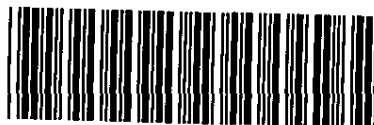


**VPhase Smart Energy Limited**  
**Annual Report and Financial Statements**  
**For the year ended 31 December 2012**

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COMPANIES HOUSE

**Company No. 5244769**

## Company information

Company registration number	5244769
Registered office	3rd Floor Castlefield House Liverpool Road Castlefield Manchester M3 4SB
Directors	V Murray R H Smith S Hollidge C Norman
Secretary	P M Barry
Bankers	HSBC Bank plc Chester & Deeside Commercial Centre Vista, St Davids Park Ewloe, Flintshire CH5 3RX
Solicitors	Atticus Legal LLP 3rd Floor Castlefield House Liverpool Road Castlefield Manchester M3 4SB
Auditor	Deloitte LLP Manchester

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## Directors' report

The directors present their report and the financial statements of the company for the year ended 31 December 2012

This directors' report has been prepared in accordance with the special provisions relating to small companies under section 417(1) of the Companies Act 2006

### **Principal activity**

The principal activity of the Company during the year was the commercial development of the product developed in prior years and extension of the technology to other products

### **Business review and future developments**

The loss for the year amounted to £1,423,157 (2011 £1,450,038) The directors cannot recommend the payment of a dividend (2011 £Nil)

The Company has progressed the commercial development of its product and is pleased that volume demand for its product has been demonstrated during the year

It is the directors' general intention to develop the existing activities of the Company as opportunities arise

### **Key performance indicators**

The directors monitor the progress of the overall Company strategy The directors believe that, given the Company's current stage of development, the relevant Key Performance Indicators are sales volumes, product margins, warranty claims, research and development costs, administrative expenses, capital expenditure and cash management

### **Financial risk management objectives and policies**

The key risks and uncertainties of the Company, and the business objectives in place to manage these are consistent with those disclosed in the Group's annual report The capital structure of the Company consists of trade debtors, trade creditors, cash, inter-group loans and share capital The director wishes to draw attention to the accounting policies regarding the basis of preparation of the financial statements The Company manages its capital to ensure that it is able to continue as a going concern whilst maximising the return to its ultimate parent undertaking The Company's strategy remains unchanged from the prior year

### **Other risk and uncertainties**

The directors consider that the Company's other risk and uncertainties are attraction and retention of key employees, future development of intellectual property and market acceptance of products

## Directors' report

### Research and development

The Company has undertaken research and development activity in the development of its products. During the year the Company spent £255,000 (2011: £110,000).

### Directors

The present membership of the Board is set out below. All directors served throughout the year except where noted below.

V Murray  
R H Smith  
N A Moss (resigned 6 June 2012)  
S Hollidge (appointed 6 June 2012)  
C Norman (appointed 13 June 2012)

### Auditors

In the case of each of the persons who are directors of the Company at the date when this report is approved:

- so far as each is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- each of the directors have taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information (as defined) and to establish that the Company's auditor is aware of that information.

This confirmation is given, and shall be interpreted in accordance with, s418 of the Companies Act 2006.

Deloitte LLP have indicated their willingness to be reappointed for another term and appropriate arrangements are being made for them to be deemed reappointed as auditor in the absence of an Annual General Meeting.

On behalf of the Board



R H Smith  
Director  
23 April 2013

## Directors' responsibility statement

The director is responsible for preparing the financial statements in accordance with applicable law and regulations

Company law requires the director to prepare financial statements for each financial year. Under that law the director has elected to prepare financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the director is required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The director is responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. He is also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Independent auditor's report to the members of VPhase Smart Energy Limited

We have audited the financial statements of VPhase Smart Energy Limited for the year ended 31 December 2012 which comprise the principal accounting policies, the balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

As explained more fully in the Director's Responsibilities Statement on pages 3 and 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 and of its loss for the year ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in the accounting policies to the financial statements concerning the company's ability to continue as a going concern. The company incurred a net loss of £1,423,157 during the year ended 31 December 2012 and, at that date, the company's current liabilities exceeded total assets by £4,519,027 and it had net current liabilities of £4,710,817. These conditions, along with the other matters explained in the accounting policies to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

## Independent auditor's report to the members of VPhase Smart Energy Limited

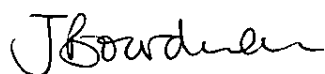
### Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Director's Report for the financial year for which the financial statements are prepared is consistent with the financial statements

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- the directors were not entitled to take advantage of the small companies exemption in preparing the directors' report, or
- we have not received all the information and explanations we require for our audit



Jane Boardman (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
Manchester, United Kingdom  
23 April 2013



## Principal accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the period and the preceding period, is set out below

### Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention

### Going Concern

The financial statements have been prepared on a going concern basis

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Directors' Report. The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Directors' Report on pages 12 to 15 of the Group's Annual Report. The financial position of the Group, its cash flows and liquidity position are described in the Chief Executive's Review and Financial and Business Review on pages 4 to 9 of the Group's Annual Report. In addition, the Group Annual Report includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk.

During the year ended 31 December 2012 the Group incurred a loss before tax of £1.7m. The Group's directors have prepared projected cash flow information for the period ending 31 December 2015.

During the year, the Group has continued to grow the business and in the latter half of the year secured a number of new agreements with customers and distributors. However, given that the majority of these agreements do not guarantee minimum sales volumes and there is no history of trading on which to base forecasts, there remains considerable difficulty in accurately forecasting the timing and quantum of cash receipts from the sale of units under these agreements and this indicates the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business. The directors have reviewed the current sales orders and opportunities and expenditure forecasts, together with other means of managing the cash outflows including identifying possible cost savings and to enable the Group to operate within its available resources. Despite a difficult start to the year, sales in April have improved significantly and the directors are now more optimistic about the full outturn for the 2013 financial year. The directors have also given consideration to the likelihood of securing any additional financing that may be required to support the business in the event that the phasing of, or acceleration of, sales is not as anticipated and the impact cannot be managed through cost mitigation.

In consideration of the continuing trading of the company, its net liabilities and loan from parent undertaking, VPhase plc has confirmed it will provide adequate financial resources to ensure that the company has sufficient liquidity to meet its liabilities as they fall due for a period through to 12 months after the date of signing of the financial statements for the year ended 31 December 2012, and will not demand repayment of the intragroup loan until the company has sufficient ability to repay. The directors have considered the ability of the parent company to provide this support, and believe that whilst there are material uncertainties regarding the Group's, and hence the company's, position, as highlighted by the disclosure above, there is adequate evidence to suggest that the parent company has sufficient ability to provide such support as may be required.

## Principal accounting policies (continued)

It is on the basis of these considerations that the directors consider it appropriate to prepare the company's accounts on the going concern basis

The accounts do not include any adjustments which may be necessary if the group was unable to continue to operate

### Turnover

Turnover comprises of the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities excluding VAT and trade discounts. Revenue is recognised at the point at which the risks and rewards of ownership pass to the buyer.

### Tangible fixed assets

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment.

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Plant & machinery	- 33 $\frac{1}{3}$ % on cost
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### Stock

Stock is stated at the lower of cost and net realisable value. Costs of ordinarily interchangeable items are assigned using the first in, first out cost formula. Net realisable value represents the estimated selling price stock less all estimated costs of completion and costs necessary to make the sale. Provision is made for obsolete, slow-moving or defective items where appropriate.

### Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the Company an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured on an undiscounted basis using rates of tax that have been enacted or substantively enacted by the balance sheet date.

### Research and development

Research and development expenditure is charged to the profit and loss account in the period in which it is incurred. Development costs are also charged to the profit and loss account in the period of expenditure.

### Cash flow exemption

The directors have taken advantage of the exemption in FRS 1 (Revised 1996) from including a cash flow statement in the financial statements on the grounds that the ultimate parent company includes a cash flow statement within its consolidated financial statements.

### Share-based payments

The Company has applied the requirements of FRS 20 Share-based Payments. In accordance with transitional provisions, FRS 20 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as at 1 January 2006.

The parent Company issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value, as determined at the grant date of 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.

## Principal accounting policies (continued)

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

### Leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

### Financial liabilities

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

### Warranty provisions

Provisions for the expected costs of warranty obligations are recognised at the date of sale of the relevant products, at the director's best estimate of the expenditure required to settle the Group's obligations. A provision of £101,477 (2011: £32,657) has been recognised for expected warranty claims on products sold during the last four years. It is expected this expenditure will be incurred within five years after the reporting date.

## Profit and loss account

		2012	2011
	Note	£	£
<b>Turnover</b>	1	<b>1,377,508</b>	439,801
Cost of sales		(1,015,330)	(289,507)
<b>Gross Profit</b>		<b>362,178</b>	150,294
Administrative expenses		(1,784,628)	(1,703,373)
<b>Operating loss</b>		<b>(1,423,107)</b>	(1,553,079)
Interest (payable)/receivable		(50)	157
<b>Loss on ordinary activities before taxation</b>	1	<b>(1,423,157)</b>	(1,552,922)
Tax on loss on ordinary activities	4	-	102,884
<b>Loss for the financial year</b>	13	<b>(1,423,157)</b>	(1,450,038)

There were no recognised gains or losses in either year other than the loss for the financial year

All activities are derived from continuing operations

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

## Balance sheet as at 31 December 2012

		2012	2011
	Note	£	£
<b>Fixed assets</b>			
Tangible assets	5	191,790	82,003
<b>Current assets</b>			
Stock	6	1,058,243	669,887
Debtors	7	2,018,621	1,672,282
Cash at bank and in hand		218,568	137,207
		<u>3,295,432</u>	<u>2,479,376</u>
<b>Creditors amounts falling due within one year</b>	8	<u>(8,006,249)</u>	<u>(5,782,103)</u>
<b>Net current liabilities</b>		<u>(4,812,294)</u>	<u>(3,302,727)</u>
<b>Total assets less current liabilities</b>		<u>(4,620,504)</u>	<u>(3,220,724)</u>
<b>Provisions for liabilities</b>	9	<u>(101,477)</u>	<u>(32,657)</u>
<b>Net liabilities</b>		<u>(4,620,504)</u>	<u>(3,253,381)</u>
<b>Capital and reserves</b>			
Called up share capital	12	133	133
Share premium account	13	702,971	702,971
Capital contribution	14	56,034	-
Profit and loss account	14	<u>(5,379,642)</u>	<u>(3,956,485)</u>
<b>Shareholder's deficit</b>	15	<u>(4,620,504)</u>	<u>(3,253,381)</u>

The financial statements of VPhase Smart Energy Limited, registered number 5244769, were approved and signed by the director on 23 April 2013



R H Smith  
Director

## Notes to the financial statements

### 1 Turnover and loss on ordinary activities before taxation

Turnover and loss on ordinary activities before taxation are attributable to the principal activity of the Company and arose entirely within the United Kingdom

The loss on ordinary activities before taxation is stated after charging

	2012	2011
	£	£
Research and development	255,178	109,906
Depreciation	71,428	56,441
	<u>326,606</u>	<u>166,347</u>

Auditor's remuneration has been borne by the parent undertaking VPhase plc

### 2 Employee information

Staff costs, including directors, during the year were as follows

	2012	2011
	£	£
Wages and salaries	580,028	801,763
Social Security costs	60,935	109,018
Share based payments	56,034	
	<u>696,967</u>	<u>910,781</u>

The average number of employees of the Company during the period was 17 (2011 15), of which 4 employees were engaged in development activities (2011 4) and 14 were engaged in administrative activities (2011 11)

### 3 Directors emoluments

	2012	2011
	£	£
Aggregate emoluments	<u>83,572</u>	<u>267,337</u>

The remuneration of the highest paid director amounted to £48,156 (2011 £175,000)

## 4 Tax on loss on ordinary activities

## Current Tax:

	2012 £	2011 £
Prior year adjustment	-	102,884

## Factors affecting the tax charge for the year

The tax assessed for the year is lower than the standard rate of corporation tax in the United Kingdom of 24.50% (2011: 26.50%). The differences are explained as follows:

	2012 £	2011 £
Loss on ordinary activities before taxation	(1,423,157)	(1,552,922)
Loss on ordinary activities before taxation multiplied by standard rate of corporation tax in the United Kingdom of 24.50% (2011: 26.50%)	(348,673)	(411,418)
Effect of:		
Losses carried forward	334,273	325,552
Adjustment for tax rate differences	-	85,866
Expenses not deductible for tax purposes	14,400	
R & D tax credit prior year	-	(102,884)
	-	(102,884)

Unrelieved tax losses of £4,883,845 (2011: £3,519,465) remain available to offset against future taxable trading profits. No deferred tax asset has been recognised in respect of the losses as recoverability is uncertain (note 9).

Legislation to reduce the main rate of UK corporation tax from 24% to 23% from 1 April 2013 was passed by Parliament on 17 July 2012. Further reduction to the main rate of UK corporation tax are proposed to reduce the rate to 22% from 1 April 2014. The reduction in the main rate to 23% had been substantively enacted at the balance sheet date and, therefore, the deferred tax assets are calculated in these financial statements at this rate.

## 5 Tangible fixed assets

	Plant & machinery
	£
<b>Cost</b>	
At 1 January 2012	203,880
Additions	181,215
<b>At 31 December 2012</b>	<b>385,095</b>
<b>Depreciation</b>	
At 1 January 2012	121,877
Charge for the year	71,428
<b>At 31 December 2012</b>	<b>193,305</b>
<b>Net book value</b>	
<b>At 31 December 2012</b>	<b>191,790</b>
At 31 December 2011	82,003

## 6 Stock

	2012	2011
	£	£
Components	709,443	171,542
Finished Goods	348,800	498,345
	<b>1,058,243</b>	<b>669,887</b>

There is no material difference between the balance sheet value of stocks and their replacement cost

## 7 Debtors

	2012	2011
	£	£
Trade debtors	175,426	139,606
VAT recoverable	6,770	12,581
Amounts owed by group undertakings	1,792,501	1,438,827
Amounts owed by related parties	-	13,927
Prepayments	43,924	67,341
	<b>2,018,621</b>	<b>1,672,282</b>



**8 Creditors: amounts falling due within one year**

	2012	2011
	£	£
Trade creditors	380,210	139,467
Amounts owed to group undertakings	7,488,249	5,566,127
Amounts owed to related parties	-	677
Social security and other taxes	-	33,681
Accruals	84,139	42,151
Bank Borrowings	53,651	-
	<u>8,006,249</u>	<u>5,782,103</u>

The loan from the parent undertaking is non-interest bearing and is repayable upon demand. The company has received confirmation from its parent company that repayment of the loan will not be demanded until the company has sufficient funds to repay the loan.

**9 Provisions for liabilities**

	2012	2011
	£	£
1 January	32,657	-
Charged to profit and loss account	68,820	32,657
31 December	<u>101,477</u>	<u>32,657</u>

The warranty provision represents management's best estimate of the Group's liability under 5 year warranties granted, based on historical warranty data.

**10 Deferred taxation**

The unprovided deferred tax asset calculated at 23% (2011: 25%) comprises

	2012	2011
	£	£
Accelerated capital allowances	28,232	30,679
Trade losses	1,123,284	879,866
	<u>1,151,516</u>	<u>910,545</u>

**11 Related party transactions**

The Company is a fully owned subsidiary of VPhase plc and is exempt from the requirements of "Financial Reporting Standard 8" to disclose transactions within the group headed by VPhase plc.

At 31 December 2012, the net amount owed to VPhase Smart Energy Limited from Energetix Group Plc, a related party by virtue of its shareholding in VPhase Plc, was £• (2011 £ 13,297).

**12 Share capital**

Allotted, called up and fully paid

	2012		2011	
	No	£	No	£
13,334 Ordinary shares of £0.01 each	<b>13,334</b>	<b>133</b>	13,334	133

**13 Share premium**Share  
premium  
account

£

At 1 January 2012 and at 31 December 2012

**702,971****14 Reserves**Capital  
contributionProfit and loss  
account

£

£

At 1 January 2012

-

(3,956,485)

Loss for the financial year

-

(1,423,157)

Charge for share based payments

**56,034**

At 31 December 2012

**56,034****(5,379,642)****15 Reconciliation of shareholder's deficit**2012  
£2011  
£

Loss for the financial year

**(1,423,157)**

(1,450,038)

Charge for share based payments

**56,034**

Movement in shareholder's deficit

**(1,367,123)**

(1,450,038)

Shareholder's funds at 1 January

**(3,253,381)**

(1,803,343)

Shareholder's deficit at 31 December

**(4,620,504)**

(3,253,381)

**16 Ultimate parent company and controlling party**

The immediate and ultimate controlling party of this Company is VPhase plc. Consolidated Financial Statements for VPhase plc are available from the Company Secretary, VPhase plc, 3rd Floor Castlefield House, Liverpool Road, Castlefield, Manchester, M3 4SB

**16 Guarantees and other financial commitments**

At 31 December 2012 the company had annual commitments under non-cancellable operating leases as follows

	2012 £	2011 £
<b>Expiry</b>		
Within one year	-	-
In two to five years	21,651	-
Total operating lease commitments	<u>21,651</u>	<u>-</u>