

RNS Number : 01740  
Modern Water PLC  
30 September 2019

**30 September 2019**

**Modern Water plc ("Modern Water" or "the Company")**

**INTERIM RESULTS**

**Modern Water (AIM:MWG), the owner of leading technologies for water and wastewater treatment and the monitoring of water quality, announces half-year results for the 6 months ended 30 June 2019**

**Commenting on the results, Dr Piers Clark, Chairman of Modern Water, said:**

"The first six months of 2019 have been difficult for the Company: on the positive side Modern Water's excellent innovative all-membrane brine concentration technology was again proven by the sale of a full-sized plant to one of the world's leading chemicals companies; and the Monitoring Division's sales increased significantly. On the negative side, sales especially in the Membranes Division were not developing fast enough, leading to the insolvency of two of the Group's subsidiaries. The Board is working on selling the Monitoring Division and on restructuring the Membranes Division to ensure that its valuable technologies can be commercialised more rapidly."

-ends-

**For further information:**

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## **Joint Statement of the Chairman and the Chief Executive**

The first six months of 2019 brought mixed fortunes: on the one hand, Modern Water sold an AMBC plant to one of the world's leading producers of crop protection products, speciality chemicals and other industrial chemicals, following successful trials of Modern Water's AMBC by the company at a site in India. The order proved that Modern Water's AMBC technology is able to treat technically challenging waste-water for a competitive price and in an energy-efficient manner.

On the other hand, however, the Company's commercialisation of its innovative membrane process technology did not progress fast enough and the strong performance from the Monitoring Division was offset by a lower than forecast performance from the Membrane Division.

The Company's hard work on obtaining planning application for the new Effluent Treatment Plant in Gibraltar successfully passed a meeting of Gibraltar's planning authorities, but this proved a false dawn as even now the project has not got off the ground, owing to political delays.

As a consequence of the slow progress in sales by the Membranes Division and the delay of the Gibraltar project - and a failure by the Group to raise sufficient funds - Modern Water announced (post end of the first half of the year) that it would appoint liquidators in relation to two of the Company's subsidiaries, namely Modern Water Services Limited and Cogent Environmental Ltd.

Also post-end of the first half of the year, the Company announced that negotiations for the sale of the assets of Modern Water Inc., the US-based Monitoring Division, had commenced.

Despite these difficulties, Modern Water managed to slightly increase its revenues in the first half of 2019 when compared to the same period in 2018 (2018: £1.9m; 2019: £2.0m); in addition, the Company slightly reduced its operating loss for the period (2018; £1.5m; 2019: £1.2m). Loss per shares was 0.91p. Net assets at 30 June 2019 were £1.30m, including cash of £68k (30 June 2018: £2.26m).

In future, Modern Water will devote its management time and effort to its restructured innovative Membrane Processes Division, in which there is an encouraging pipeline of international development projects. The Membrane Processes Division has significant IP and proprietary know-how in the areas of brine concentration and forward osmosis. It has a number of successful project references from working with its partners in China and India. The Division will continue to pursue its preferred business model of licencing its IP for specific projects whilst also providing engineering and design services to its partners.

Since the period end in September 2019, the Company raised £141k (before costs) of further funds. Following a review, the directors have concluded that the Company has adequate resources to continue its business for the foreseeable future, as set out in Note 2.2 to the results. The Company continues to carefully manage its working capital position.

**Dr Piers Clark**  
**Chairman**

**Simon Humphrey**  
**Chief Executive**

27 September 2019

## GROUP STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

SIX MONTH PERIOD ENDED 30 JUNE 2019

	6 months ended 30 June 2019	6 months ended 30 June 2018	Year ended 31 December 2018
	£'000	£'000	£'000
Revenue	2,019	1,894	4,159
Cost of Sales	(1,005)	(965)	(1,843)
<b>Gross profit</b>	<b>1,014</b>	929	2,316
Administration expenses	(1,981)	(2,112)	(4,371)
Inventory valuation adjustment	0	0	(3)
<b>Operating loss before interest, tax, depreciation &amp; amortisation</b>	<b>(967)</b>	(1,183)	(2,058)
Depreciation and amortisation	(213)	(301)	(523)
<b>Operating loss</b>	<b>(1,180)</b>	(1,484)	(2,581)
Finance income	(95)	3	204
Finance costs	(44)	(60)	(92)
<b>Loss on ordinary activities before taxation</b>	<b>(1,319)</b>	(1,541)	(2,469)
Taxation	(9)	151	163
<b>Loss for the period</b>	<b>(1,328)</b>	(1,390)	(2,306)
<b>Other comprehensive income</b>			
Items may be subsequently reclassified to profit or loss			
Foreign currency translation differences on foreign operations	17	(105)	(504)
<b>Total comprehensive loss for the half year</b>	<b>(1,311)</b>	(1,495)	(2,810)
<b>Loss attributable to:</b>			
Owners of the parent	(1,328)	(1,390)	(2,170)
Non-controlling interests	(1)	0	(136)
	<b>(1,329)</b>	(1,390)	(2,306)
<b>Total comprehensive loss attributable to:</b>			
Owners of the parent	(1,310)	(1,350)	(2,674)
Non-controlling interests	(1)	(145)	(136)
	<b>(1,311)</b>	(1,495)	(2,810)
<b>Loss per share attributable to the equity holders of the parent</b>			
<b>Basic loss per share</b>	<b>0.91p</b>	1.46p	2.22p
<b>Diluted loss per share</b>	<b>0.91p</b>	1.46p	2.22p

The notes form an integral part of this condensed consolidated interim financial information.

Items in the statement above are all derived from continuing operations.

## GROUP STATEMENT OF FINANCIAL POSITION (UNAUDITED)

AS AT 30 JUNE 2019

	30 June 2019 £'000	30 June 2018 £'000	31 December 2018 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	146	219	199
Intangible assets	1,483	1,608	1,563
	<b>1,629</b>	<b>1,827</b>	<b>1,762</b>
<b>Current assets</b>			
Inventories	920	1,109	935
Trade and other receivables	742	1,063	1,014
Cash and cash equivalents	68	127	228
	<b>1,730</b>	<b>2,299</b>	<b>2,177</b>
<b>Total assets</b>	<b>3,359</b>	<b>4,126</b>	<b>3,939</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Ordinary shares	283	239	261
Share premium account	43,142	41,604	42,613
Warrant reserve	100	0	100
Merger reserve	398	398	398
Foreign exchange reserve	(652)	(262)	(669)
Accumulated losses	(41,970)	(39,715)	(40,642)
	<b>1,301</b>	<b>2,264</b>	<b>2,061</b>
Non-controlling interests	0	0	9
<b>Total equity</b>	<b>1,301</b>	<b>2,264</b>	<b>2,070</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Bank Loan	524	510	532
Deferred tax liabilities	0	24	0
<b>Current liabilities</b>			
Trade and other payables	1,534	1,328	1,337
<b>Total liabilities</b>	<b>2,058</b>	<b>1,862</b>	<b>1,869</b>
<b>Total equity and liabilities</b>	<b>3,359</b>	<b>4,126</b>	<b>3,939</b>

The notes form an integral part of this condensed consolidated interim financial information.

## GROUP STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

SIX MONTH PERIOD ENDED 30 JUNE 2019

	Called up share capital £'000	Share premium account £'000	Warrant reserve £'000	Merger reserve £'000	Foreign exchange reserve £'000	Retained Earnings £'000	Total £'000	Non- controlling interests £'000	Total equity £'000
<b>Six month period ended 30 June 2018</b>									
<b>Balance as at 1 January 2018</b>	239	41,604		398	(165)	(38,540)	3,563	145	3,681
Comprehensive loss									

Loss for the period ended 30 June 2018	-	-	-	(1,253)	(1,253)	(137)	(1,808)
Foreign currency translation differences	-	-	-	(97)	(97)	(8)	(105)
<b>Total comprehensive loss</b>	-	-	-	(97)	(1,350)	(145)	(1,495)
<b>Transactions with owners</b>							
Issue of shares	-	-	-	-	-	-	-
Share-based payments	-	-	-	78	78	-	78
<b>Total transactions with owners</b>	<b>40</b>	<b>1,572</b>	<b>-</b>	<b>75</b>	<b>1,687</b>	<b>-</b>	<b>1,687</b>
<b>Balance as at 30 June 2018</b>	<b>239</b>	<b>41,604</b>	<b>398</b>	<b>(262)</b>	<b>(39,715)</b>	<b>2,264</b>	<b>0</b>

**Six month period ended 30 June 2019**

<b>Balance as at 1 January 2019</b>	<b>261</b>	<b>42,613</b>	<b>100</b>	<b>398</b>	<b>(669)</b>	<b>(40,642)</b>	<b>2,061</b>	<b>9</b>	<b>2,070</b>
<b>Comprehensive loss</b>									
Loss for the period ended 30 June 2019	-	-	-	-	(1,414)	(1,414)	(9)	(1,423)	
Foreign currency translation differences	-	-	-	17	-	17	-	17	
<b>Total comprehensive loss</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>17</b>	<b>(1,414)</b>	<b>(1,261)</b>	<b>(9)</b>	<b>(1,261)</b>	
<b>Transactions with owners</b>	<b>22</b>	<b>530</b>	<b>-</b>	<b>-</b>	<b>86</b>	<b>86</b>	<b>-</b>	<b>86</b>	
Share-based payments	-	-	-	-	86	86	-	86	
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>86</b>	<b>86</b>	<b>-</b>	<b>86</b>	
<b>Balance as at 30 June 2019</b>	<b>283</b>	<b>43,143</b>	<b>100</b>	<b>398</b>	<b>(652)</b>	<b>(41,970)</b>	<b>1,302</b>	<b>0</b>	<b>1,302</b>

The notes form an integral part of this condensed consolidated interim financial information.

## GROUP STATEMENT OF CASH FLOWS (UNAUDITED)

SIX MONTH PERIOD ENDED 30 JUNE 2019

	<b>6 months ended 30 June 2019</b>	6 months Ended 30 June 2018	Year ended 31 December 2018
	<b>£'000</b>	£'000	£'000
<b>Cash flows from operating activities</b>			
Loss on ordinary activities before taxation	<b>(1,319)</b>	(1,541)	(2,469)
<b>Adjustments for:</b>			
Inventory valuation adjustment	-	-	3
Depreciation of property, plant and equipment	<b>56</b>	52	109
Amortisation of intangible assets	<b>157</b>	249	414
Impairment of goodwill	-	-	-
Net finance (income)/cost	<b>130</b>	57	(112)
Share-based payments	<b>86</b>	78	168
<b>Movements in working capital:</b>			
(Increase)/Decrease in inventories	<b>15</b>	(62)	109
Decrease in trade and other receivables	<b>272</b>	(20)	29
(Decrease) in trade and other payables	<b>228</b>	592	242
<b>Net cash flows used in operating activities</b>	<b>(375)</b>	(595)	(1,507)
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	<b>0</b>	(56)	(60)

Proceeds from sale of property, plant and equipment	-	-	-
Purchase of patents and development costs	(354)	(165)	(319)
Interest received	-	-	-
Tax Received / (Paid)	(9)	(2)	155
<b>Net cash flows used in investing activities</b>	<b>(363)</b>	<b>(223)</b>	<b>(224)</b>
<b>Cash flows from financing activities</b>			
Proceeds from bank loan	0	500	500
Proceeds from issuance of ordinary shares	552	-	1,031
<b>Net cash flows used in financing activities</b>	<b>552</b>	<b>500</b>	<b>1,531</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(186)</b>	<b>(318)</b>	<b>(200)</b>
Cash and cash equivalents at start of period	228	466	466
Exchange (losses)/gains on bank balances	26	25	(38)
<b>Cash and cash equivalents at end of period</b>	<b>68</b>	<b>173</b>	<b>228</b>

The notes form an integral part of this condensed consolidated interim financial information.

## NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

SIX MONTH PERIOD ENDED 30 JUNE 2019

### 1. General information

Modern Water plc ('the Company') and its subsidiaries (together, 'the Group') invests in, develops and deploys new water technology. The Company is a public limited company incorporated and domiciled in England and Wales, whose shares are publicly traded on the AIM market operated by the London Stock Exchange. The registered office is Bramley House, The Guildway, Old Portsmouth Road, Guildford, Surrey GU3 1LR.

This condensed consolidated interim financial information was approved for issue by the Board of Directors on 27 September 2019. These interim financial results are unaudited and do not comprise statutory accounts within the meaning of section 435 of the Companies Act 2006.

Statutory accounts for the year ended 31 December 2018 were approved by the board of directors on 29 March 2019 and delivered to the Registrar of Companies. The auditor's opinion on those accounts was not modified, but contained an emphasis of matter paragraph related to the going concern. They did not contain any statement under section 498 of the Companies Act 2006.

### 2. Basis of preparation and going concern

#### 2.1 Basis of preparation

The principal accounting policies have been applied consistently throughout the period in the preparation of these financial statements. This condensed consolidated interim financial information for the six months ended 30 June 2019 has been prepared in accordance with the AIM Rules for Companies of the London Stock Exchange plc and with IAS 34, 'Interim financial reporting' as adopted by the European Union.

The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2018, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

#### 2.2 Going concern

The directors are required by company law to be satisfied that the Group has adequate resources to continue in business for the foreseeable future. A review has been conducted and the directors have concluded that such resources are available, and that the going concern basis is justified in preparation of the financial statements.

The Group's forecasts prepared by the directors reflect that funding requirements have reduced significantly following the liquidation of Modern Water Services Limited and the restructuring of the Group's Membrane Division and Central function.

The Group's remaining funding requirements will be met from:

- Proceeds from the sale of the assets of the Group's Monitoring Division.
- The £141k raised from a share placing on 3 September 2019
- The £68k cash balance as of 30-June-2019;
- Continued revenue from the restructured Membrane Processes Division.

### 3. Accounting policies

#### 3.1 Accounting policy and disclosure changes

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2018.

### 4. Principal risks and uncertainties

A detailed explanation of the principal risks and uncertainties affecting the Group, and the steps taken to manage them, is set out in the Directors' Report section of the Group's 2018 Annual Report and Accounts, which is available of the Group's website at [www.modernwater.com](http://www.modernwater.com). The principal risks and uncertainties are summarised as follows:

- customer acceptance of the Group's technologies;
- competitor technology;
- socio-political risks;
- scaling up the technology;
- IP protection;
- recruitment and retention of key personnel;
- health and safety; and
- financial risks.

There have been no significant changes in the nature of these risks that will affect the next six months of the financial year.

### 5. Critical accounting estimates and judgements

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Estimates are continually evaluated and are based on historical experience and other factors, such as expectations of future events, and are believed to be reasonable under current circumstances. Actual results may differ from these estimates. The key sources of estimation uncertainty during the current year were consistent with the prior year, as detailed in the Group's 2018 Annual Report and Accounts.

### 6. Segmental analysis

The chief operating decision-maker is deemed to be the Board, for whom monthly financial information is provided by division to gross profit and direct overheads; below this financial information is reported in a consolidated Group format. For management reporting purposes the Group is organised into two operating segments (i) Membrane Processes; and (ii) Monitoring, which matches this divisional split.

Administrative expenses which are directly attributable to the two main operating divisions (comprised of business development, sales, operations and technical expenditure) are reported as expenditure in the respective division. However, a significant proportion of the Group's expenditure (legal, marketing, finance, facilities and directors' expenditure) is managed and reported centrally. As the commercial activities of the Group develop, this financial information is expected to evolve.

Statement of Comprehensive Income	6 months ended 30 June 2019				6 months ended 30 June 2018			
	Membrane £'000	Monitoring £'000	Central £'000	Total £'000	Membrane £'000	Monitoring £'000	Central £'000	Total £'000
<b>Revenue</b>	<b>212</b>	<b>1,808</b>	<b>-</b>	<b>2,020</b>	277	1,617	-	1,894
Cost of sales	(45)	(961)	-	(1,006)	(167)	(798)	-	(965)
Gross profit	<b>167</b>	<b>847</b>	<b>-</b>	<b>1,014</b>	110	819	-	929
Administrative expenses	(791)	(906)	(196)	(1,893)	(614)	(947)	(473)	(2,034)
Share-based payments	-	-	(86)	(86)	-	-	(78)	(78)
Operating profit/(loss) before tax depreciation and amortisation	(624)	(59)	(282)	(965)	(504)	(128)	(551)	(1,183)
Depreciation and amortisation	(34)	(180)	(0)	(214)	(123)	(178)	0	(301)
Operating profit/(loss)	(658)	(239)	(282)	(1,179)	(627)	(306)	(551)	(1,484)
Finance income	-	-	(95)	(95)	-	-	3	3
Finance costs	-	-	(44)	(44)	-	-	(60)	(60)
Profit/(loss) before taxation	(658)	(239)	(421)	(1,318)	(627)	(306)	(608)	(1,541)
Taxation	(1)	(9)	-	(10)	109	42	-	151
Profit/(loss) for the period	(659)	(248)	(421)	(1,328)	(518)	(264)	(608)	(1,390)

**7. Administrative expenses by nature**

	Note	6 months ended 30 June 2019 £'000	6 months ended 30 June 2018 £'000	Year ended 31 December 2018 £'000
Employee benefits expense		1,267	1,256	2,647
Share-based payments	8	86	78	168
Operating lease payments		133	127	240
Research and development		12	50	72
Auditors remuneration		27	49	82
Exceptional item: Inventory valuation adjustment		-	-	-
Other administrative expenses		456	552	1,162
<b>Total administrative expenses before depreciation and amortisation</b>		<b>1,981</b>	<b>2,112</b>	<b>4,371</b>
Depreciation and amortisation charges		213	301	523
Exceptional item: Goodwill impairment		-	-	-
<b>Total administrative expenses including depreciation and amortisation</b>		<b>2,194</b>	<b>2,413</b>	<b>4,894</b>

**8. Share-based payments**

	6 months Ended 30 June 2019 £'000	6 months ended 30 June 2018 £'000	Year ended 31 December 2018 £'000
Options (including EMI)	86	78	168
Conditional share awards	-	-	-
Equity-settled share-based payments	86	78	168
Cash-settled share-based payments	-	-	-
<b>Total share-based payments charged to the income statement</b>	<b>86</b>	<b>78</b>	<b>168</b>

**9. Loss per share**

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period. As the Group is loss making, the diluted loss per share is equal to the basic loss per share.

	6 months ended 30 June 2019 £'000	6 months ended 30 June 2018 £'000	Year ended 31 December 2018 £'000
Loss attributable to equity holders of the Company	1,328	1,390	2,170
Weighted average number of ordinary shares in issue (thousands)	106,830	95,406	97,792
<b>Basic loss per share</b>	<b>0.91p</b>	<b>1.46p</b>	<b>2.22p</b>

**10. Related party transactions**

IP Group plc held 14.03% of the ordinary share capital of the Company as at 30 June 2019 and appoints a non-executive director, and it is therefore deemed a related party. A service agreement dated 1 December 2006 was made between the Company and IP Group plc, whereby IP Group plc provides strategic, business development and administrative services to the Company. Fees for the period were £15,000 (2018: £15,000) and as at 30 June 2019 £54,000 (31 December 2018: £22,500) was outstanding under this agreement.

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation in the Group accounts.

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

SIX MONTH PERIOD ENDED 30 JUNE 2019

**11. Subsequent Event**



On 30 August 2019 liquidators were appointed at two of the Group's subsidiaries: Modern Water Services Limited and Cogent Environmental Limited.

The directors confirm that, to the best of their knowledge, these condensed consolidated interim financial statements have been prepared in accordance with IAS34 as adopted by the European Union. The interim management report includes a fair review of the information required by the FCA's Disclosure and Transparency Rules (4.2.7 R and 4.2.8 R), namely:

- an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related-party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.

The directors of Modern Water plc are listed in the Modern Water plc Annual Report and Accounts 2018. A list of the current directors is maintained on the Company's website [www.modernwater.com](http://www.modernwater.com).

**Piers Clark  
Humphrey  
Chairman  
Executive Officer**

**Simon  
Chief**

27 September 2019

**The information contained within this announcement is deemed by the Company to constitute inside information under the Market Abuse Regulation (EU) No. 596/2014.**

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