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COMPANY NUMBER: 00013273

ENERGYTECHNIQUE PLC

Energy Technique Plc Annual Report and Accounts 2003

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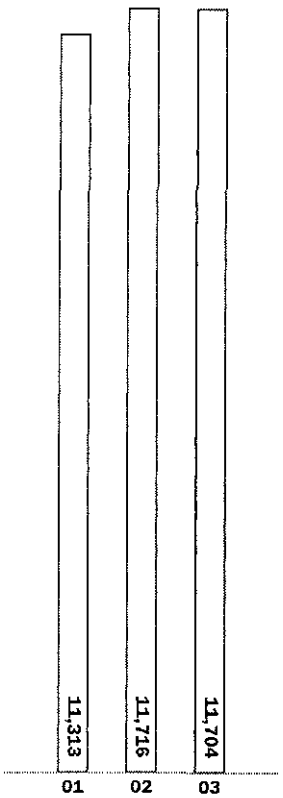
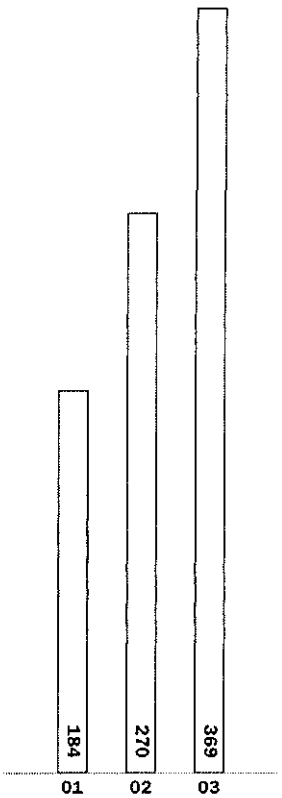
Energy Technique Plc is a leading provider of high quality heating and air conditioning equipment specialising in the design and manufacture of bespoke and standard solutions for both industrial and commercial applications. Our products improve and enhance the everyday lives of people.

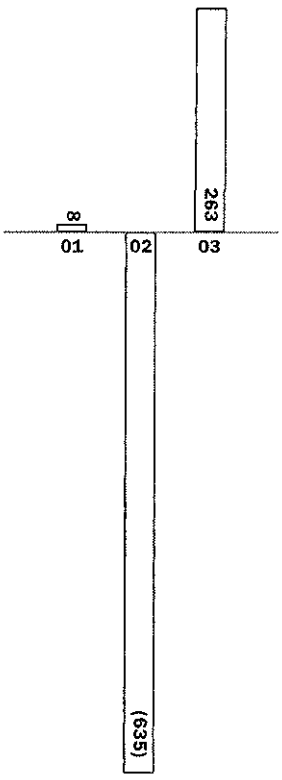
	2003 £000	2002 £000
Sales	**11,704**	**11,716**
Operating profit	**369**	**270**
Profit/(loss) before and after tax	**263**	**(635)**
Shareholders' funds	**1,216**	**953**
Cash inflow from operating activities	**487**	**478**
Capital expenditure	**170**	**72**
Net debt at year end	**947**	**1,130**
Gearing	**78**	**118**



Sales (£'000)

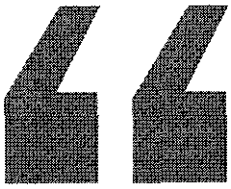


Operating profit (£'000)

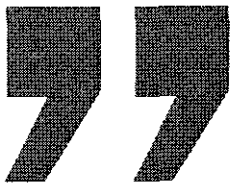


Profit/(loss) before and after tax (£'000)

- **Diffusion Refrigeration and Distribution Limited formed to distribute branded Panasonic and LG Electronics packaged air conditioning systems**
- **Group's market opportunity expanded from £50 to £500 million**
- **Launched a revolutionary and patented UVGI Air Filtration Unit, which destroys deadly bugs such as the SARS virus, TB, MRSA super bug and Anthrax**
- **Nightingale version of the UVGI Air Filtration Unit won the Air Movement Product Of The Year Award at the 2003 HVAC industry's H & V News Awards**
- **Second generation Nightingale units will go on test at an NHS hospital in December and anticipated to go on laboratory testing in the USA with contractors nominated by the Department of Homeland Security**
- **The Board is exploring opportunities for raising the capital necessary to fully exploit the potential of the UVGI product**
- **After strong trading in the first nine months of the financial year, the Group's *core air conditioning market took a sudden downturn* in the last quarter but sales are now recovering**



The innovative new Nightingale UVGI air filtration product is nearing commercial launch and has just won the coveted "Air Movement Product of the year award" at the HVAC industry's H & V News Awards 2003.



Overview

In my first Chairman's Statement since my appointment in January 2003, I am pleased to report the year ended 31 March 2003 has been a successful period for the Group:

- Profit before tax of £0.263 million compared with last year's loss of £0.635 million.
- Balance sheet gearing has been further reduced to 78% from 118% at the previous year-end.
- Diffusion Refrigeration and Distribution Limited was formed as a distributor of branded Panasonic and LG Electronics packaged air conditioning systems, expanding the Group's market opportunity from £50 million to £500 million.
- The innovative new Nightingale UVGI air filtration product is nearing commercial launch and has just won the coveted "Air Movement Product of the year award" at the HVAC industry's H & V News Awards 2003.

Group financial performance

Sales of £11.7 million remained at the same level as last year, but operating profit improved by 37% to £0.369 million. Shareholders' funds increased from £0.953 million to £1.216 million.

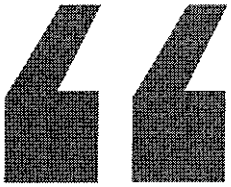
The Board is very pleased with this result, because the reported operating profit is stated after charging to profits £0.417 million on research and development, including in particular the new Nightingale air filtration product, and £0.258 million start-up operating losses on Diffusion Refrigeration and Distribution Limited.

Profit before tax is £0.263 million, compared with last year's loss of £0.635 million, which included a loss on the disposal of Benson Heating. Profit before tax on continuing activities improved by 18%.

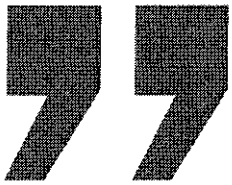
Group cash flow

The Group generated a strong cash inflow from operating activities of £0.487 million, resulting in a further reduction in debt to £0.947 million at 31 March 2003, representing a gearing level of 78%. Interest paid was covered 3.5 times by operating profit.

Working capital continued to be tightly controlled and has remained substantially unchanged, notwithstanding a planned stock build of £0.285 million to service the new Panasonic and LG Electronics distribution business.



The current order book, enquiry levels and outlook are now much more encouraging than in the early part of 2003 and the Board remains optimistic about the Group's prospects.



Capital expenditure on plant, infrastructure, and computer systems amounted to £0.2 million. This was the first year of a continuing capital expenditure programme, which has started to redress the many years of under-investment caused when the Group funded the loss-making activities now disposed of.

Dividends
The Board does not recommend payment of a dividend.

Operations
ET Environmental experienced historically high levels of demand for its fan coil and commercial heating products in the first nine months of the year, but the air conditioning market took a sudden downturn in January, following the deferral of certain property developments. This resulted in much lower sales in the final quarter of the year, and regrettably in May 2003, 25 redundancies were announced to adjust the cost base down to ongoing expected sales levels.

The formation of Diffusion Refrigeration and Distribution Limited represents the first steps in broadening the Group's product range with complementary packaged air conditioning systems. The newly introduced Lifebreath air filtration and Airtrade acoustics products build on this strategy. This new subsidiary incurred start-up operating losses of £0.258 million in its first eight months of trading.

New UVGI air filtration product
In November 2002, the Company was pleased to announce its exciting new Nightingale UVGI air filtration product, to be produced by a new joint-venture company, UVGI Systems Limited, owned 55% by the Group and 45% by Suvair Limited. This rapid response mobile air filtration unit is capable of killing the MRSA super bug and other airborne pathogens.

The Nightingale UVGI unit has widespread application where there is need to keep air free of dangerous live bacteria, viruses, and fungal spores, including hospitals, schools, cruise liners, aircraft, food processing, and military applications.

The UVGI unit uses a high intensity Ultra Violet Germicidal Irradiation ("UVGI") filter, which has been designed to control harmful and dangerous airborne pathogens, such as Anthrax, Tuberculosis, and Staphylococcus aureus, the causative agent in MRSA. The filtration system is combined with use of high intensity Ultra Violet light, which inactivates microorganisms by disrupting their DNA structure.

Tests of a prototype at the Defence Science Technology Laboratory ("Dstl") at Porton Down, the centre for excellence for the Ministry of Defence, showed that the UVGI unit captured and/or destroyed more than 99.9% of Bacillus subtilis spores, a simulant for Anthrax bacteria.

Since November, second generation units have been developed, which will go on applications testing at an NHS Trust Hospital in December 2003, following building completion of its new haematology unit. It is also anticipated the UVGI unit will shortly go on laboratory testing in the United States with contractors nominated by the Department of Homeland Security.

Directors

The Board is saddened to report the ill health of Steve McNeice, the Group Finance Director and Company Secretary. The Board wishes Steve a speedy recovery.

Geoffrey Dart stepped down as Chairman and from the Board on 28 January 2003. Paul Barham resigned from the Board on 18 March 2003. I would like to thank them both for their contribution to the restructuring of Energy Technique plc over the past two years.

Gerard Thompson was appointed to the Board on 26 March 2003 as a non-executive director. He brings significant experience to the Board in finance and technology development.

Robert Unsworth was re-appointed to the Board on 1 July 2003 as an executive director, responsible for finance and company secretarial matters during Steve McNeice's absence.

Management and employees

On behalf of the Board, I would like to thank all employees for their continued hard work, dedication and commitment during the year, and particularly during the current testing market conditions.

Current trading and prospects

The Group incurred a loss in April and May due to redundancy costs incurred in May and to very low sales levels, particularly in April. The low sales were attributed to significantly reduced market demand facing the air conditioning sector. However, sales in May recovered and this has continued into June. The current order book, enquiry levels and outlook are now much more encouraging than in the early part of 2003 and the Board remains optimistic about the Group's prospects.

Since November the Board has explored many potential opportunities for marketing and further developing the exciting new Nightingale UVGI air filtration unit, and a number of these are turning into potential business opportunities. The UVGI product has the potential for improving the Group's financial performance, and the Board is exploring opportunities for raising the capital necessary to fully exploit the potential of the UVGI product. The Board expects to make further announcements updating shareholders on this and other UVGI developments in due course.

Graham R Mackenzie
Chairman

Sales and marketing strategy
Fan coils and commercial heating products are now marketed by the Company's principal subsidiary, ET Environmental Limited. The Group sales and marketing strategy set out in early 2002 was to expand the core fan coil and commercial heating product ranges by entering much larger and complementary HVAC markets, thereby creating cross selling opportunities for existing products.

The foundations for this strategy were laid with the formation of Diffusion Refrigeration and Distribution Limited, which commenced trading in August 2002 from the existing Basingstoke facility, as a distributor of Panasonic and LG Electronics packaged air conditioning systems. At an estimated £450 million in 2002, the market for packaged air conditioning systems is much larger than the Group's existing markets of £50 million.

In addition to Panasonic and LG products, the Group's product offering has been further expanded with the introduction of Lifebreath air filtration products and Airtrade acoustics products. The Group now has a much more comprehensive and complementary range of HVAC products, combined with access to much wider markets.

ET Environmental Limited
Fan coils and commercial heating
The core fan coil and commercial heating products are now marketed by ET Environmental Limited, under the Energy Technique, Diffusion and Kampmann brand names. Following the formation of Diffusion Refrigeration and Distribution Limited, all manufacturing is at the main production facility in West Molesey.

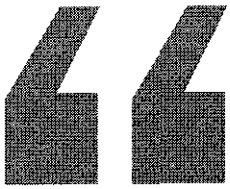
Demand for this subsidiary's products was running at historically high levels in the first nine months of the year to December 2002, but from January onwards, orders fell sharply. As a result, sales for the full year of £10.9 million were slightly down on the previous year's £11.7 million, but importantly, operating profit improved from £0.776 million to £0.883 million, representing a margin of 8%.

During the year, ET Environmental's fan coils and commercial heating products continued to be featured in many prestigious office and hotel developments, including City Inn Westminster, Princess Court Manchester, and Cazenove's offices in London. The City Inn Westminster hotel project was notable because this 500-bedroom hotel development featured the award winning and patented Ambassador integrated fan coil unit.

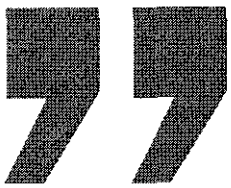
The sharp downturn in the hotel and office property sectors produced much lower sales volumes in the last quarter of the financial year. Certain large projects initially scheduled for the final quarter of the year were either put on hold or deferred. The Company has not experienced such a sharp and prolonged sales downturn in recent years, and this trend has continued into the new financial year.

Sales enquiry levels and orders started to improve in May, but 25 redundancies were announced in May 2003 to adjust the cost base downwards in line with expected reduced sales volumes.

Lifebreath
ET Environmental is the sole UK distributor of Lifebreath air quality and energy conservation products, primarily into residential homes. This was the first year of distributing Lifebreath products, and whilst sales are currently small, Lifebreath



The Group's product offering has been further expanded... The Group now has a much more comprehensive and complementary range of HVAC products, combined with access to much wider markets.



products have been fitted into a 60-unit housing development by Sunley Estates, and current enquiry levels are encouraging.

Airtrade
Since November 2002, ET Environmental has started marketing specialist acoustics products under the Airtrade name. Sales are currently small, but the aim is to provide a bespoke service to the HVAC industry in the design and supply of noise control products.

Diffusion Refrigeration and Distribution Limited
This new company was established during the year to distribute the Panasonic and LG Electronic ranges of packaged air conditioning equipment, under the trading name of Diffusion Air Conditioning. This subsidiary operates from the existing distribution warehouse in Basingstoke with a further sales office in Birmingham.

Diffusion Air Conditioning started with a small team of highly experienced industry professionals, who brought immediate sales, technical, administration, and distribution expertise to the business. All sales are currently to installing contractors, with an end-user customer base already including a list of blue-chip names, including Woolwich Building Society, Halfords, Pret-A-Manger, and Jet Service Stations.

Since starting to trade in August 2002, Diffusion Air Conditioning achieved sales of £0.774 million in the eight months to 31 March 2003 and incurred start-up operating losses of £0.258 million. Sales are seasonally biased towards the summer months. The packaged air conditioning market is being adversely affected by similar factors as experienced with fan coil and commercial heating sales.

Despite current sales levels being below expectations, the medium term sales outlook is positive. Both Panasonic and LG Electronics are launching new products in the autumn and cross-selling opportunities exist with ET Environmental's long established consultant and specifiers network.

Leigh A Stimpson
Managing Director

Current directors

Graham R Mackenzie, OBE, FREng †
Non-executive Chairman Aged 59
Graham Mackenzie is a Chartered Engineer with many years experience in the engineering and manufacturing sectors. He joined the Board as a non-executive director in 1996 and was appointed Chairman in January 2003. He was previously a director of TI Group plc, Director General of the Engineering Employers Federation and Group Chief Executive of ASW Holdings Plc and is currently a director of Celsa UK Holdings Limited, and a non-executive director of a number of other companies. He was elected a Fellow of the Royal Academy of Engineering in 1991. He does not have a service contract.

Leigh A Stimpson, MCIPS
Managing Director Aged 43
Leigh Stimpson has many years' experience of the HVAC sector, in particular commercial, sales and marketing activities. He joined the Board on 1 May 1997 and has a service contract with ET Environmental Limited, which is terminable on 12 months notice by that company, or 6 months notice by the director. Mr Stimpson is a member of the Chartered Institute of Purchasing.

Steve R McNeice, FCMA
Finance Director and Company Secretary Aged 41
Steve McNeice is a Fellow of the Institute of Chartered Management Accountants who has worked in the HVAC industry since 1993. He joined the Group in 1996 as Finance Director of ET Environmental Limited and was appointed to the Board in January 2002. He has previously held senior financial positions within the Cadogan Group, EC Harris, Jacques Mattiot Wines Plc and Express Dairies. He has a service contract with ET Environmental Limited, which is terminable on 12 months notice by that company, or 3 months notice by the director.

Robert M Unsworth, FCA, BA (ECON)
Acting Finance Director and Company Secretary Aged 50
Robert Unsworth was re-appointed to the Board on 1 July 2003, as an executive director responsible for finance and company secretarial matters, whilst Steve McNeice is on sick leave. He previously served on the Board between 1 May 1997 and 31 December 2001. Prior to first joining the Group in 1996, he held a number of financial positions with both public and private companies in the manufacturing and property sectors. He has a service contract with the Company, which is terminable on 12 months notice by the Company, or 6 months notice by the director.

Advisers

Auditors
Milsted Langdon
Winchester House
Deane Gate Avenue
Taunton TA1 2UH

Bankers
The Royal Bank of Scotland
2 St Phillip's Place
Birmingham B3 2RB

Stockbrokers & Financial Advisors
Evolution Beeson Gregory Limited
The Registry
Royal Mint Court
London EC3N 4LB

Stephen A Komlosy † §
Non-executive Director Aged 62
Stephen Komlosy has over 40 years experience in business and was instrumental in the re-flotation of PremiSys Plc, Netcentric Systems Plc and London and Boston Investments plc on AIM, and Avatar Systems Inc on NASDAQ. He has been a director of a number of public companies including; Branon Plc, a quoted industrial holding company, which he co-founded, operating in the supply of equipment to the oil business and manufacturing for the Ministry of Defence; West End theatre and property owner; Pavilion Leisure Plc and the Laurie Marsh Group of Companies, a property and cinema group, which he was instrumental in floating.

Since 1964 he has built up three private property companies, two of which were amalgamated with public companies. He is a director of a number of public companies operating both in the UK and the USA including Avatar Systems Inc. and Croma Group Plc. Mr Komlosy is also Chairman of Netcentric Systems Plc and London and Boston Investments plc. He does not have a service contract.

Gerard M Thompson †
Non-executive Director Aged 58
Gerard Thompson joined the Board on 26 March 2003. He graduated from Yale University in 1967 and then gained 25 years international investment banking experience with Merrill Lynch and American International Group in the Caribbean, Spain, France, and the UK. He brings a wealth of multiple, cross-border business experience to the Group, including enhancing shareholder value by corporate refinancing and financial reconstructions. He is a director of a number of other public and private companies including Harrell Hospitality Group Inc., Croma Group Plc, Merchant House Group plc, and Northshore Capital Limited. He does not have a service contract.

† Members of the Audit and Remuneration Committees
§ Senior non-executive

Registrars
Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Solicitors
Shoosmiths
Regents Gate
Crown Street
Reading RG1 2PQ

Directors' report

The directors have pleasure in presenting their report and the Group financial statements for the year ended 31 March 2003.

Principal activity
The principal activity of the Group during the year was the design, manufacture, supply and distribution of air conditioning and heating solutions for industrial and commercial applications, including related parts and service activities.

Review of business
The continuing operations comprise the ET Environmental Limited air conditioning and commercial heating business based in Molesey and Basingstoke, together with the Diffusion Refrigeration and Distribution Limited air conditioning business at Basingstoke and Birmingham. The discontinued operations comprise the trading results and adjustments relating to the disposal of Benson Heating in 2001.

During the year the Company's wholly owned subsidiary, ET Environmental Limited, acquired a 55% interest in UVGI Systems Limited, for a consideration of £55. UVGI Systems Limited had not commenced trading by 31 March 2003.

A review of the Group's performance is given in the Chairman's Statement and the Operating and Financial Review.

Results and dividends
The Group profit, both before and after tax, amounted to £0.263 million, compared with a loss in the previous year of £0.635 million.

The directors do not recommend payment of a dividend, because of the need to re-invest profits and to strengthen the Group balance sheet.

Research and development
Operating profit is stated after charging to profits £0.417 million on research and development, including in particular the new Nightingale air filtration product.

Directors
A current list of directors is shown in the schedule of directors on page 8. Mr Geoffrey Dart, the former chairman, resigned on 28 January 2003 and Mr Paul Barham, previously a non-executive director, resigned on 18 March 2003. Mr Gerard Thompson was appointed a non-executive director on 26 March 2003 and Mr Robert Unsworth was appointed an executive director on 1 July 2003.

Directors' interests
Details of director's interests in the Company's shares and options are set out in the Remuneration Report on pages 15 to 17.

Directors' responsibility for the financial statements
The directors are required under Company legislation to prepare financial statements for each financial year, which give a true and fair view of the Group highlighting the profit or loss achieved for that period. Whilst preparing those financial statements, the directors are required to:

- select suitable accounting policies applicable to the Group and apply them consistently;
- make any reasonable and prudent judgements or estimates as required;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business.

The directors confirm that the financial statements comply with the above requirements.

The directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The maintenance and integrity of the Group's websites is the responsibility of the directors. The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the websites.

The Board's report on Corporate Governance is set out on pages 13 to 14.

Share capital
There have been no changes to the levels of authorised or issued share capital during the year.

Substantial shareholdings
At 1 July 2003, the Company had been notified of the following interests of 3% or more of the issued share capital:

	Ordinary shares of 1p each No.	% Interest
London & Boston Investments Plc	15,890,727	21.7
Harrell Hospitality Group Inc.	7,847,812	10.7
Vincent Tchenguiz	4,564,444	6.2
Michael Connell	2,926,296	4.0
John Cawthorne	2,590,000	3.5

Environment
In an attempt to address the environmental and energy issues surrounding HVAC products, particular emphasis in the product development programme is placed on energy efficiency and air quality.

Communication
Investors
The Group considers communication with shareholders is very important. In addition to the interim and annual reports, the Group keeps its website up to date with news affecting the business. All shareholders are encouraged to attend the Annual General Meetings.

Employees
Employee consultation, participation, and involvement in matters affecting their interests have continued to be developed throughout the Group during the year.

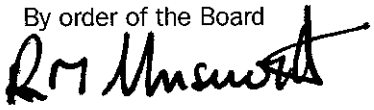
The Group gives equal consideration to applications for employment from people regardless of their sex, ethic origin, age or disability. It is Group policy, wherever practicable, to continue to employ, train and promote the career development of existing employees with the same equal consideration.

Creditors
The Group policy concerning payments to suppliers is either to agree terms of payment at the start of business with each supplier or to ensure the supplier is made aware of our standard terms of purchase, which incorporate standard terms of payment. In either case the Group aims to make payments in accordance with its contractual or other legal obligations. Creditor days at 31 March 2003 were 71 (2002: 66).

Auditors
A resolution is to be proposed at the Annual General Meeting for the re-appointment of Milsted Langdon as auditors of the Company.

Annual general meeting
Notice of the 2003 Annual General Meeting is set out on page 38.

By order of the Board



R M Unsworth
Acting Company Secretary

1 July 2003

The Board is committed to ensuring that proper standards of corporate governance operate throughout the Company and supports the adoption of the Combined Code ("the Code"). The Board has given full consideration to the Principles of Good Governance set out in the Code and describes in this report the manner of its compliance with such principles. The Company has complied with the Code's provisions set out in Section 1 of the Code throughout the year, apart from the matters set out below:

- It is considered more appropriate for the remuneration of executive directors to be linked to corporate performance only, rather than to a combination of corporate and individual performance as required by Principle B.1 of the Code.
- Given the existence of the share option schemes, it is not appropriate for the annual bonus for executive directors to be paid in shares as proposed by paragraph 1 of Schedule A of the Code.

The Board on the policy recommendation of the Remuneration Committee has endorsed both matters of non-compliance.

Board of directors

The Company is controlled by its Board of directors, which has established a formal schedule of matters specifically reserved for its decision. The Board meets monthly and is responsible for formulating strategy, monitoring financial performance, acquisitions and disposals and approving major items of capital expenditure. The Board also approves financial and public statements and authorises the appointment or dismissal of directors. As the Group is of such a small size, the Board does not consider there is a need for a Nomination Committee.

All directors have access to the advice and services of the Company Secretary, training where necessary, and can take independent professional advice, if necessary, at the Company's expense. Throughout the year, non-executive directors have comprised not less than one third of the Board and are deemed to act independently.

Background papers are sent to every director, in advance of each Board meeting, including monthly management accounts, accompanying operational reports, and other policy and strategy papers. These are supplemented by detailed briefings on financial performance during the Board meetings. Annual budgets are approved in advance by the full Board. Non-executive directors are able to contact executive directors at any time for further information.

All directors are required to stand for re-election at the first Annual General Meeting following their appointment and every three years thereafter.

The audit committee

The Audit Committee comprises the three non-executive directors. The Group Managing Director, Group Finance Director, and auditors also attend Audit Committee meetings, as required. The Audit Committee is responsible for reviewing the annual accounts and interim statement, ensuring compliance with accounting policies, and satisfying itself as to the adequacy of the Group's audit and internal financial controls.

The remuneration committee

The Board seeks to set individual remuneration levels, which will attract and retain people of the necessary calibre. The remuneration of executive directors is determined by the Remuneration Committee, which works within the overall policy set by the Board. The Remuneration Committee comprises the three non-executive directors, under the chairmanship of Stephen Komlosy. The Remuneration Committee has access to professional advice inside and outside of the Company.

The Board's Remuneration Report sets out details of the remuneration of Board members for the year ended 31 March 2003. The components of remuneration for executive and non-executive directors is covered under the remuneration report set out on pages 15 to 17. In the year ended 31 March 2003, non-executive directors did not receive any bonus, pension, share options, or other benefits.

Corporate governance

Going concern
After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Internal control
The Board has overall responsibility for the Group's system of internal control and risk management and it is the Board's responsibility to review its effectiveness. The Board's systems are designed to manage rather than eliminate risk of failure to achieve business strategies and objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Internal audit
Due to the Group's small size and the active involvement of the executive directors in its day-to-day activities, the Board does not consider there is a need for an internal audit function. This decision is reviewed annually.

Turnbull compliance
The Board confirms that the Group has established the necessary procedures to implement the guidance on internal controls provided in the Turnbull Report on Internal Control as issued in September 1999 by the Institute of Chartered Accountants.

The procedures have been fully effective throughout the year ended 31 March 2003 and up to the date when this report was approved.

Health and safety
The Group employs an external consultant who visits all sites at least once a month. This consultant specialises in Health and Safety in a manufacturing environment and advises the Group accordingly as to its compliance and responsibility. The Group ensures that all recommendations are implemented in a reasonable time period and full supervision and guidance is given.

The Group provides training for relevant staff on Statutory Health and Safety requirements and written guidance is given in the company Health and Safety manual.

Financial controls and reporting
The Group has a clearly defined organisational structure together with lines of responsibility and delegation of authority to relevant members of staff. The Group has a formal procedure for the appraisal of capital expenditure, which must be approved by the Board.

Management accounts are issued monthly to the main Board for review at Board meetings. These include actual performance compared with budgets and last year, together with key performance indicators.

By order of the Board

R M Unsworth
Acting Company Secretary

1 July 2003

The Board's Remuneration Report has been prepared in accordance with Schedule B of the Combined Code.

The Remuneration Committee has access to professional advice inside and outside of the Company, about its proposals relating to the remuneration of the other executive directors.

Remuneration policy

The Remuneration Committee determines the remuneration of the executive directors following the principles and provisions set out in Section 1 Part B and Schedule A of the Combined Code.

When determining total packages for the executive directors these packages are intended to take account of:

- the size and nature of the Group's business paying particular attention to the duties and responsibilities of the executive directors role.
- the employment market conditions prevailing at the time.
- the remuneration of other public company senior management in a similar sector.
- the qualifications and experience of the executive director concerned.
- a balance between fixed and performance related elements of pay.

The remuneration packages for executive directors include basic salary, performance related bonus awards and share options with other benefits including company car or allowance, pension contributions, private medical insurance and permanent health insurance.

Non-executive directors are paid an annual salary for serving on the Board, which is set by the executive directors on the Board. This salary is reviewed annually. The non-executive directors do not participate in any incentive or benefit scheme within the Group.

The following sections on pages 15 to 17 have been subject to audit, apart from the shareholder returns graph.

Directors' remuneration

The remuneration of the directors was as follows:

	Salary £000	Bonus £000	Benefits £000	**Total 2003 £000**	Total 2002 £000	Contributions to money purchase pension plans **2003 £000**	Contributions to money purchase pension plans 2002 £000
Executive directors							
L A Stimpson	112	15	26	**153**	131	**11**	10
S R McNeice	83	9	1	**93**	24	**7**	2
R M Unsworth	—	—	—	**—**	139	**—**	7
	195	24	27	**246**	294	**18**	19
Non-executive							
G R Mackenzie	24	—	—	**24**	18	**—**	—
S A Komlosy	30	—	—	**30**	24	**—**	—
G Thompson	—	—	—	**—**	—	**—**	—
	54	—	—	**54**	42	**—**	—
Former directors							
G G Dart	55	—	—	**55**	58	**—**	—
A J Baxter	—	—	—	**—**	7	**—**	—
P L Barham	20	—	—	**20**	16	**—**	—
	75	—	—	**75**	81	**—**	—
	324	24	27	**375**	417	**18**	19

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Executive directors bonus schemes
The bonus earned by executive directors in the year ended 31 March 2003 was a percentage of salary, based on the achievement of operating profit targets by the principal subsidiary, ET Environmental Limited.

The bonus scheme to be introduced for executive directors in the year ending 31 March 2004 will be a percentage of salary, based on the achievement of financial performance targets by the Group and other key objectives.

Directors' service agreements
L A Stimpson and S R McNeice have service agreements either with the Group or a subsidiary company, which is terminable on 12 months' notice by the relevant company, or 6 months' notice by L A Stimpson and 3 month's by S R McNeice. Non-executive directors do not have service contracts.

Directors' pension arrangements
The Company contributed 10% of basic annual salary of L A Stimpson into the Energy Technique Group Personal Pension Plan and 10% of basic annual salary into the Personal Private Pension Plan of S R McNeice. No pension contributions are paid for any non-executive director.

Directors' interests
The interests of the directors serving at 31 March 2003, all of which are beneficial, in the ordinary share capital of the Company at the beginning and end of the financial year were as follows:

	Ordinary shares of 1p each	
	31 March 2003 No.	*1 April 2002 No.
L A Stimpson	**140,000**	140,000
S R McNeice	**105,619**	105,619
G R Mackenzie	**500,000**	500,000
S A Komlosy	**—**	—
G Thompson	**929,364**	929,364
	1,674,983	1,674,983

*Or date of appointment if later

S A Komlosy is Chairman of London and Boston Investments Plc and Gerard Thompson is a director of Harrell Hospitality Group Inc. Both these companies have share interests in excess of 3% of the Company's share capital, as set out in the Directors' Report.

Directors share options
The Company operates two executive share option schemes: the Energy Technique 1996 Approved Share Option Scheme and the Energy Technique 1996 Unapproved Share Option Scheme. At the Extraordinary General Meeting on 14 June 2001, shareholders approved:

1 An overall limit on the grants that can be made under the Company's share option schemes (excluding options to the three directors appointed on 14 June 2001) of 10% of the Company's then issued share capital.

2 The granting of authority to the Remuneration Committee to issue share options in exceptional circumstances.

3 To update the rules of the schemes for recent tax and social security changes.

Share options outstanding at 31 March 2003 to executive directors are set out below:

	Number of ordinary shares of 1p each	Exercise price (Pence)	Exercise period From	Exercise period To
L A Stimpson				
1996 Approved Scheme	631,578	4.75	3 July 2004	2 July 2011
1996 Unapproved Scheme	368,422	4.75	3 July 2004	2 July 2008
	1,000,000			
S R McNeice				
1996 Approved Scheme	400,000	4.75	3 July 2004	2 July 2011
	151,724	7.25	31 July 2005	30 July 2012
1996 Unapproved Scheme	48,276	7.25	31 July 2005	30 July 2009
	600,000			

The 1996 Executive Share Options are performance related dependant upon the level of future profitability and will normally be exercisable only after three years from the date of grant. The revised performance criteria is that options can only normally be exercised if the Group has achieved growth in earnings per share of 3 in excess of the increase in the Retail Price Index.

The market price of the shares during the year has ranged from a low of 4.75 pence to a high of 28.75 pence. At 31 March 2003, the market price of the shares was 11.75 pence. The market value of the directors' un-expired share options outstanding at 31 March 2003 was £107,000.

Options granted to directors appointed on 14 June 2001

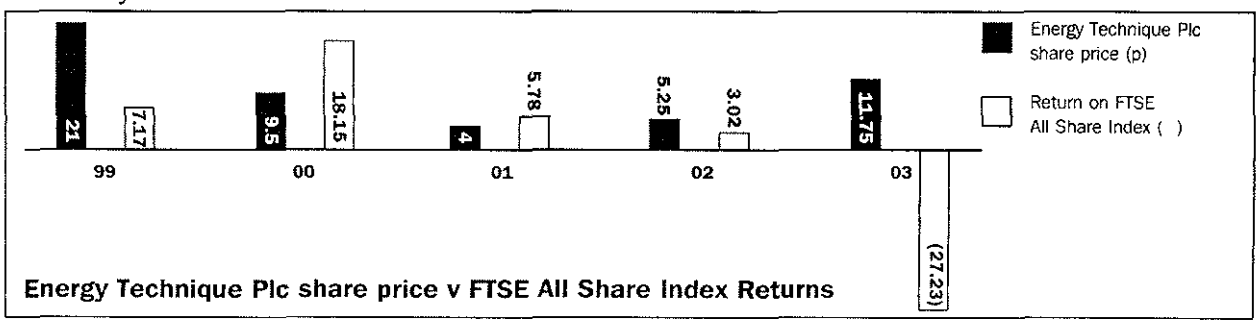
The three directors appointed on 14 June 2001 were granted options to subscribe for 10 of the Company's share capital in issue at the time of exercise, at an exercise price of 3p per share. The options may be exercised in whole or part and must be exercised within five years from 14 June 2001, after which they shall lapse and not be capable of exercise.

With the existing share capital, the options granted are set out below:

	Number of ordinary shares of 1p each	of existing share capital
Current directors		
S A Komlosy (Held in Trust for London & Boston Investments Plc)	3,247,798	4.0
Directors since resigned		
G G Dart (Held in Trust for Baskerville Holdings Limited)	3,247,798	4.0
P L Barham (Held in Trust for Harrell Hospitality Group Inc)	1,623,899	2.0
	4,871,697	6.0
	8,119,495	10.0

Shareholder returns

The following table compares the share price of Energy Technique Plc over the last five years with returns shown by the FTSE All Share Index.



Energy Technique Plc share price v FTSE All Share Index Returns

Report of the independent auditors

to the members of Energy Technique Plc

We have audited the financial statements of Energy Technique Plc for the year ended 31 March 2003, which comprises the Group Profit and Loss Account, the Balance Sheets, Group Cash Flow Statement, Reconciliation of Movements in Shareholders' Funds and the related notes. We have also audited the disclosures contained in the Directors' Remuneration Report described as being audited. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if the information specified by law regarding directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

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

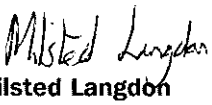
Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

Opinion
In our opinion:

- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.
- the financial statements give a true and fair view of the state of the Group's and the Company's affairs as at 31 March 2003 and of the Group's profit for the year then ended.



Milsted Langdon
Chartered Accountants and Registered Auditors
Taunton

1 July 2003

Group profit and loss account

for the year ended 31 March 2003

	Note	2003 £000	2002 £000
Turnover			
Continuing		**11,704**	11,716
Discontinued		**—**	350
		11,704	12,066
Cost of sales		**(7,884)**	(8,684)
Gross profit		**3,820**	3,382
Distribution costs		**(2,388)**	(1,877)
Administrative expenses		**(1,063)**	(1,140)
Operating profit			
Continuing		**369**	439
Discontinued		**—**	(74)
Before exceptional items		**369**	365
Exceptional items: continuing		**—**	(95)
	2–6	**369**	270
Non operating exceptional items			
Loss on disposal of businesses	7	**—**	(777)
Profit/(loss) before interest		**369**	(507)
Interest payable	11	**(106)**	(128)
Profit/(loss) on ordinary activities before taxation		**263**	(635)
Tax on profit/(loss) on ordinary activities	12	**—**	—
Profit/(loss) for the financial year		**263**	(635)
Dividends on equity shares		**—**	—
Transfer to/(from) reserves	25	**263**	(635)
Earnings/(loss) per share:			
Basic	14	**0.36p**	(0.97)p
Diluted	14	**0.31p**	(0.97)p
Before exceptional items	14	**0.36p**	0.36p
Continuing operations	14	**0.36p**	0.34p

There are no other recognised gains or losses other than as recorded in the profit and loss account for the year.

Group balance sheet

at 31 March 2003

	Note	31 March 2003 £000	31 March 2002 £000
Fixed assets			
Intangible assets	15	—	—
Tangible assets	16	**401**	352
Investments	17	**514**	514
		915	866
Current assets			
Stocks	18	**1,040**	724
Debtors	19	**2,153**	2,640
Cash at bank		**186**	199
		3,379	3,563
Creditors – amounts falling due within one year	20	**(2,949)**	(3,312)
Net current assets		**430**	251
Total assets less current liabilities		**1,345**	1,117
Creditors – amounts falling due after more than one year	21	**(129)**	(164)
Provisions for liabilities and charges	23	—	—
		1,216	953
Capital and reserves			
Called up share capital	24	**731**	731
Share premium account	25	**1,557**	1,557
Other reserves	25	**7,449**	7,449
Profit and loss account	25	**(8,521)**	(8,784)
Equity shareholders' funds		**1,216**	953

Approved by the Board on 1 July 2003 and signed on its behalf by:

L A Stimpson **R M Unsworth**

22 Company balance sheet

at 31 March 2003

	Note	31 March 2003 £000	31 March 2002 £000
Fixed assets			
Tangible assets	16	—	—
Investments	17	**8,760**	8,760
		8,760	8,760
Current assets			
Debtors	19	**1,786**	1,796
Cash at bank		**186**	199
		1,972	1,995
Creditors – amounts falling due within one year	20	**(5,854)**	(6,429)
Net current liabilities		**(3,882)**	(4,434)
Total assets less current liabilities		**4,878**	4,326
Creditors – amounts falling due after more than one year	21	**(97)**	(140)
Provisions for liabilities and charges	23	—	—
		4,781	4,186
Capital and reserves			
Called up share capital	24	**731**	731
Share premium account	25	**1,557**	1,557
Other reserves	25	**2,336**	2,336
Profit and loss account	25	**157**	(438)
Equity shareholders' funds		**4,781**	4,186

Approved by the Board on 1 July 2003 and signed on its behalf by:

L A Sampson **R M Unsworth**

Reconciliation of movements in shareholders' funds

for the year ended 31 March 2003

	Group		Company	
	2003 £000	2002 £000	**2003 £000**	2002 £000
Profit/(loss) for the financial year	**263**	(635)	**595**	(438)
Issue of ordinary shares	—	387	—	387
Increase in share premium account	—	500	—	500
Movements in shareholders' funds	**263**	252	**595**	449
Shareholders' funds at beginning of year	**953**	701	**4,186**	3,737
Shareholders' funds at end of year	**1,216**	953	**4,781**	4,186

Group cash flow statement

for the year ended 31 March 2003

	Note	2003 £000	2002 £000
Cash inflow from operating activities		**487**	478
Returns on investment and servicing of finance	27	**(106)**	(128)
Capital expenditure and financial investment	27	**(142)**	(72)
Expenditure on intangible assets	27	**(30)**	—
Cash inflow before financing		**209**	278
Financing:			
Issue of share capital	27	**—**	373
Increase/(reduction) in debt	27	**14**	(628)
Increase in cash during year		**223**	23

Reconciliation of net cash flow to movement in net debt

	Note	2003 £000	2002 £000
Increase in cash in year		**223**	23
(Increase)/reduction in debt		**(14)**	628
Change in net debt resulting from cash flows		**209**	651
Disposal of finance leases		**—**	4
New finance leases		**(26)**	—
Reduction in net debt		**183**	655
Net debt at start of year	28	**(1,130)**	(1,785)
Net debt at end of year	28	**(947)**	(1,130)

Reconciliation of operating profit to operating cash flows

	2003 £000	2002 £000
Operating profit	**369**	270
Depreciation and amortisation	**149**	128
Stocks	**(316)**	(107)
Debtors	**487**	256
Creditors	**(202)**	(69)
	487	478

1. Accounting policies

Basis of accounting

The accounts have been prepared under the historical cost accounting rules and in accordance with applicable Accounting Standards.

Basis of consolidation

The Group accounts consolidate the accounts of the Company and all its subsidiary undertakings, which are all made up to 31 March each year. Unless otherwise stated, the acquisition method of accounting has been adopted, with the results of businesses acquired or disposed of included in the Group profit and loss account from or up to the effective date of acquisition or disposal.

Goodwill

Goodwill arising on the acquisition of subsidiary undertakings, representing the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired, is written off against reserves on acquisition. In accordance with the transitional rules of FRS 10, this treatment, which applied under the previous accounting standard, has continued to be applied to acquisitions prior to 1 April 1998. Any future acquisitions will follow the provisions of FRS 10, which require the capitalisation and systematic amortisation of goodwill. On the subsequent disposal or termination of a previously acquired business, the profit or loss on disposal or termination is calculated after charging goodwill previously taken to reserves.

Turnover

Turnover represents the amounts receivable in respect of the provision of goods and services delivered to customers during the period, net of value added tax.

Fixed assets and depreciation

Depreciation is provided on the cost of fixed assets on a straight-line basis in order to write them down to estimated realisable value over their estimated useful lives as follows:

Plant, furniture and equipment	– between 10% and 33$^{1}/_{3}$% per annum
Motor vehicles	– 25% per annum

Investments in subsidiary undertakings

Investments in subsidiary undertakings are stated at cost, less provisions for any impairment losses.

Hire purchase and leased assets

Assets acquired under hire purchase and finance lease contracts are recorded in the balance sheet as fixed tangible assets at their equivalent capital value and are depreciated over the useful life of the asset. The corresponding liability is recorded as a creditor and interest is charged to profits on a straight-line basis. Payments under operating leases are charged to profits on a straight-line basis over the life of the lease.

Stocks

Stocks have been valued at the lower of cost and net realisable value, with due allowance made for obsolete and slow moving items. For work in progress and finished stocks, cost consists of direct materials, labour, and appropriate works overheads.

Research and development expenditure

Research and development expenditure is written off as incurred.

Intangible assets

Expenditure on intangible assets is written off as incurred.

Financial instruments

Financial instruments are accounted for and classified as equity or non-equity share capital and debt according to their form.

1. Accounting policies (continued)

Deferred taxation

Full provision is made for deferred taxation using the liability method without discounting to take account of the timing differences between the incidence of income and expenditure for taxation and accounting purposes.

Deferred tax assets are recognised to the extent that they are recoverable.

No provision is made for deferred tax on the unrealised appreciation of investments.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the closing rate of exchange and differences taken to profit and loss account. Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction.

Pensions

A number of the Company's permanent employees are members of Energy Technique's Group Personal Pension Scheme, which is a defined contribution scheme (money purchase). Contributions to this scheme are charged to profits as incurred.

2. Segmental analysis

	Turnover		Operating profit/(loss)		Operating net assets	
	2003 £000	2002 £000	**2003 £000**	2002 £000	**2003 £000**	2002 £000
ET Environmental	**10,930**	11,716	**883**	776	**1,409**	1,677
Diffusion Refrigeration & Distribution	**774**	—	**(258)**	—	**326**	—
Central and Plc costs						
Before exceptional items	**—**	—	**(256)**	(337)	**—**	—
Exceptional items	**—**	—	**—**	(95)	**—**	—
	—	—	**(256)**	(432)	**428**	406
Continuing operations	**11,704**	11,716	**369**	344	**2,163**	2,083
Discontinued operations	**—**	350	**—**	(74)	**—**	—
	11,704	12,066	**369**	270	**2,163**	2,083
Borrowings					**(947)**	(1,130)
Taxation					**—**	—
					1,216	953

3. Turnover by geographical destination

	2003 £000	2002 £000
United Kingdom	**10,917**	11,108
Rest of Europe	**787**	958
	11,704	12,066

4. Analysis of 2002 operating profit

	Continuing operations £000	Discontinued operations £000	Total £000
Turnover	11,716	350	12,066
Cost of sales	(8,386)	(298)	(8,684)
Gross profit	3,330	52	3,382
Distribution costs	(1,806)	(71)	(1,877)
Administrative expenses	(1,085)	(55)	(1,140)
Operating profit/(loss)			
Before exceptional items	439	(74)	365
Exceptional items	(95)	—	(95)
	344	(74)	270

5. Operating profit

	2003 £000	2002 £000
Operating profit is stated after charging:		
Depreciation of tangible fixed assets	**119**	128
Amortisation of intangible assets	**30**	—
Hire of equipment	**22**	23
Research and development expenditure	**417**	269
Auditors' remuneration – Group	**15**	13
– Company	**6**	4
Operating leases – Land and buildings	**230**	264
– Plant and machinery	**167**	158

Remuneration paid to the auditors in relation to non-audit services amounted to £5,500 (2002: £5,850).

6. Exceptional items

	2003 £000	2002 £000
Operating items		
Redundancies and employee termination costs	—	95
	—	95
The exceptional items have been classified as follows:		
Administration expenses	—	95
	—	95

7. Disposal of businesses

The disposal in the year ended 31 March 2002 related to the sale of Benson Heating Limited on 14 June 2001. The disposal involved a hive-across of net assets at 9 May 2001 from ET Environmental Limited to Benson Heating Limited for a purchase consideration of £751,000 which was left outstanding in the form of an unsecured interest free debt due from the purchaser. The hive across of net assets involved a loss on disposal of £26,000.

The share capital of Benson Heating Limited was sold for a consideration of £1. In addition, under the terms of the sale agreement a deed of waiver was made in respect of the sum due under the hive-across agreement, thus writing off the loan due from the purchaser of £751,000.

The book value of net assets disposed of by the Group is as follows:

	2003 £000	2002 £000
Fixed assets	—	324
Stocks	—	967
Debtors	—	634
Creditors	—	(1,148)
Book value of net assets disposed	—	777
Proceeds from disposals	—	—
Loss on disposal	—	777

8. Employees

	2003 No.	2002 No.
The average number of persons employed by the Group, including directors, by category was:		
Manufacture	**78**	69
Sales and service	**46**	34
Administration	**10**	9
	134	112

	2003 £000	2002 £000
Employee costs:		
Wages and salaries	**3,206**	2,826
Social security charges	**301**	262
Pension costs	**83**	84
	3,590	3,172

9. Pensions

The total pension charge of £83,000 (2002: £84,000) shown in note 8 comprises contributions to money purchase schemes only. Amounts due to money purchase schemes at the year-end amounted to £12,000 (2002: £7,000).

10. Directors' emoluments

Details of directors' emoluments, pensions, and share options of individual directors are given in the Board's Remuneration Report on pages 15 to 17.

11. Interest payable and other similar charges

	2003 £000	2002 £000
Bank loans and overdrafts (net of interest receivable)	**4**	7
Invoice discounting	**96**	110
Hire purchase and finance lease agreements	**6**	11
	106	128

12. Taxation

	2003 £000	2002 £000
UK corporation tax on profits for the year	—	—

The tax assessed for the year is lower than the standard 30% rate of corporation tax in the UK. The differences are explained below:

	2003 £000	2002 £000
Profit/(loss) on ordinary activities before tax	**263**	(635)
Corporation tax at 30%	**79**	(190)
Adjusted for:		
Expenses not deductible for tax purposes	**23**	263
Tax losses utilised in current year	—	(128)
Movement in deferred tax assets	**(107)**	45
Movement in deferred capital allowances	**6**	5
Movement in other short term timing differences	**(1)**	5
UK corporation tax on profits for the year	—	—

The Company has tax losses in respect of excess management expenses of £4.3 million (2002: £4.9 million) and trading losses of £0.2 million (2002: nil) available indefinitely for offset against future taxable profits of the Company. Capital losses of £1.0 million (2002: £1.0 million) and surplus ACT of £0.6 million (2002: £0.6 million) have also been carried forward.

Deferred tax assets have been recognised in respect of these losses to the extent to which they are expected to be recovered through taxable profits. A deferred tax asset of £1.4 million (2002: £1.5 million) has not been recognised because recovery is not considered certain.

13. Profit/ (loss) attributable to parent company

	2003 £000	2002 £000
The profit/(loss) for the financial year dealt with in the accounts of the Company is:	**595**	(438)

As permitted by S.230 (4) of the Companies Act 1985, a separate profit and loss account of the Company is not presented.

14. Earnings/(loss) per share

The earnings/(loss) per share calculations have been arrived at by reference to the following earnings and weighted average number of shares in issue during the year.

	2003 £000	2002 £000
Basic		
Profit/(loss) after tax	**263**	(635)
Before exceptional items		
Operating profit	**369**	365
Interest payable	**(106)**	(128)
Tax payable	**—**	—
Profit after tax	**263**	237
Continuing operations		
Operating profit after exceptional items	**369**	344
Interest payable	**(106)**	(122)
Tax payable	**—**	—
Profit after tax	**263**	222
	No.	No.
Weighted average number of shares in issue	**73,075,456**	65,222,670
Weighted average number of shares on a diluted basis	**84,828,723**	65,222,670

The above calculations have been prepared to indicate the earnings of the Company after non-recurring items. Share options outstanding did not have a dilution effect in 2002.

15. Intangible fixed assets

Intellectual property	Group £000
Cost:	
At 1 April 2002	—
Additions	30
At 31 March 2003	**30**
Amortisation:	
At 1 April 2002	—
Provided in the year	30
At 31 March 2003	**30**
Net book value:	
At 31 March 2003	**—**
At 1 April 2002	—

The additions represent a payment for the intellectual property rights of Airtrade Acoustics.

16. Tangible fixed assets

Plant, equipment and vehicles	Group £000	Company £000
Cost:		
At 1 April 2002	1,185	—
Additions	170	—
Disposals	(19)	—
At 31 March 2003	**1,336**	**—**
Depreciation:		
At 1 April 2002	833	—
Provided in the year	119	—
Disposals	(17)	
At 31 March 2003	**935**	**—**
Net book value:		
At 31 March 2003	**401**	**—**
At 1 April 2002	352	—

Included in the net book value of Group fixed assets at 31 March 2003 is £46,000 (2002: £90,000) of assets held under finance leases and hire purchase agreements on which depreciation of £30,000 (2002: £30,000) has been charged in the year.

17. Fixed asset investments by parent company

	Group and Company Unlisted Investments £000	Company Shares in Group undertakings £000	Company Loans to Group undertakings £000	Company Total £000
Cost or valuation:				
At 1 April 2002 and **At 31 March 2003**	**514**	**15,757**	**1,283**	**17,554**
Provisions:				
At 1 April 2002 and **At 31 March 2003**	**—**	**7,511**	**1,283**	**8,794**
Net book value:				
At 1 April 2002 and **At 31 March 2003**	**514**	**8,246**	**—**	**8,760**

The unlisted investments represent shares in London and Boston Investments plc. These were acquired in June 2001 at a price of 10 pence per share and the mid-market price on 1 July 2003 was 3.5 pence per share. The Company acquired the shares as non-cash consideration for the issue of shares in June 2001.

17. Fixed asset investments by parent company (continued)

At 31 March 2003, the Group undertakings included in the consolidation were all wholly owned and incorporated in the United Kingdom and comprised:

Subsidiary	Locations	Principal activity
Continuing operations		
ET Environmental Limited	West Molesey and Basingstoke	Manufacture and distribution of commercial air conditioning and heating products
Diffusion Refrigeration and Distribution Limited	Basingstoke and Birmingham	Distribution of Panasonic and LG air conditioning products

All shares held are ordinary shares and are held by Energy Technique Plc. All Group undertakings operate in the United Kingdom and are engaged in manufacturing and distribution. Dormant Group undertakings have been excluded by virtue of Section 231(2) of the Companies Act 1985.

The Company's subsidiary, ET Environmental Limited, also has a 55% interest in the share capital of UVGI Systems Limited (representing 50% of the voting rights), with a cost of £55. UVGI Systems Limited had not commenced trading at 31 March 2003 and had no assets or liabilities at that date. As a consequence, it has been excluded from the consolidated accounts of Energy Technique Plc.

18. Stocks

	2003 £000	2002 £000
Raw materials and consumables	**592**	581
Work in progress	**1**	2
Finished goods	**447**	141
	1,040	724

The estimated replacement cost of stocks is not materially different from that stated.

19. Debtors

	Group		Company	
	2003 £000	2002 £000	2003 £000	2002 £000
Amounts falling due within one year				
Trade debtors	**1,997**	2,480	—	—
Amounts owed by Group undertakings	—	—	**1,782**	1,782
Other debtors	—	4	—	11
Prepayments and accrued income	**156**	156	**4**	3
	2,153	2,640	**1,786**	1,796

20. Creditors – amounts falling due within one year

	Group		Company	
	2003 £000	2002 £000	**2003 £000**	2002 £000
Bank loans and overdrafts	**43**	274	**43**	37
Invoice discounting	**936**	835	**—**	—
Hire purchase and finance lease liabilities	**25**	56	**—**	—
Trade creditors	**1,503**	1,208	**38**	10
Amounts owed to Group undertakings	**—**	—	**5,720**	6,269
Other creditors and accruals	**333**	693	**62**	113
Other tax and social security	**109**	246	**(9)**	—
	2,949	3,312	**5,854**	6,429

The Group has provided The Royal Bank of Scotland with fixed and floating charges over all of the Group's assets, as security for the bank and invoice discounting facilities provided. Invoice discounting has been advanced on trade debtors of £2.0 million.

Hire purchase and finance lease liabilities are secured on the assets to which they relate.

21. Creditors – amounts falling due after more than one year

	Group		Company	
	2003 £000	2002 £000	**2003 £000**	2002 £000
Bank loans	**97**	140	**97**	140
Hire purchase and finance lease liabilities due between:				
– 1 and 2 years	**25**	14	**—**	—
– Liabilities due between 2 and 5 years	**7**	10	**—**	—
	129	164	**97**	140

Hire purchase and finance lease liabilities are secured on the assets to which they relate.

22. Interest rates, and bank and invoice discounting facilities

Interest rate risk

Interest is payable on the bank loan, overdraft and invoice discounting facility based on The Royal Bank of Scotland's base rate. Hire purchase and finance lease interest rates are fixed rates.

Foreign exchange risk

The directors consider the risk to foreign exchange fluctuations as minimal.

Financial liabilities

The interest rate exposure on financial liabilities at 31 March 2003 is set out below:

	Total Liability £000	**Floating rate £000**	**Fixed rate £000**	Total Liability £000	Floating rate £000	Fixed rate £000
		31 March 2003			31 March 2002	
(Net bank balances)/overdrafts	**(46)**	**(46)**	**—**	215	215	—
Invoice discounting	**936**	**936**	**—**	835	835	—
Hire purchase and finance leases	**57**	**—**	**57**	80	—	80
	947	**890**	**57**	1,130	1,050	80

There is no material difference between the book value and fair value of the above liabilities.

The weighted average interest rate for fixed rate financial liabilities was 9%. The weighted average period to maturity is 20 months. Interest is charged on floating rate financial liabilities based on a margin of 1.75% over base rate for invoice financing and 1.5% over base rate for the bank loan.

22. Interest rates, and bank and invoice discounting facilities (continued)

Maturity of debt

	Group		Company	
	2003 £000	2002 £000	**2003 £000**	2002 £000
Bank loan				
Liabilities due under 1 year	**43**	40	**43**	40
Liabilities due between 1 and 2 years	**46**	42	**46**	42
Liabilities due between 2 and 5 years	**51**	98	**51**	98
	140	180	**140**	180

Committed facilities

At 31 March 2003, the Group had an invoice discounting facility ranging between 70% and 80% of approved eligible debts, which in common with all such facilities is repayable on demand. The undrawn committed invoice discounting facility is dependant on the level of approved eligible debts at any time and amounted to £423,000 at 31 March 2003. A bank loan facility of £140,000 is provided by NatWest Bank plc, which was renewed in June 2003. The invoice discounting facility, which was also renewed in June 2003, is undated as to its duration.

23. Provisions for liabilities and charges

	Group		Company	
	2003 £000	2002 £000	**2003 £000**	2002 £000
Onerous property lease provision				
At start of year	—	164	—	164
Utilised during year	—	(164)	—	(164)
At end of year	—	—	—	—

24. Share capital

	2003 £000	2002 £000
Authorised		
350,789,100 ordinary shares of 1 pence each	**3,508**	3,508
Allotted called up and fully paid		
73,075,456 ordinary shares of 1 pence each	**731**	731

25. Reserves

	Share Premium Account £000	Other reserves £000	Profit & loss account £000
Group			
At 1 April 2002	1,557	7,449	(8,784)
Profit for the year	—	—	263
At 31 March 2003	**1,557**	**7,449**	**(8,521)**
Company			
At 1 April 2002	1,557	2,336	(438)
Profit for the year	—	—	595
At 31 March 2003	**1,557**	**2,336**	**157**

Goodwill previously written off against Group "other reserves" is £4.3 million (2002: £4.3 million).

26. Commitments

	Land & buildings		Other	
	2003 £000	2002 £000	**2003 £000**	2002 £000
Group operating leases				
Annual commitments expiring:				
Within one year	**4**	—	**37**	74
Between two and five years	**—**	—	**144**	84
In more than five years	**229**	229	**13**	—
	233	229	**194**	158
Company operating leases				
Annual commitments expiring:				
Within one year	**—**	—	**1**	—
Between two and five years	**—**	—	**—**	4
	—	—	**1**	4

	Group		Company	
	2003 £000	2002 £000	**2003 £000**	2002 £000
Capital commitments contracted for but not provided	**—**	—	**—**	—

27. Analysis of cash flows

	2003 £000	2002 £000
Returns on investment and servicing of finance		
Interest paid	**(4)**	(7)
Invoice discounting charges	**(96)**	(110)
Interest element of hire purchase and finance lease payments	**(6)**	(11)
	(106)	(128)
Capital expenditure		
Purchase of tangible fixed assets	**(144)**	(72)
Disposal of tangible fixed assets	**2**	—
Purchase of intangible assets	**(30)**	—
	(172)	(72)
Financing		
Issue of share capital	**—**	373
Debt due within one year:		
Increase/(reduction) in invoice discounting	**101**	(702)
Reduction of Combat vendor loan notes	**—**	(73)
Debt due after one year:		
Repayment of bank loan	**(38)**	178
Capital element of finance lease payments	**(49)**	(31)
Increase/(reduction) in debt	**14**	(628)

28. Analysis of net borrowings

	Beginning of year £000	Cash flow £000	Non cash changes £000	**End of year £000**
Cash in hand	199	(13)	—	**186**
Overdraft	(236)	236	—	**—**
	(37)	223	—	**186**
Bank loan	(178)	38	—	**(140)**
Invoice discounting	(835)	(101)	—	**(936)**
Finance lease agreements	(80)	49	(26)	**(57)**
	(1,130)	209	(26)	**(947)**

29. Share options outstanding

Executive share option schemes

The Company operates two executive share option schemes: the Energy Technique 1996 Approved Share Option Scheme and the Energy Technique 1996 Unapproved Share Option Scheme.

Details of share options currently outstanding are set out below:

	Number of ordinary shares	Exercise price (pence)	Exercise period From	Exercise period To
1996 Approved option scheme				
11 June 1997	10,000	51.50	11 June 2001	10 June 2007
17 July 1998	10,000	42.00	17 July 2001	16 July 2008
3 July 2001	1,896,928	4.75	3 July 2004	2 July 2011
31 July 2002	903,448	7.25	31 July 2005	30 July 2012
5 June 2003	282,758	14.5	5 June 2006	4 June 2013
	3,103,134			
1996 Unapproved option scheme				
3 July 2001	736,844	4.75	3 July 2004	2 July 2008
31 July 2002	96,552	7.25	31 July 2005	30 July 2009
5 June 2003	617,242	14.5	5 June 2006	4 June 2010
	1,450,638			

During the year 1.0 million options lapsed and 1.0 million options were issued. Since the year-end 900,000 options have been issued.

The 1996 Executive Share Options are performance related dependant upon the level of future profitability and will normally be exercisable only after three years from the date of grant. The revised performance criteria is that options can only normally be exercised if the Group has achieved growth in earnings per share of 3% in excess of the increase in the Retail Price Index.

The market price of the shares during the year has ranged from a low of 4.75 pence to a high of 28.75 pence. At 31 March 2003, the market price of the shares was 11.75 pence. The market value of the un-expired share options outstanding at 31 March 2003 was £229,000.

Other share options outstanding

In addition to options outstanding under the Executive Share Option schemes, further options of 8,119,495 ordinary shares are outstanding to certain current and former directors, as set out in the Remuneration Report on pages 15 to 17.

Financial calendar
The preliminary announcement of the results for the year
1 July 2003

The 2003 Report and Accounts posted to shareholders
25 July 2003

Annual General Meeting
26 September 2003

The half-year results to 30 September 2003 to be announced
15 December 2003

Registered office
Energy Technique Plc
47 Central Avenue
West Molesey
Surrey KT8 2QZ

Registrars
Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Website address
energytechniqueplc.com
energytechniqueplc.co.uk

Share price information
Information on our share price can be found in the Engineering section of the Financial Times newspaper, but should you require more up to date dealing information go to our website and follow the instructions.

Notice of annual general meeting

of Energy Technique Plc

Notice is hereby given that the 2003 Annual General Meeting of the members of Energy Technique Plc will be held at 47 Central Avenue, West Molesey, Surrey, KT2 2QZ on 26 September 2003 at 10.00 a.m., for the following purposes:

1 To receive and adopt the directors' report and accounts for the year ended 31 March 2003.

2 To adopt the Board's Report on Remuneration.

3 To re-elect as a director, Mr G Thompson, who was appointed since the last Annual General Meeting. He does not have a service contract.

4 To re-elect as a director, Mr R M Unsworth, who was appointed since the last Annual General Meeting. He does have a service contract, which is terminable on 12 months' notice by the Company, or 6 months' notice by the director.

5 To consider and, if thought fit, to pass the following resolution, which will be proposed as an ordinary resolution:

"It is resolved that Milsted Langdon be and are hereby re-appointed auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the Company at a remuneration to be determined by the directors."

6 To consider and, if thought fit, to pass the following resolution, which will be proposed as an ordinary resolution:

"Pursuant to the provisions of Section 80 of the Companies Act 1985 ("the Act") the directors are generally and unconditionally authorised to exercise all of the powers of the Company to allot relevant securities by such section provided that the maximum amount of such securities which may be allotted under this authority within the meaning of that section is £315,318, and this authority, unless it is (prior to its expiry) duly revoked or varied or is renewed, expire on the date falling on the earlier of 15 months from the date hereof or the date of the 2004 Annual General Meeting of the Company save that the Company may, before such expiry, make an offer or agreement which will or may require relevant securities to be allotted after such expiry."

7 To consider and, if thought fit, to pass the following resolution, which will be proposed as a special resolution:

"The directors be hereby given power in accordance with Section 95 of the Act to allot equity securities (within the meaning of Section 94 of the Act) pursuant to the general authority given to them for the purposes of Section 80 of that Act pursuant to Resolution 6 above, as if Section 89(1) of the Act did not apply to the allotment, provided this power be limited to:

(1) the allotment of equity securities pursuant to the terms of the 1996 Approved Option Scheme and the 1996 Unapproved Option Scheme or pursuant to the terms of any other option or option scheme approved by the members in general meeting; and

(2) otherwise than pursuant to (1) above, up to an aggregate nominal amount of £36,538

and this authority, unless it is (prior to its expiry) duly revoked or varied or is renewed, expire on the date falling on the earlier of 15 months from the date hereof or the date of the 2004 Annual General Meeting of the Company save that the Company may, before such expiry, make an offer or agreement which will or may require relevant securities to be allotted after such expiry."

Note

A member entitled to attend and vote at the above meeting may appoint a proxy or proxies, who need not be a member of the Company, to attend and vote in their place. Forms of proxy must be lodged at the offices of Capita Registrars not later than 48 hours before the time of the meeting. A proxy card is enclosed for the use of members.

By order of the Board

R M Unsworth
Acting Company Secretary

25 July 2003

Registered in England No. 13273

Registered office
47 Central Avenue
West Molesey
Surrey KT8 2QZ

Form of proxy

For use by shareholders at the 2003 Annual General Meeting to be held on 26 September 2003

I/We (block capitals) .....

of .....

being (a) holder(s) of Ordinary Shares of 1p each in the capital of the Company, hereby Appoint the Chairman of the meeting

or .....(Note 1)
as my/our proxy to vote for me/us and on my/our behalf at the 2003 Annual General Meeting of the Company to be held on 26 September 2003 and at any adjournment thereof.

I/We direct my/our proxy to vote in the manner indicated by an X in the appropriate column. Unless otherwise indicated, or upon any matter properly before the meeting but not referred to below, my/our proxy may exercise his discretion as to how he votes and whether or not he abstains from voting.

	Resolutions	For	Against
1	To receive and approve the directors report and audited accounts for the year ended 31 March 2003		
2	To adopt the Board's Report on Remuneration		
3	To re-elect Mr G Thompson as a director		
4	To re-elect Mr R M Unsworth as a director		
5	To re-appoint Milsted Langdon as auditors and authorise the directors to determine their remuneration		
6	To grant authority to the directors to issue securities under Section 80 of the Companies Act 1985		
7	To grant authority to the directors to issue securities as if Section 89(1) of the Companies Act 1985 did not apply		

Dated .....2003 Signature(s) .....

Notes:

1 If you wish to appoint a proxy other than the chairman of the meeting insert their name in the space provided and delete "the Chairman of the meeting or".

2 In the case of a corporation a duly authorised officer or attorney must sign this proxy on its behalf.

3 To be effective at the meeting this proxy must be lodged at the address shown overleaf not later than 48 hours before the time of the meeting together, if appropriate, with the power of attorney or other authority under which it is signed or a duly certified copy of that power or authority.

4 In the case of joint holders the signature of any one holder will be sufficient but the names of all the joint holders should be stated. The vote of the senior who tenders a vote whether in person or by proxy will be accepted to the exclusion of the votes of the other joint holders. For this purpose seniority is determined by the order in which the names stand in the register of members in respect of the joint holding.

FOLD 2

BUSINESS REPLY SERVICE
Licence No. MB122

2

Capita Registrars (Proxies)
P.O. Box 25
Beckenham
Kent BR3 4BR

FOLD 1

FOLD 3 AND TUCK IN

Our market place

Our traditional market is in the Heating & Air Conditioning Sector, which has seen modest but sustained growth over the past three or four years. We operate in various segments within the sector, but have become the largest manufacturer and supplier of fan coil units in the UK.

Historically, we have sold to End Users, Consultants and Contractors and our products appear in offices, shops, hotels and airports. Having now signed agreements with Panasonic UK and Nutech of Canada, this will allow us entry into new markets applying our knowledge of air quality and energy efficiency into such sectors as medical, domestic and defence.

Product sectors

Air conditioning units
Commonly known as Fan Coils and traditionally fitted into ceiling voids, under floors or on walls behind decorative casings. Fan coils have heat exchangers which when fed with hot water or chilled water discharge heated or cooled air into the working environment providing a comfortable and constant condition.

Overdoor heaters
Overdoor heaters are fitted over the external doors of many retail and commercial buildings. Heated by either hot water or electricity, the unit will provide a barrier of warm air preventing outside air from entering the building. In addition, the high velocity jet of air helps prevent the ingress of insects.

Fan convector
Traditionally fitted into ceiling voids or on walls and/or behind decorative casings, fan convector units have heat exchangers which when fed with hot water, discharge heated air into the working environment.

Trench heating
Trench heating systems comprise a number of ducts mounted into screeded floors. Into these ducts are fitted heat exchangers, which are covered by decorative grills, usually manufactured from aluminum or stainless steel.

Trench heating is widely acknowledged as the most effective method of reducing or preventing condensation from forming on full height glazing. An additional benefit of trench heating is to prevent cold down drafts occurring when full height glazing is installed.

Split systems
These products generally comprise an indoor (terminal) unit and an outdoor (condenser) unit, hence the term 'split'. The system is pumped with an ozone friendly refrigerant gas enabling the terminal unit to supply heating or cooling. This type of system is more suited to the small commercial and domestic sectors.

Lifebreath filtration
Lifebreath is a patented filtration and heat recovery system, which includes full house climate-controlled air conditioning, HEPA filtration, dehumidification and ventilation. The Lifebreath Air Cleaner uses a new particle capture technology to trap sub-microscopic airborne dust. This filtration system needs minimal maintenance and generates no ozone.

designed & produced by THE DESIGN PORTFOLIO
a member of the flathill communications group plc
www.flathillplc.com

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