

**Specialist Energy Group plc**  
**(“Specialist Energy Group”, the “Group” or the “Company”)**

**4<sup>th</sup> April 2011**

**Specialist Energy Group plc**  
**(“SEG” or the “Company”)**

**Final Results for the Year Ended 31 December 2010**

Specialist Energy Group plc (AIM: SEGR.L), the specialist engineering group, today announces its audited results for the year ended 31 December 2010. SEG operates through its wholly-owned subsidiary, Hayward Tyler Group Ltd (“Hayward Tyler”), the worldwide market leader in the design, engineering and manufacturing of boiler circulating pumps for the global energy market.

**Financial Highlights:**

- Revenue up 5% to £38.5 million (2009: £36.8 million)
- Gross profit margin up to 34.9% (2009: 31.7%)
- Operating profit\* up 52% to £3.6 million (2009: £2.4 million)
- Profit after tax\* up 23% to £2.0 million ((2009: £1.6 million)
- Net debt\*\* halved to £6.7m at 31 December 2010 (2009: £13.7m)
- Exceptional one-off costs associated with the reverse acquisition and closure of Nviro operations of £3.7 million

\* measured on a trading basis

\*\* net debt represents cash less borrowings

**Business Highlights:**

- Reverse acquisition and readmission to AIM completed in January 2010
- New capital raised of £5.0 million pre expenses in December 2010 to support exports to India and expansion of US business
- Order intake increased to £30.1 million (2009: £29.2 million)
- New unit visibility through 2012 led by orders from China, India and Oil & Gas
- Continuing operational focus on Hayward Tyler delivering positive results

**John May, Non-executive Chairman of SEG plc, commented:**

“Our main operating subsidiary, Hayward Tyler, has made strong progress with it recording a significant increase in its operating profit. Likewise, our forward order book is growing with both the manufacturing and aftermarket sides of the business performing well.

"As a result we look to the future with increased confidence and expectations given the strengthening of our balance sheet and the growing opportunities in the markets in which we operate. We are also pleased that the exceptional one-off items associated with the reverse and readmission to AIM are now behind us."

**About Specialist Energy Group Plc**

Specialist Energy Group operates through its wholly owned subsidiary, Hayward Tyler Group Ltd, which is a worldwide market leader in the design, engineering and manufacturing of boiler circulating pumps for the global energy market. It has market leading positions in the growing markets of China and India, as well as the US nuclear market. Hayward Tyler’s main office is in Luton, United Kingdom.

**Contact:**

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## Chairman & Chief Executive’s Statement

It gives us great pleasure to announce the audited results for the 12 month period ended 31 December 2010, our first annual report as Specialist Energy Group plc (“SEG”) following the reverse acquisition, £4 million placing and Alternative Investment Market (“AIM”) readmission in January 2010 together with the successful completion of a £5 million placing in December 2010.

As we stated at the time of the readmission and later at the interims the Group has continued to make good progress in our Hayward Tyler Group Limited (“Hayward Tyler”) subsidiary. Hayward Tyler is the market leader in the design, manufacture and service of critical application pumps and fluid filled motors to the power generation and oil and gas markets. That business has continued to deliver further operational improvements and again has delivered a year on year increase in revenues, gross and operating profits.

### Overview

Revenue grew by 4.7% (5.0% before the impact of foreign exchange) to £38.5 million, a particularly pleasing result given the challenging market conditions. However of greater significance was the further improvement in Hayward Tyler’s gross and operating margins. Gross profit margin increased to 34.9% (2009: 31.7%) reflecting the continued enhancement in the underlying operational performance of the manufacturing business (through better customer terms, improving supply chain management and the shipment of legacy lower margin contracts). Operating profit\* improved by 52% to £3.6 million (2009: £2.4 million) again reflecting the improved performance of the manufacturing business and the strong focus on the aftermarket.

On a trading basis profit after tax was £2.0 million (2009: £1.6 million) giving an undiluted trading earnings per share of 8.25 pence (2009: 15.17 pence per share). This swing in profitability is particularly encouraging given our previously stated intent to focus on the Hayward Tyler business and the quality of earnings it generates.

Working capital management continued to remain a focus for the Group during the year as the turbulence in the financial markets, wider macro-economic uncertainty and continued tightened liquidity levels across the banking sector made funding Hayward Tyler’s growth challenging. The changing dynamic in the order book where new business was won but with a lower proportion of progress payments impacted cash generation during the year. In total a net £4.6 million of progress payments and payments on account unwound during the year thus in effect offsetting any cash generation funded through profits and using up facility headroom. We have now addressed this as an operational issue through firstly raising funds to strengthen the Group’s ability to underwrite and finance new business and also identifying more flexible funding lines to support the export led growth.

### Business Activities

One of the strengths of the Hayward Tyler business is the balance between the two business divisions of manufacturing and aftermarket (which includes both servicing and spares). As a world leader in the provision of fluid filled electric motors and pumps there is a strong correlation between being the provider of the original equipment (“OEM”) and the provider of aftermarket services relating to that original equipment (both in terms of servicing and also spares).

### MANUFACTURING

The manufacturing division of Hayward Tyler continued to make significant progress in both revenue (£18.6 million for the full year compared to £9.8 million at the half year) and margin terms with operating margins before central costs of 7.2% for the full year (compared to 6.7% at the half year). Incorporating products from remote maintenance pumps (for application in Sellafeld) to Varley gear pumps (for large marine diesel applications) to the core BCP product the focus has continued to remain on improving margins and reducing delivery times to customers. A restructuring of the

manufacturing division has aided this process resulting in ongoing improvements in terms of contract negotiation, visibility and project management. Lead times on BCPs have been reduced down to less than 12 months thus adding a further competitive advantage in the eyes of our customers.

\* measured on a trading basis (see note 2.7)

#### AFTERMARKET

After a relatively slow start to the year revenues and margins picked up in the second half to deliver revenues of £19.9 million for the full year (compared to £8.8 million at the half year) with the operating margin before central costs increasing to 23.3% (from 13.6% at the half year). The aftermarket continues to be driven predominantly by the provision of spares to the existing installed base (of which Hayward Tyler has the dominant market share) but also by field service work across the globe. The ability to deliver high and consistent levels of customer service combined with a distinguished brand and reputation help differentiate Hayward Tyler from its local competitors.

#### NVIRO

The Group has continued with its planned exit from the legacy Nviro technologies, selling the tangible assets of Vertus in July 2010. The Group still retains its clean coal technology intellectual property and associated costs and cashflows have been reduced to an immaterial level. Discussions continue with a number of parties in terms of potential licensing/revenue sharing opportunities but these are peripheral to the core operations of Hayward Tyler and have no impact on the operational management team.

#### Market overview

The anticipated improvement in demand for the new unit business materialised as expected in the second half taking the order intake to £16.3 million (H1 £13.8 million) and an annual total of £30.1 million (2009: £29.2 million). The order book was £21.6 million at the year-end, which was split between manufacturing at £12.9 million and aftermarket of £8.7 million. The decline in the order book at the year-end was a culmination of the increased shipments and lower levels of new units order intake in the first half of 2010. It is therefore very encouraging that the previously anticipated improvement in the order book has come to fruition and following the announcement in February of £5.9 million of new orders combined with further orders won since then the order book now stands at £22.2 million (split between manufacturing of £14.4 million and aftermarket of £7.8 million). The main driver for manufacturing being new BCP business won in the power generation sector in India and China combined with a resurgence in oil and gas related orders particularly for seawater lift and firewater pumps. As explained above the lead time on the manufacturing side of the business is circa 12 months and this means that the business now has an order book stretching out beyond Q1 2012. On the aftermarket side the order book has been driven by some large spares orders for nuclear and desalination applications and with a shorter lead time, typically being 3-6 months the increase towards the end of 2010 is encouraging for the current year.

#### Prospects & Outlook

As mentioned above we were delighted to have completed a £5 million placing in December 2010. This has had a very positive benefit on the group not just in terms of reducing the net debt position but also enabling Hayward Tyler to continue to fund new business wins and enhance the Group's ability to re-bank. It was very encouraging to welcome on board a number of new institutional investors alongside the support of our existing investors and we are grateful to both for their continued support.

Given the significant strengthening of the Group's balance sheet, the overall reduction in debt levels, the considerably improved operating performance of Hayward Tyler and the recent pick up in the new unit orders on the manufacturing side the Group is looking to the future with increased confidence. Operational improvements continue to be driven through the business whilst reducing delivery times to customers and enhancing our global competitiveness.

Finally we would especially like to thank all of our 332 employees who have worked hard during the past year against a backdrop of uncertain economic conditions but who by their enthusiasm and tenacity have ultimately produced the results which we now present to you.

John May – Non-executive Chairman

Ewan Lloyd-Baker – Chief Executive Officer

April 2010

## Financial Review

### Business combination

On 20 January 2010 Southbank UK plc (“Southbank”) completed the reverse into Nviro Cleantech plc (“Nviro”) with Nviro becoming the ultimate parent company of the combined group and new capital of £4.0 million before expenses being raised. The enlarged group was admitted to AIM and Nviro was re-named Specialist Energy Group plc.

### Basis of reporting

The Group financial statements in this report have been prepared in accordance with International Financial Reporting Standards (“IFRSs”). This is the first report of the Group since the reverse acquisition and standard accounting practice requires that the comparative figures are those relating to Southbank, further details of which are set out in note 36. In line with the Board’s previously stated intention to focus the Group’s resources on the Hayward Tyler business, the operations of Nviro have been closed down (see note 36 for further details). To provide clarity to the results they have been analysed between *trading* and *non-trading* where trading represents the underlying business performance and non-trading includes the one-off costs of the reverse acquisition, closing down Nviro and the non-cash fair valuing of derivative contracts.

### Results overview

The Group has delivered a strong set of results. Revenue increased by 4.7% to £38.5 million (2009: £36.8 million), driven by the manufacturing operations of Hayward Tyler. Gross profit margin increased to 34.9% (2009: 31.7%), which delivered a trading operating profit of £3.6 million (2009: £2.4 million). The trading EBITDA (earnings before interest, tax, depreciation and amortisation) for the year was £4.3 million (2009: £3.0 million) (see note 9).

The Group is exposed to the US Dollar through its operating business in the USA and from UK exports to China. Of the 4.7% increase in revenue from 2009 to that in 2010, the underlying growth of the business was 5.0%, marginally offset by the weakening of the US Dollar against Pound Sterling.

The non-trading operating loss is stated after a non-trading charge for closing down the clean technology operations of Nviro of £3.7 million, which related to the final costs of the reverse acquisition (£0.1 million), closure of the Nviro operations (£0.8 million) and non-cash impairment of goodwill associated with the reverse acquisition (£2.8 million) (see note 15).

The non-cash finance charge for the period includes the impact of fair valuing derivatives of £1.2 million (2009: gain on fair valuing derivatives £1.6 million). The underlying interest cost was £0.6 million (2009: £0.9 million).

The trading profit for the year was £2.0 million (2009: £1.6 million), which delivered a trading earnings per share of 8.25 pence (2009: 15.17 pence).

### Taxation

There is a tax charge for the year of £0.9 million (2009: tax credit £0.7 million), which represents a trading tax charge for the year of £0.9 million (2009: tax credit of £0.3 million) and a non-trading deferred tax charge of £15,000 (2009: £0.4 million). The trading tax charge of £0.9 million represents tax payable on profits in the USA (2009: £1.0 million).

### Statement of financial position

Total equity increased by £10.6 million in the year driven by the issue of shares and the profit from trading operations in the period offset by the loss from closing the Nviro operations and the impact of fair valuing derivatives. The issue of shares included a placing of £4.0 million (before costs) in January 2010 at the time of the reverse acquisition, of which £3.0 million was used to prepay borrowings, and a further placing of £5.0 million (before costs) in December 2010 to support Hayward Tyler’s exports to India and the expansion of its operations in the USA.

### Cash flow and treasury

Cash flow and working capital management is a key area of focus for Group and operational management. As Southbank, the Group has previously written about the impact of a difficult credit

climate together with a general squeeze on working capital and the experience in 2010 was no different. In addition, the lower level of progress payments from customers has also impacted liquidity (see *Progress payments and payments on account* below). However, increased profitability and strong working capital management helped to mitigate this impact as shown below.

	<b>Trading</b> £000
Trading EBITDA (note 9)	4,294
Movement in working capital before progress payments and payments on account	<u>1,562</u>
<b>Cash generated from operations before progress payments and payments on account</b>	<b>5,856</b>
Movement in progress payments and payments on account	<u>(4,628)</u>
Cash generated from operations after progress payments and payments on account	<u>1,228</u>

The foreign exchange risk management policy of the Group is to hedge its transaction exposures (i.e. cash flows from UK exports and imports together with the repatriation of net profits from the operating business in the USA) on a rolling 12 month basis. Gains and losses relating to movements in fair values of the hedging products, which are non-cash items, are recorded in the income statement. Such a gain has occurred during 2010 (£0.1 million) and the effect has been excluded in arriving at trading profit before tax in the consolidated income statement.

#### **Progress payments and payments on account**

The Group's standard terms of trade for longer term contracts require a customer to make progress payments and payments on account during the life of the contract to fund the related working capital in whole or in part. Typically such terms have been procured from customers operating in China and the Oil & Gas sector but not those based in India. Accordingly, the level of such payments held by the Group is dependent on the mix of contracts in the order book.

The aggregate of progress payments and payments on account fell significantly during 2010 from £7.4 million at 1 January to £2.8 million at the year end (see notes 24 and 25). This reduction reflects the unwinding of China and Oil & Gas contracts in the order book at 31 December 2009 and their replacement by a prevalence of orders from Indian customers that do not provide such payments. Accordingly, the Group has sought alternative means to fund working capital for its longer term manufacturing contracts. This funding has been achieved first of all from the proceeds of the share placing in December 2010 and, secondly, from new borrowing arrangements (see *Borrowings* below).

#### **Borrowings**

Net debt decreased from £13.7 million at 31 December 2009 to £6.7 million at 31 December 2010 (see note 22), which reflects cash generated from trading operations (see table above), proceeds from the issue of shares and cash in Nviro offset by the costs of the reverse acquisition, closure costs of the Nviro operations and reduction in the level of progress payments from customers. The net debt to EBITDA ratio at 31 December 2010 was strong at 1.6 times (2009: 4.6 times) and interest cover\* for the year was again strong at 6.7 times (2009: 3.0 times). Headroom, which represents cash plus undrawn committed facilities, was £4.7 million at 31 December 2010 (2009: £0.8 million).

\* Calculated as EBITDA : interest payable

Net debt includes term borrowings of £6.9 million (2009: £10.4 million). The term borrowings include £0.8 million at a fixed rate of interest of 6.515% and £5.6 million with an interest rate swap attached that converts borrowings to a fixed rate of interest of 5.87%. The remaining term borrowings of £0.5 million have a floating rate of interest. In addition, the Group has a number of other facilities including a local overdraft arrangement, bonds and guarantees, foreign exchange facilities and around £0.2 million of finance leases. Gains and losses relating to movements in fair values of the instruments associated with the fixed rate borrowings are recorded in the income statement. Such a loss has occurred during 2010 (£1.3 million) and the effect has been excluded in arriving at trading profit before tax in the consolidated income statement.

As part of the reverse into Nviro £3.0 million of term borrowings was prepaid and two year committed borrowing facilities were provided to the Group. At 31 December 2010 these facilities were made-up of a revolving borrowing facility of £4.35 million and term debt of £6.427 million.

The Group is currently working on creating a revised suite of banking facilities that:

- Extend the debt maturity profile of its borrowings;
- Increase the amount of borrowing facilities available to the Group focused on working capital; and
- Provide more flexible terms and conditions.

These facilities, the majority of which are committed for four to ten years, will replace all of the Group's banking arrangements set out above except for the £0.5 million floating rate term borrowings and the finance leases. The new facilities are expected to be activated in the second quarter of 2011, subject to agreeing exit terms with the existing lender, which includes the release of security.

The increased borrowing facilities include trade finance arrangements that will support the Group's export business. These arrangements, which match inventory with trade finance borrowings, effectively replace operational gearing, provided by progress payments from customers, with financial gearing.

### **Pensions**

Within the UK the Group operates 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 offered membership of the defined contribution plan. The majority of UK employees are members of one of these arrangements.

A full actuarial valuation of the defined benefit plan is produced every three years (the last one being as at 1 January 2008 with a revised valuation due to be completed no later than 31 March 2012), however, a valuation is prepared annually to 31 December for the purposes of the annual report by independent qualified actuaries. The net obligation has reduced slightly in the year to £2.6 million from £2.8 million at 31 December 2009.

Details of pensions and employee obligations are given in note 28 to the financial statements.

N Flanagan  
Finance Director  
April 2011

## Statement of Financial Position

	Notes	Group		Company	
		At 31 December 2010 £000	At 31 December 2009 £000	At 31 December 2010 £000	At 31 December 2009 £000
<b>Non-Current Assets</b>					
Goodwill	15	2,219	2,219	-	-
Other intangible assets	16	1,098	1,243	-	-
Investments	17	-	-	723	-
Property, plant and equipment	18	10,393	10,270	-	-
Deferred tax assets	21	5,851	5,871	-	-
Other receivables	20	-	37	-	-
		19,561	19,640	723	-
<b>Current Assets</b>					
Inventories	19	4,905	6,114	-	-
Trade and other receivables	20	8,219	8,949	8,899	370
Other current assets	20	534	396	2	15
Current tax assets	13	60	82	-	-
Cash and cash equivalents	22	4,744	781	1,849	2,424
Disposal group – assets held for sale	23	140	-	-	-
		18,602	16,322	10,750	2,809
<b>Total Assets</b>		<b>38,163</b>	<b>35,962</b>	<b>11,473</b>	<b>2,809</b>
<b>Current Liabilities</b>					
Trade and other payables	24	6,902	5,122	68	225
Borrowings	31.4	7,652	7,509	-	-
Provisions	26	1,211	1,350	-	-
Current tax liabilities	13	82	25	-	-
Other liabilities	25	3,748	11,852	43	273
Financial liabilities - derivatives	31.2	2,958	1,763	-	-
		22,553	27,621	111	498
<b>Current liabilities</b>		<b>22,553</b>	<b>27,621</b>	<b>111</b>	<b>498</b>
Net current (liabilities)/assets		(3,951)	(11,299)	10,639	2,311
Total assets less current liabilities		15,610	8,341	11,362	2,311
<b>Non-current liabilities</b>					
Borrowings	31.1	3,817	7,009	-	-
Pension and other employee obligations	28	2,649	2,761	-	-
Interests in joint venture		51	49	-	-
		6,517	9,819	-	-
<b>Net assets/(liabilities)</b>		<b>9,093</b>	<b>(1,478)</b>	<b>11,362</b>	<b>2,311</b>

## Statement of Financial Position

	Notes	Group		Company	
		At 31 December 2010 £000	At 31 December 2009 £000	At 31 December 2010 £000	At 31 December 2009 £000
<b>Equity</b>					
Called up share capital	34	355	66	355	66
Share premium account	34	24,327	16,017	24,327	16,017
Merger reserve		14,502	4,585	20,667	20,075
Reverse acquisition reserve		(19,973)	(14,982)	-	-
Foreign currency translation reserve		(172)	(214)	-	-
Share based payment reserve		-	-	91	143
Retained earnings		(9,946)	(6,950)	(34,078)	(33,990)
<b>Total equity</b>		<u>9,093</u>	<u>(1,478)</u>	<u>11,362</u>	<u>2,311</u>

The accounts were approved by the Board of Directors on 1 April 2011 and were signed on its behalf by:

E Lloyd-Baker, Director  
N Flanagan, Director

Company registration number: 116537C

## Consolidated Income Statement

	Notes	Year to 31 December 2010			Year to 31 December 2009		
		£000 Trading	£000 Non- trading	£000 Total	£000 Trading	£000 Non- trading	£000 Total
Revenue	6	38,546	-	38,546	36,807	-	36,807
Cost of sales		(25,075)	-	(25,075)	(25,123)	-	(25,123)
<b>Gross profit</b>		13,471	-	13,471	11,684	-	11,684
Other income		-	-	-	20	-	20
Operating charges		(9,886)	(3,715)	(13,601)	(9,351)	(1,187)	(10,538)
<b>Operating profit/(loss)</b>	7	3,585	(3,715)	(130)	2,353	(1,187)	1,166
Finance income	10	-	-	-	20	-	20
Finance costs	10	(637)	(109)	(746)	(999)	(2,333)	(3,332)
(Loss)/gain on fair value of derivatives	10	-	(1,195)	(1,195)	-	1,618	1,618
Share of results of joint venture	11	(2)	-	(2)	(20)	-	(20)
<b>Profit/(loss) before tax</b>		2,946	(5,019)	(2,073)	1,354	(1,902)	(548)
Taxation	12	(920)	(15)	(935)	290	391	681
<b>Profit/(loss) for the year</b>		2,026	(5,034)	(3,008)	1,644	(1,511)	133
Basic earnings per share (pence)	14	8.25	(20.50)	(12.25)	15.17	(13.94)	1.23
Diluted earnings per share (pence)*	14	8.23	(20.48)	(12.25)	14.94	(13.73)	1.21

\* Anti-dilutive where there is a loss, therefore loss per share does not increase

## Consolidated Statement of Comprehensive Income

	2010 £000	2009 £000
<b>(Loss)/profit for the year</b>	(3,008)	133
<b>Other comprehensive income/(loss):</b>		
Exchange differences on translating foreign operations	42	(890)
Actuarial gains/(losses) on post-retirement employee benefits	17	(2,205)
Deferred tax relating to post-retirement employee benefits	(5)	585
<b>Other comprehensive income/(losses) for the year net of tax</b>	54	(2,510)
<b>Total comprehensive income for the year</b>	(2,954)	(2,377)
<b>Attributable to</b>		
Equity shareholders of the company	(2,954)	(2,377)

The accompanying accounting policies and notes form part of these financial statements

## Consolidated Statement of Changes in Equity

	Share Capital	Share Premium	Merger Reserve	Reverse Acquisition	Foreign Currency Translation Reserve	Retained Earnings	Total
	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 1 January 2009</b>	66	16,017	4,585	(14,982)	676	(5,463)	899
Profit for the year	-	-	-	-	-	133	133
<b>Other comprehensive income/(loss):</b>							
Actuarial loss for the period on pension scheme (see note 28)	-	-	-	-	-	(2,205)	(2,205)
Deferred tax on actuarial movement on pension scheme	-	-	-	-	-	585	585
Loss on translation of overseas subsidiaries	-	-	-	-	(890)	-	(890)
<b>Total comprehensive loss</b>	-	-	-	-	(890)	(1,487)	2,377
<b>Balance at 31 December 2009</b>	66	16,017	4,585	(14,982)	(214)	(6,950)	(1,478)
Issue of shares during period	158	8,310	-	-	-	-	8,468
Issue of shares on acquisition	131	-	9,917	-	-	-	10,048
Movement in reverse acquisition reserve	-	-	-	(4,991)	-	-	(4,991)
Transactions with owners	289	8,310	9,917	(4,991)	-	-	13,525
Loss for the period	-	-	-	-	-	(3,008)	(3,008)
Actuarial gain for the period on pension scheme (see note 28)	-	-	-	-	-	17	17
Deferred tax on actuarial movement on pension scheme	-	-	-	-	-	(5)	(5)
Gain on translation of overseas subsidiaries	-	-	-	-	42	-	42
<b>Total comprehensive income/(loss)</b>	289	8,310	9,917	(4,991)	42	(2,996)	10,571
<b>Balance at 31 December 2010</b>	355	24,327	14,502	(19,973)	(172)	(9,946)	9,093

## Company Statement of Changes in Equity

	Share Capital	Share Premium	Merger Reserve	Share Based Payment Reserve	Retained Earnings	Total
	£000	£000	£000	£000	£000	£000
<b>Balance at 1 October 2009</b>	66	16,017	20,075	137	(33,008)	3,287
Share based payment charge	-	-	-	6	-	6
Transaction with owner	66	16,017	20,075	143	(33,008)	3,293
Loss for the period	-	-	-	-	(982)	(982)
<b>Balance at 31 December 2009</b>	66	16,017	20,075	143	(33,990)	2,311
Issue of shares during period	158	8,310	-	-	-	8,468
Issue of shares on acquisition	131	-	592	-	-	723
Reserve transfer	-	-	-	(52)	52	-
Transactions with owners	289	8,310	592	(52)	52	9,191
Loss for the period	-	-	-	-	(140)	(140)
<b>Balance at 31 December 2010</b>	355	24,327	20,667	91	(34,078)	11,362

## Cash Flow Statement

	Group		Company	
	Year ended 31 December 2010 £000	Year ended 31 December 2009 £000	Year ended 31 December 2010 £000	Year ended 31 December 2009 £000
<b>Cash flows from operating activities</b>				
(Loss)/profit after taxation	(3,008)	133	(139)	(1,436)
Adjustment for:				
Tax expense	935	(681)	-	-
Finance costs	1,941	1,714	1	-
Investment income	-	(20)	(2)	(117)
Share based payment charge	-	-	-	39
Impairment of goodwill	2,835	-	-	-
Amortisation of intangible assets	150	150	1	1
Depreciation of tangible fixed assets	559	481	-	1
Loss on disposal of property, plant and equipment	-	62	-	-
Revision to contingent consideration	-	69	-	-
Foreign exchange differences	16	(844)	-	-
Changes in working capital:				
Movement in inventories	1,209	(582)	-	-
Movement in trade and other receivables	744	1,243	-	-
Movement in trade and other payables	(6,948)	2,856	(8,498)	(6,978)
Movement in provisions	(139)	(578)	(406)	327
<b>Cash generated from operations</b>	<b>(1,706)</b>	<b>4,003</b>	<b>(9,043)</b>	<b>(8,163)</b>
Taxes paid	(977)	(1,015)	-	-
Interest paid	(711)	(1,844)	(1)	-
<b>Net cash used in operating activities</b>	<b>(3,394)</b>	<b>1,144</b>	<b>(9,044)</b>	<b>(8,163)</b>
<b>Cash flows from investing activities</b>				
Payment of deferred consideration relating to Hayward Tyler Group	-	(150)	-	-
Purchase of other intangible assets	-	(42)	-	-
Purchase of property, plant and equipment	(661)	(518)	-	-
Disposal of tangible assets	123	-	-	-
Interest received	-	2	2	117
Cash on acquisition	2,670	-	-	-
<b>Net cash used in investing activities</b>	<b>(1,262)</b>	<b>(708)</b>	<b>(9,042)</b>	<b>(8,046)</b>
<b>Cash flows from financing activities</b>				
Repayment of bank loans	(3,230)	(599)	-	-
Proceeds from issue of share capital	8,502	-	8,467	-
Repayment of finance leases	(47)	(45)	-	-
Net cash used in financing activities	5,225	(644)	8,467	-
<b>Net increase in cash and cash equivalents</b>	<b>3,963</b>	<b>(208)</b>	<b>(575)</b>	<b>(8,046)</b>
Cash and cash equivalents at beginning of period	781	989	2,424	10,470
<b>Cash and cash equivalents at end of period</b>	<b>4,744</b>	<b>781</b>	<b>1,849</b>	<b>2,424</b>

## Notes to the Financial Statements

### 1. General Information

Specialist Energy Group plc (formerly Nviro Cleantech plc) is incorporated and resident in the Isle of Man. The Company's registered office and principal place of business is Peregrine Corporate Services, Burleigh Manor, Peel Road, Douglas, Isle of Man, IM1 5EP. Specialist Energy Group plc's shares are listed on the Alternative Investment Market (AIM).

On 20 January 2010 Southbank UK plc ("Southbank") completed the reverse into Nviro Cleantech plc ("Nviro") with Nviro becoming the ultimate parent company of the Group and new capital of £4 million net of expenses being raised. The enlarged group was admitted to AIM and Nviro was re-named Specialist Energy Group plc. Of the proceeds, £3 million of the new capital was used to prepay borrowings of the Group. Following the reverse into Nviro the listing of Southbank's shares on the Channel Island Stock Exchange was cancelled on 22 March 2010.

This acquisition has been accounted for in these consolidated financial statements as a reverse acquisition in accordance with IFRS 3 *Business Combinations* (Revised 2008). As a result these financial statements reflect a continuation of the legal subsidiary's financial statements, being those of Southbank.

Specialist Energy Group plc'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 1 April 2011. The Directors have not recommended a dividend.

The principal operating business of Specialist Energy Group plc is Hayward Tyler Group Limited ("Hayward Tyler"). Established in 1815 in the UK, Hayward Tyler designs, 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, Hayward Tyler 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. Hayward Tyler 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), in Delhi (India), in East Kilbride (Scotland) and in 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 Going concern

The consolidated financial statements have been prepared on a going concern basis. The Directors have taken note of the guidance issued by The Financial Reporting Council on Going Concern Assessments in determining that this is the appropriate basis of preparation of the financial statements and have considered a number of factors.

The Group's business activities and markets in which it operates, together with the factors likely to affect its future development, performance and position, are set out in the Chairman and Chief Executive's Statement. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 9 to 11. Notes 29 to 31 to the financial statements set out the Group's objectives and procedures for managing its capital, financial, foreign currency and liquidity risk.

As highlighted in the Financial Review, the Group meets its day-to-day working capital requirements from progress payments from customers, proceeds of the share placing in December 2010 and bank revolving credit facilities. The Company is currently working on a revised suite of banking facilities. These new facilities are expected to be activated in the

second quarter of 2011, subject to agreeing exit terms with the existing lender, which includes the release of security. In addition, the Group has good visibility of future trading from its order book

from a large number of customers across different geographic areas and market sectors. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the continued uncertain economic outlook.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Group continues to adopt the going concern basis of accounting in preparing the annual financial statements.

## **2.2 Basis of preparation**

The consolidated financial statements for the year ended 31 December 2010 have been prepared in accordance with IFRS as adopted by the European Union. The financial statements have been prepared under 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 31). The accounting policies set out below have been consistently applied to all the years presented, with the exception of changes referred to in note 2.3 below.

## **2.3 Changes in accounting policies**

### **2.3.1 Overall Considerations**

The Group has adopted the following revisions and amendments to IFRS issued by the International Accounting Standards Board, which are relevant to and effective for the Group's financial statements for the annual period beginning 1 January 2010.

- IFRS 3 *Business Combinations* (Revised 2008)
- IAS 27 *Consolidated and Separate Financial Statements* (Revised 2008)
- *Improvements to IFRSs 2009*

Significant effects on current, prior or future periods arising from the first-time application of these new requirements in respect of presentation, recognition and measurement are described in notes 2.3.2 to 2.3.4. An overview of standards, amendments and interpretations to IFRSs issued but not yet effective is given in note 3.

### **2.3.2 Adoption of IFRS 3 Business Combinations (Revised 2008)**

The revised standard on business combinations (IFRS 3R) introduced major changes to the accounting requirements for business combinations. It retains the major features of the purchase method of accounting, now referred to as the acquisition method. The most significant changes in IFRS 3R that had an impact on the Group's acquisition in 2010 are as follows:

- acquisition-related costs of the combination are recorded as an expense in the profit or loss. Previously, these costs would have been accounted for as part of the cost of the acquisition
- the measurement of assets acquired and liabilities assumed at their acquisition-date fair values is retained. However, IFRS 3R includes certain exceptions and provides specific measurement rules.

IFRS 3R has been applied prospectively to business combinations for which the acquisition date is on or after 1 January 2010.

For the year ended 31 December 2010, the adoption of IFRS 3R has affected the accounting for the Group's acquisition of Southbank (see note 36) by increasing the Group's expenses related to acquisition-related costs as follows:

- The costs of Southbank in 2010 were £0.1 million (2009: £0.9 million), which are included in non-trading "Operating charges" in the income statement
- The costs of Nviro were £nil (2009: £0.8 million).

As a result, current tax expense has decreased by £17,080 (2009: £0.3 million). Basic and diluted earnings per share for the current period have each decreased by 0.07 pence (2009: 0.40 pence and 0.39 pence respectively). Business combinations for which the acquisition date is before 1 January 2010 have not been restated.

### **2.3.3 Adoption of IAS 27 Consolidated and Separate Financial Statements (Revised 2008)**

The adoption of IFRS 3R required that the revised IAS 27 (IAS 27R) is adopted at the same time. IAS 27R introduced changes to the accounting requirements for transactions with non-controlling (formerly called 'minority') interests and the loss of control of a subsidiary. These changes are applied prospectively. During the current period, the Group had no transactions with non-controlling interests.

#### *2.3.4 Adoption of Improvements to IFRSs 2009 (Issued in April 2009)*

The *Improvements to IFRSs 2009* made several minor amendments to IFRSs. The only amendment relevant to the Group relates to IAS 17 Leases. The amendment requires that leases of land are classified as finance or operating by applying the general principles of IAS 17. Prior to this amendment, IAS 17 generally required a lease of land to be classified as an operating lease. The Group has reassessed the classification of the land elements of its unexpired leases at 1 January 2010 on the basis of information existing at the inception of those leases and has determined that none of its leases require reclassification.

### **2.4 Basis of consolidation**

The Group financial statements consolidate those of the Company and all of its subsidiary undertakings drawn up to 31 December 2010. Subsidiaries are entities over which the Group has the power to control 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.

### **2.5 Business combinations**

For business combinations occurring since 1 January 2010, the requirements of IFRS 3R have been applied (see note 2.3.2). The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

The Group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognised amount of any non-controlling interest in the acquiree and c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (ie gain on a bargain purchase) is recognised in profit or loss immediately.

Prior to 1 January 2010, business combinations were accounted under the previous version of IFRS 3 (see note 2.3.2 for a the summary of the significant changes).

### **2.6 Reverse acquisition**

On 20 January 2010, Specialist Energy Group plc acquired 100% of the issued share capital of Southbank by means of a share-for-share exchange whereby the shareholders of Southbank received shares in the Company. In preparing the consolidated financial statements, Southbank has been deemed to be the acquirer and the Company, the legal parent, has been deemed to be the acquiree.

In accordance with IFRS 3 *Business Combinations* (Revised 2008), this transaction has been accounted for as a reverse acquisition. The key features of this basis of consolidation are:

- The consolidated IFRS financial statements are a continuation of the financial statements of Southbank and the retained earnings recognised are a continuation of those of Southbank immediately before the business combination.

- The consolidated income statement includes the results of Southbank and the Company for all periods presented.
- The assets and liabilities of Southbank are measured based on their pre-combination carrying amounts.
- The equity structure appearing in the consolidated financial statements reflects the equity structure of the legal parent, Specialist Energy Group plc. However, the total issued equity instruments reflect that of the legal subsidiary, Southbank.
- Specialist Energy Group plc has been consolidated from the date of the reverse acquisition using the fair value of its net assets and liabilities at that date.

## **2.7 Trading and Non-trading results**

The consolidated income statement reports the results for the year under the headings Trading and Non-trading. Trading represents the underlying performance of the Group. Non-trading includes the following elements:

- The non-recurring costs relating to closing down the clean technology operations of Nviro, which were (a) remaining costs of the reverse acquisition: £0.1 million (2009: £0.9 million), (b) closure costs of the Nviro operations: £0.8 million (2009: £nil), (c) an impairment charge against goodwill arising from the reverse acquisition: £2.8 million (2009: £nil) and bank adviser fees: £nil (2009: £0.3 million)
- Bank fees relating to the reverse acquisition: £0.1 million (2009: £2.3 million)
- The movement in fair value of derivatives: charge of £1.2 million (2009: gain of £1.6 million)
- Deferred tax charge: £15,000 (2009: credit of £0.4 million).

## **2.8 Segmental reporting**

In identifying its operating segments, management follows the Group's service lines, which represent the main products and services provided by the Group.

The activities undertaken by the manufacturing segment includes the design and manufacture of pumps and motors. The aftermarket segment provides a comprehensive range of aftermarket services and spares supporting the Group's own product range as well as those of other original equipment manufacturers. Each of these operating segments is managed separately as they require different resources and have a different customer base, including sales and marketing approach. All inter-segment transfers are carried out at arm's length prices.

The measurement policies the Group uses for segment reporting under IFRS 8 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

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.

## **2.9 Foreign currency translation**

The consolidated financial statements are presented in Pounds Sterling, which is also the functional currency of the parent company.

- (a) Functional and presentation 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 currencies of the entities in the Group have remained unchanged during the reporting period.
- (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 profit or loss.

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.

(c) Foreign subsidiaries

The assets and liabilities in the financial statements of foreign subsidiaries and related goodwill are translated at the rate of exchange ruling at the reporting date. Income and expenses are translated at the actual rate. The exchange differences arising from the retranslation of the opening net investment in subsidiaries are recognised in other comprehensive income and accumulated in the "Translation Reserve" in equity. On disposal of a foreign operation the cumulative translation differences are reclassified from equity to profit or loss when the gain or loss on disposal is recognised.

## 2.10 Property, plant and equipment

Land held for use in production or administration is stated at historical cost. As land is considered to have an unlimited useful life, related carrying amounts are not depreciated. Buildings for use in production or administration are stated at re-valued amounts less subsequent depreciation and impairment losses. Re-valued amounts are fair market values determined in appraisals by external professional valuers once every five years, unless market-based factors indicate a material change in fair value, in which case a further revaluation is performed.

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 & equipment	-	10%
Fixtures & 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 re-valued.

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'.

## 2.11 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.

### **2.12 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.

### **2.13 Other intangible assets**

Other intangible assets include capitalised development costs used in respect of the development of subsea motor technology. They are accounted for using the cost model whereby capitalised costs are amortised on a straight-line basis over their estimated useful life, which in this case is 10 years.

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 below in the note on impairments.

### **2.14 Impairment testing of goodwill, other intangible assets and property, plant and equipment**

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 represents 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.

### **2.15 Investments**

Investments in undertakings are recorded at fair value of consideration paid.

### **2.16 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.

### **2.17 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.

### **2.18 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.

The merger reserve of £14.5 million includes £9.9 million arising as a result of the acquisition of Southbank in January 2010. The merger reserve represents the difference between the nominal value of the share capital issued by Specialist Energy Group plc and its fair value at 20 January 2010, the date of the acquisition.

The reverse acquisition reserve arises as a result of the method of accounting for the acquisition of Southbank by Specialist Energy Group plc. In accordance with IFRS 3 *Business Combinations* (Revised 2008) the acquisition has been accounted for as a reverse acquisition.

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.

### **2.19 Taxation**

The tax expense recognised in profit or loss represents the sum of the current tax and deferred tax. 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 reporting 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 taxable profits will be available in future 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 reporting 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 other comprehensive income or directly in equity, in which case the related deferred tax is also recognised in the other comprehensive income or directly in equity, respectively.

## **2.20 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 other comprehensive income. 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.

### **2.21 Share based payment**

The Group has applied the requirements of IFRS 2 Share based payment. Prior to the reverse acquisition the Group issued equity settled share based payments to certain employees and third parties. These arrangements are no longer operating for the issue of new options and the Directors are giving consideration to new long term incentive plans.

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.

### **2.22 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 to a customer, 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, or the amount provided for cannot be measured reliably, no liability is recognised, unless it was assumed in the course of a business combination. In a business combination contingent liabilities are recognised at their fair values 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.

Probable inflows of economic benefits to the Group that do not yet meet the recognition criteria of an asset are considered contingent assets and disclosed where an inflow of economic benefits is probable.

### **2.23 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 and services**  
Sale of goods comprises the sale of spare parts and other aftermarket services, and is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods and services supplied. Significant risks and rewards are generally considered to be transferred to the buyer when the customer has taken undisputed delivery of the goods and services.
- (b) **Pump and motor manufacture**  
The Group provides pumps and motors specifically customised to each customer. These contracts specify a fixed price for the development and installation of pumps and motors.

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 costs 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 total expected loss is recognised immediately in profit or loss.

The stage of completion of any 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.

#### **2.24 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.

#### **2.25 Borrowing costs**

Borrowing costs primarily comprise interest on the Group's borrowings. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, are capitalised as part of the cost of that asset when it is probable that they will result in future economic benefits and the costs can be measured reliably. All other borrowing costs are expensed in the period in which they are incurred and reported within 'finance costs'.

#### **2.26 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 are classified into the following categories upon initial recognition:
- loans and receivables 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 other comprehensive income.

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'.

### **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 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 of its borrowings. Refer to note 31 for more details regarding the Group's use of derivatives.

## **2.27 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 jointly controlled entities 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 profit or loss.

## **2.28 Disposal group – assets held for sale**

When the Group intends to sell a non-current asset or a group of assets (a disposal group), and if sale within 12 months is highly probable, the asset or disposal group is classified as 'held for sale' and presented separately in the statement of financial position. Liabilities are classified as 'held for sale' and presented as such in the statement of financial position if they are directly associated with a disposal group. Assets classified as 'held for sale' are measured at the lower of their carrying amounts immediately prior to their classification as held for sale and their fair value less costs to sell. However, some 'held for sale' assets such as financial assets or deferred tax assets, continue to be measured in accordance with the Group's accounting policy for those assets. No assets classified as 'held for sale' are subject to depreciation or amortisation subsequent to their classification as 'held for sale'.

## **3 Standards, amendments and interpretation to existing standards that are 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 financial statements 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.

### *Annual Improvements 2010 (effective from 1 July 2010 and later)*

The IASB has issued Improvements to IFRS 2010 (2010 Improvements). Most of these amendments become effective in annual periods beginning on or after 1 July 2010 or 1 January 2011. The 2010 Improvements amend certain provisions of IFRS 3R, clarify presentation of the reconciliation of each of the components of other comprehensive income and clarify certain disclosure requirements for financial instruments. The Group's preliminary assessments indicate that the 2010 Improvements will not have a material impact on the Group's financial statements.

### *IFRS 9 Financial Instruments (effective from 1 January 2013)*

The IASB aims to replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety. The replacement standard (IFRS 9) is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning 1 January 2013. Further chapters dealing with impairment methodology and hedge accounting are still being developed.

Management have yet to assess the impact that this amendment is likely to have on the financial statements of the Group. However, they do not expect to implement the amendments until all chapters of IFRS 9 have been published and they can comprehensively assess the impact of all changes.

## **4 Significant management judgements in applying accounting policies**

The following are significant management judgements in applying accounting policies of the Group that have the most 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 stage of completion of a contract is assessed by management taking into consideration all information available at the reporting date. In this process management carries out significant judgements about milestones, actual work performed and the estimated costs to complete the work. Further information on the Group's accounting policy for contracts in note 2.23.

### ***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.

### ***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.

## **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 – refer to note 15***

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 discount 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 2010 amounts to £2.8 million (2009: £nil).

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. The carrying value of goodwill at 31 December 2010 was £2.2 million (2009: £2.2 million).

***Deferred tax asset – refer to note 21***

Management estimates the deferred tax asset semi-annually with the assistance of independent tax advisers; however, the actual outcome may vary due to estimation uncertainties. The assessment of the probability of future taxable trading income in which deferred tax assets, in respect of trading losses, can be utilised is based on management's latest financial projections. If a positive projection of taxable income indicates the probable use of such 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. The value of deferred tax asset in respect of trading losses at 31 December 2010 was £4.2 million (2009: £4.3 million).

***Defined benefit pension liability – refer to note 28***

Management estimates the defined benefit pension liability annually with the assistance of independent actuaries; however, the actual outcome may vary due to estimation uncertainties. The estimate of its defined benefit pension gross liability of £13.1 million (2009: £12.9 million) is based on standard rates of inflation and mortality. The estimate does not include anticipation of future salary increases, as there are no members with benefits related to future salary progression. 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 pension obligations. The value of the defined benefit pension liability at 31 December 2010 was £2.6 million (2009: £2.8 million).

***Fair value of financial instruments – refer to note 31***

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. The value of the financial liabilities relating to derivatives at 31 December 2010 was £3.0 million (2009: £1.8 million).

***Provisions – refer to note 26***

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. The value of provisions at 31 December 2010 was £1.2 million (2009: £1.4 million).

## **6 Segment information**

Management currently identifies the Group's two service lines, Manufacturing and Aftermarket, as operating segments.

The activities undertaken by the Manufacturing segment include the manufacture of pumps and motors. The activities of the Aftermarket division include the servicing of, and provision of spares for, a wide range of pumps and motors.

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; and
- research costs relating to new business activities.

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. The measurement methods used to determine reported segment profit or loss are consistently applied. No asymmetrical allocations have been applied between segments.

Segment information can be analysed as follows for the reporting periods under review:

	<b>Manufacturing £000</b>	<b>Aftermarket £000</b>	<b>Total £000</b>
<b>2010</b>			
<b>Segment revenues from:</b>			
External customers	18,700	21,517	40,217
Inter segment	(84)	(1,587)	(1,671)
	<u>18,616</u>	<u>19,930</u>	<u>38,546</u>
Cost of materials	(13,507)	(11,071)	(24,578)
Depreciation and amortisation	(341)	(202)	(543)
Other expenses	(3,431)	(4,023)	(7,454)
Segment operating profit	<u>1,337</u>	<u>4,634</u>	<u>5,971</u>
Segment assets	<u>10,094</u>	<u>8,058</u>	<u>18,155</u>
	<b>Manufacturing £000</b>	<b>Aftermarket £000</b>	<b>Total £000</b>
<b>2009</b>			
<b>Segment revenues from:</b>			
External customers	15,651	22,952	38,603
Inter segment	(1,495)	(321)	(1,816)
	<u>14,156</u>	<u>22,631</u>	<u>36,787</u>
Cost of materials	(13,134)	(12,295)	(25,429)
Depreciation and amortisation	(323)	(155)	(478)
Other expenses	(1,952)	(4,240)	(6,192)
Segment operating profit/(loss)	<u>(1,253)</u>	<u>5,941</u>	<u>4,688</u>
Segment assets	<u>6,541</u>	<u>12,562</u>	<u>19,103</u>

## 6 Segment information (continued)

The Group's revenues from external customers and its non-current assets (other than goodwill and deferred tax assets) are divided into the following geographical areas:

	2010 £000		2009 £000	
	Revenue	Non-current Assets	Revenue	Non-current Assets
United Kingdom	4,490	10,823	6,548	10,800
USA	14,683	606	11,548	665
Other countries	19,373	62	18,711	84
	<u>38,546</u>	<u>11,491</u>	<u>36,807</u>	<u>11,549</u>

Revenues from external customers in the Group's domicile, United Kingdom, as well as its major market the USA have been identified on the basis of the customers' geographical location. Non-current assets are allocated based on their physical location.

No customer represented greater than 10% of Group revenue in either 2010 or 2009.

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:

	2010 £000	2009 £000
<b>Segment revenues</b>		
Total segment revenues	40,217	38,603
Rental income	-	20
Elimination of inter-segmental revenues	(1,671)	(1,816)
	<u>38,546</u>	<u>36,807</u>
<b>Segment profit</b>		
Segment operating profit	5,971	4,688
Rental income	-	20
Post employment benefit expenses	(185)	(169)
Other operating costs not allocated	(1,639)	(1,194)
Elimination of intersegment profits	(562)	(992)
	<u>3,585</u>	<u>2,353</u>
<b>Group trading operating profit</b>		
Non-trading cost associated with Nviro	(3,715)	(1,187)
Group operating (loss)/profit	(130)	1,166
Finance costs	(1,941)	(1,714)
Finance income	-	20
Share of results of joint venture	(2)	(20)
Group (loss) before tax	<u>(2,073)</u>	<u>(548)</u>

## 6 Segment information (continued)

Segment total assets can be reconciled to Group assets as follows:

	<b>2010</b>	<b>2009</b>
	<b>£000</b>	<b>£000</b>
<b>Segment total assets</b>		
Total segment assets	18,155	19,103
Group	39,236	27,733
Consolidation	(19,228)	(10,874)
Group total assets	<u>38,163</u>	<u>35,962</u>

## 7 Operating profit/(loss)

This is stated after charging:

	<b>Year ended</b>	<b>Year ended</b>
	<b>31 December</b>	<b>31 December</b>
	<b>2010</b>	<b>2009</b>
	<b>£000</b>	<b>£000</b>
Depreciation of owned assets	497	458
Depreciation of assets held under finance leases	62	23
Amortisation of other intangible assets	150	150
Auditors remuneration:		
Audit services		
- Fees payable to the company's auditor for the audit of the Company's annual accounts	17	16
- The audit of the Company's subsidiaries pursuant to legislation	68	53
Non-audit services		
- Taxation services	14	28
- Other services	29	2
Rentals under operating leases:		
- Land and buildings	128	249
- Plant and equipment	104	155
Foreign currency exchange differences	1,164	1,263

Trading operating profit is stated after charging non-recurring restructuring costs in the normal course of business of £0.1 million. Foreign currency exchange differences relate to the revaluation of net current assets £1.0 million (2009: £0.4 million), the impact of hedge contracts at rates that were adverse to actual rates £0.2 million (2009: £0.1 million) and the impact of the refusal by the Group's lender to provide foreign currency hedging in the first half of 2009 £nil (2009: £0.8 million).

Non-trading operating loss is stated after charging non-recurring costs that relate to closing down the clean technology operations of Nviro of £3.7 million. This charge includes the final costs of the reverse acquisition (£0.1 million), the closure of the Nviro operations (£0.8 million) and an impairment charge of £2.8 million representing an impairment of all of the goodwill arising from the reverse acquisition.

## 8 Employee remuneration

### Employee benefits expense

The employee benefit expense during the year was as follows:

	<b>Year ended 31 December 2010 £000</b>	<b>Year ended 31 December 2009 £000</b>
Wages and salaries	11,750	12,661
Social security costs	1,157	1,083
Pension costs	679	739
	<u>13,586</u>	<u>14,483</u>

The average numbers of employees during the year were as follows:

	<b>Year ended 31 December 2010 £000</b>	<b>Year ended 31 December 2009 £000</b>
Manufacturing	185	188
General and administration	112	124
Selling	35	38
	<u>332</u>	<u>350</u>

### Key management personnel

Key management of the Group are members of the Board of Directors in Specialist Energy Group plc. Remuneration in respect of the Directors including employer's national insurance cost was as follows:

	<b>Year ended 31 December 2010 £000</b>	<b>Year ended 31 December 2009 £000</b>
Short term employee benefits	649	421
	<u>649</u>	<u>421</u>

The amounts set out above include remuneration in respect of the highest paid director as follows:

	<b>Year ended 31 December 2010 £000</b>	<b>Year ended 31 December 2009 £000</b>
Short term employee benefits	318	167
	<u>318</u>	<u>167</u>

Further details of Directors' emoluments are given in the Report of the Remuneration Committee on page 20 and 21. None of the Directors participate in the Group's defined benefit plan. Details of related party transactions are given in note 32 to the financial statements.

During 2010 key management did not exercise share options granted in the Company's share-based employee remuneration scheme (2009: 6 share options) (see note 35).

During the year Ewan Lloyd-Baker exercised his options in Southbank UK plc at a gain of £637,008. The Company agreed that it would reimburse Ewan Lloyd-Baker with any tax credit that the Company might obtain as a consequence of this exercise on realisation of the associated tax asset. Mr Lloyd-Baker agreed to convert the amount (being £119,000) owed to him into £80,000 worth of shares in the Company at the placing price of the share placing in December 2010. The discount reflected the Directors' assessment of the net present value of the tax asset repayable to Mr Lloyd-Baker. These arrangements constitute a related party transaction and further details are provided in note 32.

## 9 EBITDA

Earnings before interest, tax, depreciation and amortisation of the trading business is as follows:

	<b>Year ended 31 December 2010 £000</b>	<b>Year ended 31 December 2009 £000</b>
EBITDA		
Operating profit - trading	3,585	2,353
Depreciation and amortisation	709	631
	<u>4,294</u>	<u>2,984</u>

## 10 Finance costs and finance income

	<b>Year ended 31 December 2010 £000</b>	<b>Year ended 31 December 2009 £000</b>
Finance income:		
Interest income from cash and cash equivalents	-	20
	<u>-</u>	<u>20</u>
Finance cost:		
Trading:		
Interest payable on bank borrowing	547	943
Finance costs of pensions	90	56
	<u>637</u>	<u>999</u>
Non-trading:		
Finance charges	109	2,333
Loss/(gain) arising on fair value of derivative contracts	1,195	(1,618)
	<u>1,941</u>	<u>1,714</u>

## 11 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 a company also named Balama Nviro Limited, which is 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 31 December 2010 the joint ventures had no capital commitments or contingent liabilities. The results of the joint ventures for the period ended 31 December 2010 have not been audited.

A summary of the results of the joint ventures for the period ended 31 December 2010 is shown below

	<b>2010</b>
	<b>£000</b>
Group share of results	
Revenue	-
Operating loss	(2)
Finance Income	-
Loss before tax	(2)
Tax	-
Loss after tax	(2)
Group share of net liabilities	<b>2010</b>
	<b>£000</b>
Non current assets	-
Current assets	1
Current liabilities	(52)
Share of net liabilities	(51)
At 1 January 2009	(29)
Share of loss	(17)
Exchange difference	(3)
At 1 January 2010	(49)
Share of loss	(2)
At 31 December 2010	(51)

## 12 Income tax expense

### a) analysis of total tax credit

	Year ended 31 December 2010 £000	Year ended 31 December 2009 £000
<b>Current tax:</b>		
UK tax corporation tax at 28% (2009: 28%)	-	-
Amounts (over)/under provided in prior years	(40)	-
Overseas taxation	965	1,015
Adjustment in respect of prior year	(5)	-
Total current tax	<u>920</u>	<u>1,015</u>
<b>Deferred tax</b>		
Accelerated capital allowances	(60)	19
Revaluation of foreign exchange contracts to fair value	(305)	453
Losses available for offset against future taxable income	26	(1,632)
Retirement benefit obligations	57	(583)
Less movement recorded in other comprehensive income	(5)	585
Other temporary differences	151	8
Amounts over provided in prior years	151	(564)
Total deferred tax	<u>15</u>	<u>(1,696)</u>
Tax charge/(credit) reported in the profit or loss	<u>935</u>	<u>(681)</u>

### b) Reconciliation of loss before tax total tax credit

The relationship between the expected tax expense based on the domestic effective tax rate of Specialist Energy Group plc at 28% (2009: 28%) 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 2010 £000	Year ended 31 December 2009 £000
Profit/(loss) before tax	(2,073)	(548)
Domestic tax rate for Specialist Energy Group plc	28%	28%
Expected tax charge/(credit)	<u>(580)</u>	<u>(153)</u>
Adjustment for tax-rate differences in foreign jurisdictions	507	246
Deferred tax not recognised	176	-
Temporary differences:		
- other	-	(32)
Impairment of goodwill	794	-
Amounts over provided in prior years	106	(564)
Adjustment for non-deductible expenses:		
- other non-deductible expenses	(68)	(178)
Tax charge/(credit)	<u>935</u>	<u>(681)</u>

Note 21 provides information on the entity's deferred tax assets and liabilities, including the amounts recognised directly in the income statement.

### 13 Income tax asset/(liability)

	Year ended 31 December 2010 £000	Year ended 31 December 2009 £000
Current tax assets	60	82
Current tax liabilities	82	25
	<hr/>	<hr/>
Income tax (payable)/receivable	(22)	57
	<hr/>	<hr/>

### 14 Earnings/(loss) per share

The calculation of the basic earnings/ (loss) per share is based on the earnings/(loss) attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year.

The calculation of diluted earnings/(loss) per share is based on the basic earnings/(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 2010	Year ended 31 December 2009
<b>Earnings per share calculations only</b>		
Earnings/(loss) attributable to ordinary shareholders:		
Loss for the year (£000)	(3,008)	133
Trading operations (£000)	2,026	1,644
Weighted average number of shares (used for basic earnings per share)	24,551,164	10,838,939
Dilutive effect of options*	59,420	163,120
	<hr/>	<hr/>
Weighted average number of shares (used for diluted earnings per share)	24,610,584	11,002,059
	<hr/>	<hr/>
Basic earnings per share (pence)	(12.25)	1.23
	<hr/>	<hr/>
Diluted earnings per share (pence) *	(12.25)	1.21
	<hr/>	<hr/>

\*Anti-dilutive in 2010, therefore loss per share does not increase

### Dividends

No dividends have been declared during the current year (2009: nil).

## 15 Goodwill

The net carrying amount of goodwill can be analysed as follows:

<b>Group</b>	<b>2010 £000</b>	<b>2009 £000</b>
<b>Gross carrying amount</b>		
Carrying amount at 1 January	2,219	2,288
Revision to contingent consideration	-	(69)
Addition of Nviro (see Note 36)	2,835	-
Impairment loss (see Note 36)	(2,835)	-
Carrying amount at 31 December	<u>2,219</u>	<u>2,219</u>

An impairment charge of £2.8 million (2009: £nil) has been identified in the period against the goodwill created by the reverse acquisition. This goodwill represents the difference between the cost of the acquisition and the fair value of the assets of Nviro acquired. This approach is in line with the Group's stated intention to focus its resources on the Hayward Tyler business as well as the impairment to property, plant and equipment and intangible assets relating to the Nviro technologies that is reflected in the financial statements of the Company for the 12 months to 30 September 2009 and for the 3 months to 31 December 2009.

For the purposes of annual impairment testing the carrying amount of goodwill is allocated to the following cash generating units ("CGU"). These are the smallest groupings of assets to which management is able to attribute cash flows reliably.

	<b>2010 £000</b>	<b>2009 £000</b>
Manufacturing	368	368
Aftermarket	1,851	1,851
Nviro	-	-
Carrying amount at 31 December	<u>2,219</u>	<u>2,219</u>

At the date of transition the amount of goodwill was tested for impairment.

The recoverable amounts of the Manufacturing and Aftermarket 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% and 30%.
- An estimate of the long-term growth rate for the CGU representing management's best estimate of future long-term growth in the respective divisions.
- A discount rate of 16% was used to discount future cash flows and reflects management's estimate of the weighted average cost of capital of the Group.

Impairment test are carried out at each reporting date and indicate headroom of circa £5.2 million (2009: £2.5 million) 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 Aftermarket 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 amount in 2007 following a review of the assets and liabilities purchased in 2006.

## 16 Other intangible assets

The Group's other intangible assets comprise solely internally generated development costs. The net carrying amounts for the reporting periods under review can be analysed as follows:

<b>Group</b>	<b>2010 £000</b>	<b>2009 £000</b>
<b>Gross carrying amount at 1 January</b>		
Balance at 1 January	1,485	1,443
Additions	5	42
Balance at 31 December	<u>1,490</u>	<u>1,485</u>
<b>Accumulated amortisation and impairment</b>		
Balance at 1 January	242	92
Amortisation	150	150
Balance at 31 December	<u>392</u>	<u>242</u>
<b>Carrying amount at 31 December</b>	<u>1,098</u>	<u>1,243</u>

No research and development costs were expensed in the current year (2009:£nil).

The amortisation charge for the year is included within operating charges and disclosed in note 7.

## 17 Investments

The Company had the following investments in subsidiary undertakings:

	<b>2010 £000</b>	<b>2009 £000</b>
Balance at 1 January	20,193	20,161
Additions	<u>723</u>	<u>32</u>
Balance at 31 December	<u>20,916</u>	<u>20,193</u>
Provision for impairment		
Balance at 1 January	20,193	-
Impairment in year	<u>-</u>	<u>20,193</u>
Balance at 31 December	<u>20,193</u>	<u>20,193</u>
Net book value 31 December 2010	<u>723</u>	-
Net book value 31 December 2009	<u>-</u>	<u>-</u>

The addition reflects the fair value of shares issued as part of the share-for-share exchange detailed in note 36 and reflects the Company's investment in Southbank UK Limited (formerly Southbank UK plc).

The Company owns more than 20% of the following companies;

<b>Name of undertaking</b>	<b>Place of incorporation</b>	<b>%Ownership/ voting power</b>	<b>Principal activity</b>
Southbank UK Limited	England & Wales	100	Holding company
Redglade Associates Limited	England & Wales	100	Property
Redglade Investments Limited	England & Wales	100	Property
Hayward Tyler Group Limited	England & Wales	100	Holding company
Hayward Tyler Limited	England & Wales	100	Trading
Hayward Tyler UK Limited			Holding company
Varley Pumps Limited	England & Wales	100	Trading
Hayward Tyler Subsea Limited	England & Wales	100	Dormant
Hayward Tyler Holdings Limited	England & Wales	100	Holding company
Hayward Tyler Holding Inc	United States	100	Holding company
Hayward Tyler Inc	United States	100	Trading
Hayward Tyler Pumps (Kunshan) Limited		100	Trading
Hayward Tyler (India) PTE Limited		100	Trading
Appleton & Howard Limited	England & Wales	100	Dormant
Hayward Tyler Fluid Dynamics Limited	England & Wales	100	Dormant
Hayward Tyler Fluid Handling Limited	England & Wales	100	Dormant
Hayward Tyler Services Limited	England & Wales	100	Dormant
Hayward Tyler Pension Plan Trustees Limited	England & Wales	100	Manages pension scheme
Sumo Pumps Limited	England & Wales	100	Dormant
Hayward Tyler Engineered Products Limited	England & Wales	100	Dormant
Capital Engineering Services Limited	England & Wales	100	Dormant
Credit Montague Limited	England & Wales	100	Dormant
Mullins Limited	England & Wales	100	Dormant
Specialist Energy Group Limited	England & Wales	100	Dormant
Nviro Cleantech Limited	England & Wales	100	Holding company
Laseair Limited	England & Wales	80	Trading
Microrelease Limited	England & Wales	80	Trading
Organotect Limited	United States	65	Trading
Nviro Cleantech Inc	United States	100	Holding company
Vertus Technologies US LLC	United States	100	Holding company
Vertus Technologies Industrial LLC	United States	100	Trading
Vertus Technologies Limited	Cayman Islands	100	Holding company
Nviro Cleantech Limited	Cayman Islands	100	Holding company

All companies are owned indirectly by Specialist Energy Group plc except for Southbank UK Limited and Nviro Cleantech Limited and the results for all have been included within the consolidation.

Investments in Nviro subsidiary undertakings were fully written down in the year to 30 September 2009.

## 18 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:

Group	Freehold land and buildings	Short leasehold improvements	Plant and machinery	Fixtures and fittings	Total
	£000	£000	£000	£000	£000
<b>Gross carrying amount</b>					
Balance at 1 January 2010	8,622	564	10,747	3,207	23,140
Exchange adjustments	-	20	96	22	138
Additions	-	11	383	262	656
Disposals	-	(1)	(32)	(190)	(223)
Balance at 31 December 2010	<u>8,622</u>	<u>594</u>	<u>11,194</u>	<u>3,301</u>	<u>23,711</u>
<b>Depreciation and impairment</b>					
Balance at 1 January 2010	182	489	9,477	2,722	12,870
Exchange adjustments	-	18	80	14	112
Disposals	-	(1)	(32)	(190)	(223)
Charge for the year	59	24	291	185	559
Balance at 31 December 2010	<u>241</u>	<u>530</u>	<u>9,816</u>	<u>2,731</u>	<u>13,318</u>
<b>Carrying amount at 31 December 2010</b>	<b><u>8,381</u></b>	<b><u>64</u></b>	<b><u>1,378</u></b>	<b><u>570</u></b>	<b><u>10,393</u></b>
<b>Gross carrying amount</b>					
Balance at 1 January 2009	8,622	543	10,905	3,324	23,394
Exchange adjustments	-	(65)	(358)	(131)	(554)
Additions	-	86	262	179	527
Disposals	-	-	(62)	(165)	(227)
Balance at 31 December 2009	<u>8,622</u>	<u>564</u>	<u>10,747</u>	<u>3,207</u>	<u>23,140</u>
<b>Depreciation and impairment</b>					
Balance at 1 January 2009	123	483	9,608	2,839	13,053
Disposals	-	-	-	(165)	(165)
Exchange adjustments	-	(60)	(305)	(134)	(499)
Charge for the year	59	66	174	182	481
Balance at 31 December 2009	<u>182</u>	<u>489</u>	<u>9,477</u>	<u>2,722</u>	<u>12,870</u>
<b>Carrying amount at 31 December 2009</b>	<b><u>8,440</u></b>	<b><u>75</u></b>	<b><u>1,270</u></b>	<b><u>485</u></b>	<b><u>10,270</u></b>

It is a requirement that a full valuation of freehold land and buildings is undertaken every 5 years. The last full valuation was carried out for the financial statements for the year ended 31 December 2006 and next full valuation will be undertaken for the financial statements for the year ended 31 December 2011. The valuation of freehold land and buildings is considered as part of the impairment testing of assets (see note 2.14) and the Directors are comfortable that such assets have not incurred an impairment loss.

All depreciation charges are included within operating charges and disclosed in note 7.

The Group's land and buildings have been pledged as security for bank borrowings.

## 19 Inventories

Inventories recognised in the statement of financial position can be analysed as follows:

<b>Group</b>	<b>2010 £000</b>	<b>2009 £000</b>
Raw materials and consumables	3,367	3,922
Work in progress	168	1,066
Finished goods and goods for resale	1,370	1,126
	<u>4,905</u>	<u>6,114</u>

In 2010, no inventories were required to be written off (2009: £nil). No reversal of previous write-downs was recognised as a reduction of expense in 2010 or 2009.

In 2010 total inventory included in expenses amounted to £13,115,040 (2009: £14,343,791).

## 20 Trade and other receivables

	<b>Group</b>		<b>Company</b>	
	<b>2010 £000</b>	<b>2009 £000</b>	<b>2010 £000</b>	<b>2009 £000</b>
<b>Current</b>				
Trade receivables	5,172	5,300	-	-
Less: provision for impairment of receivables	(428)	(47)	-	-
Trade receivables – net	4,744	5,253	-	-
Gross amounts due from customers	3,284	3,687	-	-
Other receivables	191	9	-	-
Due from group undertakings	-	-	8,899	370
<b>Trade and other receivables</b>	<u>8,219</u>	<u>8,949</u>	<u>8,899</u>	<u>370</u>
Prepayments	462	386	2	15
VAT recoverable	72	10	-	-
<b>Other current assets</b>	<u>534</u>	<u>396</u>	<u>2</u>	<u>15</u>
<b>Total current trade and other receivables</b>	<u>8,753</u>	<u>9,345</u>	<u>8,901</u>	<u>385</u>
<b>Non-current</b>				
Other receivables	-	37	-	-

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.

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 £427,986 (2009: £47,000) has been recorded accordingly within other expenses.

The movement in the provision for impairment of receivables can be reconciled as follows:

<b>Group</b>	<b>2010 £000</b>	<b>2009 £000</b>
Balance at 1 January	47	60
Charge for the year	381	644
Impairment reversals	-	(656)
Currency adjustment	-	(1)
<b>Balance at 31 December</b>	<b>428</b>	<b>47</b>

An analysis of unimpaired trade receivables that are past due is given in note 29.

## **21 Deferred tax assets and liabilities**

Deferred taxes arising from temporary differences and unused tax losses can be summarised as follows:

<b>Group</b>	<b>Year ended 31 December 2010 £000</b>	<b>Year ended 31 December 2009 £000</b>
<b>Deferred tax liabilities</b>	-	-
<b>Deferred tax assets</b>	<b>5,851</b>	<b>5,871</b>

The movement for the year in the Group's net deferred tax position was as follows:

	<b>2010 £000</b>	<b>2009 £000</b>
Balance at 1 January	5,871	3,590
Credit to income statement for the year (note 12)	(15)	1,696
Credit/(charge) to other comprehensive income	(5)	585
<b>Balance at 31 December</b>	<b>5,851</b>	<b>5,871</b>

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available in future against which deductible temporary differences can be utilised. This recognition is supported by the profitability of the trading operations of the business.

## Deferred tax assets

	Balance at 1 January 2010	Charge to income for the year	Charge to other comprehensive income for the year	Balance at 31 December 2010
	£000	£000	£000	£000
Accelerated tax depreciation	121	60	-	181
Retirement benefit obligations	773	(52)	(5)	716
Derivatives	494	305	-	799
Tax losses	4,310	(160)	-	4,150
Temporary differences	173	(168)	-	5
<b>Total</b>	<b>5,871</b>	<b>(15)</b>	<b>(5)</b>	<b>5,851</b>

## 22 Cash and Cash equivalents

Cash and cash equivalents included the following components:

	Group		Company	
	2010	2009	2010	2009
	£000	£000	£000	£000
Cash at bank and in hand	4,744	781	1,849	2,424
	<u>4,744</u>	<u>781</u>	<u>1,849</u>	<u>2,424</u>

At 31 December 2010 the Group had the following undrawn facilities:

Group	2010	2009
	£000	£000
Principal revolving credit facility	-	-
Overdraft facility	958	165
Corporate charge card facility	19	64
	<u>977</u>	<u>229</u>

The bank revolving credit facility, overdraft facility and loans are secured by fixed and floating charges over the Group's assets.

The short term bank borrowings under the revolving credit facilities have been classified under borrowings in Specialist Energy Group plc. A breakdown of cash and borrowings is set out below:

	Group		Company	
	2010	2009	2010	2009
	£000	£000	£000	£000
Cash at bank and in hand	4,744	781	1,849	2,424
Short term bank borrowings	(4,350)	(4,035)	-	-
Short term bank loans	(3,302)	(3,474)	-	-
Non-current bank loans	(3,817)	(7,009)	-	-
Net debt	<u>(6,725)</u>	<u>(13,737)</u>	<u>1,849</u>	<u>2,424</u>

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

### 23 Disposal group – assets held for sale

The Board resolved to dispose of the intangible assets relating to clean fuels technology contained within the Nviro segment (see note 15). These assets, which are available for immediate sale and which are expected to be sold within 12 months, have been classified as a disposal group held for sale and presented separately in the balance sheet. Negotiations with several parties have taken place and the assets are reflected at fair value less costs to sell.

### 24 Trade and other payables

	<b>Group</b>		<b>Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Current:				
Trade payables	3,797	3,422	42	199
Payments on account	2,845	1,341	-	-
Social security and other taxes	260	359	-	-
Due to group undertakings	-	-	26	26
	<u>6,902</u>	<u>5,122</u>	<u>68</u>	<u>225</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.

### 25 Other liabilities

Other liabilities can be summarised as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Accruals	3,669	5,762	43	273
Progress payments	-	6,132	-	-
Other payables	79	7	-	-
	<u>3,748</u>	<u>11,901</u>	<u>43</u>	<u>273</u>

The significant decrease in accruals during 2010 is due to the payment of costs relating to the reverse acquisition.

### 26 Provisions

<b>Group</b>	<b>2010</b>	<b>2009</b>
	<b>£000</b>	<b>£000</b>
Annual leave	228	180
Warranty	962	740
Liquidated damages	21	406
Loss making contracts	-	24
	<u>1,211</u>	<u>1,350</u>

All provisions are considered current. The carrying amounts may be analysed as follows:

	<b>Annual leave</b>	<b>Warranty</b>	<b>Liquidated damages</b>	<b>Loss making contracts</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Carrying amount at 1 January 2010	180	740	406	24	1,350
Additional provisions	48	721	125	-	894
Unused amounts reversed	-	(182)	(454)	-	(636)
Amount utilised	-	(317)	(56)	(24)	(397)
<b>Carrying amount at 31 December 2010</b>	<b>228</b>	<b>962</b>	<b>21</b>	<b>-</b>	<b>1,211</b>

### **Annual leave provision**

Paid holidays are regarded as an employee benefit and are charged to the profit or loss 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 contracts that have been shipped prior to 31 December 2010.

### **Loss making contracts**

A provision is immediately recognised in profit or loss 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.

## **27 Leases**

### **Finance Leases**

The Group leases various equipment under finance lease arrangements. The net carrying amount of the assets held under finance lease arrangements is £162,000 (2009: £184,000). The assets are included under "Plant and Machinery", which form an integral part of "property, plant and equipment" (see Note 18).

The future aggregate minimum finance lease payments are as follows:

<b>Group</b>	<b>2010</b>		<b>2009</b>	
	<b>£000</b>		<b>£000</b>	
	<b>Minimum payments</b>	<b>Present value of payments</b>	<b>Minimum payments</b>	<b>Present value of payments</b>
No later than 1 year	78	64	42	37
Later than 1 year and no later than 5 years	115	90	69	61
	<b>193</b>	<b>154</b>	<b>111</b>	<b>98</b>
Less: Amounts representing finance charges	(39)		(13)	
Present value of minimum lease payments	154		98	

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. No contingent rents were recognised as an expense in the reporting periods under review.

### 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:

<b>Group</b>	<b>2010 £000</b>	<b>2009 £000</b>
No later than 1 year	229	354
Later than 1 year and no later than 5 years	299	580
Later than 5 years	-	-
	<u>528</u>	<u>934</u>

Lease payments recognised as an expense during the period are shown in note 7. The Group's operating lease agreements do not contain any contingent rent clauses.

### 28 Pensions and other employee obligations

Within the UK the Group operates 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 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:

<b>Group</b>	<b>2010 £000</b>	<b>2009 £000</b>
Net obligation	<u>2,649</u>	<u>2,761</u>

### Scheme liabilities

The defined benefit obligation for the reporting periods under review are as follows:

<b>Group</b>	<b>2010 £000</b>	<b>2009 £000</b>
Defined benefit obligation 1 January	12,937	11,341
Interest cost	738	728
Actuarial loss	333	1,827
Benefits paid	(871)	(959)
Defined benefits obligation 31 December	<u>13,137</u>	<u>12,937</u>

For determination of the pension obligation, the following actuarial assumptions were used:

<b>Group</b>	<b>2010 £000</b>	<b>2009 £000</b>
Discount rate	5.70%	5.90%
Expected rate of return on plan assets	6.20%	6.60%
Expected rate of salary increases	-	-
Expected rate of pension increases	3.50%	3.50%
Inflation assumption	3.50%	3.50%
Mortality assumption	PA92YOB	PA92YOB

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.

No assumption is made with regard to the expected rate of salary increases as there are no members with benefits related to future salary progression.

#### **Scheme assets**

The assets held by the pension fund can be reconciled from the opening balance to the reporting date as follows:

<b>Group</b>	<b>2010 £000</b>	<b>2009 £000</b>
Fair value of plan assets at 1 January	10,176	10,672
Expected returns on plan assets	648	672
Actuarial gain/(loss)	350	(378)
Contributions by the group	185	169
Benefits paid	(871)	(959)
Fair value of plan assets at 31 December	10,488	10,176
Actual return on plan assets	998	294

Based on historical data, the Group expects contributions of £185,000 to be paid for 2011.

Plan assets include 419,639 shares in Specialist Energy Group plc. Plan assets can be broken down into the following major categories of investments:

<b>Group</b>	<b>2010 £000</b>	<b>2010 %</b>	<b>2009 £000</b>	<b>2009 %</b>
Real estate funds	1,346	13	1,622	16
Equity investment funds	3,903	37	3,585	35
Self related equities	306	3	319	3
Corporate bonds	4,741	45	4,519	45
Liquid funds	192	2	131	1
Total value of assets	10,488	100	10,176	100

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>Group</b>	<b>2010</b> <b>£000</b>	<b>2009</b> <b>£000</b>
Defined benefit obligation	(13,137)	(12,937)
Fair value of plan assets	10,488	10,176
	<hr/>	<hr/>
Total deficit	(2,649)	(2,761)

### **Scheme expenses**

Total expenses resulting from the Group's defined benefit plans can be analysed as follows:

<b>Group</b>	<b>2010</b> <b>£000</b>	<b>2009</b> <b>£000</b>
Interest costs	(738)	(728)
Expected returns on plan assets	648	672
	<hr/>	<hr/>
Total expenses recognised in finance costs	(90)	(56)

The employee benefits expense for the year is £nil (2009: £nil)

Expected returns on plan assets are 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 2010 the actual return on plan assets was £998,000 (2009: £294,000).

The actuarial gains and losses recorded in other comprehensive income are as follows:

<b>Group</b>	<b>2010</b> <b>£000</b>	<b>2009</b> <b>£000</b>
Actuarial (losses)/gains on liabilities	(333)	(1,827)
Actuarial gains/(losses) on assets	350	(378)
	<hr/>	<hr/>
Total gains/(losses) recognised in other comprehensive income	17	(2,205)

The cumulative actuarial gains and losses recognised in the statement of other comprehensive income 31 December 2010 was losses £828,000 (2009: losses £845,000).

## Group

<b>Experience gains and losses</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Defined benefit obligation	(13,137)	(12,937)	(11,341)	(14,574)	(14,522)
Fair value of plan assets	10,488	10,176	10,672	13,599	14,048
Plan deficit	(2,649)	(2,761)	(669)	(975)	(474)
Experience adjustments:					
Plan assets	350	(378)	(2,960)	(642)	(174)
Plan liabilities	-	-	1,593	(19)	(193)

### 29 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 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 and the Company'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 cash flow 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 and the Company are 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 rolling 12 month currency cash flow forecasts to enable currency exposures to be identified and then subsequently hedged.

The Group uses forward exchange contracts to hedge the impact on receipts and payments of the volatility in exchange rates of US Dollar and Euro to Pound Sterling. The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2010 were USD5.025 million (2009: USD3.75 million). Hedge accounting is not applied in respect of these hedged transactions.

Derivative contracts are measured at fair value in the statement of financial position with movements in that fair value being recognised in profit or loss.

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 US Dollar/Pound Sterling exchange rate of +/- 10%. 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 US Dollar/Pound Sterling exchange rate for each period, and the financial instruments held at each reporting date that are sensitive to changes in the US Dollar/Pound Sterling exchange rate. All other variables are held constant.

	<b>Impact on profit for the year £000</b>	
	<b>+10%</b>	<b>-10%</b>
31 December 2010	(296)	362
31 December 2009	(220)	569

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.

The Company does not have any currency exposures.

### **Interest rate sensitivity**

The Group's borrowings include loans that carry 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 term borrowings of £6.4m that have an effective fixed rate of interest. These borrowings include £0.8 million at a fixed rate of interest of 6.515% and £5.6 million with an interest rate swap attached that converts borrowings to a fixed rate of interest of 5.87%. The remaining term borrowings of £0.5 million have a floating rate of interest based on LIBOR. Gains and losses relating to movements in fair values of the hedging instruments associated with the fixed rate borrowings are recorded in profit or loss.

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 2010 is as follows:

<b>Group Interest rate profile</b>	<b>Fixed £000</b>	<b>Floating £000</b>	<b>Zero £000</b>	<b>Total £000</b>
<b>Receivables</b>				
Trade and other receivables	-	-	8,219	8,219
<b>Payables</b>				
Trade and other payables	-	-	6,902	6,902
Bank loans	6,432	532	-	6,964
Amounts due under revolving credit facilities	-	4,350	-	4,350
Amounts due under finance lease agreements	155	-	-	155
	6,587	4,882	6,902	18,371
Cash	-	(4,744)	-	(4,744)
	6,587	138	6,902	13,627

The classification of the rate of interest on the bank loans of £6.4 million 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 +/- 0.5%. 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 (i.e. net floating rate debt). All other variables are held constant.

**Impact on profit for the year £000****+0.5%****-0.5%**

31 December 2010	(1)	1
31 December 2009	(19)	19

The Company has minimal exposure to interest rate risk. 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 either 0.50% below the Bank of England base rate or nil%. 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.

**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:

<b>Group</b>	<b>2010 £000</b>	<b>2009 £000</b>
Classes of financial assets – carrying amounts		
Trade and other receivables	8,299	8,949
Cash and cash equivalents	4,744	781

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.

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:

<b>Group</b>	<b>2010 £000</b>	<b>2009 £000</b>
Not more than 3 months	98	592
More than 3 months but less than 6 months	-	80
More than 6 but less than 12 months	-	502
	98	1,174
	98	1,174

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.

The Company's 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. The concentration of the Company's credit risk is considered by counterparty, geography and currency. At 31 December 2010 the Company had a significant concentration of cash of £1.9 million (2009: £2.4 million) held on deposit with one large bank in the United Kingdom. During the year the Company held minimal cash balances. In addition, the Company as at 31 December 2010 the Company had provided long term intercompany funding to its subsidiaries of £8.9 million (£0.4 million), all of which is regarded as recoverable in the fullness of time.

#### **Liquidity risk analysis**

The Group, together with the Company, 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 and the Company maintain cash and headroom to meet their 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 2010, the liabilities that have contractual maturities (including interest payments where applicable) are summarised below:

	<b>Group</b>		<b>Company</b>	
	<b>Current</b>	<b>Non-current</b>	<b>Current</b>	<b>Non-current</b>
	<b>(&lt;1 year)</b>	<b>(&gt; 1 year)</b>	<b>(&lt;1 year)</b>	<b>(&gt; 1 year)</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>31 December 2010</b>				
Trade payables	3,797	-	42	-
Accruals and other payables	3,748	-	43	-
Short-term bank borrowings	4,350	-	-	-
Finance lease liabilities	63	92	-	-
Bank loans	3,239	3,725	-	-
Derivatives	-	2,958	-	-
Owed to Group undertakings	-	-	26	-
<b>31 December 2009</b>				
Trade payables	3,422	-	199	-
Accruals and other payables	11,901	-	273	-
Short-term bank borrowings	4,035	-	-	-
Finance lease liabilities	16	31	-	-
Bank loans	3,458	6,978	-	-
Derivatives	-	1,763	-	-
Owed to Group undertakings	-	-	26	-

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.

### **30 Capital management objectives**

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 funds itself through equity and debt, which is defined as bank borrowings and finance leases.

The Group's capital is represented by the carrying amount of equity as presented on the face of the statement of financial position. The Group's goal in capital management is to maintain a balance of capital to overall financing, which is subject to regular Board review. The capital and overall financing for the reporting periods under review is summarised as follows:

<b>Group</b>	<b>2010</b>	<b>2009</b>
	<b>£000</b>	<b>£000</b>
Total equity	9,543	(1,478)
Total equity	9,543	(1,478)
Net borrowings	6,725	13,737
Overall financing	16,268	12,259

### 31 Financial assets and liabilities

#### 31.1 Categories of financial assets and liabilities

The carrying amounts presented in the financial statements relate to the following categories of assets and liabilities:

	<b>Group</b>		<b>Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Financial assets</b>				
<b>Current:</b>				
Loans and receivables:				
- Trade and other receivables	8,299	8,949	8,899	370
- Cash and cash equivalents	4,744	781	1,849	2,424
<b>Financial liabilities</b>				
<b>Current:</b>				
Financial liabilities measured at amortised cost				
- Trade payables	3,797	3,422	42	199
- Borrowings	7,652	7,509	-	-
Financial liabilities at fair value through profit or loss:				
- Derivative financial instruments – held for trading	2,958	1,763	-	-
<b>Non-current</b>				
Financial liabilities measured at amortised cost				
- Borrowings	3,817	7,009	-	-

See note 2.26 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 29.

#### 31.2 Derivatives 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 and inflation swaps is calculated as the present value of the estimated future cash flows.

The derivative financial liabilities can be summarised as follows:

<b>Group</b>	<b>2010</b>	<b>2009</b>
	<b>£000</b>	<b>£000</b>
Forward exchange contracts – held for trading	-	7
Forward extra contracts – held for trading	-	116
Interest rate swap	850	664
Inflation swap	2,108	976
<b>Fair value of derivative financial liabilities</b>	2,958	1,763

The fair value measurements of all of the above derivative financial liabilities fall into Level 2 of the fair value hierarchy.

### 31.3 Financial results by category of financial instruments

The financial results by category of financial instruments can be summarised as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Loans and receivables – interest received	-	20	2	2
Financial liabilities measured at amortised cost – interest paid	(677)	(1,738)	-	-
Fair value movements on derivative financial instruments	(1,195)	1,618	-	-
	<b>(1,872)</b>	<b>(120)</b>	<b>-</b>	<b>-</b>

### 31.4 Borrowings

Borrowings comprise the following financial liabilities:

<b>Group</b>	<b>Current</b>		<b>Non-current</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Financial liabilities measured at amortised cost:				
Short term bank borrowings and loans	7,589	7,493	3,725	6,978
Finance lease liabilities	63	16	92	31
	<b>7,652</b>	<b>7,509</b>	<b>3,817</b>	<b>7,009</b>

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 29. The above bank loans contain terms and conditions that are normal for the commercial banking market. A breakdown of net debt is given in note 22.

There were no borrowings in the Company (2009: £nil).

### 32 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 between the Company and its subsidiaries were as follows:

<b>Company</b>	<b>2010 £000</b>	<b>2009 £000</b>
Amounts due from subsidiary undertakings:		
- Southbank UK Limited	8,329	-
- Nviro Cleantech Limited	349	193
- Nviro Cleantech Inc	32	-
- Vertus Technologies US LLC	17	17
- Vertus Technologies Industrial LLC	172	160
	<u>8,899</u>	<u>370</u>
Amounts owed to subsidiary undertakings:		
- Microrelease Limited	(12)	(12)
- Laseair Limited	(14)	(14)
	<u>(26)</u>	<u>(26)</u>

Amounts due from subsidiary undertakings represent intercompany funding. In the case of Southbank UK Limited funding has been provided to finance working capital, particularly for Hayward Tyler, and to finance debt repayments. In the case of the Nviro companies funding has been provided to meet the cost of closure of operations. Amounts owed to subsidiary undertakings relate to trading balances.

### 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 Crown Passage House Limited, a company of which Ewan Lloyd-Baker is a director, First Merchant Capital UK Limited, a company of which Ewan Lloyd-Baker was a director, Lloyd-Baker & Associates, a firm of which Ewan Lloyd-Baker is a partner, City and Westminster Corporate Finance LLP, a firm of which John May is a partner, and Waypoint Investors LLP, a firm of which Nicholas Winks is a partner.

Crown Passage House Limited was paid rent of £36,667 (2009: £nil) during the year for the provision of an office.

First Merchant Capital UK Limited was paid £12,862 (2009: £144,000) during the year for the provision of a serviced office. The serviced office costs include administrative and accounting staff, rent and office expenses. The service terminated on 19 January 2010. As at 31 December 2010 the amount outstanding was nil (2009: £12,000). First Merchant Capital UK Limited was paid £3,156 (2009: £103,900) during the year for provision of directors' and management services of which Mr Lloyd-Baker was paid £1,857.

Lloyd-Baker & Associates were paid £4,244 (2009: £43,000) for the provision of corporate finance services of which Mr Lloyd-Baker was paid £2,774. These fees were charged on normal commercial terms.

City and Westminster Corporate Finance LLP were paid £39,195 (2009: £46,974) during the year for the provision of legal services to Hayward Tyler in respect of commercial contracts. These fees were charged on normal commercial terms.

Waypoint Investors LLP were paid £15,000 (2009: £120,000) during the year for the provision of directors' and other services, of which Mr Winks was paid £6,000.

On 15 January 2010 the Company agreed that it would reimburse Ewan Lloyd-Baker with any tax credit that the Company might obtain as a consequence of his subscription for Ordinary Shares following the exercise of his share options in Southbank UK plc (“Southbank”) (see note 35.2). This agreement constituted a related party transaction under the AIM Rules. Following the completion of the acquisition of Southbank by the Company Mr Lloyd-Baker made a payment of £261,173 to Southbank to cover tax liabilities in relation to the exercise of his options, £119,000 of which was repayable to Mr Lloyd-Baker on realisation of the associated tax asset by Southbank. Mr Lloyd-Baker agreed to convert the amount (being £119,000) owed to him into £80,000 worth of shares in the Company at the placing price of the share placing in December 2010 (the “Placing”). The discount reflected the Directors’ assessment of the net present value of the tax asset repayable to Mr Lloyd-Baker.

The Placing was classified as a related party transaction for the purposes of the AIM Rules due to the participation by Ewan Lloyd-Baker, Ronald Emerson and Nicholas Flanagan. The conversion of amounts owed to Ewan Lloyd-Baker as detailed above also constituted a related party transaction for the purposes of the AIM Rules. The Independent Directors of the Company (being at the time John May, Nicholas Winks and Chris Every), having consulted with FinnCap, as nominated adviser to the Company, considered the Placing and the conversion of Mr Lloyd-Baker’s outstanding liability to be fair and reasonable insofar as the shareholders in the Company are concerned. In providing advice to the Independent Directors, FinnCap has taken into account the Independent Directors’ commercial assessments.

**Transactions with post-employment benefit plans**

The defined benefit plan referred to in note 28 is a related party to the Group.

The assets in the pension scheme include shares in Specialist Energy Group plc. The Group’s transactions with the pension scheme include contributions paid to the plan, which are disclosed in note 28. The Group has not entered into other transactions with the pension scheme, neither has it any outstanding balances at the reporting dates under review.

**Transactions with joint ventures**

During the year the Group recharged £nil (December 2009 £nil) of expenses to its joint venture undertaking, Balama Nviro Limited.

**33 Commitments**

<b>Group</b>	<b>2010 £000</b>	<b>2009 £000</b>
Contracted for but not provided for	603	627
	603	627

**34 Equity  
Share capital**

The share capital of Specialist Energy Group plc consists of fully paid ordinary shares with a par value of 1 pence per share.

Shares authorised and issued are summarised below.

**Authorised share capital:**

	<b>2010 £000</b>	<b>2009 £000</b>
40,000,000 ordinary shares of 1p	400	400
	400	400

<b>Issued share capital:</b>	<b>2010</b>	<b>2010</b>	<b>2009</b>	<b>2009</b>
	<b>No.</b>	<b>£000</b>	<b>No.</b>	<b>£000</b>
<b>Allotted, called up and fully paid:</b>				
At beginning of period	66,093,190	66	66,093,190	66
Share consolidation*	(59,483,871)	-	-	-
Issued in January 2010	5,263,200	53	-	-
Issue of shares on acquisition	13,218,218	132	-	-
Issued in December 2010	10,416,667	104	-	-
<b>Total</b>	<b>35,507,404</b>	<b>355</b>	<b>66,093,190</b>	<b>66</b>

\* See narrative below

#### *Share consolidation*

On 15 January 2010 the Company undertook a share re-organisation. At that time the existing authorised share capital of 400,000,000 ordinary shares and issued share capital of 66,093,190 ordinary shares of 0.1p each were consolidated into 40,000,000 authorised ordinary shares and 6,609,319 issued ordinary shares respectively of 1p each ("Share Consolidation").

#### *January 2010 issue*

On 19 January 2010, prior to the transaction outlined below, a total of 5,263,200 new ordinary shares of 1p each were issued at 76p per share, raising gross proceeds of £4.0 million before expenses. The premium arising on this share issue of £3.7 million has been reflected in share premium.

#### *Shares issued on acquisition*

On 20 January 2010, the Company completed the reverse acquisition that led to the issue of 13,153,641 new ordinary shares of 1p each. The difference between the nominal value and fair value of the shares issued of £9.9 million has been reflected in the merger reserve.

#### *December 2010 issue*

On 24 December 2010, a total of 10,416,667 ordinary shares of 1p each were issued by the Company at 48p per share, raising gross proceeds of £5.0 million before expenses. The premium arising on this share issue of £4.6 million after the deduction of expenses has been reflected in share premium.

Each share in issue has the same right to receive dividend and the repayment of capital and represents one vote at the shareholders' meeting of Specialist Energy Group plc.

#### **Share premium**

Share premium consists of proceeds received in addition to the nominal value of the shares issued during the year, net of transaction costs. Costs of new shares charged to equity amount to £0.5 million (2009: £nil).

## 35 Share options

### 35.1 Share options of the Company

The share option scheme was established prior to the reverse acquisition to incentivise the then directors and senior management, aid recruitment to the Company and its subsidiaries and to enable directors and senior employees to share in the benefit from the increased market capitalisation of the Company. The scheme ceased to operate at the date of the reverse acquisition. There are residual options outstanding at the reporting date as set out below.

	2010 No.	2010 Weighted average exercise price (£)	2009 No.	2009 Weighted average exercise price (£)
Outstanding at beginning of period	1,631,196	0.32	2,638,055	0.39
Share consolidation*	(1,468,077)	-	-	-
Options granted	-	-	260,000	0.07
Options exercised	-	-	(6)	0.10
Options lapsed	(103,699)	0.25	(1,266,853)	0.41
<b>Outstanding at end of period</b>	<b>59,420</b>	<b>0.44</b>	<b>1,631,196</b>	<b>0.32</b>
<b>Exercisable at end of period</b>	<b>59,420</b>	<b>0.44</b>	<b>1,477,202</b>	<b>0.33</b>

\* See narrative in note 34

The weighted average remaining contractual life of the options outstanding at 31 December 2010 was 1 year 2 months (2009: 6 years 7 months). The outstanding options can be exercised at prices ranging from £0.43 to £0.51 and can be exercised over a 14 to 16 month period. None of the Directors hold any options.

The Group recognised total expenses related to equity settled share based payment transactions in the form of options of £nil (2009: £6,240).

### 35.2 Share options of Southbank

Southbank maintained an equity settled share-based payment scheme for employee remuneration in the form of share option contracts granted to certain employees. During the year all options were exercised prior to the reverse acquisition (2009: nil).

Options to subscribe for ordinary shares of 0.02 pence equal in aggregate to 18% of the issued share capital of Southbank, including these options, were issued in 2006. The exercise price of the options was 0.02 pence per option share.

	2010 No.	2010 Weighted average exercise price (pence)	2009 No.	2009 Weighted average exercise price (pence)
Outstanding at beginning of period	170,095,648	0.02	170,095,648	0.02
Options exercised	(170,095,648)	0.02	-	-
<b>Outstanding at end of period</b>	<b>-</b>	<b>-</b>	<b>170,095,648</b>	<b>0.02</b>
<b>Exercisable at end of period</b>	<b>-</b>	<b>-</b>	<b>170,095,648</b>	<b>0.02</b>

### 36 Business combination

On 20 January 2010, Specialist Energy Group plc (the “Company”) acquired 100% of the issued share capital of Southbank UK plc (“Southbank”) by means of a share-for-share exchange whereby the shareholders of Southbank received shares in the Company. In preparing the consolidated financial statements, Southbank has been deemed to be the acquirer and the Company, the legal parent, has been deemed to be the acquiree. The purpose of the business combination was to access the Alternative Investment Market, widen the shareholder base and to raise equity funding.

In accordance with IFRS 3 *Business Combinations* (Revised 2008), this transaction has been accounted for as a reverse acquisition. The key features of this basis of consolidation are:

- The consolidated IFRS financial statements are a continuation of the financial statements of Southbank and the retained earnings recognised are a continuation of those of Southbank immediately before the business combination.
- The consolidated income statement includes the results of Southbank and the Company for all periods presented. The Company incurred a loss of £140,000 from the 20 January 2010 to the reporting date. If the Company had been acquired on 1 January 2010, the loss would not have been materially different.
- The assets and liabilities of Southbank are measured based on their pre-combination carrying amounts.
- The equity structure appearing in the consolidated financial statements reflects the equity structure of the legal parent, Specialist Energy Group plc. However, the total issued equity instruments reflect that of the legal subsidiary, Southbank. To achieve this position a reverse acquisition reserve of £19.974 million has been created, being the difference between the required Group equity instruments and the reported equity instruments of the parent.
- Specialist Energy Group plc has been consolidated from the date of the reverse acquisition using the fair value of its net assets and liabilities at that date. The cost of the acquisition was £5.023 million and goodwill of £2.835 million arose on the acquisition, where goodwill represents the difference between the cost of the acquisition and the fair value of the assets acquired.

#### Net assets acquired – Specialist Energy Group plc (formerly Nviro Cleantech plc)

	<b>Book value and fair value £000</b>
Property, plant and equipment	10
Other receivables	95
Cash and cash equivalents	2,670
Disposal group – assets held for sale	278
Trade and other payables	(816)
Interests in joint ventures	(49)
	<hr/> 2,188
Goodwill	<hr/> 2,835
Total consideration	<hr/> <hr/> 5,023

The book value of the net assets acquired was considered to represent fair value. The net assets acquired were deemed to be those in existence at 31 December 2009. The consideration was satisfied by the issue of 100\* shares of the Company (post the Share Consolidation – see note 34) for every 7,149 shares of Southbank. Total acquisition expenses were incurred as follows:

- The costs of Southbank in 2010 were £0.1 million, which are included in non-trading operating charges in the income statement (2009: £0.9 million)
  - The costs of Nviro were £nil (2009: £0.8 million).
- 
- The consideration transferred comprises of equity interests that Southbank (the legal subsidiary) would have had to issue to give the owners of Specialist Energy Group plc the same percentage equity interest in the combined entity that results from the reverse acquisition. As such the consideration reflects the issue of 472,500,215 shares at a fair value of 1.063 pence per share.
  - The book value of the other receivables acquired represent fair value and gross contractual amounts. All cash flows in respect of the other receivables are expected to be collected.