cent. or more of the voting equity capital of an undertaking); and
- “**Wider Southbank Group**” means Southbank and its subsidiaries and subsidiary undertakings and associated undertakings (including any company in which any member of the Southbank Group is interested or any undertaking in which Southbank and such undertakings (aggregating their interests) have a direct or indirect interest in 20 per cent. or more of the voting equity capital of an undertaking).

Subject to the requirements of the Panel, Nviro reserves the right to waive, all or any of the above conditions, in whole or in part, except condition (a).

Conditions (b) to (j) (inclusive) must be fulfilled, or (if capable of waiver) be waived by midnight on the 21st day after the later of the first closing date of the Offer and the date on which condition (a) is fulfilled (or in each case such later date as Nviro may, with the consent of the Panel, decide), failing which the Offer will lapse. Nviro shall be under no obligation to waive (if capable of waiver), to determine to be or remain satisfied or to treat as fulfilled any of conditions (b) to (j) (inclusive) by a date earlier than the latest date specified above for the fulfilment of that condition.

If the Panel requires Nviro to make an offer for Southbank Shares under the provisions of Rule 9 of the City Code, Nviro may make such alterations to the conditions of the Offer, including to condition (a), as are necessary to comply with the provisions of that Rule.

If the Offer lapses it will cease to be capable of further acceptance. Southbank Shareholders who have accepted the Offer and Nviro shall then cease to be bound by acceptances delivered on or before the date on which the Offer lapses.

## **Part B**

### **Further terms of the Offer**

The following further terms apply to the Offer, unless the contrary is expressed or the context requires otherwise. Unless the context requires otherwise, any reference in Part B, Part C or Part D of this Appendix I and in the Form of Acceptance to:

- (a) the “Offer” includes any revision, variation, renewal or extension of the Offer;
- (b) the “acceptance condition” means the condition set out in paragraph 1(a) of Part A of this Appendix I;
- (c) the “Offer becoming unconditional” means the acceptance condition becoming or being declared satisfied whether or not any other condition of the Offer remains to be fulfilled and references to the Offer having become or not become unconditional shall be construed accordingly;
- (d) “acceptances of the Offer” includes deemed acceptances of the Offer; and
- (e) the “Offer Period” means, in relation the Offer, the period commencing on 20 November 2009 until the latest of:
  - (i) 1.00 p.m. on 18 January 2010;
  - (ii) the time and date when the Offer lapses; or
  - (iii) the time and date when the Offer becomes unconditional.

#### **1. ACCEPTANCE PERIOD**

- (a) The Offer will initially be open for acceptance until 1.00 p.m. on 18 January 2010. Although no revision is envisaged, if the Offer is revised it will remain open for acceptance for a period of at least 14 days (or such other period as the Panel may permit) from the date on which written notification of the revision is posted to Southbank Shareholders. Except with the Panel’s consent, no revision of the Offer may be made or posted after 21 February 2010 or, if later, the date falling 14 days before the last date the Offer can become unconditional.
- (b) The Offer, whether revised or not, shall not (except with the Panel’s consent) be capable of becoming unconditional after midnight on 21 February 2010 (or any earlier time and/or date beyond which Nviro has stated that the Offer will not be extended unless Nviro has, where permitted, withdrawn that statement or extended the Offer beyond the stated earlier date), nor of being kept open for acceptance after that time and date unless it has previously become unconditional, provided that Nviro reserves the right, with the Panel’s consent, to extend the Offer to a later time(s) and/or date(s). Except with the Panel’s consent, Nviro may not, for the purpose of determining whether the acceptance condition has been satisfied, take into account acceptances received or purchases of Southbank Shares made after 1.00 p.m. on 21 February 2010 (or any earlier time and/or date beyond which Nviro has stated that the Offer will not be extended unless where permitted, it has withdrawn that statement or extended the offer beyond the stated earlier date) or, if the Offer is so extended, any such later time(s) and/or date(s) as may be agreed with the Panel. If the latest time at which the Offer may become unconditional is extended beyond midnight on 21 February 2010, acceptances received and purchases of Southbank Shares made in respect of which relevant documents are received by Share Registrars after 1.00 p.m. on 21 February 2010 may (except where the Code otherwise permits) only be taken into account with the Panel’s agreement.
- (c) If the Offer becomes unconditional, it will remain open for acceptance for not less than 14 days from the date on which it would otherwise have expired. If the Offer has become unconditional and it is stated by or on behalf of Nviro that the Offer will remain open until further notice, or if the Offer will remain open beyond midnight on 21 February 2010, then not less than 14 days’ notice in writing will be given, before closing the Offer, to those Southbank Shareholders who have not accepted the Offer.
- (d) If a competitive situation arises after Nviro has made a “no extension” statement and/or a “no increase” statement in relation to the Offer, Nviro may, if it specifically reserved the right to do so at



the time such statement was made, or otherwise with the Panel's consent, withdraw that statement and extend or revise the Offer (as appropriate) provided that it complies with the requirements of the Code and, in particular, that:

- (i) it announces such withdrawal and that it is free to extend or revise the Offer (as appropriate) as soon as possible (and in any event within four Business Days of the firm announcement of the competing offer or other competitive situation) and Southbank Shareholders are informed in writing at the earliest practicable opportunity or, in the case of Southbank Shareholders with registered addresses outside the UK or whom Nviro knows to be a nominee, trustee or custodian holding Southbank Shares for such persons, by announcement in the UK; and
  - (ii) any Southbank Shareholders who accepted the Offer after the date of the "no extension" or "no increase" statement are given a right of withdrawal in accordance with paragraph 3(c) of this Part B. Nviro may, if it has reserved the right to do so, choose not to be bound by a "no increase" or a "no extension" statement if it would otherwise prevent the posting of an increased or improved offer (either as to the value or nature of the consideration offered or otherwise) which is recommended for acceptance by the Southbank Board or in other circumstances permitted by the Panel.
- (e) For the purpose of determining at any particular time whether the acceptance condition has been satisfied, Nviro shall be entitled to take account only of those Southbank Shares carrying voting rights which have been unconditionally allotted or issued before that time and written notice of allotment or issue of which, containing all the relevant details, has been received before that time by Share Registrars from Southbank or its agents at the address specified in paragraph 3(a) of this Part B. Fax, email or telex transmission will not be sufficient.

## **2. ANNOUNCEMENTS**

- (a) By 8.00 a.m. on the Business Day (the "relevant day") following the day on which the Offer is due to expire or becomes unconditional or is revised or extended, as the case may be (or such later time(s) or date(s) as the Panel may agree), Nviro will make an appropriate announcement and simultaneously inform a Regulatory Information Service of the position. The announcement will also state (unless otherwise permitted by the Panel) the total number of Southbank Shares and rights over Southbank Shares (as nearly as practicable):
- (i) for which acceptances of the Offer have been received;
  - (ii) acquired or agreed to be acquired by or on behalf of Nviro or any person acting in concert with it during the course of the Offer Period;
  - (iii) held by or on behalf of Nviro or any person acting in concert with it before the Offer Period; and
  - (iv) for which acceptances of the Offer have been received from any person acting in concert with Nviro, and will specify the percentage of the Southbank Shares represented by each of these figures.
- (b) Any decision to extend the time and/or date by which the acceptance condition has to be fulfilled may be made at any time up to, and will be announced not later than, 8.00 a.m. on the relevant day (as defined in paragraph 2(a) of this Part B) or such later time(s) and/or date(s) as the Panel may agree. The announcement will state the next expiry date unless the Offer is then unconditional, in which case a statement may instead be made that the Offer will remain open until further notice. In computing the number of Southbank Shares represented by acceptances and/or purchases, there may be included or excluded for announcement purposes acceptances and purchases which are not complete in all respects or which are subject to verification save that those which could not be counted towards fulfilment of the acceptance condition under Notes 4 and 5 of Rule 10 of the Code shall not (unless agreed by the Panel) be included.
- (c) In this Appendix I, references to the making of an announcement or the giving of notice by or on behalf of Nviro include the release of an announcement by public relations consultants or by Fairfax to the press and the delivery by hand or telephone or facsimile or other electronic transmission of an announcement to a Regulatory Information Service. An announcement made otherwise than to a Regulatory Information Service shall be notified simultaneously to a Regulatory Information Service (unless otherwise agreed by the Panel).

### 3. RIGHTS OF WITHDRAWAL

- (a) If Nviro, having announced the Offer to be unconditional, fails to comply by 3.30 p.m. on the relevant day (as defined in paragraph 2(a) of this Part B) (or such later time(s) and/or date(s) as the Panel may agree) with any of the other requirements specified in paragraph 2(a) of this Part B, an accepting Southbank Shareholder may (unless the Panel agrees otherwise) immediately thereafter withdraw his acceptance of the Offer by written notice received by hand or by post by Share Registrars Limited, Suite E, First Floor, 9 Lion and Lamb Yard, Farnham, Surrey GU9 7LL. Alternatively, in the case of Southbank Shares in uncertificated form, withdrawals can also be effected in the manner set out in paragraph 3(e) of this Part B. Subject to paragraph 1(b) of this Part B, this right of withdrawal may be terminated not less than eight days after the relevant day by Nviro confirming, if that be the case, that the Offer is still unconditional, and complying with the other requirements specified in paragraph 2(a) of this Part B. If any such confirmation is given, the first period of 14 days referred to in paragraph 1(c) of this Part B will run from the date of such confirmation and compliance.
- (b) If by 1.00 p.m. on 8 February 2010 (or such later time(s) and/or date(s) as the Panel may agree) the Offer has not become unconditional, an accepting Southbank Shareholder may withdraw his acceptance at any time thereafter by written notice in the manner referred to in paragraph 3(a) of this Part B (or, in the case of Southbank Shares held in uncertificated form, in the manner set out in paragraph 3(e) of this Part B) before the earlier of (i) the time when the Offer becomes unconditional, and (ii) the final time for lodgement of acceptances of the Offer which can be taken into account in accordance with paragraph 1(b) of this Part B.
- (c) If a “no extension” statement and/or a “no increase” statement has been withdrawn in accordance with paragraph 1(d) of this Part B, any Southbank Shareholder who accepted the Offer after the date of the statement may withdraw his acceptance in the manner referred to in paragraph 3(a) of this Part B (or, in the case of Southbank Shares held in uncertificated form, in the manner set out in paragraph 3(e) of this Part B), not later than the eighth day after the date on which written notice of withdrawal of the statement is posted to Southbank Shareholders.
- (d) Except as provided by this paragraph 3, acceptances under the Offer shall be irrevocable. In this paragraph 3, “written notice” (including any letter of appointment, direction or authority) means notice in writing bearing the original signature(s) of the relevant accepting Southbank Shareholder(s) or his/their agent(s) duly appointed in writing (evidence of whose appointment is produced with the notice in a form reasonably satisfactory to Nviro). E-mail or facsimile transmissions or copies will not be sufficient to constitute written notice. No notice which is postmarked in, or otherwise appears to Nviro or its agents to have been sent from, a Restricted Jurisdiction will be treated as valid.
- (e) In the case of Southbank Shares held in uncertificated form, if withdrawals are permitted pursuant to paragraph 3(a), 3(b) or 3(c) of this Part B, an accepting Southbank Shareholder may withdraw his acceptance through CREST by sending (or, if a CREST sponsored member, procuring that his CREST sponsor sends) an ESA instruction to settle in CREST in relation to each Electronic Acceptance to be withdrawn. Each ESA instruction must, in order for it to be valid and settle, include the following details:
- (i) the number of Southbank Shares to be withdrawn, together with their ISIN number which is GB00B11YB607;
  - (ii) the member account ID of the accepting shareholder, together with his participant ID;
  - (iii) the member account ID of the Escrow Agent NVCSUK01 included in the relevant Electronic Acceptance, together with the Escrow Agent’s participant ID 7RA36;
  - (iv) the transaction reference number of the Electronic Acceptance to be withdrawn;
  - (v) the intended settlement date for the withdrawal;
  - (vi) the corporate action number for the Offer; and
  - (vii) input with standard delivery instruction priority of 80.

Any such withdrawal will be conditional upon Share Registrars verifying that the withdrawal request is validly made. Accordingly, Share Registrars will on behalf of Nviro reject the withdrawal by transmitting in

CREST a receiving agent reject (AEAD) message or accept the withdrawal by transmitting in CREST a receiving agent accept (AEAN) message.

#### **4. REVISED OFFER**

- (a) No revision of the Offer is envisaged. However, if the Offer (in its original or any previously revised form(s)) is revised (either in its terms and conditions or in the value or nature of the consideration offered or otherwise) and such revision represents on the date on which it is announced (on such basis as Littlejohn LLP may consider appropriate) an improvement or no diminution in the value of the revised Offer compared with the consideration or terms previously offered or in the overall value received and/or retained by a Southbank Shareholder (under the Offer or otherwise), the benefit of the revised Offer will, subject to paragraphs 4(c), 4(d) and 7 of this Part B, be made available to any Southbank Shareholder who has accepted the Offer in its original or any previously revised form(s) (a "previous acceptor"). The acceptance of the Offer by or on behalf of a previous acceptor in its original or any previously revised form(s) shall, subject as provided in paragraphs 4(c), 4(d) and 7 of this Part B, be treated as an acceptance of the Offer as so revised and shall also constitute the separate appointment of Nviro and each of the Nviro Directors as his attorney and/or agent with authority (i) to accept any such revised offer on behalf of such previous acceptor, (ii) if such revised offer includes alternative forms of consideration, to make such elections for and/or accept such alternative forms of consideration in the proportions such attorney and/or agent in his absolute discretion thinks fit, and (iii) to execute on behalf of and in the name of such previous acceptor all such further documents (if any) as may be required to give effect to such acceptances and/or elections. In making any such election and/or acceptance, such attorney and/or agent shall take into account the nature of any previous acceptances made by or on behalf of the previous acceptor and such other facts or matters as he may reasonably consider relevant.
- (b) Subject to paragraphs 3(c) and 4(d) of this Part B, the powers of attorney and authorities conferred by this paragraph 4 and any acceptance of a revised Offer and/or any election(s) pursuant thereto shall be irrevocable unless and until the previous acceptor becomes entitled to withdraw his acceptance under paragraph 3 of this Part B and duly and validly does so.
- (c) The deemed acceptance referred to in paragraph 4(a) of this Part B shall not apply, and the authorities conferred by that paragraph shall not be exercised, to the extent that a previous acceptor:
- (i) in respect of Southbank Shares in certificated form, lodges with Share Registrars, within 14 days of the posting of the document containing the revised Offer, a Form of Acceptance in which he validly elects to receive the consideration receivable by him under such revised Offer in some other manner than that set out in his original or any previous acceptance; or
  - (ii) in respect of Southbank Shares in uncertificated form, sends (or, if a CREST sponsored member, procures that his CREST sponsor sends) an ESA instruction to settle in CREST in relation to each Electronic Acceptance in respect of which an election is to be varied. Each ESA instruction must, in order for it to be valid and settle, include the following details:
    - A. the number of Southbank Shares in respect of which the changed election is made, together with their ISIN number which is GB00B11YB607;
    - B. the member account ID of the previous acceptor, together with his participant ID;
    - C. the member account ID of the Escrow Agent which is NVCSUK01 included in the relevant Electronic Acceptance, together with the Escrow Agent's participant ID which is 7RA36;
    - D. the transaction reference number of the Electronic Acceptance in respect of which the election is to be changed;
    - E. the intended settlement date for the changed election;
    - F. the corporate action number for the Offer;and, in order that the desired change of election can be effected, must include:
    - G. the member account ID of the Escrow Agent relevant to the new election.

Any such change of election will be conditional upon Share Registrars verifying that the request is validly made. Accordingly Share Registrars will on behalf of Nviro reject or accept the requested change of election by transmitting in CREST a receiving agent reject (AEAD) message or a receiving agent accept (AEAN) message as appropriate.

- (d) The deemed acceptance referred to in paragraph 4(a) of this Part B shall not apply, and the authorities conferred by that paragraph shall not be exercised, if as a result thereof, the previous acceptor would (on such basis as Nviro may consider appropriate) thereby receive less in aggregate in consideration under the revised Offer than he would have received in aggregate as a result of acceptance of the Offer in the form in which it was previously accepted by him or on his behalf. The authorities conferred by paragraph 4(a) of this Part B shall not be exercised in respect of any election available under the revised Offer save in accordance with this paragraph.
- (e) Subject to paragraphs 4(c) and (d) of this Part B, Nviro reserves the right to treat an executed Form of Acceptance or TTE instruction (in respect of the Offer in its original or any previously revised form(s)) which is received (or dated) on or after the announcement of any revised Offer as a valid acceptance of the revised Offer and/or, where applicable, a valid election for or acceptance of any of the alternative forms of consideration. Such acceptances shall constitute an authority in the terms of paragraph 4(a) of this Part B, mutatis mutandis, on behalf of the relevant Southbank Shareholder.

## **5. ACCEPTANCES AND PURCHASES**

Except as otherwise agreed by the Panel:

- (a) an acceptance of the Offer shall not be treated as valid for the purposes of the acceptance condition unless the requirements of Note 4 and, if applicable, Note 6 of Rule 10 of the Code are satisfied in respect of it;
- (b) a purchase of Southbank Shares by Nviro or its nominee(s) or, in the case of a Rule 9 offer, any person acting in concert with Nviro or its nominee will only be treated as valid for the purposes of the acceptance condition if the requirements of Note 5 and, if applicable, Note 6 of Rule 10 of the Code are satisfied in respect of it; and
- (c) before the Offer may become unconditional, Share Registrars must have issued a certificate to Nviro which states the number of Southbank Shares in respect of which acceptances have been received and which comply with paragraph 5(a) of this Part B, and the number of Southbank Shares otherwise acquired, whether before or during the Offer Period, which comply with paragraph 5(b) of this Part B. Copies of the certificate will be sent to the Panel and to the financial advisers of Southbank as soon as possible after issue.

## **6. GENERAL**

- (a) Except with the Panel's consent, the Offer will lapse unless all of the conditions have been satisfied or (if capable of waiver) waived or, where appropriate, have been determined by Nviro in its reasonable opinion to be or remain satisfied in each case by midnight on 21 February 2010 or by midnight on the date which is 21 days after the date on which the Offer becomes unconditional, whichever is the later, or such later date(s) as Nviro may, with the Panel's consent, decide. If the Offer lapses for any reason, then it shall cease to be capable of further acceptance and Nviro and Southbank Shareholders shall cease to be bound by prior acceptances.
- (b) Except with the Panel's consent, settlement of the consideration to which any Southbank Shareholder is entitled under the Offer will be implemented in full in accordance with the terms of the Offer without regard to any lien, right of set-off, counterclaim or other analogous right to which Nviro may otherwise be, or claim to be, entitled as against such Southbank Shareholder and will be effected in the manner described in Part II of this document.
- (c) The Offer is made on 23 December 2009 and is capable of acceptance from that date. Copies of this document, the Form of Acceptance and any related documents are available from Share Registrars, at the address set out in paragraph 3(a) of this Part B.
- (d) The terms, provisions, instructions and authorities contained in or deemed to be incorporated in the Form of Acceptance constitute part of the terms of the Offer. Words and expressions defined in this

document have the same meanings when used in the Form of Acceptance, unless the context otherwise requires.

- (e)
  - (i) The Offer, all acceptances of it and all elections pursuant to it, the Form of Acceptance, all contracts made pursuant to the Offer, all action taken or made or deemed to be taken or made pursuant to any of these terms and the relationship between a Southbank Shareholder and Nviro, Fairfax or Share Registrars shall be governed by and interpreted in accordance with English law.
  - (ii) Execution of a Form of Acceptance by or on behalf of a Southbank Shareholder will constitute his agreement that the Courts of England are (subject to paragraph 6(e)(iii) of this Part B) to have exclusive jurisdiction to settle any dispute which may arise in connection with the creation, validity, effect, interpretation or performance of, or the legal relationships established by the Offer and the Form of Acceptance or otherwise arising in connection with the Offer and the Form of Acceptance, and for such purposes that he irrevocably submits to the jurisdiction of the English Courts.
  - (iii) Execution of a Form of Acceptance by or on behalf of an accepting Southbank Shareholder will constitute his agreement that the agreement in paragraph 6(e)(ii) of this Part B is included for the benefit of Nviro and Share Registrars and accordingly, notwithstanding the exclusive agreement in paragraph 6(e)(ii) of this Part B, Nviro and Share Registrars shall each retain the right to, and may in its absolute discretion, bring proceedings in the courts of any other country which may have jurisdiction and that the accepting Southbank Shareholder irrevocably submits to the jurisdiction of the courts of any such country.
- (f) If the expiry date of the Offer is extended, any reference in this document and in the Form of Acceptance to 18 January 2010 shall, except in the definition of "Offer Period" and paragraph 1(a) of this Part B and where the context otherwise requires, be deemed to refer to the expiry date of the Offer as so extended.
- (g) Any omission to despatch this document or the Form of Acceptance or any notice required to be despatched under the terms of the Offer to, or any failure to receive the same by, any person to whom the Offer is made, or should be made, shall not invalidate the Offer in any way or create any implication that the Offer has not been made to any such person. Subject to paragraph 7 of this Part B, the Offer extends to any such person and to all Southbank Shareholders to whom this document, the Form of Acceptance and any related documents may not be despatched and who may not receive such documents, and such persons may collect copies of those documents from Share Registrars at the address set out in paragraph 3(a) of this Part B.
- (h) If the Offer lapses:
  - (i) in respect of Southbank Shares held in certificated form, Forms of Acceptance, share certificates and/or other documents of title will be returned by post (or by such other method as the Panel may approve) within 14 days of the Offer lapsing, at the risk of the Southbank Shareholder concerned, to the person or agent whose name and address is set out in the relevant Box of the Form of Acceptance or, if none is set out, to the first-named holder at his registered address (no such documents will be sent to an address in a Restricted Jurisdiction); and
  - (ii) in respect of Southbank Shares held in uncertificated form, Share Registrars will, as soon as is reasonably practicable after the Offer lapses (or within such longer period as the Panel may permit), give TFE instructions to Euroclear to transfer all Southbank Shares held in escrow balances and in relation to which it is the Escrow Agent for the purposes of the Offer to the original available balances of the Southbank Shareholders concerned.
- (i) All powers of attorney, appointments as agent and authorities on the terms conferred by or referred to in this Appendix I or in the Form of Acceptance are given by way of security for the performance of the obligations of the Southbank Shareholder concerned and are irrevocable (in respect of powers of attorney in accordance with section 4 of the Powers of Attorney Act 1971) except in the circumstances where the donor of such power of attorney, appointment or authority is entitled to withdraw his acceptance in accordance with paragraph 3 of this Part B and duly does so.

- (j) Without prejudice to any other provisions of this Part B, Nviro reserves the right to treat acceptances of the Offer as valid if received by or on behalf of either of them at any place or places or in any manner determined by either of them or otherwise than as set out in this document or, in respect of Southbank Shares held in certificated form, in the Form of Acceptance.
- (k) All communications, notices, certificates, documents of title and remittances to be delivered by or sent to or from any Southbank Shareholders will be delivered by or sent to or from them (or their designated agents) at their risk. No acknowledgement of receipt of any Form of Acceptance, transfer by means of CREST, communication, notice, share certificate(s) and/or other document(s) of title will be given by or on behalf of Nviro.
- (l) Nviro reserves the right to notify any matter (including the making of the Offer) to all or any Southbank Shareholder(s) with (i) registered addresses outside the UK or (ii) whom Nviro knows to be nominees, trustees or custodians for such Southbank Shareholder(s) with registered addresses outside the UK by announcement or paid advertisement in any daily newspaper published and circulated in the UK or any part thereof, in which case such notice shall be deemed to have been sufficiently given notwithstanding any failure by any such shareholders to receive or see such notice. All references in this document to notice in writing (other than in paragraph 3 of this Part B) shall be construed accordingly.
- (m) If sufficient acceptances are received and/or sufficient Southbank Shares are otherwise acquired, Nviro intends to apply the provisions of sections 979 to 982 of the 2006 Act to acquire compulsorily any outstanding Southbank Shares.
- (n) Nviro intends, after it announces that all of the conditions to the Offer have been satisfied or (if capable of waiver) waived, to procure the making of an application by Southbank to CISX for the cancellation of admission to the CISX of the Southbank Shares. Your acceptance of the Offer shall also constitute your acceptance to the cancellation of admission to the CISX of the Southbank Shares.
- (o) Execution of a Form of Acceptance will constitute an instruction to Nviro that, on the Offer becoming unconditional in all respects, all mandates and other instructions or notices recorded in Southbank's records immediately prior to the Offer becoming so unconditional in relation to Southbank Shares will, unless and until revoked or varied, continue in full force, mutatis mutandis, in relation to the Consideration Shares allotted or issued to Southbank Shareholders pursuant to the Offer.
- (p) If the Panel requires Nviro to make an offer for Southbank Shares under the provisions of Rule 9 of the Code, Nviro may make such alterations to the conditions of the Offer as are necessary to comply with the provisions of that Rule.
- (q) All references in this Appendix I to any statute or statutory provision shall include a statute or statutory provision which amends, consolidates or replaces the same (whether before or after the date of this document).
- (r) In relation to any acceptance of the Offer in respect of a holding of Southbank Shares which are in uncertificated form, Nviro reserves the right to make such alterations, additions or modifications as may be necessary or desirable to give effect to any purported acceptance of the Offer, whether in order to comply with the facilities or requirements of CREST or otherwise, provided such alterations, additions or modifications are consistent with the requirements of the Code or are otherwise made with the Panel's consent.
- (s) For the purposes of this document, the time of receipt of a TTE instruction, an ESA instruction or an Electronic Acceptance shall be the time at which the relevant instruction settles in CREST.
- (t) Except with the consent of the Panel, shares which have been borrowed by Nviro may not be counted towards filling an acceptance condition.

## **7. OVERSEAS SHAREHOLDERS**

- (a) The making of the Offer in, or to persons resident in, or to nationals or citizens of, jurisdictions outside the UK or to nominees of, or custodians or trustees for, citizens or nationals of other

countries (“overseas shareholders”) may be affected by the laws of the relevant jurisdictions. Such overseas shareholders should inform themselves about and observe any applicable legal requirements. It is the responsibility of any overseas shareholder wishing to accept the Offer to satisfy himself as to the full observance of the laws and regulatory requirements of the relevant jurisdiction in connection with the Offer, including obtaining any governmental, exchange control or other consents which may be required, or compliance with other necessary formalities needing to be observed and payment of any issue, transfer or other taxes or duties due in such jurisdiction. Any such overseas shareholder will be responsible for any such issue, transfer or other taxes or other payments by whomsoever payable and Nviro (and any person acting on behalf of them) shall be fully indemnified and held harmless by such shareholder for any such issue, transfer or other taxes or duties as Nviro (and any person acting on behalf of them) may be required to pay. **If you are an overseas shareholder and you are in doubt about your position, you should consult your independent professional adviser in the relevant jurisdiction.**

- (b) In particular the Offer is not being made in or into and is not capable of acceptance in or from a Restricted Jurisdiction. In addition, it is not currently intended that the Offer will be made, directly or indirectly, in or into or by use of the mails or any means or instrumentality (including, without limitation, by means of facsimile or electronic transmission, telephone or internet) of interstate or foreign commerce of, or any facilities of a securities exchange of, or in or into, the United States. Accordingly, copies of this document, the Form of Acceptance and any related offering documents are not being, and must not be, mailed or otherwise distributed or sent in or into the United States. Persons receiving such documents (including without limitation, custodians, trustees and nominees) must not mail, forward, or distribute or send them, directly or indirectly, in, into or from a Restricted Jurisdiction or use a Restricted Jurisdiction’s mail or any such means or instrumentality or facility for any purpose, directly or indirectly, in connection with the Offer. Doing so may invalidate any purported acceptance of the Offer. Persons wishing to accept the Offer must not use such mails or any such means or instrumentality or facility directly or indirectly for any purpose directly or indirectly related to acceptance of the Offer. Envelopes containing a Form of Acceptance should not be postmarked in a Restricted Jurisdiction or otherwise despatched from a Restricted Jurisdiction and all accepting Southbank Shareholders must provide addresses outside a Restricted Jurisdiction for the receipt of certificates for the Consideration Shares, or for the return of the Form of Acceptance, share certificates and/or other document(s) of title.
- (c) The Consideration Shares have not been and will not be registered under the US Securities Act, or any state securities laws, nor have relevant clearances been obtained from the securities commission or similar authority of any province or territory in Canada and no prospectus has been filed or registration made under any securities laws of any province or territory of Canada, nor has a prospectus in relation to the Consideration Shares been lodged with or registered by the Australian Securities Commission, nor have any steps been taken to enable the Consideration Shares to be offered in compliance with applicable securities laws of the Republic of South Africa or Japan. The Consideration Shares may not be offered, sold, resold, delivered or transferred, directly or indirectly, in or into the United States or to, or for the account or benefit of, US persons, or in or into Canada, Australia, the Republic of South Africa or Japan.
- (d) A Southbank Shareholder will be deemed not to have validly accepted the Offer if:
- (i) he puts “NO” in Box 4 of the Form of Acceptance and thereby does not give the representations and warranties set out in paragraph (b) of Part C of this Appendix I;
  - (ii) having had inserted in or having completed Box 3 of the Form of Acceptance with a registered address in a Restricted Jurisdiction, he does not insert in Box 5 of the Form of Acceptance the name and address of a person or agent outside a Restricted Jurisdiction to whom he wishes the consideration to which he is entitled under the Offer and/or any documents to be sent;
  - (iii) he inserts in Box 5 of the Form of Acceptance the name and address of a person or agent in a Restricted Jurisdiction to whom he wishes the consideration to which he is entitled under the Offer and/or any documents to be sent; or
  - (iv) in any case, the Form of Acceptance received from him is received in an envelope postmarked in, or which otherwise appears to Nviro or its agent to have been sent from, a Restricted Jurisdiction; or

- (v) he makes a Restricted Escrow Transfer pursuant to paragraph 7(h) below unless he also makes a related Restricted ESA instruction which is accepted by Share Registrars.

Nviro reserves the right, in its sole discretion, to investigate, in relation to any acceptance, whether the representations and warranties set out in paragraph (b) of Part C or (as the case may be) Part D of this Appendix I could have been truthfully given by the relevant Southbank Shareholder and, if such investigation is made and, as a result, Nviro cannot satisfy itself that such representation and warranty was true and correct, the acceptance shall not be valid. Nviro will not issue Consideration Shares or authorise the delivery of any documents of title in respect of Consideration Shares in, into or from a Restricted Jurisdiction or to any person (i) who is, or who Nviro has reason to believe is, a US person or resident in Canada, Australia, the Republic of South Africa or Japan or (ii) who is unable or fails to give the representations and warranties set out in paragraph (b) of Part C or (as the case may be) Part D of this Appendix I or (iii) with a registered address in a Restricted Jurisdiction.

- (e) If, in connection with the making of the Offer, notwithstanding the restrictions described above, any person (including, without limitation, custodians, nominees and trustees), whether pursuant to a contractual or legal obligation or otherwise, forwards this document, the Form of Acceptance or any related offering documents, in, into or from a Restricted Jurisdiction or uses the mails of, or any means or instrumentality (including without limitation, facsimile or electronic transmission, telephone or internet) of interstate or foreign commerce of, or any facility of a national securities exchange of, a Restricted Jurisdiction in connection with such forwarding, such person should:
  - (i) inform the recipient of such fact;
  - (ii) explain to the recipient that such action may invalidate any purported acceptance by the recipient; and
  - (iii) draw the attention of the recipient to this paragraph 7.
- (f) If any written notice from a Southbank Shareholder withdrawing his acceptance in accordance with paragraph 3 of Part B of this Appendix I is received in an envelope postmarked in, or which otherwise appears to Nviro or its agents to have been sent from, a Restricted Jurisdiction, Nviro reserves the right in its absolute discretion to treat that notice as invalid.

**Any acceptance of the Offer by Southbank Shareholders who are unable to give the representations and warranties set out in paragraph (b) of Part C or (as the case may be) Part D of this Appendix I is liable to be disregarded.**

- (g) These provisions and any other terms of the Offer relating to overseas shareholders may be waived, varied or modified as regards specific Southbank Shareholders or on a general basis by Nviro in its absolute discretion. Subject thereto, the provisions of this paragraph 7 supersede any terms of the Offer inconsistent with them. References in this paragraph 7 to a Southbank Shareholder include references to the person or persons executing a Form of Acceptance and, if more than one person executes the Form of Acceptance, the provisions of this paragraph 7 shall apply to them jointly and severally.
- (h) If a Southbank Shareholder holding Southbank Shares in uncertificated form cannot give the warranty set out in (b) of Part D of this Appendix I, but nevertheless can provide evidence satisfactory to Nviro that he can accept the Offer in compliance with all relevant legal and regulatory requirements, he may only purport to accept the Offer by sending (or if a CREST sponsored member, procuring that his CREST sponsor sends) both (i) a Transfer to Escrow instruction to a designated escrow balance detailed below (a "Restricted Escrow Transfer") and (ii) one or more valid ESA instructions (a "Restricted ESA instruction"). Such purported acceptance will not be treated as a valid acceptance unless both the Restricted Escrow Transfer and the Restricted ESA instruction(s) settle in CREST and Nviro decides, in its absolute discretion, to exercise its right described in paragraph 7(g) of Part B of this Appendix I to waive, vary or modify the terms of the Offer relating to overseas shareholders, to the extent required to permit such acceptance to be made, in each case during the acceptance period set out in paragraph 1(a) of Part B of this Appendix I. If Nviro accordingly decides to permit such acceptance to be made, Share Registrars will on behalf of Nviro accept the purported acceptance as an Electronic Acceptance on the terms of this document (as so waived, varied or modified) by transmitting in CREST a receiving agent accept (AEAN) message.



Otherwise, Share Registrars will on behalf of Nviro reject the purported acceptance by transmitting in CREST a receiving agent reject (AEAD) message. Each Restricted Escrow Transfer must, in order for it to be valid and settle, include the following details:

- (i) the corporate action ISIN number for the Southbank Shares which is GB00B11YB607;
- (ii) the number of Southbank Shares in respect of which the Offer is to be accepted;
- (iii) the member account ID and participant ID of the Southbank Shareholder;
- (iv) the participant ID of the Escrow Agent (7RA36) and its member account ID specific to a Restricted Escrow Transfer (RESTRICT);
- (v) the intended settlement date;
- (vi) the corporate action number for the Offer which is allocated by CREST and can be found by viewing the relevant corporate action details in CREST; and
- (vii) input with standard delivery instruction priority of 80.

Each Restricted ESA instruction must, in order for it to be valid and settle, include the following details:

- (i) the corporate action ISIN number for the Southbank Shares which is GB00B11YB607;
- (ii) the number of Southbank Shares relevant to that Restricted ESA instruction;
- (iii) the member account ID and participant ID of the accepting Southbank Shareholder;
- (iv) the member account ID and participant ID of the Escrow Agent (7RA36) set out in the Restricted Escrow Transfer (RESTRICT);
- (v) the transaction reference number of the Restricted Escrow Transfer to which the Restricted ESA instruction relates;
- (vi) the intended settlement date;
- (vii) the corporate action number for the Offer; and
- (viii) input with standard delivery instruction priority 80.

## Part C

### Form of Acceptance

Each Southbank Shareholder by whom, or on whose behalf, a Form of Acceptance is executed irrevocably undertakes, represents, warrants and agrees to and with Nviro and Share Registrars (so as to bind him, his personal representatives, heirs, successors and assigns) to the following effect:

- (a) that the execution of the Form of Acceptance, whether or not any boxes are completed, shall constitute an acceptance of the Offer in respect of the number of Southbank Shares in certificated form inserted or deemed to be inserted in Box 1 of the Form of Acceptance on and subject to the terms and conditions set out or referred to in this document and in the Form of Acceptance and that, subject only to the rights of withdrawal set out or referred to in paragraph 3 of Part B of this Appendix I, each such acceptance shall be irrevocable;
- (b) unless "NO" is put in Box 4 of the Form of Acceptance, that such Southbank Shareholder:
  - (i) has not received or sent copies or originals of this document, the Form of Acceptance or any related offering documents in, into or from a Restricted Jurisdiction, has not utilised in connection with the Offer, directly or indirectly, the mails of or any means of instrumentality (including, without limitation, by means of facsimile or electronic transmission, telephone or internet) of interstate or foreign commerce of, or any facilities of a securities exchange of, a Restricted Jurisdiction, was outside a Restricted Jurisdiction when the Form of Acceptance was delivered and at the time of accepting the Offer, and is not an agent or fiduciary acting on a non-discretionary basis for a principal, unless such agent or fiduciary is an authorised employee of such principal or such principal has given all instructions with respect to the Offer from outside a Restricted Jurisdiction;
  - (ii) is not acquiring and will not hold any Consideration Shares for the account or benefit of a US person or with a view to or for the purposes of the offer, sale or delivery, directly or indirectly, of any Consideration Shares in or into a Restricted Jurisdiction;
  - (iii) the Form of Acceptance has not been mailed or otherwise sent in, into or from a Restricted Jurisdiction or signed in any of those jurisdictions and such shareholder is accepting the Offer from outside a Restricted Jurisdiction; and
  - (iv) (if such Southbank Shareholder is a citizen, resident or national of a jurisdiction outside the United Kingdom) has observed the laws and regulatory requirements of the relevant jurisdiction in connection with the Offer, obtained all requisite governmental, exchange control or other consents, complied with all necessary formalities and paid any issue, transfer or other taxes or duties or other payments due in such jurisdiction in connection with his acceptance of the Offer and that such acceptance will not result in Nviro or the Nviro Directors, officers, agents or employees acting in breach of any legal or regulatory requirements in such jurisdiction;
- (c) that the execution of the Form of Acceptance constitutes, subject to the Offer becoming unconditional in all respects in accordance with its terms and to an accepting Southbank Shareholder not having validly withdrawn his acceptance, the irrevocable appointment of Nviro and each of the Nviro Directors as such shareholder's attorney and/or agent (the attorney) and an irrevocable instruction and authorisation to the attorney:
  - (i) to complete and execute all or any form(s) of transfer and/or other document(s) at the discretion of the attorney in relation to the Southbank Shares referred to in paragraph (a) of this Part C in favour of Nviro or such other person or persons as Nviro or its agents may direct;
  - (ii) to deliver such form(s) of transfer and/or other document(s) in the attorney's discretion and/or the certificate(s) and/or other document(s) of title relating to such Southbank Shares for registration within 6 months of the Offer becoming unconditional in all respects; and
  - (iii) to do all such other acts and things as may in the attorney's opinion be necessary or expedient for the purpose of, or in connection with, the acceptance of the Offer pursuant to the Form of

Acceptance and to vest the Southbank Shares referred to in paragraph (a) of this Part C in Nviro or its nominee;

- (d) that, in relation to Southbank Shares in certificated form, the execution of the Form of Acceptance constitutes, subject to the Offer becoming unconditional in all respects and to an accepting Southbank Shareholder not having validly withdrawn his acceptance, an irrevocable authority and request:
- (i) to Southbank or its agents to procure the registration of the transfer of those Southbank Shares pursuant to the Offer and the delivery of the share certificate(s) and/or other document(s) of title in respect of the Southbank Shares to Nviro or as it may direct;
  - (ii) subject to the provisions of paragraph 7 of Part B of this Appendix I, to Nviro and its agents to procure that such Southbank Shareholder's name is entered on the register of members of Nviro in respect of any Consideration Shares to which he becomes entitled pursuant to the Offer and to procure the issue of a definitive certificate for such Consideration Shares;
  - (iii) to Nviro and its agents to procure the despatch by post (or by such other method as the Panel may approve) of document(s) of title for any New Nviro Share(s) to which an accepting Southbank Shareholder is entitled, at the risk of such shareholder, to the person or agent whose name and address outside a Restricted Jurisdiction is set out in Box 1 of the Form of Acceptance, or if no name and address is set out in Box 1, to the first named holder at his registered address outside a Restricted Jurisdiction;
- (e) that the execution of the Form of Acceptance and its delivery constitutes a separate authority to Nviro and/or the Nviro Directors within the terms of paragraph 4 of Part B of this Appendix I in respect of the Southbank Shares in certificated form referred to in paragraph (a) of this Part C;
- (f) that, subject to the Offer becoming or being declared unconditional in all respects (or if the Offer will become unconditional in all respects or lapse immediately upon the outcome of the resolution in question or if the Panel consents) and pending registration:
- (i) Nviro or its agents shall be entitled to direct the exercise of any votes and any or all other rights and privileges (including the right to requisition the convening of a general meeting of Southbank or of any class of its shareholders) attaching to any Southbank Shares in certificated form in respect of which the Offer has been accepted or is deemed to have been accepted and not validly withdrawn;
  - (ii) the execution of a Form of Acceptance in respect of the Southbank Shares comprised in such acceptance and in respect of which such acceptance has not been validly withdrawn;
  - (iii) constitutes an authority to Southbank from such Southbank Shareholder to send any notice, circular, warrant, document or other communication which may be required to be sent to him/her as a member of Southbank to Nviro at its registered office;
  - (iv) constitutes an authority to Nviro or any Nviro Director to sign any consent to short notice of a general or separate class meeting as his attorney and/or agent and on his behalf and/or to attend and/or execute a form of proxy in respect of such Southbank Shares appointing any person nominated by Nviro to attend general and separate class meetings of Southbank (and any adjournments thereof) and to exercise the votes attaching to such shares on his behalf, where relevant, such votes to be cast so far as possible to satisfy any outstanding condition of the Offer; and
  - (v) will also constitute the agreement of such Southbank Shareholder not to exercise any of such rights without the consent of Nviro and the irrevocable undertaking of such Southbank Shareholder not to appoint a proxy to attend any such general meeting or separate class meeting;
- (g) that he will deliver or procure the delivery to Share Registrars at the address referred to in paragraph 3(a) of Part B of this Appendix I of his share certificate(s) or other document(s) of title in respect of all Southbank Shares in certificated form held by him in respect of which the Offer has been accepted or is deemed to have been accepted and not validly withdrawn, or an indemnity acceptable to Nviro

in lieu thereof, as soon as possible and in any event within 6 months of the Offer becoming unconditional in all respects;

- (h) that he is the sole legal and beneficial owner of the Southbank Shares in certificated form in respect of which the Offer is accepted or deemed to be accepted or he is the legal owner of such Southbank Shares and he has the necessary capacity and authority to execute the Form of Acceptance;
- (i) that the Southbank Shares in certificated form in respect of which the Offer is accepted or deemed to be accepted are sold fully paid up and free from all liens, equities, charges, encumbrances and other third party rights and/or interests and together with all rights now or hereafter attaching thereto, including voting rights and the right to receive and retain all dividends, interests and other distributions (if any) declared, made or paid after 23 December 2009;
- (j) that the terms and conditions of the Offer contained in this document shall be deemed to be incorporated in, and form part of, the Form of Acceptance which shall be read and construed accordingly;
- (k) that he will do all such acts and things as shall be necessary or expedient to vest the Southbank Shares referred to in paragraph (a) of this Part C in Nviro or its nominee(s) or such other persons as it may decide;
- (l) that he agrees to ratify each and every act or thing which may be done or effected by Nviro or Share Registrars or any Nviro Director or any director of Share Registrars or their respective agents or Southbank or its agents, as the case may be, in the exercise of any of his powers and/or authorities under this document;
- (m) that the execution of the Form of Acceptance constitutes his agreement to the terms of paragraphs 6(e)(i), (ii) and (iii) of Part B of this Appendix I;
- (n) that on execution the Form of Acceptance shall take effect as a deed; and
- (o) that if any provision of Part B or Part C of this Appendix I shall be unenforceable or invalid or shall not operate so as to afford Nviro or Share Registrars or any director of any of them the benefit or authority expressed to be given therein, he shall with all practicable speed do all such acts and things and execute all such documents as may be required to enable Nviro and/or Share Registrars and/or any director of any of them to secure the full benefits of Part B and this Part C.

References in this Part C to a Southbank Shareholder shall include references to the person or persons executing a Form of Acceptance, and if more than one person executes a Form of Acceptance, the provisions of this Part C shall apply to them jointly and severally.

**Part D**  
**Electronic Acceptance**

Each Southbank Shareholder by whom, or on whose behalf, an Electronic Acceptance is made irrevocably undertakes, represents, warrants and agrees to and with Nviro and Share Registrars (so as to bind him, his personal representatives, heirs, successors and assigns) to the following effect:

- (a) that the Electronic Acceptance shall constitute an acceptance of the Offer in respect of the number of Southbank Shares in uncertificated form to which the relevant TTE instruction relates on and subject to the terms and conditions set out or referred to in this document and that, subject only to the rights of withdrawal set out or referred to in paragraph 3 of Part B of this Appendix I, each such acceptance shall be irrevocable;
- (b)
  - (i) that such Southbank Shareholder has not received or sent copies or originals of this document, the Form of Acceptance or any related offering documents, in, into or from a Restricted Jurisdiction, has not utilised in connection with the Offer, directly or indirectly, the mails of or any means of instrumentality (including, without limitation, by means of facsimile or electronic transmission, telephone or internet) of interstate or foreign commerce of, or any facilities of a securities exchange of, a Restricted Jurisdiction, was outside the United States at the time of the input and settlement of the relevant TTE instruction(s), and in respect of the Southbank Shares to which an Electronic Acceptance relates, is not an agent or fiduciary acting on a non-discretionary basis for a principal, unless such agent or fiduciary is an authorised employee of such principal or such principal has given all instructions with respect to the Offer from outside a Restricted Jurisdiction;
  - (i) is not acquiring and will not hold any Consideration Shares for the account or benefit of a US person or with a view to or for the purposes of the offer, sale or delivery, directly or indirectly, of any Consideration Shares in or into a Restricted Jurisdiction; and
  - (ii) that no TTE instruction has been sent from a Restricted Jurisdiction and such Southbank Shareholder is accepting the Offer from outside a Restricted Jurisdiction;
- (c) that the Electronic Acceptance constitutes, subject to the Offer becoming unconditional in all respects in accordance with its terms and to an accepting Southbank Shareholder not having validly withdrawn his acceptance, the irrevocable appointment of Nviro as such shareholder's attorney and/or agent (the attorney) and an irrevocable instruction and authorisation to the attorney to do all such acts and things as may in the attorney's opinion be necessary or expedient for the purpose of or in connection with, the acceptance of the Offer and to vest the Southbank Shares referred to in paragraph (a) of this Part D in Nviro or its nominee;
- (d) that the Electronic Acceptance constitutes the irrevocable appointment of Share Registrars as such shareholder's attorney and an irrevocable instruction and authority to the attorney (i) subject to the Offer becoming unconditional in all respects in accordance with its terms and to an accepting Southbank Shareholder not having validly withdrawn his acceptance, to transfer to itself (or to such other person or persons as Nviro or its agents may direct) by means of CREST all or any of the Southbank Shares in uncertificated form (but not exceeding the number of Southbank Shares in uncertificated form in respect of which the Offer is accepted or deemed to be accepted) and (ii), if the Offer does not become unconditional in all respects, to give instructions to Euroclear, immediately after the lapsing of the Offer (or within such longer period as the Panel may permit, not exceeding 14 days of the lapsing of the Offer), to transfer all such Southbank Shares to the original available balance of the accepting Southbank Shareholder;
- (e) that the Electronic Acceptance constitutes, subject to the Offer becoming unconditional in all respects and to an accepting Southbank Shareholder not having validly withdrawn his acceptance, an irrevocable authority and request:
  - (i) to Nviro or its agents to issue any Consideration Shares to which such shareholder is entitled in uncertificated form, provided that (aa) Nviro may (if, for any reason, it wishes to do so) determine that all or any of such Consideration Shares shall be issued in certificated form and

- (bb) if the Southbank Shareholder concerned is a CREST member whose registered address is in a Restricted Jurisdiction, any Consideration Shares to which such shareholder is entitled shall be issued in certificated form and, at the risk of such shareholder, any relevant share certificates shall be despatched to the first named holder at his registered address outside a Restricted Jurisdiction or as otherwise determined by Nviro;
- (ii) subject to the provisions of paragraph 7 of Part B of this Appendix I, to Nviro and its agents to procure that such Southbank Shareholder's name is entered on the register of members of Nviro in respect of any Consideration Shares to which he becomes entitled pursuant to the Offer;
- (f) that the Electronic Acceptance constitutes a separate authority to Nviro and/or the Nviro Directors within the terms of paragraph 5 of Part B of this Appendix I in respect of the Southbank Shares in uncertificated form referred to in paragraph (a) of this Part D;
- (g) that, subject to the Offer becoming or being declared unconditional in all respects (or if the Offer will become unconditional in all respects or lapse immediately upon the outcome of the resolution in question or if the Panel consents) and pending registration:
- (i) Nviro or its agents shall be entitled to direct the exercise of any votes and any or all other rights and privileges (including the right to requisition the convening of a general meeting of Southbank or of any class of its shareholders) attaching to any Southbank Shares in uncertificated form in respect of which the Offer has been accepted or is deemed to have been accepted and not validly withdrawn; and
- (ii) an Electronic Acceptance in respect of the Southbank Shares comprised in such acceptance and in respect of which such acceptance has not been validly withdrawn:
- A. constitutes an authority to Southbank from such Southbank Shareholder to send any notice, circular, warrant, document or other communication which may be required to be sent to him/her as a member of Southbank (including any share certificate(s) or other document(s) of title issued as a result of a conversion of such Southbank Shares into certificated form) to Nviro at its registered office;
- B. constitutes an authority to Nviro or any Nviro Director to sign any consent to short notice of a general or separate class meeting as his attorney and/or agent and on his behalf and/or attend and/or execute a form of proxy in respect of such Southbank Shares appointing any person nominated by Nviro to attend general and separate class meetings of Southbank (and any adjournments thereof) and to exercise the votes attaching to such shares on his behalf, where relevant, such votes to be cast so far as possible to satisfy any outstanding condition of the Offer; and
- C. will also constitute the agreement of such Southbank Shareholder not to exercise any of such rights without the consent of Nviro and the irrevocable undertaking of such Southbank Shareholder not to appoint a proxy to attend any such general meeting or separate class meeting;
- (h) that he is the sole legal and beneficial owner of the Southbank Shares in uncertificated form in respect of which the Offer is accepted or deemed to be accepted or he is the legal owner of such Southbank Shares and he has the necessary capacity and authority to effect an Electronic Acceptance;
- (i) that the Southbank Shares in uncertificated form in respect of which the Offer is accepted or deemed to be accepted are sold fully paid up and free from all liens, equities, charges, encumbrances and other third party rights and/or interests and together with all rights now or hereafter attaching thereto, including voting rights and the right to receive and return all dividends, interests and other distributions (if any) declared, made or paid after 23 December 2009;
- (j) that he will do all such acts and things as shall be necessary or expedient to vest the Southbank Shares referred to in paragraph (a) of this Part D in Nviro or its nominee(s) or such other persons as it may decide and all such acts and things as may be necessary or expedient to enable Share Registrars to perform its functions as Escrow Agent for the purposes of the Offer;

- (k) that he agrees to ratify each and every act or thing which may be done or effected by Nviro or Share Registrars or any Nviro Director or any director of Share Registrars or their respective agents or Southbank or its agents, as the case may be, in the exercise of any of his powers and/or authorities under this document;
- (l) that if, for any reason, any Southbank Shares in respect of which a TTE instruction has been effected in accordance with paragraph 11 of Part II of this document are converted to certificated form, he will (without prejudice to paragraph (g)(ii)(A) of this Part D) immediately deliver or procure the immediate delivery of the share certificate(s) or other document(s) of title in respect of all such Southbank Shares as so converted to Share Registrars at the address referred to in paragraph 3(a) of Part B of this Appendix I or to Nviro at its registered office or as Nviro or its agents may direct; and he shall be deemed upon conversion to undertake, represent, warrant and agree in the terms set out in Part C of this Appendix I in relation to such Southbank Shares;
- (m) that the making of an Electronic Acceptance constitutes his agreement to the terms of paragraphs 6(e)(i), (ii) and (iii) of Part B of this Appendix I;
- (n) that, by virtue of the CREST Regulations, the making of an Electronic Acceptance constitutes an irrevocable power of attorney by the relevant Southbank Shareholder in the terms of all the powers and authorities expressed to be given by Part B, this Part D and (where applicable by virtue of paragraph (l) above) Part C of this Appendix I to Nviro, Share Registrars and any of their respective agents;
- (o) that if any provision of Part B or Part D of this Appendix I shall be unenforceable or invalid or shall not operate so as to afford Nviro or Share Registrars or any director of any of them the benefit or authority expressed to be given therein, he shall with all practicable speed do all such acts and things and execute all such documents that may be required to enable Nviro and/or Share Registrars and/or any director of either of them to secure the full benefits of Part B and this Part D.

References in this Part D to a Southbank Shareholder shall include references to the person or persons making an Electronic Acceptance.

## PART VI

### ADDITIONAL INFORMATION

#### 1. RESPONSIBILITY STATEMENT

The Directors and Proposed Directors of the Company (whose names appear on page 20 of this document) and the Company accept responsibility, both individually and collectively, for the information contained in this document. To the best of the knowledge and belief of the Company, the Directors and the Proposed Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and there are no other facts which, if omitted, would affect the import of such information. All Directors accept responsibility accordingly.

#### 2. INCORPORATION AND STATUS OF THE COMPANY

2.1 The Company was incorporated in the Isle of Man on 17 May 2006 as a public limited company under the Acts, with number 116537C and with the name Nvirocleantech PLC. On 18 May 2007, the Company received approval from the Financial Supervision Commission in the Isle of Man to change its name to Nviro Cleantech plc which was formally adopted by the passing of a written resolution to such effect on 26 June 2007. The liability of the members of the Company is limited. The authorised and issued share capital of the Company is described in paragraph 4.2 below.

2.2 The principal legislation under which the Company operates are the Acts and the regulations made thereunder and all subsequent amendments thereto.

2.3 The registered office of the Company is at Burleigh Manor, Peel Road, Douglas, Isle of Man IM1 5EP, telephone number 01624 629 369. The Company's principal place of business is 18 Hanover Square, London W1S 1HX, telephone number 020 3187 7100.

2.4 The accounting reference date of the Company is currently 30 September. The accounting reference date shall be changed to 31 December following Admission.

2.5 The Company has no administrative, management or supervisory bodies other than the Board, the remuneration committee, the audit committee and the AIM compliance committee; all of whose members are Directors

2.6 The Company owns the following subsidiary companies:

##### 2.6.1 Nviro Cleantech Limited (100 per cent.)

Incorporated and registered in England and Wales on 28 October 2005, as a private limited company and with registered number 05606469. Its authorised share capital is £50,000 divided into 50,000,000 ordinary shares of 0.01p each of which 31,916,200 have been issued and registered in the name of the Company.

Nviro Cleantech Limited owns the issued share capital of 5 subsidiary companies as follows:

##### 2.6.2 Microrelease Limited (80 per cent.)

Incorporated and registered in England and Wales on 29 March 2006, as a private limited company and with registered number 5760527. Its authorised share capital is £1,000 divided into 1000 shares of £1.00 of which 100 shares are issued in total and 80 shares are registered in the name of Nviro Cleantech Limited.

##### 2.6.3 Laseair Limited (80 per cent.)

Incorporated and registered in England and Wales on 29 March 2006, as a private limited company and with registered number 5760532. Its authorised share capital is £1,000 divided into 1000 shares of £1.00 of which 100 shares are issued in total and 80 shares are registered in the name of Nviro Cleantech Limited.

##### 2.6.4 Nviro Cleantech, Inc (US) (100 per cent.)

Incorporated in the State of Delaware, US, on 24 October 2005 and with registered number 4245247. The company is authorised to issue 60 million shares at \$0.001 par value of which



50 million are common stock and 10 million are preferred stock of which 1,000 shares of common stock have been issued and are registered in the name of Nviro Cleantech Limited.

**2.6.5 Nviro Cleantech Inc (Hong Kong) (100 per cent.)**

The company was registered in Hong Kong on 27 August 2008 with registration number F16367.

**2.6.6 Nviro Cleanetch Limited (Cayman Islands) (100 per cent.)**

Incorporated in the Cayman Islands as a company with limited liability on 8 December 2006 and with the registered number 178784. The company is authorised to issue 50,000 ordinary shares at \$1.00 par value of which all are issued and registered in the name of Nviro Cleantech Limited.

Nviro Cleantech Limited (Cayman Islands) owns 65 per cent. and 100 per cent. respectively of the issued share capital of the 2 following subsidiaries:

**2.6.6.1 *Organotect, Inc (Delaware) (65 per cent.)***

Incorporated in the State of Delaware, US, as a corporation with limited liability on 22 March 2006 and with registered number 4611386. The company is authorised to issue 1,500 shares at \$0.001 par value, of which 65 per cent. of the issued shares are registered in the name of Nviro Cleantech Limited (Cayman Islands); and

**2.6.6.2 *Vertus Technologies Limited (Cayman Islands) – 100 per cent.***

Incorporated in the Cayman Islands as a company with limited liability on 8 December 2006 and with the registered number 178780. The company is authorised to issue 50,000 ordinary shares at \$1.00 par value, of which all 50,000 ordinary shares have been issued and are registered in the name of Nviro Cleantech Limited (Cayman Islands).

Vertus Technologies Limited (Cayman Islands) owns 100 per cent., 50 per cent. and 50 per cent. respectively of the issued share capital of the 3 following subsidiaries:

**(a) *Vertus Technologies US, LLC (100 per cent.)***

Incorporated in the State of Nevada, US, as a limited liability company on 27 November 2006 and with registered number E0884162006-6. The company is authorised to issue 20 million shares at \$0.001 par value.

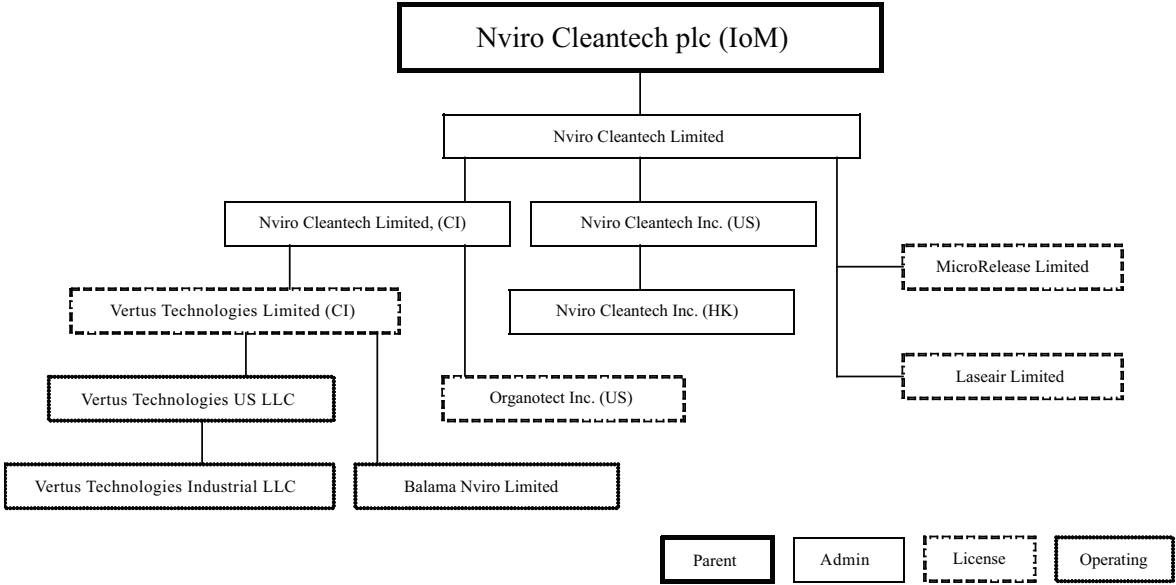
**(b) *Vertus Technologies Industrial LLC (100 per cent.)***

Incorporated in the state of Ohio, US, as a limited liability company on 11 March 2008 with registered number 1763963.

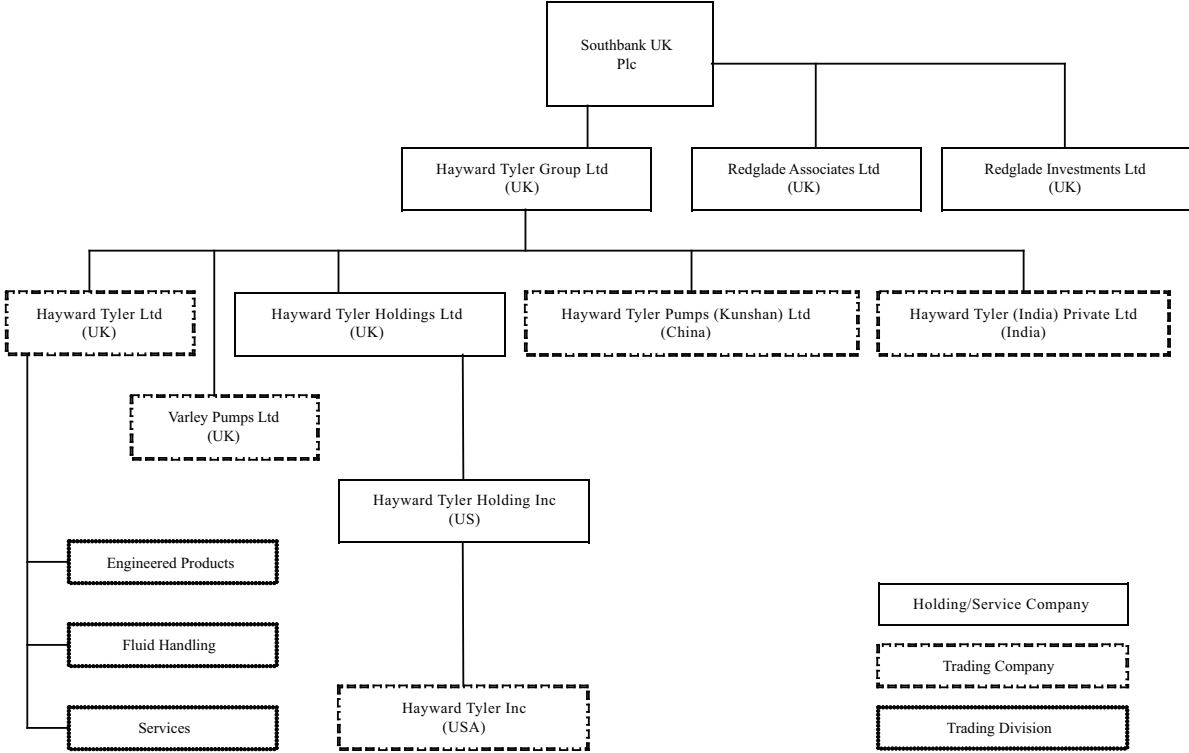
**(c) *Balama Nviro Limited (50 per cent.)***

Incorporated in the British Virgin Islands as a limited company with registered number 1387233. The company is authorised to issue 50,000 shares at \$1.00 par value, of which 200 shares have been issued in total and 100 of those issued shares are registered in the name of Vertus Technologies Limited (Cayman Islands).

2.7 A Group structure diagram is set out below.



2.8 Following completion of the Acquisition, the Company will be a member of the Enlarged Group and Southbank will be a wholly owned subsidiary of the Company. Southbank has three wholly owned subsidiaries; Hayward Tyler Group Ltd, Redglade Associates Ltd and Redglade Investments Ltd. Hayward Tyler Group Ltd has five wholly owned subsidiaries as set out in the Southbank Group structure diagram below.



2.9 Southbank was incorporated in England on 7 June 2005 as a public limited company under the 1985 Act, with number 05474162. The liability of the members of the Company is limited.

2.10 The principal legislation under which Southbank operates is the 2006 Act and the regulations made thereunder and all subsequent amendments thereto.

2.11 Further details of the companies in the Southbank Group are as follows:

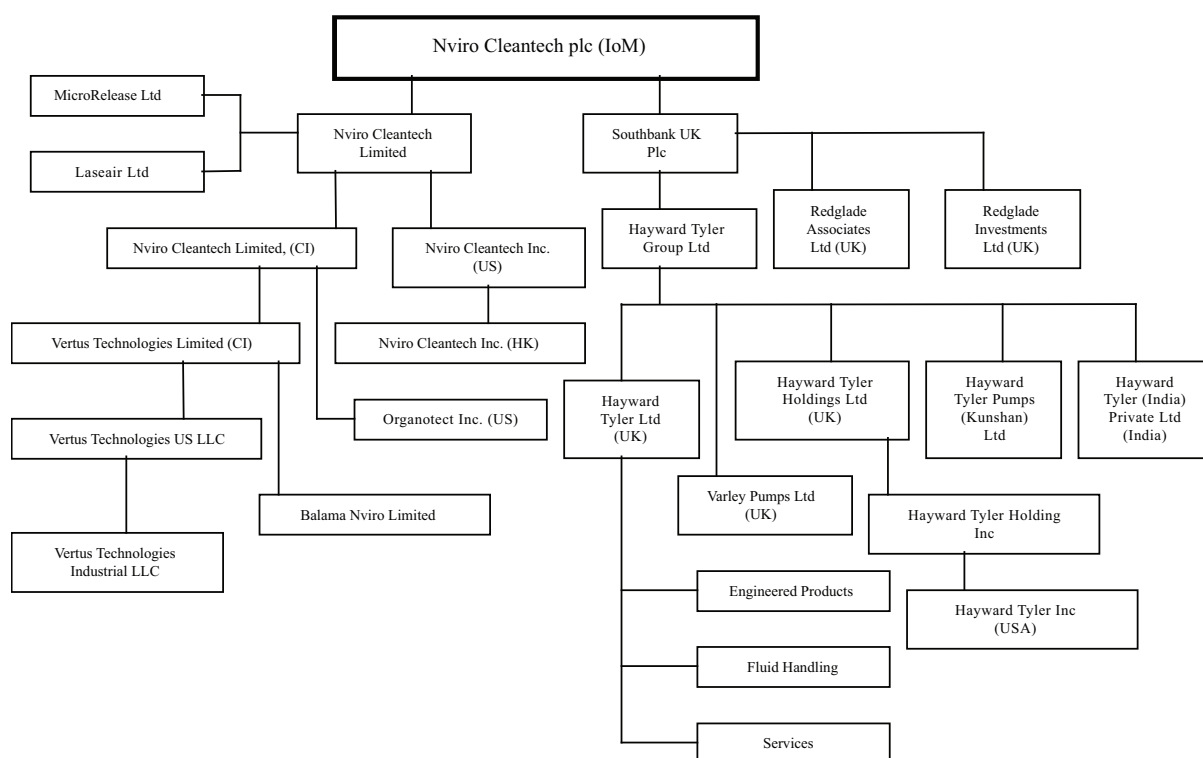
<b>Name</b>	<b>Activity</b>	<b>Issued Share Capital</b>	<b>Shareholder and percentage of share capital held</b>
Hayward Tyler Group Limited (Registered in England & Wales)	Holding company	1,155,000 ordinary shares of £1 each 1,157,698 deferred shares of £1 each 245,000 B ordinary shares of £0.001 each	Southbank 100%
Hayward Tyler Limited (Registered in England & Wales)	Trading	2 ordinary shares of £1 each	Hayward Tyler Group Limited – 100%
Hayward Tyler Holdings Limited (Registered in the United Kingdom)	Holding company	1,000 ordinary shares of £1 each	Hayward Tyler Group Limited – 100%
Varley Pumps Limited (Registered in the England & Wales)	Trading	2 ordinary shares of £1 each	Hayward Tyler Group Limited – 100%
Hayward Tyler Pension Plan Trustees Limited (Registered in the England & Wales)	Manages pension scheme	1 ordinary share of £1 each	Hayward Tyler Ltd – 100%
Hayward Tyler (India) PTE Limited (Registered in India)	Trading	50,000 equity shares of INR 10 each	Hayward Tyler Group Limited – 100%
Hayward Tyler Holding Inc. (Registered in the USA)	Holding company	100 common shares of par value USD 0.01	Hayward Tyler Holdings Limited – 100%
Hayward Tyler Inc. (Registered in the USA)	Trading	100 common shares of par value USD 0.01	Hayward Tyler Holding Inc. – 100%
Hayward Tyler Pumps (Kunshan) Co. Limited (Registered in China)	Trading	\$250,000	Hayward Tyler Group Limited – 100%
Redglade Investments Limited (Registered in the England & Wales)	Property holding company	100 shares of £1 each	Southbank 100%
Redglade Associates Limited (Registered in the England & Wales)	Property holding company	1 share of £1	Southbank 100%

There are other insignificant subsidiaries which are not listed above as they are dormant.

2.12 Southbank operates out of its office at 19 Crown Passage, St James, London SW1Y 6PP, which is also its registered office. Southbank's register of members is kept with its registrars, Share Registrars Limited, Suite E, First Floor, 9 Lion and Lamb Yard, Farnham, Surrey GU9 7LL. Southbank's statutory books are kept with its company secretary. The Hayward Tyler Group operates from premises at:

- 2.12.1 1 Kimpton Road, Luton, England (main site);
- 2.12.2 41 Glenburn Road, East Kilbride, Scotland (site of fluid handling);
- 2.12.3 480 Roosevelt Highway, Colchester, Vermont, USA (site of Hayward Tyler Inc.);
- 2.12.4 1st Factory, No 243 Huang Pu Jiang Middle Road, Kunshan, China PC215300 (site of Hayward Tyler Kunshan);
- 2.12.5 K-2144 Chiltaranjan Park, New Delhi; – site of Hayward Tyler India; and
- 2.12.6 Office 15, Aberdeen Business Centre, Willowbank Road, Aberdeen.

2.13 A structure diagram of the Enlarged Group is set out below:



### 3. SECURITIES BEING OFFERED/ADMITTED

- 3.1 The Consideration Shares and Placing Shares are ordinary shares with a par value of 1p each in the capital of the Company whose ISIN Number is IM00B511CF53.
- 3.2 The New 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. The Company's register of members is kept by the company secretary in the Isle of Man. Share Registrars, the Company's registrar is responsible for updating and maintaining the register of members.
- 3.3 The dividend and voting rights attaching to the New Ordinary Shares are set out in paragraphs 5.1 and 5.2 of this Part VI.
- 3.4 The New 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 5 below.
- 3.5 Each New 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.
- 3.6 The New Ordinary Shares have no redemption or conversion provisions.
- 3.7 At the annual general meeting of the Company held on 26 March 2009 it was resolved to authorise the directors of the Company to allot for cash, up to, in aggregate, 10,000,000 Existing Ordinary Shares for the purpose of a placing or placings completed prior to the first annual general meeting

following the passing of that resolution (as if article 5.2 of the Articles did not apply to such allotment). Such authority conferred by that resolution was to expire (unless previously renewed, waived or revoked) at the conclusion of the first annual general meeting of the Company following the resolution, or fifteen months from the date of the resolution (whichever is earlier) except that the Directors of the Company may allot Existing Ordinary Shares pursuant to the authority in pursuance of an offer or agreement prior to such next annual general meeting or fifteen months from the date of the resolution (whichever is earlier) and which requires ordinary shares to be allotted after such date. The ordinary resolution was put to the meeting and, upon a show of hands, was declared to have been carried.

- 3.8 At the Extraordinary General Meeting to be held on 15 January 2010 resolutions will be proposed in connection with the Acquisition and Placing involving approving the Acquisition, an increase in the authorised share capital, granting powers of allotment and disapplying pre-emption rights in respect of the allotment of the Consideration Shares and the Placing Shares and for the future grant of options, the consolidation of the authorised share capital, changing the Company's name and amending the Articles by removing certain borrowing restrictions and the restriction on directors' fees.
- 3.9 It is expected that the Consideration Shares and the Placing Shares will be issued on the date of Admission and Admission will occur within 21 days of the Offer becoming or being declared unconditional (save for Admission) or as soon as reasonably practicable.
- 3.10 The New Ordinary Shares are freely transferable provided they 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.
- 3.11 The New Ordinary Shares are subject to the City Code. Under Rule 9 of the City Code ("Rule 9"), any person who acquires, whether by a series of transactions over a period of time or not, an interest in share which (taken together with share 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 City Code, or any person, 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 share 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. In addition, in the event an offeror acquired at least nine-tenths in value of the issued share capital of the company to which the offer related the offeror may in accordance with the procedure set out in section 979 of the 2006 Act require the holders of any shares he has not acquired to sell them subject to the terms of the offer, and such shareholders may in turn require the offeror to purchase such shares on the same terms.
- 3.12 No person has made a public takeover bid for the Company's issued share capital in the financial period to 30 September 2009 or in the current financial period.

#### **4. SHARE CAPITAL**

- 4.1 The Company was incorporated with an authorised share capital of £2,000 divided into 2,000 ordinary shares of £1.00 each. Two such ordinary shares were fully subscribed for and issued at par. Pursuant to a written resolution dated 26 June 2007 the authorised share capital was increased to £100,000 by the creation of a further 98,000 ordinary shares of £1.00 each and then sub-divided into 100,000,000 Existing Ordinary Shares of £0.001 each.
- 4.2 The authorised and issued fully paid up share capital of the Company as at 23 December 2009 was as follows:

<b>Authorised share capital</b>		<b>Issued share capital</b>	
<b>£</b>	<b>Number of Existing Ordinary Shares</b>	<b>£</b>	<b>Number of Existing Ordinary Shares</b>
200,000	200,000,000	66,093.19	66,093,190

- 4.3 The authorised and issued share capital of the Company following Admission and the Placing will (assuming no variation to the terms of the Offer, no further allotment of Southbank Shares and that all outstanding share options have been exercised in respect of Southbank Shares), be as follows:

Authorised share capital		Issued share capital	
£	Number of New Ordinary Shares	£	Number of New Ordinary Shares
400,000	40,000,000	250,907.44	25,090,744

- 4.4 The Offer and Placing will result in the allotment and issue of up to 18,481,425 New Ordinary Shares (assuming no variation to the terms of the Offer, no further allotment of Southbank Shares and that all outstanding share options have been exercised in respect of Southbank Shares), diluting existing Shareholders to 26.34 per cent. of the Enlarged Share Capital.

- 4.5 The par value of each Existing Ordinary Share is £0.001.

- 4.6 The Company has no issued Existing Ordinary Shares that are not fully paid up.

- 4.7 Details of the share capital history of the Company are as follows:

17/05/2006 The Company was incorporated with an authorised share capital of £2,000 divided into 2,000 ordinary shares of £1.00 each. Two such ordinary shares were fully subscribed for and issued at par.

26/07/2007 Pursuant to a written resolution the authorised share capital was increased to £100,000 by the creation of a further 98,000 ordinary shares of £1.00 each and then sub-divided into 100,000,000 Ordinary Shares of £0.001 each.

27/03/2008 At the annual general meeting of the Company it was resolved:

- (i) to increase the authorised share capital of the Company by £100,000 by the creation of a further 100,000,000 Existing Ordinary Shares to rank *pari passu* with the existing share capital of the Company; and
- (ii) to authorise the Directors to allot for cash, up to, in aggregate, 20,000,000 Existing Ordinary Shares for the purpose of a placing or placings completed prior to the first annual general meeting following the passing of the resolution (as if article 5.2 of the Articles did not apply to such allotment). Such authority conferred by the resolution was to expire (unless previously renewed, waived or revoked) at the conclusion of the first annual general meeting of the Company following the passing of the resolution, or fifteen months from the date of the resolution (whichever is the earlier) except that the Directors may allot Existing Ordinary Shares pursuant to the authority in pursuance of an offer or agreement prior to such next annual general meeting or fifteen months from the date of the resolution (whichever is the earlier) and which requires Existing Ordinary Shares to be allotted after such date.

02/07/2008 At an extraordinary general meeting of the Company it was resolved that the Directors be authorised to allot for cash, up to, in aggregate, 28,500,000 (twenty eight million five hundred thousand) Existing Ordinary Shares (as if article 5.2 of the Articles did not apply to such allotment). Such authority conferred by the resolution expired at the conclusion of the first annual general meeting of the Company held on 26 March 2009 except that the Directors may allot Existing Ordinary Shares pursuant to the authority in pursuance of an offer or agreement prior to such annual general meetings and which requires Existing Ordinary Shares to be allotted after such date.

26/03/2009 At the annual general meeting of the Company it was resolved to authorise the Directors to allot for cash, up to, in aggregate, 10,000,000 Existing Ordinary Shares for the purpose of a placing or placings completed prior to the first annual general meeting following the passing of the resolution (as if article 5.2 of the Articles did not apply to such allotment). Such authority conferred by the resolution shall expire (unless previously renewed, waived or revoked) at the conclusion of the first annual general meeting of the Company following the resolution, or fifteen months from the date of

the resolution (whichever is earlier) except that the Directors may allot Existing Ordinary Shares pursuant to the authority in pursuance of an offer or agreement prior to such next annual general meeting or fifteen months from the date of the resolution (whichever is earlier) and which requires Existing Ordinary Shares to be allotted after such date.

- 4.8 It has been brought to the Company's attention that the resolution proposed at the annual general meeting held in March 2009 may not have validly passed. The Articles require that the disapplication of pre-emption rights should be effected by way of a special resolution and not an ordinary resolution as was used in this instance. As no shares have been issued since 26 March 2009 then this defect has not required rectification and, in any event new shareholder authorities are being sought as part of the Proposals.
- 4.9 Save as set out in sections 4 (The Offer), 5 (Details of the Placing and Dealing Arrangements) and 26 (Share Options) of Part I and in paragraph 9.3 of Part VI of this document no share or loan capital in the Company or the Group is under option or is the subject of an agreement, conditional or unconditional, to be put under option and there is no current intention to issue any of the authorised and unissued Ordinary Shares.
- 4.10 Save as set out in sections 4 (The Offer) and 5 (Details of the Placing and Dealing Arrangements) of Part I and in paragraphs 4.2, 4.7 and 9.3 of Part VI of this document no share or loan capital of the Company or of the Group has been issued for cash or other consideration within the period since incorporation of the Company and the date of this document and no such issue is proposed.
- 4.11 There are currently no outstanding convertible securities, exchangeable securities or securities with warrants issued by the Company.
- 4.12 There are no shares in the Company not representing capital.
- 4.13 There are no shares in the Company held by or on behalf of the Company itself or by Subsidiaries of the Company.
- 4.14 Save as set out in sections 1 (Introduction), 4 (The Offer), 5 (Details of the Placing and Dealing Arrangements) and 22 (Extraordinary General Meeting) of Part I and in paragraphs 3.8 and 9.3 of Part VI of this document there are no acquisition rights and/or obligations over the authorised but unissued share capital of the Company and the Company has made no undertaking to increase its share capital.
- 4.15 No person has any preferential or subscription rights for any share capital of the Company.
- 4.16 Isle of Man law does not impose obligations on the directors of a company to issue securities pro rata to the existing Shareholders of the Company, as is the case under sections 549 and 561 of the 2006 Act. Provisions have been included in the Articles which oblige the Directors to seek authority from Shareholders before allotting new Ordinary Shares and confer on Shareholders rights of pre-emption in respect of the allotment of equity securities which are paid up in cash. The relevant provisions of the Articles apply to the authorised but unissued share capital of the Company except to the extent disapplied by the resolution referred to in sub-paragraph 4.7 above.
- 4.17 The New Ordinary Shares will be created under the Acts.
- 4.18 The Articles permit the Company to issue shares in uncertificated form. The New Ordinary Shares will be in registered form and may be held in certificated form or in uncertificated form through CREST.
- 4.19 The Placing Shares that are being issued by the Company under the Placing are being issued at a price of 76 pence per share, representing a premium of 75 pence over their nominal value. The Placing Price is payable in full in cash on application. No applications for Placing Shares have been or will be accepted other than under the terms of the Placing Agreement and the placing letters sent to prospective placees under the Placing. All the Placing Shares have been conditionally placed.
- 4.20 None of the Placing Shares have been sold or are available in whole or in part to the public in conjunction with the application for Admission.

## **5. MEMORANDUM OF ASSOCIATION AND ARTICLES OF ASSOCIATION**

The Companies Act 1986 (the “**1986 Act**”) of the Isle of Man removed the need for the objects of a company incorporated in the Isle of Man after 1 June 1988 to be set out in the memorandum of association of the company, by providing that the company has, subject to the 1986 Act, the capacity and the rights, powers and privileges of an individual. As the Company is a company which was incorporated in the Isle of Man after 1 June 1988, the objects of the company are not set out in its Memorandum but, pursuant to the 1986 Act, the Company has the capacity and, subject to the 1986 Act, the rights, powers and privileges of an individual.

The Memorandum of the Company does not set out any restrictions on the exercise of the rights, powers and privileges of the Company.

The Articles of the Company were adopted pursuant to a written resolution dated 26 June 2007. They contain provisions, *inter alia*, to the following effect:

### **5.1 Votes of Members**

Subject to the provisions of the Acts and to any special terms as to voting on which any shares may have been issued or may for the time being be held and to any suspension or abrogation of voting rights pursuant to the Articles, at any general meeting every member who (being an individual) is present in person or (being a corporation) is present by a duly authorised representative, not being himself a member entitled to vote, shall on a show of hands have one vote and on a poll every member present in person or by proxy or (being a corporation) by a duly authorised representative shall have one vote for each share of which he is the holder.

### **5.2 Dividends**

Subject to the provisions of the Articles, the Company may by ordinary resolution declare that out of profits available for distribution in accordance with Isle of Man law dividends be paid to members according to their respective rights and interests in the profits of the Company available for distribution. However, no dividend shall exceed the amount recommended by the Board. There is no fixed date on which an entitlement to dividend arises.

### **5.3 General Meetings**

Subject to the provisions of the Acts, annual general meetings shall be held at such time and place as the Board may determine.

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. At any meeting convened on such requisition (or any meeting requisitioned pursuant to section 113 of the Isle of Man Companies Act 1931) no business shall be transacted except that stated by the requisition or proposed by the Board. If there are not sufficient members of the Board to convene a general meeting, any Director or any member of the Company may call a general meeting.

An annual general meeting and an extraordinary general meeting convened for the passing of a special resolution or a resolution appointing a person as a Director or (save as provided by the Isle of Man Companies Act 1931) a resolution of which special notice has been given to the Company shall be convened by not less than twenty-one clear days’ notice in writing. Other extraordinary general meetings shall be convened by not less than fourteen clear days’ notice in writing. Notwithstanding that a meeting is convened by shorter notice than that specified in this Article, it shall be deemed to have been properly convened if it is so agreed by all the members entitled to attend and vote at the meeting.

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business but the absence of a quorum shall not preclude the choice or appointment of a Chairman which shall not be treated as part of the business of the meeting. Subject to the provisions of the Articles, two persons entitled to attend and to vote on the business to be transacted, each being a member present in person or a proxy for a member or a duly authorised representative of a corporation which is a member, shall be quorum. If within fifteen minutes (or such longer interval not exceeding one hour as the Chairman in his absolute discretion thinks fit) from the time appointed



for the holding a general meeting a quorum is not present, or if during a meeting such a quorum ceases to be present, the meeting, if convened on the requisition of members, shall be dissolved. In any other case, the meeting shall stand adjourned to later on the same day, to the same day in the next week at the same time and place, or to such other day and at such time and place as the Chairman (or, in default, the Board) may determine, being not less than fourteen nor more than twenty-eight days thereafter. If at such adjourned meeting a quorum is not present within fifteen minutes from the time appointed for holding the meeting one member present in person or by proxy or (being a corporation) by a duly authorised representative shall be a quorum. If no such quorum is present or, if during the adjourned meeting a quorum ceases to be present, the adjourned meeting shall be dissolved. The Company shall give at least seven clear days' notice of any meeting adjourned through lack of quorum (where such meeting is adjourned to a day being not less than fourteen nor more than twenty-eight days thereafter).

#### 5.4 **Variation of rights**

Subject to the provisions of the Acts, 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 (and notwithstanding that the Company may be or be about to be in liquidation) may (unless otherwise provided by the terms of issue of the shares of that class) 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 or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of shares of the class duly convened and held as provided in the Articles. This paragraph shall apply also to the variation or abrogation of the special rights attached to some only of the shares of any class as if each group of shares of the class differently treated formed a separate class the separate rights of which are to be varied. Subject to the terms of issue or the 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 Board resolving that a class of shares is to become or cease to be a share or class of shares or a renounceable right of allotment of a share, title to which is permitted to be transferred by means of a relevant system in accordance with the Uncertificated Regulations.

#### 5.5 **Alteration of capital**

The Company in general meeting may from time to time by ordinary resolution:

- (a) increase its share capital by such sum to be divided into shares of such amount as the resolution prescribes;
- (b) consolidate and/or divide, re-designate or convert all or any of its share capital into shares of larger or smaller nominal amount, or into different classes of shares than its existing shares;
- (c) 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
- (d) subject to the provisions of the Acts, sub-divide its shares or any of them into shares of smaller nominal value than is fixed by the Memorandum of Association of the Company and may by such resolution determine that as between the shares resulting from such sub-division, one or more of the shares may, as compared with the others, have any such preferred, deferred or other special rights or be subject to any such restrictions as the Company has power to attach to unissued or new shares but so that the proportion between the amount paid up and the amount (if any) not paid up on each reduced share shall be the same as it was in the case of the share from which the reduced share is derived.

Subject to the provisions of the Acts and to any rights for the time being attached to any shares, the Company may by special resolution reduce its share capital, any capital redemption reserve, any share premium account or any undistributable reserve in any manner.

Subject to the provisions of the Acts and to any rights for the time being attached to any shares, the Company may enter into any contract for the purchase of any of its own shares of any class (including any redeemable shares) and any contract under which it may, subject to any conditions,

become entitled or obliged to purchase all or any of such shares. Any shares to be so purchased may be selected in any manner whatsoever provided that if at the relevant date proposed for approval of the proposed purchase there shall be in issue any shares of a class entitling the holders to convert into equity share capital of the Company then no such purchase shall take place unless it has been sanctioned by a special resolution passed at a separate general meeting (or meetings if there is more than one class) of the holders of the class of convertible shares.

#### 5.6 **Pre-emption rights**

There are no statutory pre-emption rights under Isle of Man law. Such rights are therefore embodied in the Articles as follows:

Subject as indicated in the paragraph below, and unless the Company shall by special resolution otherwise direct, unissued shares in the capital of the Company shall only be allotted for cash in accordance with the following provisions:

- (a) all shares to be allotted (the “offer shares”) shall first be offered to the members of the Company who the Directors determine can be offered such shares without the Company incurring securities offering compliance costs which, in the opinion of the Directors, would be burdensome given the number of members in the relevant jurisdiction in relation to which such compliance costs would be incurred (the “relevant members”);
- (b) the offer to relevant members set out in sub-paragraph (a) above (the “offer”) shall be made in proportion to the existing holdings of shares of relevant members;
- (c) the offer shall be made by written notice (the “offer notice”) from the Directors specifying the number and price of the offer shares and shall invite each relevant member to state in writing within a period, not being less than fourteen days, whether they are willing to accept any offer shares and, if so, the maximum number of offer shares they are willing to take;
- (d) at the expiration of the time specified for acceptance in the offer notice the Directors shall allocate the offer shares to or amongst the relevant members who shall have notified to the Directors of their willingness to take any of the offer shares but so that no relevant member shall be obliged to take more than the maximum number of shares notified by him under sub-paragraph (c) above; and
- (e) if any offer shares remain unallocated after the offer, the Directors shall be entitled to allot, grant options over or otherwise dispose of those shares to such persons on such terms and in such manner as they think fit save that those shares shall not be disposed of on terms which are more favourable to their subscribers than the terms on which they were offered to the relevant members.

The foregoing provisions shall not, for the avoidance of doubt, apply to the allotment of any shares for a consideration other than cash, and, accordingly, the Directors may allot or otherwise dispose of any unissued shares in the capital of the Company for a consideration other than cash to such persons at such times and generally on such terms as they may think fit.

#### 5.7 **Transfer of shares**

Each member may transfer all or any of his shares in the case of certificated shares by instrument of transfer in writing in any usual form or in any form approved by the Board or in the case of uncertificated shares without a written instrument in accordance with the Uncertificated Regulations. Any written instrument shall 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 shall be deemed to remain the holder of such share until the name of the transferee is entered in the Company’s register of members as the holder of the share.

No transfer of any share shall be made:

- (a) to a minor; or
- (b) to a bankrupt; or

- (c) to any person who is, or may be, suffering from mental disorder and either:
- (i) has been admitted to hospital in pursuance of an application for admission for treatment under the Mental Health Act 1983 (an Act of Parliament) or any similar statute relating to mental health (whether in the United Kingdom, the Isle of Man or elsewhere); or
  - (ii) an order has been made by any court having jurisdiction (whether in the United Kingdom, the Isle of Man or elsewhere) in matters concerning mental disorder for his detention or for the appointment of a receiver, curator bonis or other person to exercise powers with respect to his property or affairs

and the Directors shall refuse to register the purported transfer of a share to any such person.

The Board may in its absolute discretion and without giving any reason refuse to register any transfer of a certificated share unless:

- (a) it is in respect of a share which is fully paid up;
- (b) it is in respect of a share on which the Company has no lien;
- (c) it is in respect of only one class of shares;
- (d) it is in favour of a single transferee or not more than four joint transferees;
- (e) it is duly stamped (if so required);
- (f) it is delivered for registration to the registered office of the Company for the time being, or such other place as the Board may from time to time determine, accompanied (except in the case of a transfer where a certificate has not been required to be issued) 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 and the due execution by him of the transfer or if the transfer is executed by some other person on his behalf, the authority of that person to do so; and
- (g) the holding of such share would not result in a regulatory, pecuniary, legal, taxation or material administrative disadvantage for the Company or its shareholders as a whole including, but not limited to, where such a disadvantage would arise out of the transfer of any share to a Prohibited Person (as defined below),

provided that the Board's discretion may not be exercised in such a way as to prevent dealings in the shares from taking place on an open and proper basis.

The Board shall refuse to register any transfer of shares which is:

- (a) not made (i) in accordance with Regulation S, (ii) pursuant to registration under the US Securities Act or (iii) pursuant to an available exemption from registration under the US Securities Act; or
- (b) made by "qualified purchasers" (as defined in the US Investment Company Act) to "US persons" (as defined in Regulation S) who are not "qualified purchasers".

The registration of transfers of shares or of any class of shares may be suspended at such times and for such periods (not exceeding thirty days in any year) as the Board may from time to time determine (subject to the Uncertificated Regulations in the case of any shares of a class which is a Participating Security as defined below). Notice of closure of the register of members of the Company shall be given in accordance with the requirements of the Acts.

The Board shall register a transfer of title to any uncertificated share or the renunciation or transfer of any renounceable right of allotment of a share which is a share or class of shares or a renounceable right of allotment of a share ("Participating Security"), title to which is permitted to be transferred by means of a relevant uncertificated system in accordance with the Uncertificated Regulations, held in uncertificated form in accordance with the Uncertificated Regulations, except that the Board may refuse (subject to any relevant requirements applicable to the recognised investment exchange(s) to which the shares of the Company are admitted) to register any such transfer or renunciation which is

in favour of more than four persons jointly or in any other circumstance permitted by the Uncertificated Regulations.

#### 5.8 **Compulsory transfer of shares**

If it shall come to the notice of the Board that any shares:

- (a) are or may be owned or held directly or beneficially by any person in breach of any law or requirement of any country or by virtue of which such person is not qualified to own those shares and, in the sole and conclusive determination of the Board, such ownership or holding or continued ownership or holding of those shares (whether on its own or in conjunction with any other circumstance appearing to the Board to be relevant) would in the reasonable opinion of the Board, cause a pecuniary or tax disadvantage to the Company or any other holder of shares or other securities of the Company which it or they might not otherwise have suffered or incurred; or
- (b) are or may be owned or held directly or beneficially by any person that is an employee benefit plan subject to Title I of the US Employee Retirement Income Security Act of 1974, as amended (“ERISA”), or other plan subject to Section 4975 of the US Internal Revenue Code of 1986, as amended, and in the opinion of the Board the assets of the Company may be considered “plan assets” within the meaning of Section 3(42) of ERISA; or
- (c) are or may be owned or held directly or beneficially by any person to whom a transfer of shares or whose ownership or holding of any shares might in the opinion of the Board require registration of the Company as an investment company under the US Investment Company Act; or
- (d) are or may be owned or held directly or beneficially by any “United States person” (as defined in Section 957(c) of the US Internal Revenue Code of 1986, as amended) and such person's shareholding amounts to ten per cent. or more of the shares, unless otherwise approved by the Board

(collectively, a “Prohibited Person”),

the Board may serve written notice (hereinafter called a “Transfer Notice”) upon the person (or any one of such persons whose shares are registered in joint names) appearing in the register as the holder (the “Vendor”) of any of the shares concerned (the “Relevant Shares”) requiring the Vendor within ten days (or such extended time as in all the circumstances the Board consider reasonable) to transfer (and/or procure the disposal of interests in) the Relevant Shares to another person who, in the sole and conclusive determination of the Board, would not fall within paragraph (a), (b), (c) or (d) above (such a person being hereinafter called an “Eligible Transferee”). On and after the date of such Transfer Notice, and until registration of a transfer of the Relevant Shares to which it relates pursuant to the provisions referred to in this paragraph or the paragraph below, the rights and privileges attaching to the Relevant Shares will be suspended and not capable of exercise.

If within ten days after the giving of a Transfer Notice (or such extended time as in the circumstances the Board consider reasonable) the Transfer Notice has not been complied with to the satisfaction of the Board, the Company may sell the Relevant Shares on behalf of the holder thereof by instructing a London Stock Exchange member firm to sell them at the best price reasonably obtainable at the time of sale to any one or more Eligible Transferees. To give effect to a sale the Board may authorise in writing any officer or employee or the secretary of the Company to transfer the Relevant Shares on behalf of the holder thereof (or any person who is automatically entitled to the shares by transmission or by law) or to cause the transfer of the Relevant Shares to the purchaser and in relation to an uncertificated share may require the Operator to convert the share into certificated form and an instrument of transfer executed by that person shall be as effective as if it had been executed by the holder of, or the person entitled by transmission to, the Relevant Shares. The purchaser is not bound to see to the application of the purchase money and the title of the transferee is not affected by any irregularity in or invalidity of the proceedings connected to the sale. The net proceeds of the sale of the Relevant Shares, after payment of the Company's costs of the sale, shall be paid by the Company to the Vendor or, if reasonable enquiries have failed to establish the location of the Vendor, into a trust account at a bank designated by the Company, the associated

costs of which shall be borne by such trust account. The Company may register or cause the registration of the transferee as holder of the Relevant Shares and thereupon the transferee shall become absolutely entitled thereto.

A person who becomes aware that he falls, or is likely to fall, within any of sub-paragraphs (a), (b), (c) or (d) above shall forthwith, unless he has already received a Transfer Notice pursuant to the above provisions either transfer the shares to one or more Eligible Transferees or give a request in writing to the Board for the issue of a Transfer Notice in accordance with the above provisions. Every such request shall, in the case of certificated shares, be accompanied by the certificate(s) for the shares to which it relates.

Subject to the provisions of the Articles, the Board shall, unless any Director has reason to believe otherwise, be entitled to assume without enquiry that none of the shares are held in such a way as to entitle the Board to serve a Transfer Notice in respect thereof. The Board may, however, at any time and from time to time call upon any holder (or any one of joint holders or a person who is automatically entitled to the shares by transmission or by law) of shares by notice in writing to provide such information and evidence as they require upon any matter connected with or in relation to such holders of shares. In the event of such information and evidence not being so provided within such reasonable period (not being less than ten clear days after service of the notice requiring the same) as may be specified by the Board in the said notice, the Board may, in its absolute discretion, treat any share held by such a holder or joint holders or person who is automatically entitled to the shares by transmission or by law as being held in such a way as to entitle them to service a Transfer Notice in respect thereof.

The Board will not be required to give any reasons for any decision, determination or declaration taken or made in accordance with these provisions. The exercise of the powers conferred by the provisions referred to in paragraphs (a) and/or (b) and/or (d) above may not be questioned or invalidated in any case on the grounds that there was insufficient evidence of direct or indirect beneficial ownership or holding of shares by any person or that the true direct or beneficial owner or holder of any shares was otherwise than as appeared to the Board at the relevant date provided that the said powers have been exercised in good faith.

#### **5.9 Disclosure of interests**

Every person who is to his knowledge interested in the voting rights of three per cent. or more of the issued shares of any relevant class of shares in the capital of the Company, shall without delay, give to the Company notice in writing of the following information:

- (a) the amount of shares of the relevant class in which he was to his knowledge directly or indirectly interested immediately after the obligation arose and the percentage of voting rights in the Company held through those shares (and/or any other direct or indirect holding of qualifying financial instruments in such shares); and
- (b) the following information: (i) the identity and address of each registered holder of those shares (and person(s) entitled to exercise voting rights on behalf of such registered holder, if applicable) and the amount of shares then held by each such holder; (ii) the chain of controlled undertakings through which voting rights are effectively held, if applicable; (iii) the date on which the threshold was reached or crossed; and (iv) in respect of any notification of voting rights arising from the holding of financial instruments by that shareholder, the following shall be required:
  - (A) the resulting situation in terms of voting rights;
  - (B) if applicable, the chain of controlled undertakings through which the financial instruments are effectively held;
  - (C) the date on which the threshold was reached or crossed;
  - (D) for financial instruments with an exercise period, an indication of the date or time period where shares will or can be acquired, if applicable;
  - (E) the date of maturity or expiration of the financial instrument;

- (F) the identity of the holder; and
- (G) the name of the underlying issuer of such financial instrument.

#### 5.10 **Suspension of rights**

The Board may at any time serve a notice (“Information Notice”) upon a member requiring the member to disclose to the Board in writing within such period (being no less than ten days and not more than thirty days) as may be specified in the notice, information relating to any beneficial interest of any third party or any other interest of any kind whatsoever which a third party may have in relation to any or all shares registered in the member’s name. If a member has been issued with an Information Notice and has failed in relation to any shares the subject of the Information Notice (“relevant shares”) to furnish any information required by such notice within the time period specified therein, then the Board may at any time following fourteen days from the expiry of the date on which the information required to be furnished pursuant to the relevant Information Notice is due to be received by the Board, serve on the relevant holder a notice (in this paragraph called a “disenfranchisement notice”) whereupon the following sanctions shall apply:

(a) ***Voting***

the member shall not with effect from the service of the disenfranchisement notice be entitled in respect of the relevant shares to be present or to vote (either in person or by representative or proxy) at any general meeting of the Company or at any separate meeting of the holders of any class of shares of the Company or on any poll or to exercise any other right conferred by membership in relation to any such meeting or poll; and

(b) ***Dividends and transfers***

where the relevant shares represent at least 0.25 per cent. in nominal value of their class:

- (i) any dividend or other money payable in respect of the relevant shares shall be withheld by the Company, which shall not have any obligation to pay interest on it and the member shall not be entitled to elect pursuant to the Articles to receive shares instead of that dividend; and
- (ii) subject in the case of uncertificated shares to the relevant Uncertificated Regulations, no transfer, other than an approved transfer, of any relevant shares held by the member shall be registered unless the member is not himself in default as regards supplying the information required pursuant to the relevant Information Notice and the member proves to the satisfaction of the Board that no person in default as regards supplying such information is interested in any of the shares which are the subject of the transfer.

#### 5.11 **Borrowing powers**

Subject to the other provisions of the Articles and to the Acts, the Directors may exercise all the powers of the Company to borrow money, to guarantee, to indemnify and to mortgage or charge its undertaking, property, assets (present and future) and uncalled capital or any part or parts thereof and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party. (Please note there is a proposed resolution to remove this part of this clause from the Articles, subject to the passing of resolution 6 in the Circular.)

#### 5.12 **Retirement by Rotation**

At every annual general meeting one third of the Directors who are subject to retirement by rotation or, if their number is not three or a multiple of three, the number nearest to but not exceeding one third shall retire from office by rotation provided that if there is only one Director who is subject to retirement by rotation, he shall retire.

#### 5.13 **Return of capital**

If the Company is wound up, the surplus assets remaining after payment of all creditors are to be divided among the members in proportion to the capital which at the commencement of the winding up is paid up on the shares held by them respectively and, if such surplus assets are insufficient to repay the whole of the paid up capital, they are to be distributed so that as nearly as may be the losses are borne by the members in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively, subject to the rights attached to any shares which may be issued on special terms or conditions.

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, divide among the members in specie the whole or any part of the assets of the Company and may for that purpose value any assets and determine how the division shall be carried out as between the members or different classes of members. Any such division may be otherwise than in accordance with the existing rights of the members but if any division is resolved otherwise than in accordance with such rights the members shall have the same right of dissent and consequential rights as if such resolution were a special resolution passed pursuant to Section 222 of the Isle of Man Companies Act 1931. The liquidator may with the like sanction vest the whole or any part of the whole 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.

A special resolution sanctioning a transfer or sale to another company duly passed pursuant to Section 222 of the Isle of Man Companies Act 1931 may in the like manner authorise the distribution of any shares or other consideration receivable by the liquidator among the members otherwise than in accordance with their existing rights and any such determination shall be binding on all the members, subject to the right of dissent and consequential rights conferred by the said section.

#### 5.14 **Directors' Interests**

A Director who to his knowledge is in any way (directly or indirectly) interested in any contract arrangement, transaction or proposal with the Company shall declare the nature of his interest at the meeting of the Board at which the question of entering into the contract, arrangement, transaction or proposal is first considered if he knows his interest then exists or, in any other case, at the first meeting of the Board after he knows that he is or has become so interested.

Except as provided below, 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 proposal whatsoever to which (together with any interest of any person connected with him within the meaning of section 346 of the Companies Act 1985 of Parliament) the Company is or is to be a party and in which he has (directly or indirectly) an interest which is material (other than by virtue of his interests in shares or debentures or other securities of, or otherwise in or through the Company) or a duty which conflicts with the interests of the Company unless his duty or interest arises only because the resolution relates to one of the matters set out in the following sub-paragraphs in which case he shall be entitled to vote and be counted in the quorum:

- (a) the giving to him 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 subsidiaries;
- (b) the giving to a third party of any guarantee, security or indemnity in respect of a debt or obligation of the Company or any of its subsidiaries for which he himself has assumed responsibility in whole or in part either alone or jointly with others, under a guarantee or indemnity or by the giving of security;
- (c) where the Company or any of its subsidiaries is offering securities in which offer the Director is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which the Director is to participate;
- (d) relating to another company in which he and any persons connected with him (within the meaning of section 346 of the Companies Act 1985 of Parliament) do not to his knowledge hold an interest in shares (as that term is used in sections 198 to 211 of the Companies Act 1985 of Parliament) representing one per cent. or more of either any class of the equity share capital, or the voting rights, in such company;
- (e) relating to an arrangement for the benefit of the employees of the Company or any of its subsidiaries which does not award him any privilege or benefit not generally awarded to the employees to whom such arrangement relates; or
- (f) concerning insurance which the Company proposes to maintain or purchase for the benefit of Directors or for the benefit of persons including Directors.

An interest of a person who is, for any purpose of the Acts (excluding any such modification thereof not in force when the Articles became binding on the Company), connected with a Director shall be treated as an interest of the Director and, in relation to an alternate Director, an interest of his appointor shall be treated as an interest of the alternate Director without prejudice to any interest which the alternate Director otherwise has.

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. Where proposals are under consideration concerning the appointment (including fixing or varying the terms of appointment or termination) of two or more Directors to offices or places of profit with the Company or any company in which the Company is interested, such proposals may be divided and a separate resolution considered in relation to each Director. In such case each of the Directors concerned (if not otherwise debarred from voting under these Articles) shall be entitled to vote (and be counted in the quorum) in respect of each resolution except that concerning his own appointment.

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 £200,000 per annum or such other sum as the Company in general meeting shall from time to time determine). (Please note there is a proposed resolution to remove this part of this clause from the Articles, subject to the passing of resolution 6 in the Circular.) Executive Directors may be paid money in addition to any fee payable to him for his services as a Director. Each Director is entitled to be repaid all reasonable travelling, hotel and other expenses properly incurred by him in the performance of his duties as a Director.

Subject to the Acts, but without prejudice to any indemnity to which he may otherwise be entitled, every Director, alternate Director, secretary or other officer of the Company (other than an auditor) shall be entitled to be indemnified out of the assets of the Company against all costs, charges, losses, damages and liabilities incurred by him in the actual or purported execution of his duties.

## **6. MANDATORY BIDS, SQUEEZE-OUT AND SELL-OUT RULES RELATING TO ORDINARY SHARES**

### **6.1 Mandatory bid**

The City Code on Takeovers and Mergers presently applies to the Company. Under the City Code, if an acquisition of New Ordinary Shares were to increase the aggregate holding of the acquiror and its concert parties to New Ordinary Shares carrying 30 per cent. or more of the voting rights in the Company, the acquiror and, depending on the circumstances, its concert parties, would be required (except with the consent of the Panel) to make a cash offer for the outstanding New Ordinary Shares at a price not less than the highest price paid for the New Ordinary Shares by the acquiror or its concert parties during the previous 12 months. This requirement would also be triggered by an acquisition of New Ordinary Shares by a person holding (together with its concert parties) New Ordinary Shares carrying between 30 and 50 per cent. of the voting rights in the Company if the effect of such acquisitions were to increase that person's percentage of the voting rights.

### **6.2 Squeeze-out**

Under the Isle of Man Companies Act 1931, if an offeror were to acquire 90 per cent. of the New Ordinary Shares within four months of making its offer, it could then compulsorily acquire the remaining 10 per cent. It would do so by sending a notice to outstanding Shareholders telling them that it will compulsorily acquire their New Ordinary Shares and then it would execute a transfer of the outstanding New Ordinary Shares in its favour and pay the consideration to the Company, which would hold the consideration on trust for outstanding Shareholders. The consideration offered to the Shareholders whose New Ordinary Shares are compulsorily acquired under the Companies Act 1931 must, in general, be the same as the consideration that was available under the takeover offer.

## **7. CORPORATE LAW IN THE ISLE OF MAN**

Isle of Man company law is largely based on that of England, although Isle of Man and English company law differ in certain areas. The principle legislation is the Isle of Man Companies Act 1931 (which is modelled on the Act of Parliament of the same name passed in 1929) although a number of subsequent



amending and supplementary Acts have been passed since 1931. Whilst there are many similarities, differences between Isle of Man companies incorporated under the Isle of Man Companies Acts 1931-2004 (as amended) and English companies incorporated under the 1985 Act include the following:

(a) **Allotment of Shares and Pre-emption Rights**

Isle of Man law does not contain provisions equivalent to section 80 or 89 of the 1985 Act. The general position under Isle of Man law is that the directors of a Manx company have authority to allot and issue un-issued shares in the capital of that company. However it should be noted that similar concepts have been replicated by the Company through the granting of shareholder authorities (see paragraphs 4.7 and 4.8 above) and pre-emption rights in the Articles (see paragraph 5.6 above).

(b) **Disclosure of Interests**

There is currently no requirement under Isle of Man law for a company to keep a register of substantial interests in its voting shares. Part VI of the 1985 Act (Disclosure of Interests in Shares) is not replicated in Isle of Man law. However, the Articles contain express provisions that reflect these requirements (see paragraph 5.9 above).

(c) **Distributable Profits**

The provisions of Part VIII of the 1985 Act (Distribution of Profits and Assets) have not been reproduced in the Isle of Man. Accordingly, the old common law principles established in English case law prior to the introduction of those statutory provisions will determine whether any profits of the Company are distributable under Isle of Man law.

(d) **EGM Short Notice**

The provisions of sub-sections 369(3) and (4) of the 1985 Act have not been replicated under Isle of Man law. Accordingly, the prudent approach is to assume that meetings may only be validly held on short notice with the consent of all the members entitled to attend and vote thereat.

(e) **Financial Statements**

There are no provisions in Isle of Man law entitling a company to send “summary financial statements” to its shareholders in lieu of full statutory accounts. Accordingly, a printed copy of the full statutory accounts must be sent to each Shareholder prior to the Company’s annual general meeting.

(f) **Objects of a company**

The Companies Act 1986 (the “**1986 Act**”) of the Isle of Man removed the need for the objects of a company incorporated in the Isle of Man after 1 June 1988 to be set out in the Memorandum of Association of the company, by providing that the company has, subject to the 1986 Act, the capacity and the rights, powers and privileges of an individual.

## 8. INTERESTS OF THE DIRECTORS, THE PROPOSED DIRECTORS AND OTHERS

8.1 The interests of the Directors, the Proposed Directors and their immediate families (all of which are beneficial unless otherwise stated) and of connected persons within the meaning of section 252 of the 2006 Act in the issued share capital of the Company as at the date of this document and as expected to be immediately following Admission are as follows:

Name	Number of Existing Ordinary Shares	Percentage of issued Existing Ordinary Shares	Number of New Ordinary Shares immediately following Admission	Percentage of Enlarged Share Capital
Christopher Every	2,000,006	3.03	200,000	0.80
Christopher Tawney	0	0	0	0
Duncan Sedgwick	0	0	0	0
Libby Cooper	0	0	0	0
Andrew Cosentino	0	0	0	0
Philip Hollobone	0	0	0	0
John May	0	0	41,963	0.17
Ewan Lloyd-Baker <sup>(1)</sup>	0	0	2,526,196	10.07
Nicholas Flanagan	0	0	0	0
Nicholas Winks	0	0	0	0

(1) On Admission 87,425 of the New Ordinary Shares owned by Ewan Lloyd-Baker will be charged as security in favour of Lloyds TSB Group plc pursuant to an agreement dated 25 May 2007. On admission Ewan Lloyd-Baker will retain the beneficial interest and voting rights associated with these shares.

- 8.2 The Directors have been granted options over Ordinary Shares pursuant to the Share Option Scheme as set out in paragraph 9 below.
- 8.3 There are no outstanding loans granted or guarantees provided by the Company to or for the benefit of any of the Directors or Proposed Directors.
- 8.4 The Directors and Proposed Directors are aware of the following interests (within the meaning of Part 22 of the 2006 Act) in the Existing Ordinary Shares which amount to 3 per cent. or more of the Company's issued share capital. If the Offer is declared unconditional, Consideration Shares will be issued and this Nviro shareholding may represent less than 3 per cent. of the Enlarged Share Capital, depending on the level of acceptances of the Offer and the number of Consideration Shares and Placing Shares issued. In the event of full acceptances these holdings will all represent less than 3 per cent. of the Enlarged Share Capital.

The table below shows holdings of Existing Ordinary Shares as notified to the Company as at 22 December 2009, being the latest practicable date prior to printing this document, together with their percentage interest in the existing issued share capital of the Company:

Name of Shareholder	Number of Existing Ordinary Shares	Percentage of current issued share capital
Bankers Investment Trust plc	4,561,770	6.90
AP-2	4,444,500	6.72
FIL Limited	4,000,382	6.05
Reneg Technologies Limited	2,000,000	3.03
Christopher Every	2,000,006	3.03

- 8.5 Certain of the following Southbank Shareholders hold over 3 per cent. of Southbank's issued share capital and could, if they accept the Offer, subject to the level of acceptances received, hold over 3 per cent. of the Enlarged Share Capital in the event of full acceptances of the Offer, no variation in its terms and all outstanding share options having been exercised in respect of Southbank Shares:

Name of Southbank Shareholder	No. of Southbank Shares	Percentage of current issued share capital of Southbank (fully diluted)	Number of New Ordinary Shares immediately following Admission	Percentage of Enlarged Share Capital
Ewan Lloyd-Baker <sup>(1)</sup>	180,597,824	19.11	2,526,197	10.07
Prism (Registered Charity no. 1099682)	132,942,223	14.07	1,859,591	7.41
Apsley Estates Limited	99,750,000	10.56	1,395,300	5.56
The Nouveau Trust (formerly the Victoria Trust)	85,047,824	9.00	1,189,646	4.74
John D McIntyre	62,176,000	6.58	869,716	3.47
J.M. Finn Nominees Limited	56,944,444	6.03	796,537	3.17
Hayward Tyler Pension Plan	30,000,000	3.17	419,639	1.67

(1) 6,250,000 of the Southbank Shares owned by Ewan Lloyd-Baker were charged as security in favour of Lloyds TSB Group plc on 25 May 2007. Ewan Lloyd-Baker currently retains the beneficial interest and voting rights associated with these shares. 85,047,824 of the Southbank Shares owned by Ewan Lloyd-Baker are outstanding options which he has irrevocably committed to exercise in full prior to Admission.

(2) 85,047,824 of the Southbank Shares owned by The Nouveau Trust are outstanding options which it shall exercise in full prior to Admission.

- 8.6 The voting rights of the Shareholders set out in paragraphs 8.4 and 8.5 of this Part VI do not differ from the voting rights held by other Shareholders.
- 8.7 There is no arrangement under which any Director has waived or agreed to waive future emoluments nor has there been any waiver of emoluments during the financial year immediately preceding the date of this document.
- 8.8 No Director or Proposed Director has any interest, whether direct or indirect, in any transaction which is or was unusual in its nature or conditions or significant to the business of the Company taken as a whole and which was effected by the Company during the current or immediately preceding financial year, or during any earlier financial year and which remains in any respect outstanding or unperformed.

## **9. SHARE OPTION SCHEME**

- 9.1 The Company has adopted two Share Option plans. One is an Enterprise Management Incentive (“EMI”) Option Plan which allows for the grant of EMI options (“the EMI Options”), pursuant to the provisions of Schedule 5 to the Income Tax (Earnings and Pensions) Act 2003 (“ITEPA”). The second plan is an “Unapproved Share Option Plan” which provides for the grant of unapproved options (“the Unapproved Options”). The details of the EMI Options and the Unapproved Options (together, “the Options”) are summarised below.

The EMI Options and the Unapproved Options share a number of common features. Both entitle participants to acquire Ordinary Shares at a price determined in accordance with the rules of the respective plans. It is anticipated that options will be granted at market value. The Options will be exercisable within a period of ten years from the date of grant by a participant who remains a director or employee of the Company or a subsidiary company and subject to the satisfaction of the conditions referred below.

Shares issued and allotted pursuant to exercise of the Options will rank *pari passu* in all respects with Ordinary Shares then in issue except for dividends and other entitlements arising by reference to a date prior to the date on which the relevant option is exercised.

Options may be exercised earlier than the otherwise earliest permissible exercise date (described in more detail below) in certain special circumstances such as death in service, or where events occur which cause the Directors to consider that existing conditions for exercise have become unfair or impractical, in which case they may, in their absolute discretion, allow early exercise or substitute different conditions, provided that those conditions may not be more difficult to satisfy than the original conditions.

In the event of an amalgamation, reconstruction or takeover of the Company, the Options may either be exchanged for options over shares in the acquiring company, or a company associated with the acquiring company, if the acquiring company so consents, or exercised within certain specified periods after the occurrence of such an event. The Options may also be exercised in the event of the voluntary winding up of the Company.

In the event of any capitalisation or rights issue by the Company, or of any consolidation, sub-division or reduction of its share capital, or, if its shareholders approve in general meeting, any other variation in its share capital, the number of shares subject to any option and/or the exercise price may be adjusted by the Directors, with, in the case of the EMI Options, the approval of HM Revenue & Customs, subject to the auditors of the Company for the time being, confirming in writing that such adjustment is, in their opinion, fair and reasonable.

In any ten-year period, not more than ten per cent. of the issued ordinary share capital of the Company for the time being may, in aggregate, be allocated under the Share Option plans or any other employees’ share scheme adopted by the Company.

For the purposes of the above limit, Options which lapse in accordance with the rules of the Share Option plans or are released without being exercised will not be taken into account. References to shares being “allocated” under the Share Option plans refer to unissued Shares being placed under option.

### **9.2 The Company’s Enterprise Management Incentive Share Option Plan**

- (a) EMI has the following additional features:
- (i) Any director or employee of the Company or the group company whose committed time amounts to not less than 25 hours per week, or if less, not less than 75 per cent. of his working time, and who does not hold over 30 per cent. in the Company or other group company, are eligible to participate;
  - (ii) EMI Options may ordinarily be exercised at any time after the date of grant but subject to the Company’s requirements, so that the Directors have power to set conditions of exercise at the date of grant;
  - (iii) Each participant’s personal EMI participation will be limited so that no EMI Options may be granted to an individual under the Share Option plan (or any other discretionary share option scheme approved by HM Revenue & Customs) where the market value of the Shares to be placed under option would exceed £100,000 (or any

other limit which may be imposed from time to time for individual participation under such HM Revenue & Customs approved schemes);

- (iv) Capital gains tax business asset taper relief runs from the date of grant; and
  - (v) In relation to EMI Options, the price payable on exercise of the option may be a price less than the market value of the Ordinary Shares as determined on the date of grant. To the extent that the exercise price is less than the Ordinary Shares' market value at the date of grant, income tax will be payable on exercise, usually by reference to the difference between the option price and the market value at grant. In addition, participants may be asked to agree to bear any employer's national insurance contributions arising in respect of such options.
- (b) Unapproved Options have the following additional features:
- (i) Unapproved Options may ordinarily be exercised at any time after the date of grant but subject to the Company's requirements, so that the Directors have power to set conditions of exercise at the date of grant.
  - (ii) The limits on individual participation applicable to EMI Options do not apply in relation to Unapproved Options.
  - (iii) There is no restriction preventing persons having had a material interest in a close company from being granted Unapproved Options.
  - (iv) The option exercise price for Unapproved Options may be any price but will generally be the market value of the Shares placed under option at the date of option grant.
  - (iv) No option may be exercised under the Unapproved Scheme unless the participant has entered into arrangements satisfactory to the Committee to reimburse the Company for any withholding tax payable and employee's national insurance contributions which in the opinion of the Company falls to be due. In addition, participants may be asked to agree to bear any employer's national insurance contributions arising in respect of such options.

9.3 As at 22 December 2009 (being the last practicable date prior to publication of this document), the Company has granted the following options:

Name	Entitlement	Receivable on Signing Contract	Receivable on External Funding	Receivable as at year end 2007	Receivable as at year end 2008	Receivable as at year end 2009	Receivable as at year end 2010	Receivable as at year end 2011	Exercised	Date	Granted
Chris Every	249,994	0	83,334	83,333	83,333				6	22-Dec-09	15-Jul-06
Peter Rugg	200,000	0	66,666	66,667	66,667						15-Jul-06
Charles Forrester	100,000	50,000	50,000	-	-	-	-	-	50,000	13-Jun-08	15-Jul-06
Patrick Foss Smith	50,000	12,500	12,500	12,500	12,500						15-Jul-06
Bernard Gray	50,000	12,500	12,500	12,500	12,500						15-Jul-06
Kenneth Hughes	50,000	12,500	12,500	12,500	12,500						15-Jul-06
Libby Cooper	70,000	30,000	0	20,000	20,000						27-Dec-06
Philip Hollobone	70,000	30,000	0	20,000	20,000						27-Dec-06
Duncan Sedgwick	70,000	30,000	0	20,000	20,000						27-Dec-06
Fairfax I.S. Plc	542,791	542,791									28-Feb-07
Fairfax I.S. Plc	51,411	51,411									12-May-07
Kenneth Hughes	175,000	-	75,000	-	50,000	50,000	-	-			26-Sep-07
Patrick Foss Smith	75,000		25,000		25,000	25,000					26-Sep-07
Andrew J. Cosentino	70,000	30,000		20,000	20,000						26-Sep-07
Jane Martin	9,000	3,000			3,000	3,000					26-Sep-07
Pippa Grange	15,000	5,000			5,000	5,000					26-Sep-07
Dave Supon	30,000	7,500				7,500	7,500	7,500			9-Oct-08
Rob Colvin	18,000	4,500				4,500	4,500	4,500			1-Dec-08
Christopher Tawney	200,000	50,000				50,000	50,000	50,000			28-May-09
Zhiheng Wu	30,000	7,500				7,500	7,500	7,500			2-Jun-09
Richard Lee	30,000	7,500				7,500	7,500	7,500			22-Jun-09
<b>TOTAL</b>		<b>2,156,202</b>									

9.4 The options granted above have conditions attached to them and will vest when the conditions have been satisfied. The conditions include:

- 9.4.1 options vesting when the person joined the Group;
- 9.4.2 options vesting when the Company received a round of external fundraising and the person is still employed by the Company (this condition was satisfied by the admission of the Company to AIM in August 2007);

- 9.4.3 options vesting if the person is employed by the Company at the end of 2007;
- 9.4.3 options vesting if the person is employed by the Company at the end of 2008;
- 9.4.3 options vesting if the person is employed by the Company at the end of 2009;
- 9.4.3 options vesting if the person is employed by the Company at the end of 2010;
- 9.4.3 options vesting if the person is employed by the Company at the end of 2011.

9.5 An Option may not be exercised later than the tenth anniversary of the date of grant and shall lapse on the earlier of the day immediately prior to the tenth anniversary of the date of grant or earlier if the optionholder dies, ceases to hold office or employment with the Group (set out in further detail below) or the Company is subject to a takeover as defined in the Share Option Scheme rules.

If an optionholder ceases to hold office or employment within the Group for any of the following reasons:

- (a) injury or disability evidenced to the satisfaction of the directors; or
- (b) redundancy (within the meaning of the Employment Rights Act 1996); or
- (c) the transfer of the undertaking or part-undertaking in which the optionholder is employed so that the optionholder becomes employed by a person which is not a Group company; or
- (d) the company by which the optionholder is employed ceasing to be under the control of the Company; or
- (e) any other reason at the discretion of the Directors

all subsisting Options held by such optionholder shall become exercisable and remain exercisable for a period of 90 days after such cessation and to the extent not so exercised within such period shall lapse subject to the Directors' discretion to permit some or all of the Options held by an optionholder to be exercised within such further period as they may specify.

All of the Directors, save for Christopher Every who will become a non-executive director, have agreed to resign from their position with the Company subject to and with effect from Admission, whereupon all Options held by them shall become exercisable and remain exercisable for a period of 90 days after such Admission and to the extent not so exercised within such period shall lapse.

## **10. DIRECTORS' AND PROPOSED DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT**

10.1 Directors' service contracts that have been entered into between the Company and the Executive Directors are summarised below:

10.1.1 Christopher Tawney is the chief financial officer pursuant to a service contract with the Company dated 22 December 2008 pursuant to which he receives an annual salary of £100,000. The agreement is terminable on six months' written notice. Mr Tawney's service arrangements provide for no benefits upon termination of his contract.

10.1.2 Christopher Every is the chief executive officer pursuant to a service contract with the Company dated 20 June 2007 pursuant to which he receives an annual salary of £110,000. The agreement is terminable on six months' written notice. Mr Every's service arrangements provide for no benefits upon termination of his contract.

10.2 Details of the Non-Executive Directors' appointment letters are set out below:

10.2.1 Libby Cooper acts as a non-executive director pursuant to a letter of appointment with the Company dated 20 June 2007 pursuant to which she is required to provide 18 days service per annum and receives a consultancy fee of £1,000 per day. The appointment is terminable on three months' written notice. Ms Cooper's arrangements provide for no benefits upon termination of her contract.

10.2.2 Duncan Sedgwick acts as a non-executive director, and currently as non-executive chairman pursuant to a letter of appointment with the Company dated 20 June 2007 pursuant to which he is required to provide 18 days service per annum and receives a consultancy fee of

£1,150 per day. The appointment is terminable on three months' written notice. Mr Sedgwick's arrangements provide for no benefits upon termination of his contract.

10.2.3 Philip Hollobone acts as a non-executive director pursuant to a letter of appointment with the Company dated 20 June 2007 pursuant to which he is required to provide 18 days service per annum and receives a consultancy fee of £1,000 per day. The appointment is terminable on three months' written notice. Mr Hollobone's arrangements provide for no benefits upon termination of his contract.

10.2.4 Andrew Cosentino acts as a non-executive director pursuant to a letter of appointment with the Company dated 26 September 2007 pursuant to which he is required to provide 18 days service per annum and receives a consultancy fee of US\$1,500 per day. The appointment is terminable on three months' written notice. Mr Cosentino's arrangements provide for no benefits upon termination of his contract.

Each of the appointments referred to at paragraphs 10.1 and 10.2 above will terminate immediately following Admission. Each of the individuals referred to in paragraphs 10.1 and 10.2 above have signed a deed of termination of their respective service agreement or letter of appointment subject to Admission.

10.3 Details of the Proposed Directors' service contracts and appointment letters are set out below:

10.3.1 Subject to Admission, John May has agreed to act as Chairman and non-executive director pursuant to a letter of appointment with the Company dated 22 December 2009 pursuant to which he will be required to provide up to 48 days service per annum and he will receive a consultancy fee of £55,000 per annum. The appointment is terminable on 6 months' written notice. Mr May's arrangements provide for no benefits upon termination of his contract.

10.3.2 Subject to Admission, Ewan Lloyd-Baker has agreed to act as the chief executive officer pursuant to a service contract with the Company dated 22 December 2009 pursuant to which he will receive an annual salary of £180,000. The agreement is terminable on 12 months' written notice. Mr Lloyd-Baker's service arrangement provides for no benefits upon termination of his contract. Mr Lloyd-Baker is not restricted in any way under his service agreement to pursue his other business interests.

10.3.3 Subject to Admission, Nicholas Flanagan has agreed to act as finance director pursuant to a service contract with the Company dated 22 December 2009 pursuant to which he will receive an annual salary of £150,000. The agreement is terminable on 12 months' written notice. Mr Flanagan's service arrangement provides for no benefits upon termination of his contract.

10.3.4 Subject to Admission, Nicholas Winks has agreed to act as non-executive director pursuant to a letter of appointment with the Company dated 22 December 2009 pursuant to which he will be required to provide up to 36 days service per annum and he will receive a consultancy fee of £24,000 per annum. The appointment is terminable on 3 months' written notice. Mr Wink's arrangements provide for no benefits upon termination of his contract.

10.3.5 Subject to Admission, Christopher Every has agreed to act as non-executive director pursuant to a letter of appointment with the Company dated 22 December 2009 pursuant to which he will be required to provide up to 36 days service per annum and he will receive a consultancy fee of £36,000 per annum. The appointment is terminable on 3 months' written notice. Mr Every's arrangements provide for no benefits upon termination of his contract.

10.4 There are no service contracts in existence between any Director or Proposed Director and the Enlarged Group which cannot be determined by the relevant company without payment of compensation (other than statutory compensation) within one year and none of the service contracts referred to in this paragraph have been amended in the last six months.

10.5 Under arrangements currently in force, the aggregate remuneration and benefits in kind paid to the Directors for the financial period ending 30 September 2008 was £302,000.

## 11. ADDITIONAL INFORMATION ON THE BOARD

11.1 In addition to directorships of the Company the Directors and Proposed Directors hold or have held the following directorships (including directorships of companies registered outside England and Wales) and have been partners of the following partnerships within the five years prior to the date of this document:

### 11.1.1 Christopher Every

*Current:* Brimac Environmental Services Limited  
Brimac Environmental Group Limited  
Vertus Technologies UK Limited  
Enhance Life Sciences Limited  
Crest Energy Limited  
Laseair Limited  
Microrelease Limited  
Nviro Cleantech Limited  
Stillclear Environmental Limited  
Nviro Cleantech, Inc  
Vertus Technologies US, LLC

*Past:* Accelerated Business Growth (UK) Limited  
Atrium Environmental Limited  
Enhance Biotech Inc.  
Enhance Lifesciences Limited  
Sanika Limited  
Tactics Automation Limited  
Hybrid Pharma Limited  
Shotgun Limited

Christopher Every has made known that between 1992 and 1996 he was party to an individual voluntary arrangement from which he was released on time, as confirmed by a letter dated 18 August 1997 from Simmons Gainsford Chartered Accountants and Registered Auditors, the supervisor of the arrangement, following cash flow difficulties the height of the early 1990's recession during self employment.

Sanika Limited was compulsorily wound up on 2 July 2007. It was dissolved on 24 October 2007.

Christopher Every was a director of Stillclear Environmental Limited which was the subject of a creditor's voluntary liquidation that commenced in December 2008.

### 11.1.2 Christopher Tawney

*Current:* Laseair Limited  
Microrelease Limited  
Nviro Cleantech Limited

*Past:* Watts Blake Bearne and Company Limited  
WBB Minerals (Holdings) Limited  
Devon and Courtenay Clay Company Limited  
Newton Abbots Clays Limited  
North Devon Clay Company Limited  
Sibelco Minerals and Chemicals (Holdings) Limited  
WBB Devon Clays Limited  
WBB Eastern Europe Limited  
WBB Technology Limited  
Arnold Sands Limited  
Associated Silicas Limited  
British Industrial Sand (Scotland) Limited  
Fordath Limited  
Ilamian Limited  
Sibelco UK Limited

**Christopher Tawney** (*continued*)

*Past:* Fordath UK Limited  
WBB Minerals Pension Trustee Limited  
D1 Oils plc  
D1 (UK) Limited  
D1 Oil Subsidiary Limited  
D1 Oils Plant Science Limited  
D1 Oils Trading Limited  
Chemical Packing Co, (Acton) Limited  
Feslente Limited  
Fordath Developments Limited  
Hinckley Estates Limited  
Marshall Foundry Products Limited  
WBB Industrial Ceramics Limited  
Devon Kaolin Production Company Limited

11.1.3 **Andrew Cosentino**

*Current:* Prize Mobile Group Plc  
Inflect Technologies Limited  
First London Plc

*Past:* Torus IB Plc

11.1.4 **Libby Cooper**

*Current:* Nviro Cleantech Limited

*Past:* EJG Cooper Limited

11.1.5 **Philip Hollobone**

*Current:* None

*Past:* Kettering Means Business Limited  
Nviro Cleantech Limited

11.1.6 **Duncan Sedgwick**

*Current:* Gateway Management Solutions Limited

*Past:* Telecentric Solutions Limited  
Tempest Networks Limited  
Association of Energy Suppliers  
Energy Retail Association Limited  
The Ombudsman Service Limited  
Energysure Limited  
Nviro Cleantech Limited

11.1.7 **John May**

*Current:* Southbank UK Plc  
The Small Business Bureau Limited  
The Time Traveller Company Limited  
The Genesis Initiative Limited  
Tomco Energy Plc  
Coolcharm Gold Mining Company Limited  
International Entrepreneurs Academic Forum Limited  
Major Broadcasting Corporation Limited  
The Lisa May Foundation  
Media World Networks Limited  
Denholm's Noni Juice Limited  
Tvone (Europe) Limited  
Enterprise 24/7 Limited



**John May** *(continued)*

**Current:** K&M Russia Limited  
K&M China Limited  
K&M India Limited  
K&M Financial Group Limited  
Expresso Express Company Limited  
City & Westminster Advisers Limited  
Healthspac Limited  
China Pub Company Plc  
Red Leopard Holdings Plc  
City & Westminster Plus Limited  
Red Leopard Management Limited  
Harrell Hotels (Europe) Limited  
Petrolatina (CA) Limited  
Petrolatina Energy Plc  
Taghmen Argentina Limited  
City & Westminster Holdings Limited  
City & Westminster Law Limited  
Bury Street Services Limited  
Defence Asset Solutions Limited  
City & Westminster Consultants LLP  
City & Westminster Corporate Finance LLP  
International Consolidated Minerals, Inc  
International Consolidated Minerals Limited  
International Consolidated Minerals (UK) Limited  
International Consolidated Minerals (Peru) Limited  
Extreme Mobile Coatings Corporation Limited  
Avatar Systems, Inc  
London & Pacific Partners, Inc  
White Mountain Titanium Corporation  
Phoenician Corporation III Limited

**Past:** PSG Marketing Limited  
Platinum Diversified Mining, Inc  
Howarth Clark Whitehill  
Albion Plaza Limited  
Audiotel International Limited  
L & Bi Holding Limited  
London & Boston Investments plc  
Moore & Buckle (Flexible Packaging) Limited  
Patersons Financial Services Limited  
PSG Franchising Limited  
Rochdale Development Co Limited  
Security Research Limited  
Croma Group plc  
Netcentric Solutions Limited  
Stoneburn Limited  
Opulus Resources (UK) Limited  
Association of Personal Property Searchers Limited  
PSG Financial Services Limited

11.1.8 **Ewan Lloyd-Baker**

**Current:** Southbank UK Plc  
Lloyd-Baker & Associates Limited  
Redglade Associates Limited  
Crown Passage House Limited  
Appleton & Howard Limited

**Ewan Lloyd-Baker** *(continued)*

**Current:** Capital Engineering Services Limited  
Hayward Tyler Group Ltd  
Hayward Tyler Holdings Ltd  
Hayward Tyler Ltd  
Hayward Tyler Subsea Ltd  
Hayward Tyler Fluid Dynamics Limited  
Sumo Pumps Limited  
Hayward Tyler Engineered Products Limited  
Varley Pumps Limited  
Redglade Investments Limited  
First Merchant Capital UK Ltd  
Lloyd Baker & Associates (an unincorporated partnership)

**Past:** Broughton Homes (Burghfield) Limited  
Broughton Homes (Preston) Limited  
Broughton Homes (Houghton) Limited  
Broughton Homes (Berkeley) Limited  
First Broughton Group UK Limited  
China Pub Company UK Limited  
China Pub Company plc  
Royal Thames Yacht Club Limited  
Axestore Limited  
Green Frog Limited  
Hayward Tyler Trustees Limited  
First Merchant Capital Investors Limited  
Iceberg Ventures LLP (member)  
Half Moon Capital Limited  
Republican Capital Limited  
Fidelity Credit Limited

11.1.9 **Nicholas Flanagan**

**Current:** Southbank UK Plc

**Past:** None

11.1.10 **Nicholas Winks**

**Current:** Southbank UK Plc  
Waypoint Investors LLP  
Tekdata Interconnections Limited  
Tekdata Holdings Limited  
Hospital Entertainment Limited  
Patientline Canada Limited  
KMB Telemarketing Limited  
Waypoint Holdings Limited  
Institute for Turnaround Limited  
Welland Supplies Limited  
Panacea Group (Holdings) Limited  
Polysource Holdings Group Limited  
Caspian Media Holdings Limited  
Tekdata Group Limited

**Past:** Tekdata Distribution Limited  
Hospedia Limited  
Trustline Limited  
CHH Telecoms Limited  
JUBB Limited  
Patientline Plc  
Patient Limited  
Claimar Care Group PLC

11.2 Save as otherwise disclosed none of the above Directors or Proposed Directors has:

- any unspent convictions in relation to indictable offences;
- had any bankruptcy order made against him or entered into any voluntary arrangement;
- been a director of a company which has been placed in receivership, compulsory liquidation, administration, been subject to a voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors whilst he was a director of that company or within the 12 months after he ceased to be a director of that company;
- been a partner in any partnership which has been placed in compulsory liquidation, administration or been the subject of a partnership voluntary arrangement whilst he was a partner in that partnership or within the 12 months after he ceased to be a partner in that partnership;
- been the owner of any assets or a partner in any partnership which has been placed in receivership whilst he was a partner in that partnership or within the 12 months after he ceased to be a partner in that partnership;
- been publicly criticised by any statutory or regulatory authority (including recognised professional bodies);
- been disqualified by a court from acting as a director of any company or from acting in the management or conduct of the affairs of a company;
- been within five years of the date of this Document or is currently a director of a company or a partner in a partnership.

## **12. RELATED PARTY TRANSACTIONS**

Save as set out in Part II Financial Information on Nviro Cleantech Limited and Nviro Cleantech plc at note 17 to Section 1A, note 26 to Section 2A and note 26 to Section 3A of this document, neither the Company nor any member of the Group has entered into any related party transactions (being those set out in the standards adopted according to the Regulation (EC) No. 1606/2002) that were entered into by the Group for the period from 28 October 2005 to 30 September 2006, and for the years ended 30 September 2007 and 30 September 2008 or during the period from 30 September 2008 to 22 December 2009 (the latest practicable date prior to the publication of this document).

## **13. MATERIAL CONTRACTS**

The following contracts, not being contracts entered into in the ordinary course of business, (i) have been entered into by the Nviro Group or Southbank Group within the two years immediately preceding the date of this document and are, or may be, material or (ii) have been entered into by the Nviro Group or Southbank Group at any other time and contain provisions under which the Nviro Group or Southbank Group have any obligations which are material as at the date of this document:

### **13.1 Lock-in Deeds**

Lock in deeds (the "Lock-in Deeds") have been entered into by each of Christopher Every, Ewan Lloyd-Baker, John May and Tristan Lloyd-Baker (the "Locked-in Shareholders"), the Company and Fairfax.

Pursuant to the terms of the Lock-in Deeds, the Locked-in Shareholders have irrevocably undertaken to the Company and Fairfax that for a period of 12 months following Admission they will not dispose of any legal, beneficial or any other interest in any security of the Company.

The restrictions on disposals in the Lock-in Deeds will not apply in the following limited circumstances:

- (a) any disposal pursuant to the acceptance of a general, partial or tender offer (as defined in the City Code) made to acquire the whole or part of its issued share capital of the Company;
- (b) any disposal made pursuant to an intervening Court order; and
- (c) in the case of Locked-in Shareholders who are individuals, any disposal made in the event of death.

### 13.2 **Placing Agreement**

The Company has entered into a placing agreement dated 22 December 2009 with the Directors and Proposed Directors, Fairfax and Grant Thornton Corporate Finance under which Fairfax has agreed to use its reasonable endeavours to procure subscribers for the Placing Shares at the Placing Price.

The Placing Agreement is conditional, *inter alia* on:

- (a) the Admission Document and all other documents required to be submitted with the application to the London Stock Exchange or published, being so delivered to the London Stock Exchange or published;
- (b) the Offer having been declared unconditional in all respects save for any condition relating to Admission;
- (c) Nviro Shareholders passing all resolutions to be proposed at the Extraordinary General Meeting (without amendment); and
- (d) Admission having occurred on or before 8.00 a.m. on 20 January 2010 or such later date as Grant Thornton Corporate Finance, Fairfax and the Company agree in writing, but in any event not later than 12 March 2010.

Under the terms of the Placing Agreement, the Company shall pay (subject to Admission occurring) to Fairfax a placing commission of five per cent. of the aggregate value, at the Placing Price of the Placing Shares.

The Company, the Directors and the Proposed Directors have given various warranties to Fairfax and Grant Thornton Corporate Finance. The Company also indemnifies Fairfax and Grant Thornton Corporate Finance in respect of all losses and claims which arise directly or indirectly out of or in connection with the provision of services to the Company, save in certain limited circumstances.

Grant Thornton Corporate Finance or Fairfax may, in their absolute discretion and following consultation with each other, terminate the agreement if at any time prior to Admission, either of Grant Thornton Corporate Finance and Fairfax is of the reasonable opinion that any warranty is untrue, inaccurate or misleading in any material respect, a condition of the agreement has not been satisfied or an event of *force majeure*, including a material adverse change, has occurred.

- 13.3 The Company has entered into a nominated adviser (“nomad”) agreement dated 22 December 2009 with Fairfax, pursuant to which the Company has appointed Fairfax to act as nomad to the Company for the purposes of the AIM Rules for Companies with effect from the date of Admission. The Company has agreed to pay Fairfax a fee of £25,000 per annum (payable quarterly in advance), plus VAT for its services as nomad. The agreement contains certain undertakings and indemnities from the Company in respect of, amongst other things, compliance with applicable laws and regulations. The agreement is for a fixed period of 12 months from the date of Admission and may be terminated with 3 months’ notice by either party thereafter.

### 13.4 **Balama Nviro Limited**

On 28 April 2008 Balama Nviro Limited and Shenyang Coal Trade (Group) Co Ltd entered into an agreement to perform project feasibility studies, fuel testing and evaluation studies in order to understand how a successful business partnership could be structured between the two companies. Projects identified include the treatment of coals from Shenyang Coal Mines for use at the Hongyang Dengta heat and power generation site, for use at future Hongyang Dengta power sites, and for sale to steel manufacturing external to the Shenyang Coal group.

No obligations for payments or further work exist with this agreement.

The agreement was due to run until 1 October 2008, with a provision for a further agreement to be entered into between the parties based on the heads of terms set out in the appendix to this agreement. However due to commercial changes in the Chinese economy entry into a further agreement is currently static.

### 13.5 **Vertus**

On 1 June 2007 Vertus Technology Limited (“Vertus”) entered into an agreement with 3R Environmental Technologies Limited (“3RET”) under which 3RET grants Vertus an exclusive,

transferable, worldwide irrevocable exclusive license to the background IPR in the relevant field. Vertus will own the IPR in the results of the commercialisation research. Vertus agreed to pay a license fee of US\$2,500,000 in 3 installments, the third installment, due on the first receipt of gross sales revenue has not occurred yet. Pursuant to this agreement Vertus has been paying a fee of 11,000 Euros per month for the services of Edward Someus as an adviser and Technical Director to Vertus Technologies Inc. over the term of the Agreement. Edward Someus and Vertus have agreed a three month waiver of this fee which commenced on 1 October 2009 and they will reopen discussions following Admission.

Vertus is responsible for the registration and maintenance costs of any patents, know-how or other intellectual property rights, The agreement may be terminated on a date agreed in writing between the parties, by Vertus immediately upon written notice to 3RET in the event of departure of key personnel, if 3RET undergoes any change in its legal beneficial ownership or in the event of a material breach by either party, or a party ceasing to carry on business for any reason. The agreement is governed by English law and submitted to the non-exclusive jurisdiction of the English courts.

On 4 November 2008 Vertus Technology Industrial Limited LLC (“Vertus Technology”) entered in to a Master Coal Purchase and Sale agreement, together with various ancillary agreements, with Cincinnati Bulk Terminals (“CBT”). This was the first commercial site of Vertus. As stated in section 2 (Background to and Reasons for the Offer) of Part I of this document there were various setbacks and the agreement (together with the ancillary agreements) were terminated by Vertus Technology by written notice on 11 August 2009.

There are no remaining obligations under the terms of the Master Agreement.

#### 13.6 **Microrelease technology**

On 11 December 2006 Microrelease Limited (“MRL”) and the Company entered into an agreement with FIRA under which FIRA agreed to grant MRL a sole license to use the background technology in the relevant field throughout the world, but subject to obtaining the consent of FIRA for use in countries where no relevant patents are granted. FIRA owns the IPR in the results of the commercialisation research and grants to MRL a sole license to use those results on worldwide basis for the field. MRL will pay FIRA a royalty of 2.5 per cent. of the gross sales revenue. MRL has made no payments of to FIRA. In consideration of the grant of the license, MRL issued to FIRA ordinary shares at a nominal sum totalling 20 per cent. of the issued share capital of MRL. MRL has invested in the full cost of the research, development and marketing of the technology to date.

MDF has been proven to pilot stage with manufactured product utilised in major shop fitting tests.

MRL remains obligated to pay the costs associated with maintaining or adding to existing patents and intellectual property for the technology.

Termination can take place by either party giving 3 months written notice to the other party requesting a review of the project, irrespective of whether the review takes place or not, or terminate immediately upon written notice by one party to the other in the event of a material breach by either party, or a party ceasing to carry on business for any reason or in the event of key personnel being no longer able to work on the project.

#### 13.7 **Organotect Lab-on-a-chip technology**

On 18 July 2006 Organotect (“OTI”) entered into an agreement relating to the Lab-on-a-chip technology with Casect Limited (“Casect”) under which Casect agreed to grant to OTI an exclusive license to use the background IPR in the technology in the relevant field. Casect owns the IPR in the results of commercialisation research and agrees to license these results to OTI on an exclusive, worldwide basis for the field. In consideration of the grant of the license Casect was granted 35 per cent. of the shares in OTI.

The technology, for a field based detection system, has been developed to prototype stage.

OTI remains obligated to pay the costs associated with maintaining or adding to existing patents and intellectual property for the technology.

Termination may take place on three months written notice by either party to the other after the sate of a notice requesting a review of the project, irrespective of whether the review takes place or not,

or terminate immediately upon either party, or a party ceasing to carry on business for any reason or in the event of key person no longer being able to work on the project.

#### 13.8 **Laseair technology**

On 20 November 2006 Laseair Limited (“LAL”) entered into an agreement with the University of Glasgow under which the University of Glasgow agreed to grant LAL exclusive license to use the background IPR in the technology in the relevant field. The University owns the IPR in the results of commercialisation research and agrees to license these results to LAL on an exclusive, worldwide basis for the field. The licenses are states to remain in effect for at least 15 years, or the life of the patents, however if LAL does not exploit the results within three years of the end of the development project then the licenses will terminate. LAL will pay the University of Glasgow a royalty of 2.5 per cent. of the gross sales revenue. In consideration for the grant of the license LAL has issued 10 ordinary shares at a nominal sum to each of the University of Glasgow (GU Holdings Limited) and Dr Ian Watson.

Laboratory testing on this clear air technology that utilises a low energy source laser to clear and decontaminate air has been completed.

OTI remains obligated to pay the costs associated with maintaining or adding to existing patents and intellectual property for the technology.

Termination may take place on three months written notice by either party to the other after the sate of a notice requesting a review of the project, irrespective of whether the review takes place or not, or terminate immediately upon either party, or a party ceasing to carry on business for any reason or in the event of key person no longer being able to work on the project.

#### 13.9 **Crawley Green Works Lease**

On 7 February 2008, Redglade Investments Limited entered into a deed of variation with Hayward Tyler Limited and Hayward Tyler Group Limited in relation to a lease dated 6 March 2009 between the same parties. The original lease granted Hayward Tyler a term of 25 years at a rent of £687,000 per annum in relation to Crawley Green Works, Kimpton Road, Luton. Hayward Tyler Group Limited acts as surety. Rent reviews were 3 March 2011 and every fifth anniversary of that date. The variation was an extension of the term by 20 months and an amendment of the rent review process; the review periods are now on 1 August in each year and rent is increased in line with RPI.

#### 13.10 **Glenburn Road Lease**

On or around 18 December 2008, Redglade Associates Limited entered into a deed of variation with Hayward Tyler Limited and Hayward Tyler Group Limited in relation to a lease entered into in 2006 between the same parties. The original lease was for a term of 25 years at a rent of £105,000 per annum in relation to Glenburn Road, East Kilbride. Hayward Tyler Group Limited acts as surety. Rent reviews were 3 March 2011 and every five years thereafter. The variation was an extension of the term by 20 months and an amendment of the rent review process; the review periods are now on 1st August in each year and rent is increased in line with RPI.

#### 13.11 **Kimpton Road Lease**

On 6 January 2009, Hayward Tyler Limited entered into a lease with Systems Scaffolds Contracts Limited (“SSC”) granting SSC the right to occupy certain office space and yard at Kimpton Road, Luton for 3 years at a rent of £20,000 per annum.

#### 13.12 **Aberdeen Business Park Lease**

On 26 February 2009, Hayward Tyler entered into a lease with Aberdeen City Council to occupy Office 15 at Aberdeen Business Park on an on-going basis at £720 per month.

#### 13.13 **Cross Guarantee**

In October 2006 a corporate cross guarantee and set-off agreement was entered into by Southbank and a number of its subsidiaries in relation to guaranteeing monies and liabilities due and owing from the Southbank Group to Lloyds TSB Bank plc (“Lloyds”) as security pursuant to the Lloyds banking facilities.

#### 13.14 **Bristol and West**

On 12 April 2006, Redglade Investments Limited entered into a business loan agreement with Lloyds for a loan of up to £6,250,000 in order to refinance its borrowing with Bristol and West plc and for



### **13.16 Chittenden Bank**

On 14 July 2008, Hayward Tyler Inc agreed to a loan facility with Chittenden Bank for a sum of US\$750,000 repayable with interest by 1 June 2010. Interest accrues at the prime rate as published in the Daily Wall Street journal.

### **13.17 Security**

Various debentures over the companies in the Southbank Group as security in relation to the above referred banking facilities.

## **14. LITIGATION**

14.1 Neither the Company and/or the Group is or has been involved in any governmental legal or arbitrational proceedings (including any such proceedings which are pending or threatened of which the Company is aware) during the 12 months preceding the date of this document which may have, or has had a significant effect on the financial position or profitability of the Company and/or the Group.

14.2 Save as disclosed in 14.3 below, neither Southbank and/or the Southbank Group is or has been involved in any governmental legal or arbitrational proceedings (including any such proceedings which are pending or threatened of which the Company is aware) during the 12 months preceding the date of this document which may have, or has had a significant effect on the financial position or profitability of Southbank and/or the Southbank Group.

14.3 Curry v Garlock US – Hayward Tyler has been named as one of 90 defendants in an asbestos lawsuit in the US issued in 2001 in which the nine individual plaintiffs are claiming to have been injured as a result of exposure to asbestos and/or asbestos-containing products. Hayward Tyler has instructed a law firm with a watching brief. The case has not yet been scheduled for trial. The plaintiffs have not yet specified the amount claimed against Hayward Tyler and Southbank believes the claim amount is unquantifiable.

## **15. WORKING CAPITAL**

The Company is of the opinion that the Group has sufficient working capital for its present requirements, that is, for at least 12 months from the date of publication of this document. This statement has been made for the purposes of the Prospectus Rules.

The Directors and Proposed Directors are of the opinion that, having made due and careful enquiry, the working capital available to the Enlarged Group will be sufficient for its present requirements, that is, for at least the next twelve months from the date of Admission. This statement has been made for the purpose of the AIM Rules for Companies.

## **16. TAXATION**

The information below, which is of a general nature only and which relates only to UK and Isle of Man, is applicable to the Company and to persons who are resident or ordinarily resident in the UK (except where indicated) and who hold Ordinary Shares as an investment and not as an asset of the financial or other trade. It is based on existing law and practice and is subject to subsequent changes therein. Any change in the Company's tax status or in taxation legislation in the Isle of Man or the UK or any other tax jurisdiction affecting Shareholders could affect the value of the investment held by the Company or affect the Company's ability to achieve its investment objective for the Ordinary Shares or alter the post-tax returns to Shareholders. Any Shareholders who are in any doubt as to their tax position should consult their own professional advisor without delay.

No statements are made with respect to the ownership of or disposal of ordinary shares in any other jurisdiction and shareholders who are citizens of, or resident or ordinarily resident in, countries other than the UK are strongly encouraged to seek independent professional advice in connection with the local tax consequences of investing in Ordinary Shares.

### **16.1 Isle of Man Taxation**

The Isle of Man Government has introduced a general zero per cent. tax rate for companies with effect from 6 April 2006. The Company is resident for tax purposes on the Isle of Man and is currently subject to income tax at the rate of zero per cent. An annual return fee of £320 is payable.



Shareholders resident in the Isle of Man will, depending upon their particular circumstances, be liable to Manx income tax on dividends received from the Company. The Company is not presently required to withhold monies for tax purposes under Manx law.

Shareholders resident outside the Isle of Man will have no liability to Manx income tax on dividends received from the Company.

There is no capital gains tax, inheritance tax, stamp duty or SDRT in the Isle of Man. A probate fee may be payable in respect of the estate of a deceased Shareholder, up to a current maximum of £631.

## 16.2 **UK taxation**

The following information is given in summary form only and is based on tax legislation as it exists at the present time. The information relates to the tax position of holders of Ordinary Shares in the capital of the Company who are resident or ordinarily resident in the United Kingdom for tax purposes. The statements below do not constitute advice to any Shareholder on his or her personal tax position, and may not apply to certain classes of investor (such as persons carrying on a trade in the United Kingdom or United Kingdom insurance companies).

This is only a summary of the tax reliefs available to investors and should not be construed as constituting advice. A potential investor should obtain advice from his or her own investment or taxation adviser before subscribing for Ordinary Shares.

### *Income Tax*

Under current United Kingdom taxation legislation, no withholding tax will be deducted from dividends paid by the Company.

Dividends paid by the Company will carry an associated tax credit of one-ninth of the cash dividend or ten percent of the aggregate of the cash dividend and associated tax credit. Individual shareholders resident in the UK receiving such dividends will be liable to income tax on the aggregate of the dividend and associated tax credit at the dividend basic rate (10 per cent.) or the dividend higher rate (32.5 per cent.).

The effect will be that the taxpayers who are otherwise liable to pay at only the lower rate or basic rate of income tax will have no further liability or income tax in respect of such a dividend. Higher rate payers will have an additional liability (after taking into account the tax credit) of 22.5 per cent. of the aggregate of the cash dividend and the associated tax credit, or an effective rate of 25 per cent. of the dividend actually received. Individual shareholders whose income tax liability is less than the tax credit will not be entitled to claim a repayment of all or part of the tax credit associated with such individuals.

From 6 April 2010, a new rate of tax has been introduced for individuals with taxable income in excess of £150,000. For those individuals who suffer tax at the new higher rate, the dividend will be subject to tax at 42.5 per cent. less any deemed tax credit (an effective tax rate of 36.1 per cent. of the dividend received).

With certain exceptions for traders in securities, a holder of Ordinary Shares that is a company resident (for taxation purposes) in the United Kingdom and receives a dividend paid by the Company, will not be subject to tax in respect of the dividend.

### *Taxation of capital gains made by shareholders*

- (a) A UK resident individual shareholder who disposes of, or who is deemed to dispose of, their shares in the Company may be liable to capital gains tax in relation thereto at a flat rate of 18 per cent. of any gain thereby realised. The rate of tax may be reduced to an effective tax rate of 10 per cent. If the conditions for entrepreneurs relief are met. In computing the gain, the shareholder should be entitled to deduct from proceeds the cost to him of the shares (together with incidental costs of acquisition and disposal).
- (b) A UK resident corporate shareholder disposing of its shares in the Company may be liable to corporation tax on chargeable gains in relation thereto at the usual rates of corporation tax applicable to it (currently 21-28 per cent. depending on the taxable profits of the shareholder).

In computing the chargeable gain liable to corporation tax, the shareholder is entitled to deduct from the disposal proceeds, the cost to it of the shares, together with incidental costs of acquisition, as increased by indexation allowance, and disposal costs.

In some circumstances, a shareholder may be exempt from corporation tax in relation to its disposal of shares under the substantial shareholding exemption or be able to reduce the quantum of the gain by capital and/or income losses arising to the corporate shareholder.

***Stamp Duty and Stamp Duty Reserve Tax***

No United Kingdom stamp duty will be payable on the issue by the Company of Ordinary Shares.

Transfers of Ordinary Shares for value will give rise to a liability to pay United Kingdom *ad valorem* stamp duty, or stamp duty reserve tax, at the rate in each case of 50p per £100 of the amount or value of the consideration (rounded up in the case of stamp duty to the nearest £5). Transfers under the CREST system for paperless transfers of shares will generally be liable to stamp duty reserve tax.

Any person who is in any doubt as to his or her tax position or who may be subject to tax in any jurisdiction other than the United Kingdom should consult his or her own professional adviser.

**17. CREST**

The Ordinary Shares will be admitted to CREST, the computerised share transfer and settlement system. CREST is a paperless settlement system allowing securities to be transferred from one person's CREST account to another without the need to use share certificates or written instruments of transfer. The system allows shares and other securities to be held in electronic form rather than paper form, although a Shareholder can continue dealing based on share certificates and stock transfer forms. For private investors who do not trade frequently, this latter course is likely to be more cost effective.

With effect from Admission, it will be possible for CREST members to hold and transfer the Ordinary Shares within CREST. For more information concerning CREST, shareholders should contact their broker or, alternatively, Euroclear UK & Ireland Limited at 33 Cannon Street, London EC4M 5SB.

**18. INTELLECTUAL PROPERTY**

18.1 Nviro has a series of current licenses and IPR in relation to the Vertus technology, Microrelease technology, Organotect technology and Laseair technology. The Group has been dependent upon licenses of patents, know-how and other intellectual property granted by third parties to conduct its business. Only the IPR relating to the Vertus technology will have an effect on the Enlarged Group's business.

The material IPR held by Nviro are as follows:

***Vertus technology***

<b>Patent No.</b>	<b>Name</b>	<b>Territory</b>	<b>Applicant</b>	<b>Current Status</b>
P0700048.	Method for the conversion of low grade coal to anthracite-type clean coal	Hungary	3R Environmental Technologies Limited	Published
US5707592 (A)	Method and apparatus for treatment of waste materials including nuclear contaminated materials.	US	Edward Someus	Published

***Organotect technology***

<b>Patent No.</b>	<b>Name</b>	<b>Territory</b>	<b>Applicant</b>	<b>Current Status</b>
GB2344212	Plasma Generator	GB	Casect Ltd	Published
9825722	Plasma Chip	GB	Casect Ltd	Application
WO 00/32017	Plasma Generator	PCT	Casect Ltd	Published

***Microrelease technology***

<b>Patent No.</b>	<b>Name</b>	<b>Territory</b>	<b>Applicant</b>	<b>Current Status</b>
GB 20030016574 20030716	Recycling of wood based panels	GB	FIRA International Limited	Published

GB2410746A	Recovery components from lignocellulose based board materials	GB	FIRA International Limited University of Wales, Bagnor	Published
WO 2005/0079 08A1	Recycling of lignocellulose based board materials	International PCT	FIRA International Limited	Published
04743469.1	Recycling of lignocellulose based board materials	Europe (PCT States)	FIRA International Limited	Under negotiation, not yet filed
US 2006/0254731A1	Recycling of lignocellulose based board materials	USA	FIRA International Limited	Published
AU2004257920	Recycling of lignocellulose based board materials	Australia	FIRA International Limited	Published
BRP10412564-9	Recycling of lignocellulose based board materials	Brazil	FIRA International Limited	Published

*Microrelease technology (continued)*

Patent No.	Name	Territory	Applicant	Current Status
CA2532346	Recycling of lignocellulose based board materials	Canada	FIRA International Limited	Published
CN 1836069	Recycling of lignocellulose based board materials	China	FIRA International Limited	Published
NZ544667	Recycling of lignocellulose based board materials	New Zealand	FIRA International Limited	Published

*Laseair technology*

Patent No	Name	Territory	Applicant	Current Status
35255	Decontamination apparatus and method	GB	UoG-I Watson	Applied
35256	Electro decontamination apparatus and method	GB	UoG - I Watson	Applied

18.2 Southbank has a series of current trade marks in relation to its products, details of the material trade marks are set out in the following table:

Trade Mark	No.	Class	Region	Agent	Renewal Date	Registered Owner
Hayward Tyler	2268575	7,37	UK	A.A. Thornton	27.04.2011	H.T. Group Limited
	2220788	7,37	EU	A.A. Thornton	27.04.2011	H.T. Group Limited
Hayward Tyler Monogram	2842	7	UK	A.A. Thornton	28.02.2012	H.T. Ltd
	2850	7	UK	A.A. Thornton	28.02.2012	H.T. Ltd
Sumo	609267	7	UK	A.A. Thornton	03.10.2012	H.T. Ltd
	A86449	7	Australia	A.A. Thornton	20.03.2012	H.T. Ltd
	A161938	12	Australia	A.A. Thornton	20.03.2012	H.T. Ltd
Varley	1153109	7	UK	A.A. Thornton	25.04.2012	H.T. Ltd
	1175470	9	UK	A.A. Thornton	22.05.2013	H.T. Ltd
Tylerite	559461	7	Benelux	A.A. Thornton	12.10.2014	H.T.F.D.L.
Wave Logo	2268602	7,37	UK	A.A. Thornton	27.04.2011	H.T. Group Limited
	2220705	7,37	EU	A.A. Thornton	27.04.2011	H.T. Group Limited
Partsmart	2423102	7,37	UK	None appointed	27.05.2016	H.T. Ltd

## 19. SIGNIFICANT CHANGE

There has been no significant change in the financial or trading position of the Company since 31 March 2009, the end of the last financial period for which interim financial information has been published.

There has been no significant change in the financial or trading position of Southbank since 30 June 2009, the end of the last financial period for which interim financial information has been published.

## **20. GENERAL**

- 20.1 The gross proceeds of the Placing are expected to be £4.0 million. The total costs and expenses relating to the Offer, 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 are estimated to amount to approximately £0.9 million (excluding applicable Value Added Tax), (excluding any costs incurred by Southbank), of which approximately £0.2 million is payable in commission pursuant to the Placing Agreement. The net proceeds of the placing are expected to be £3.2 million.
- 20.2 Monies received from applicants pursuant to the Placing will be held by Fairfax until such time as the Placing Agreement becomes unconditional in all respects. If the Placing Agreement does not become unconditional in all respects by 20 January 2010 (or such later date as Grant Thornton and the Company may agree), application monies will be returned to applicants at their risk 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.
- 20.3 The Articles are, consistent with (a) the holding of the Ordinary Shares in uncertificated form, (b) the transfer of title to Ordinary Shares by means of a relevant system and (c) the Regulations. Accordingly, the Directors have resolved to permit the holding of Ordinary Shares in uncertificated form and the transfer of title to Ordinary Shares each by means of a relevant system. For these purposes CREST is the relevant system.
- 20.4 Grant Thornton UK LLP whose registered office is Grant Thornton House, Melton Street, Euston Square, London NW1 2EP is a member of the Institute of Chartered Accountants of England and Wales and has given and not withdrawn its written consent to the inclusion of its reports set out in Parts III and IV of this document in the form and context in which they are included. Having taken all reasonable care to ensure that such is the case, Grant Thornton UK LLP confirms that the information contained in Parts III and IV is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.
- 20.5 Grant Thornton Corporate Finance has given and not withdrawn its written consent to the inclusion in this document of references to its name in the form and context in which it appears.
- 20.6 Fairfax has given and not withdrawn its written consent to the inclusion in this document of references to its name in the form and context in which it appears.
- 20.7 It is expected that definitive share certificates will be dispatched by hand or first class post during the week commencing 25 January 2010. In respect of uncertificated shares it is expected that Shareholders' CREST stock accounts will be credited on 20 January 2010.
- 20.8 The Directors and Proposed Directors are unaware of any exceptional factors which have influenced the Company's or Southbank's activities.
- 20.9 Save for the Acquisition, there are no investments in progress which are significant.
- 20.10 The Placing has not been guaranteed or underwritten.
- 20.11 The Company has signed an agreement with Regus plc for a three month license of 16 Hanover Square, London W1S 1HX commencing on 1 November 2009 at a rate of £2,700 per month plus VAT and the license can be extended for monthly periods on one month's notice.
- 20.12 Within this document, where information has been sourced from a third party, the Company confirms that this information has been accurately reproduced and, insofar as the Company is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.
- 20.13 The Directors and Proposed Directors are not aware of any arrangements under which future dividends are waived or agreed to be waived.

- 20.14 The making of an offer in relation to Ordinary Shares to persons who are resident in, or citizens of, countries other than the UK may be affected by the law or regulatory requirements of the relevant jurisdictions. Any person outside the UK wishing to acquire Ordinary Shares must satisfy himself as to the full observance of the laws of any relevant territory in connection therewith, including obtaining and observing any requisite formalities and paying any issue, transfer or other taxes due in such territory.
- 20.15 No person receiving a copy of this document in any territory other than the UK may treat the same as constituting an offer or invitation to him unless, in the relevant territory, such an invitation or offer can lawfully be made to him without contravention of any registration or other legal requirements.
- 20.16 Save as disclosed in paragraphs 10 and 13 of this Part VI no person directly or indirectly (other than the Company's professional advisers and trade suppliers) has:
- (a) received, directly or indirectly, from the Company, within the twelve months preceding the date of this document; or
  - (b) entered into contractual arrangements to receive, directly or indirectly, from the Company on or after Admission any of the following:
    - (i) fees totalling £10,000 or more;
    - (ii) securities in the Company where these have a value of £10,000 or more calculated by reference to the Placing Price; or
    - (iii) any other benefit with a value of £10,000 or more at the date of Admission.
- 20.17 Save as disclosed in section 18 (Environmental Issues) of Part I of this document, the Directors and Proposed Directors are not aware of any environmental issues that may affect the Company's utilisation of its tangible fixed assets.
- 20.18 To the best of the knowledge of the Company there are no 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 of control of the Company.
- 20.19 To the extent known by the Company, at Admission the Company will not be owned or controlled by any specific party or group of parties.
- 20.20 Save as set out in this document the Company had no principal investments for each financial year covered by the historical financial information and there are no principal investments in progress and there are no principal future investments on which the Board has made a firm commitment.
- 20.21 There are no provisions in the Articles which would have the effect of delaying, deferring or preventing a change of control of the Company.
- 20.22 Save as disclosed in the section titled "Risk Factors" which starts on page 8 of this document, so far as the Directors and Proposed Directors are aware there are no known trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the Enlarged Group's prospects for at least the current financial year.
- 20.23 No public takeover bids have been made by third parties in respect of the Company's issued share capital in the current financial year nor in the last financial year.
- 20.24 The Placing Shares represent 79.63 per cent. of the Existing Ordinary Shares and their issue will result in a corresponding level of dilution.
- 20.25 The Consideration Shares represent 199.99 per cent. of the Existing Ordinary Shares and their issue will result in a corresponding level of dilution.
- 20.26 No Director or Proposed Director or any member of the Director's or Proposed Director's family (as such term is defined in the AIM Rules for Companies) has any related financial product (as such term is defined in the AIM Rules for Companies) referenced to any Ordinary Shares.

20.27 Save for the fact that:

- (a) Ewan Lloyd-Baker is a director and shareholder of First Merchant Capital UK Limited, a company which provides support services and serviced offices to the Southbank Group;
- (b) Ewan Lloyd-Baker is a partner of Lloyd-Baker & Associates, a partnership which provides directors' and corporate finance services to the Southbank Group;
- (c) Ewan Lloyd-Baker is a director of Redglade Associates Limited which is the freeholder of 41-43 East Kilbride, Scotland which is leased to the Southbank Group;
- (d) Ewan Lloyd-Baker is a director of Redglade Investments Limited which is the freeholder of 1 Kimpton Road, Luton which is leased to the Southbank Group;
- (e) John May is a director and a shareholder of China Pub Company plc, a company in which Southbank has an investment; and
- (f) John May is a partner in City and Westminster Corporate Finance LLP, a partnership which provides professional and legal services to the Southbank Group.

there are no potential conflicts of interest between the duties of any Director or Proposed Director to the Company and their private interest and/or other duties.

20.28 Hayward Tyler has a defined benefit pension scheme which was closed to future accruals of pension benefits on 1 June 2003. According to its last triennial valuation as at 1 January 2008, the fund was in deficit on an ongoing valuation basis on the assumptions adopted in that valuation of £1.377 million. Further information in respect of the pension scheme is set out in the section of this document headed 'Risk Factors' on page 8 and in section 12 (Operating and Financial Review) of Part I of this document.

## **21. AVAILABILITY OF DOCUMENTS**

Physical copies of the following documents will be available for inspection during normal business hours on any weekday (Saturday and Sunday excepted) at the offices of McFaddens LLP of City Tower, 40 Basinghall Street, London EC2V 5DE, from the date of this document and for a period of one month from the date of Admission:

- (a) the Memorandum and Articles of the Company;
- (b) the unaudited interim accounts of the Company for the financial period ended 31 March 2009;
- (c) the unaudited interim accounts of Southbank for the financial period ended 30 June 2009;
- (d) the historic financial information of Nviro for each of the last two financial years preceding the date of this document;
- (e) the historic financial information of Southbank for each of the last three financial years preceding the date of this document;
- (f) the admission document of Nviro dated 26 July 2007;
- (g) the service agreements referred to in paragraph 10 above;
- (h) the material contracts referred to in paragraph 13 above;
- (i) the written consents referred to in paragraph 20 above;
- (j) the Offer Document;
- (k) the Circular; and
- (l) this document.

Dated: 23 December 2009



