

Regulatory Announcement

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Company	HydroDec Group plc
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Hydrodec Group plc

Hydrodec Group plc announces its unaudited preliminary results for the year ended 31 December 2005

Highlights:

- Construction of a new Hydrodec plant capable of processing 20,000 litres per day of speciality oils and/or chlorinated organic wastes. The plant was delivered to the Young site, on time and budget, last week and should go on stream in April.
- Acquisition of OTS and the Young site was completed in August 2005, giving the Company total control and ownership of the site.
- Raised £3.5 million gross through an institutional placing in November 2005 to fund a new transformer recycling plant and refurbishment of the Young plant and its facilities.

Following the year end:

- Selected by Dow Chemical to test its technology in a trial for the advanced treatment of dioxin contamination in soil.
- Appointment of John Cowan as Executive VP North America to continue establishment of Hydrodec in US.
- Signed agreement with TransGrid, the New South Wales power transmission authority, enabling Hydrodec to treat its used low level and high level PCB contaminated transformers and associated equipment.
- Significant sales of Superfine transformer oil to the Australian market.

John Gunn, Chairman, commented, "2005 has been a year of tremendous progress. The Company has fundamentally progressed from early stages to a fully-fledged operation with facilities, staff and systems capable of supporting large market growth, initially in Australia and ultimately around the world. We ended the year with excellent production facilities, management, staff, operators, logistics, laboratories, the imminent start up of a full scale production plant, market acceptance of our products, a strong pipeline of orders and market start up underway in the US and other territories."

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CHAIRMAN'S STATEMENT

I am pleased to present Hydrodec's accounts for the year ended 31 December 2005, the Company's first full year of establishment and development in the global marketplace. Hydrodec's technology is an oil refining process that produces new speciality oils, using spent oil as the primary feedstock. The process also removes dangerous contaminants such as PCB's from oil and similar fluids. Used transformer oil that has been through the Hydrodec process is sold back to industry as Superfine oil. The technology can also treat a number of chlorinated organic wastes, known as persistent organic pollutants or POP's.

Following the Company's admission to AIM on 21st December 2004, this year has seen a concentration on long term development, with rapid and significant progress being made, rather than on short-term financial performance, resulting in a loss for the year. The rewards of this strategy are already being seen through orders and significant commercial development. The Company has created a base for substantial growth during 2005, and will reap the benefits from this in the future.

Current trading and prospects

Turnover for the year ended 31 December 2005 was £288,638 (2004: nil), with an overall operating loss of £6,076,609 (2004: £39,956). The operating loss before non-recurring items was £2,924,371, of which £963,135 (non-cash) was due the write-off of options granted during the year and £524,400 (non-cash) amortisation of the Hydrodec licence. Of the non-recurring operating loss of £3,152,238, £2,002,777 relates to the impairment of goodwill from the acquisition of Oil Treatment Services Pty Ltd ('OTS') during the year and £1,149,461 to redundancy related costs, predominantly the non-cash cost of options held by redundant staff.

A more representative measure of the on-going overheads is the administrative expenses charge of £1,552,291, which reflects the true annualised cost of running the Company on an on-going basis. Similarly, the significant effect of the non-cash items within the operating loss is illustrated by the net cash outflow from operating activities of only £2,308,107 compared to the operating loss of £6,076,609. Overall, cash increased by £147,066 during the year, leaving cash balances of £3,161,329 (2004: £3,014,263) and net assets of £12,135,186 (2004: £10,896,674).

Capital raising

On 16 November 2005 the Company issued 14,645,402 new ordinary shares to raise over £3.5 million gross through an institutional placing. As set out below, the proceeds from the placing are being used to fund a new transformer recycling plant, refurbishment of the Young, New South Wales plant and facilities and the expansion of Hydrodec's global sales and marketing infrastructure.

Business developments

During 2005, revenue has been derived through the operation of a small Hydrodec pilot plant, capable of treating 3,000 litres of oil per day. The plant has been used to demonstrate to the market the ability of Hydrodec's technology to treat PCB contaminated transformer oils and to re-refine other oils for Australian power utilities. This plant operates at the Environmental Protection Authority licensed site in Young, previously owned by OTS, the Company's joint venture partner. On 31st August 2005, the acquisition of OTS and the Young site was completed, the consideration being predominantly Hydrodec equity, giving the Company total control and ownership of the site.

As well as the Young site, the OTS business includes two certified transformer oil analysis laboratories, a mobile oil regeneration plant, mobile transformer retro-fill plant, customer management software and systems, a web based transformer and oil monitoring and reporting system and product distribution mechanisms.

The combined business consolidates Hydrodec's position as a premium quality transformer oil supplier and establishes the Company as a sustainable service provider. Crucially, the acquisition also gave Hydrodec control of an ideal location to further develop and expand its operations, with the intention of creating a world-class centre of excellence for transformer oil re-refining and regeneration, and PCB treatments. Young gives the company a platform on which to consolidate its technology in Australia and provides a base for the testing, replication and roll out of the technology worldwide.

New plant

In February 2005, the Company announced the commencement of the construction of a new Hydrodec plant capable of processing 20,000 litres per day of speciality oils and/or chlorinated organic wastes. The plant was delivered to the Young site, on time and budget, last week. The plant is now undergoing connection to site infrastructure put in place during the past six months and undergoing pre-commissioning checks for start up during the first week of April.

When fully operational, the plant will produce a near seven-fold increase in Hydrodec's current processing capacity. The Company is forecasting utilisation of at least half of its capacity by the end of the third quarter in 2006 and full capacity take up during 2007.

In December 2005, the Company announced plans to construct a new facility at the Young site that will enable it to treat PCB and non-PCB contaminated hardware, such as transformers, from the power industry. This plant is expected to be operational by the end of the second quarter in 2006. The new facility will provide the power industry with a cost competitive, zero-emission, zero-waste means of dealing with both PCB and non-PCB contaminated used equipment. It will also ensure the maximum return of used transformer oils to Hydrodec for re-refining. This represents an exciting new revenue stream for Hydrodec. An initial contract of c.£100,000 is already in place.

Following on from this, in March 2006, the Company announced that TransGrid, the New South Wales power transmission authority has issued a standing purchase order stating that Hydrodec is now qualified to treat its used low level and high level PCB contaminated transformers and associated equipment. The standing purchase order applies until February 2008 and is conditional on Hydrodec completing the construction of the dedicated transformer recycling facility. It

is expected that a high profile standing purchase order such as this will increase the credibility of the new facility with other operators within the sector.

Superfine Oil

The Company has successfully established its new brand of Superfine transformer oil within the Australian market during 2005. It is already recognised by many operators within the industry as a viable alternative to conventional supplies of transformer oil. Superfine oil has been proven to exceed all international specifications for new transformer oil. Superfine is produced by the Hydrodec process of re-refining spent or contaminated oil back to its original condition. A key advantage of Superfine is that it allows the customer to achieve a multiple life cycle for the oil, making it a valuable asset rather than a consumable.

In March 2006, the Company announced significant recent purchase orders for used oil refining and Superfine transformer oil sales, which will go towards filling the new plant capacity;

- Treatment and refining of 230,000 litres of low level PCB contaminated transformer for a South Australian Utility with agreement to re-purchase the refined product as new transformer oil;
- Agreement to supply more than 200,000 litres of oil for refining from SP AusNet of Victoria;
- Sale of 20,000 litres of Superfine oil for use in transformer maintenance to a New South Wales Utility and 37,000 litres to a service company in Southern Australia for transformer retro-fills.

Whilst some of the orders are relatively small in terms of financial impact, the rapid and increasing take up of Hydrodec's technology and the market acceptance of Superfine oil is extremely encouraging for the future. Growing market acknowledgement of the sustainability benefits, strategic security of supply and economic competitiveness of Hydrodec's technology and products are assisting this growth in the customer base of the Company.

Dow Chemical

In February 2006, the Company announced it had been selected by Dow Chemical to test the Hydrodec technology in a trial for the advanced treatment of dioxin contamination in soil. Dow Chemical Michigan and PIRGM (Public Interest Research Group in Michigan, USA) evaluated and selected Hydrodec's technology after a worldwide call for expressions of interest. Hydrodec's treatment provides a sustainable zero emission solution that is able to destroy the dioxins. The trial is expected to complete in June 2006. It is expected that there will then follow a lengthy period of assessment of the results until any further steps are undertaken.

Whilst it will not lead to revenue generation in the short term, it is a further high profile validation of the potential of Hydrodec's technology. The selection of Hydrodec for this trial demonstrates the Company is at the forefront of delivering Stockholm Convention compliant solutions for the treatment of persistent organic pollutants (POP's). This is another application of the technology and potentially opens up many new commercial markets for the Company around the world.

Expansion into the USA

A reflection of the growing importance and potential of the North American markets to Hydrodec was the appointment in February 2006 of John Cowan as Executive Vice President North American Operations. John has more than 25 years experience in the environmental technology and treatment industries in the US and Australia. This appointment is an important step in the establishment of the Hydrodec business in the US market. John will focus on continuing negotiations with US transformer services and transformer oil management companies for the establishment of a Hydrodec oil refining technology in North America. The Company is targeting commencement of oil refining operations in North America in 2007. He is also overseeing the Dow Chemical trial of the Hydrodec Technology for the destruction of dioxins.

Future developments

Socially responsible corporate behaviour towards the environment and sustainable business practices are now key elements of strategy for companies and governments. The ongoing escalation in global crude and base oil prices is a major additional incentive for the rapid uptake of our technology. The potential applications of Hydrodec's technology are far reaching and over the next 12 months we will continue to demonstrate our ability to commercially re-refine other oils, particularly hydraulic oils, and show that Hydrodec provides a sustainable remediation solution to environmental problems around the world.

2005 has been a year of tremendous progress. The Company has fundamentally progressed from early stages to a fully-fledged operation with facilities, staff and systems capable of supporting large market growth, initially in Australia and ultimately around the world. We ended the year with excellent production facilities, management, staff, operators, logistics, laboratories, the imminent start up of a full scale production plant, market acceptance of our products, a strong pipeline of orders and market start up underway in the US and other territories.

The Board is excited about the future of the Company and believe 2006 will start to demonstrate the rewards for the investments we have made to date, and lead to significant revenue generation in 2007 and beyond. We also thank all staff and shareholders for their ongoing support and we look forward to a rewarding future.

John Gunn

Non-executive Chairman

31st March 2006

Consolidated Income Statement

For the year ended 31 December 2005

	Year ended 31 December 2005		
Note	Before	Non-recurring	Period

	non-recurring items	items	Total	ended 31 December 2004
	£	£ (note 1)	£	£
Revenue	288,638	-	288,638	-
Cost of sales	(173,183)	-	(173,183)	-
Gross profit	115,455	-	115,455	-
Administrative expenses	(1,552,291)	-	(1,552,291)	
Redundancy payments	-	(198,707)	(198,707)	
Share based payments	(963,135)	(950,754)	(1,913,889)	
Impairment of goodwill	-	(2,002,777)	(2,002,777)	
Amortisation of intangible asset	(524,400)	-	(524,400)	(39,956)
Operating loss	(2,924,371)	(3,152,238)	(6,076,609)	(39,956)
Interest receivable			90,099	33,092
Loss on ordinary activities before taxation			(5,986,510)	(6,864)
Tax on loss on ordinary activities			-	-
Loss for the period			(5,986,510)	(6,864)
Loss per share - basic and diluted	2		(3.72p)	(0.01p)

All transactions arise from continuing operations.

Consolidated balance sheet

As at 31 December 2005

	Note	2005 £	2004 £
Non-current assets			
Property, plant and equipment		2,109,480	293,322

Intangible assets	3	7,341,603 9,451,083	7,866,003 8,159,325
Current assets			
Trade and other receivables		203,712	18,882
Inventories		54,434	-
Cash and cash equivalents		3,260,612 3,518,758	3,014,263 3,033,145
Current liabilities			
Trade and other payables		(680,158)	(295,796)
Net current assets		2,838,600	2,737,349
Non-current liabilities			
Finance lease liabilities		(154,497)	-
		12,135,186	10,896,674
Capital and reserves			
Called up share capital		893,227	782,500
Share premium account		15,325,306	10,117,483
Share options reserve		1,913,889	-
Profit and loss account		(5,993,374)	(6,864)
Foreign exchange reserve		(3,862)	3,555
Shareholders' funds		12,135,186	10,896,674

Consolidated cash flow statement

For the year ended 31 December 2005

	Year ended 31 December 2005	Period ended 31 December 2004
	£	£
Operating loss	(6,076,609)	(39,956)
Increase in trade and other receivables	(25,687)	(10,199)
(Decrease)/incre ase in trade and other payables	(676,632)	252,467
Increase in inventories	(54,434)	-
Depreciation	84,189	-
Share based payment expense	1,913,889	-
Impairment of goodwill	2,002,777	-
Amortisation of		

other intangible assets	524,400	-
Net cash (outflow)/inflow from operating activities	(2,308,107)	202,312
Cashflows from investing activities		
Purchase of investment (including costs)	(567,828)	(721,124)
Purchase of property plant and equipment	(951,307)	-
Overdraft acquired	(122,747)	-
Repayment of loan on acquisition	-	(500,000)
Bank interest received	90,099	33,092
Net cash outflow from investing activities	(1,551,783)	(1,188,032)
Cashflows from financing activities		
Issue of new shares	4,181,502	4,309,998
Costs of share issue	(146,346)	(310,015)
Repayment of lease liabilities	(28,200)	-
Net cash inflow from financing	4,006,956	3,999,983
Increase in cash and cash equivalents	147,066	3,014,263
Opening cash and cash equivalents	3,014,263	-
Closing cash and cash equivalents	3,161,329	3,014,263

Notes to the accounts

1 Non-recurring ITEMS

Year ended
31 December 2005

		£
The non-recurring items are made up of the following costs:		
- Redundancy payments - cash		198,707
- share based payment		950,754
- Impairment of goodwill on acquisition of Oil Treatment Services Pty Ltd		2,002,777
		3,152,238

2 LOSS PER SHARE

The calculated of the basic loss per share is based on the loss attributable to ordinary shareholders of £5,986,510 (2004: £6,864) divided by the weighted average number of shares in issue during the year.

The weighted average number of shares used in the calculations are set out below:

2005 Number of shares	2004 Number of shares
160,812,447	79,468,173

In 2005 and 2004, the share options were anti-dilutive and consequently no diluted earnings per share figure was included.

3 Intangible fixed assets

	Hydrodec Technology £	Goodwill £	Total £
At incorporation	-	-	-
Additions	7,866,003	-	7,866,003
At 31 December 2004	7,866,003	-	7,866,003
Additions	-	2,002,777	2,002,777
At 31 December 2005	7,866,003	2,002,777	9,898,780
Accumulated depreciation			
At incorporation	-	-	-
Depreciation charge for the year	-	-	-
At 31 December 2004	-	-	-
Depreciation charge for the year	524,400	-	524,400
Impairment provision	-	2,002,777	2,002,777
At 31 December 2005	524,400	2,002,777	2,527,177
Carrying amount			
At 31 December 2005	7,341,603	-	7,341,603
At 31 December 2004	7,866,003	-	7,866,003

The Hydrodec Technology is being amortised over its anticipated useful life of 15 years. The intangible asset carried forward relates to intellectual property acquired by the group in 2004. The intellectual property consists of know how and trade secrets relating to the Technology, some of which is covered in a patent. It is management's view that the useful life of the intellectual

property will extend far beyond the life of the patent (approximately 10 years) and for the purposes of calculating the period over which the costs will be amortised it has been estimated that the minimum useful life of the Technology is 15 years. At 31 December 2005, the unamortised life of the asset was 14 years.

Goodwill relates to the acquisition of Oil Treatment Services Pty Limited. Due to the restructuring of the business that has occurred since its acquisition and the expansion of the activities to be conducted from the site, it is considered impractical to estimate the future cash flows expected to arise from the acquired business and therefore the directors believe that it would be best to recognise an impairment loss to the extent of the goodwill acquired. This situation will be closely monitored, and adjustments may be considered in future periods if such adjustments are appropriate.

The directors acquired OTS for its future potential to provide a platform for creating a centre of excellence based in Young, Australia and not for its historic activities.

4 ACQUISITION OF SUBSIDIARY UNDERTAKING

On 31 August 2005, the Group acquired 1 ordinary share of AUD1 in Oil Treatment Services Pty Limited (renamed Hydrodec Australia Pty Ltd), being 100% of its issued share capital for a consideration of £1,350,000, in shares and AUD1,000,000 in cash. Acquisition expenses amounted to £145,710. The shares were issued at market value on 31 August 2005. Goodwill arising on the acquisition has been capitalised. The acquisition has been accounted for by the purchase method of accounting.

The assets and liabilities of Oil Treatment Services Pty Limited acquired were as follows:

	Carrying value before combination	Fair value adjustment	Provisional fair value
	£	£	£
Property plant and equipment	619,040	-	619,040
Loans receivable	3,801	-	3,801
Trade receivables	134,898	-	134,898
Other assets	20,444	-	20,444
Bank overdraft	(122,747)	-	(122,747)
Trade payables	(806,990)	-	(806,990)
	(151,554)	-	(151,554)
Goodwill			2,002,777
			1,851,223
Satisfied by:			
Issue of shares			1,283,394
Cash			422,119
Cost of acquisition			145,710
			1,851,223

Due to the restructuring of the business that has occurred since its acquisition and the expansion of the activities to be conducted from the site, it is considered impractical to reliably allocate the value goodwill to other intangible assets.

The directors reviewed whether any separately identifiable assets existed at the time of acquisition and were unable to identify any such assets. Accordingly the only intangible asset recognised was goodwill.

Oil Treatment Services Pty Ltd contributed £288,638 revenue and £212,818 to the Group's loss before tax for the period between the acquisition date and the balance sheet date.

Restatement of acquisition made in prior accounting period under IFRS

On 21 December 2004, the group acquired one ordinary share of AUD1 in Hydrodec Development Corporation Pty Limited, being 100% of its issued share capital for a consideration of £7,621,124, satisfied in cash and shares including acquisition expenses of £221,124. The purchase has been accounted for by the purchase method of accounting.

The assets and liabilities of Hydrodec Development Corporation Pty Limited acquired were as follows:

	Carrying value before combination £	Fair value adjustments £	Provisional fair value £
Property, plant and equipment	293,322	-	293,322
Intangible fixed assets	-	7,866,003	7,866,003
Trade receivables	8,683	-	8,683
Trade payables	(600,962)	54,078	(546,884)
	(298,957)	54,078	7,621,124
Satisfied by:			
Cash			500,000
Issue of shares			6,900,000
Cost of acquisition			221,124
			7,621,124

The adjustment to intangible fixed assets represents the directors valuation of the Hydrodec Technology..

The adjustment to creditors represented the write back part of a loan which is not repayable. There was no activity between the date of acquisition and 31 December 2004.

Annual report

Copies of the annual report and accounts will be sent to shareholders in the near future and will be obtainable from the Company's head office at 4th Floor, French Railways House, 178-180 Piccadilly, London W1J 9EN

Status of this report

The financial information set out in the announcement, which was approved by the Board of Directors on 31 March 2006, is unaudited and does not constitute the Company's statutory accounts for the periods ended 31 December 2004 or 2005. The financial information for the period ended 31 December 2004 is derived from the statutory accounts for that year, which have been delivered to the Registrar of Companies, as subsequently restated under IFRS. The auditors reported on those accounts: their report was unqualified and did not include a statement under Section 237(2) or 237(3) of the Companies Act 1985. The statutory accounts for the year ended 31 December 2005 will be finalised on the basis of the financial information presented by the directors in this preliminary announcement and will be delivered to the Registrar of Companies following the Company's annual general meeting.

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