Co's House

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ENERGYTECHNIQUE PLC

Annual Report and Financial Statements 2006

Contents

Chairman's statement

Introduction
I am pleased to report the successful completion of a £1.25 million equity refinancing after the year end in May 2006, combined with the Group's return to profitability resulting from the strong recovery at Diffusion Heating and Cooling, the elimination of losses on Discontinued Activities and a reduction in size of central and plc related costs.

Since my appointment in October 2005, a comprehensive review of all of the Group's activities has been conducted, with the aim of concentrating on higher added value products and seeking ways of further reducing the Group's historic high cost base. The current year's results report the significant costs incurred in implementing the conclusions of this strategic review, including the decision to wind down the activities of Diffusion DX, Lifebreath and UVGI, the results of which are reported under the heading "Discontinued Operations". The end result is that the Group is now much fitter and leaner and is firmly focused back on its traditional core business of fan coils and commercial heating products, operating from the Diffusion Heating and Cooling business at West Molesey. The results of Diffusion Heating and Cooling are reported under the heading "Continuing Operations".

Group financial performance
Sales of fan coils and commercial heating products at Diffusion Heating and Cooling amounted to £6.9 million (2005: £7.1 million). Group sales in the year however fell to £9.3 million (2005: £10.7 million) due to the effects of winding down Diffusion DX's business from December 2005.

Diffusion Heating and Cooling produced a much improved financial performance, operating at close to break-even, with a significant reduction in the operating loss to £0.1 million (2005: loss of £0.9 million). This recovery is attributable to significant cost cutting measures, which have now started to show through in improved trading results. The Group loss before tax fell to £1.8 million (2005: £2.5 million). Most of the current year Group losses were caused by the discontinued activities of Diffusion DX, Lifebreath and UVGI, which together accounted for £1.0 million of the Group loss, combined with the previously high level of central and plc related costs amounting to £0.7 million. Central and plc costs have now been significantly reduced following the strategic review of the Group's activities referred to above.

Continuing operations
Diffusion Heating and Cooling
Diffusion Heating and Cooling, based in West Molesey, Surrey is now the Group's core business. Diffusion was established over 45 years ago and has established itself as a market leader in the manufacture and supply of fan coils and commercial heating products to offices, hotels, banks and retail outlets. Products are distributed under both the Diffusion and Energy Technique brand names and are recognised as highly engineered, quality products throughout the industry. Diffusion products are to be found in prestigious office developments and in many of the leading banks, hotels and retail chains in the UK and Ireland. End users include Hilton Hotels, City Inn Hotels, Marks & Spencer, ALDI Stores, HBOS, NatWest Bank and the Scottish Parliament.

Diffusion experienced very difficult trading conditions between April 2003 and July 2005, but it is now enjoying a very strong sales led recovery. Whist the business incurred a small loss of £0.1 million in the year, this was all incurred in the first four months of the year. Sales in the last eight months averaged some 8% higher than in the first four months, resulting in a return to profitability since August 2005. New product development of the high added value commercial heating products, combined with more focused marketing efforts to target banks and retail outlets, is starting to produce excellent results. Sales in the second half of the year for commercial heating products were 20% higher than in the corresponding period last year.

Diffusion Heating and Cooling now has a much more streamlined and efficient operational management structure and a much lower cost base. The number of directors has been reduced from seven to three and Leigh Stimpson is now able to concentrate on sales and marketing activities. Considerable attention is now being given to exploring ways of further reducing costs with more efficient manufacturing methods and more effective purchasing.

Discontinued activities
Diffusion DX
This business previously distributed packaged air conditioning equipment. As set out in the Interim Statement, Diffusion DX's sales in the three months ended 31 December 2005 were approximately only 40% of budget, a position compounded by the resignation, early in December 2005, of the remaining Diffusion DX sales team. Consequently, the Board decided to wind down Diffusion DX in its present form. Fully paid stocks have now been disposed of and settlement agreements have been reached with all three of the former key suppliers.

Chairman's statement

Diffusion Air Treatment

Despite the successful testing of the Nightingale UVGI unit by the Health Protection Agency, the Board was disappointed by the lack of demand for the product, particularly from hospitals, especially given the spread of MRSA and other hospital acquired infections. The Company could clearly no longer afford to devote further time and resources to this venture, and the Board decided to close this activity in April 2006. The Group's 50% shareholding in UVGI Systems Limited was sold in August 2006.

Similarly, the fledgling Lifebreath operation was also disposed of in April 2006. This decision was taken because of slow sales take up, low profitability and poor customer payment experience.

Share Issues

The combination of the losses incurred in the first half year to 30 September 2005, in addition to the £2.5 million of losses incurred in the year ended 31 March 2005, necessitated a £1.5 million share placing, before issue expenses, which was approved by shareholders at an Extraordinary General Meeting held on 26 October 2005 and completed in November 2005.

In the Interim Statement, I commented on the extremely difficult trading conditions encountered in the first half of the current year and the continuing problems, which were substantially due to the poor performance at Diffusion DX. Inevitably, this impacted adversely on profitability and cash flow was significantly impaired due to the lower level of financing available to the Group from the invoice discounting facility.

It became clear to the Board that additional long-term working capital was urgently required, both to enable the Group to continue to trade solvently in the short-term and also to provide a sufficiently strong financial base from which to rebuild the business and enable it to move forward successfully in the future.

I am pleased to report that a Concert Party comprising Triandra Limited and James Lugg agreed to subscribe for 530 million shares at the placing price of 0.25p per share, to provide £1.25 million (net of expenses) of additional permanent working capital for the Group. This placing was approved by shareholders on 10 May 2006 together with the proposed Capital Reorganisation, details of which are set out in the Directors' Report. Following this placing, the members of the Concert Party own 72% of the Company's enlarged share capital.

Pro-forma group balance sheet at 31 March 2006

The group balance sheet at 31 March 2006 does not reflect the Group's current financial position and strength, because of the £1.25 million placing completed after the year end in May 2006. The pro-forma group balance sheet on page 32 shows the adjusted balance sheet position at 31 March 2006, on the assumption the £1.25 million share placing had been completed on that date.

Dividends

The Board does not recommend the payment of a dividend (2005: £nil).

Business strategy

The Board believes the net proceeds of the £1.25 million placing will provide a sound financial base from which to rebuild the Group's core business of Diffusion Heating and Cooling, with the intention to develop the business into the brand leader for air conditioning fan coils and, in particular, commercial heating products, through continued product innovation and development. The Board is also examining ways of improving the profitability of fan coil and commercial heating products by sourcing low cost high quality products from overseas manufacturers, whilst still retaining existing high levels of engineering expertise and performance capability.

Directors

I am pleased to welcome James Lugg, who joined the Board as an executive director on 31 January 2006. He has over twenty years experience in the air conditioning and heating sector as an owner-operator of his own businesses and his experience should enable him to make an increasingly important contribution to the recovery and future development of the Group. James Lugg is now the only executive director and he has been instrumental in refocusing the Group on its traditional core business.

Leigh Stimpson and Robert Unsworth both resigned from the Board on 11 April 2006 and I would like to thank each of them for their commitment over recent months, which has contributed to the turnaround of the Group.

Gerard Thompson, the former chairman, resigned on 4 November 2005 and Stephen McNeice, who had been on long-term sick leave since March 2003, was removed from the Board on 14 February 2006 under the Company's Articles of Association.

Management and employees

I would like to thank all of the Group's remaining employees, who, in spite of the difficulties, have worked tirelessly during the last year in achieving the recovery in the Group's fortunes.

Current trading and prospects

The re-financing in May 2006 with an equity injection of £1.25m re-capitalised the balance sheet after the losses incurred on the winding down of the loss making businesses of Diffusion DX, Lifebreath and UVGI, and will provide the necessary funding to grow the core Diffusion Heating and Cooling business. At 27 September 2006, the Group had a net positive cash position of £0.5 million.

Diffusion Heating and Cooling is continuing to enjoy the sales recovery started over a year ago in August 2005. Sales in the first five months of the current year are 17% ahead of the corresponding period and in line with expectations. The order book is very strong at over £2 million and both enquiries and order prospects are similarly very encouraging. As a result of this increased demand, a second shift system has been operating at West Molesey since July 2006.

The Group has been profitable in the first five months of the current year, resulting from the recovery at Diffusion Heating and Cooling, the elimination of losses on the Discontinued Activities and a reduction in size of central and plc related costs. The Board is confident the Group's fortunes have been successfully turned around and it looks forward to a continuation of the current high levels of sales.

Tony Caplin
Non-Executive Chairman

Advisers

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Milsted Langdon
Winchester House
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Taunton TA1 2UH

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Barclays Bank Plc
London Corporate Banking
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Capita Registrars
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Solicitors
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Nominated Adviser
ARM Corporate Finance Limited
12 Pepper Street
London E14 9RP

Directors' report

The directors present their report and the Group financial statements for the year ended 31 March 2006.

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 retail and commercial applications, including related parts and service activities.

Review of business
The Group's Continuing Operations now comprises the Diffusion Heating and Cooling business at West Molesey, Surrey, which is a manufacturer and supplier of fan coils and commercial heating products to offices, hotels, banks and retail outlets.

During the year the Group started to wind down the former activities of Diffusion DX, Lifebreath and UVGI Systems, which have been reported in the accounts under the heading "Discontinued Operations".

The Company's subsidiary, ET Environmental Limited, holds a 50% interest in UVGI Systems Limited, which had not commenced trading by 31 March 2006. This 50% shareholding was disposed of in August 2006.

A review of the Group's performance and likely future developments is given in the Chairman's Statement.

Results and dividends
The Group loss, both before and after tax, amounted to £1.8 million, compared with a loss in the previous year of £2.5 million. The directors do not recommend payment of a dividend.

Share capital
Following approval at an Extraordinary General Meeting held on 26 October 2005, the Company raised £1.5 million (before expenses) by way of a conversion of loan notes into 150 million shares at 1p per share.

Following approval at an Extraordinary General Meeting held on 10 May 2006, the Company raised a further £1.325 million (before expenses) by a share placing of 530 million shares at 0.25p per share.

Capital reorganisation
To facilitate the share placing approved by shareholders on 10 May 2006, it was necessary to reduce the nominal value of the Company's authorised and issued shares from the previous level of 1p per share. To achieve this, each Existing Ordinary Share was sub-divided into:

One New Ordinary Share (with a nominal value of 0.25p each); and

One Deferred Share (with a nominal value of 0.75p each).

The rights attaching to the New Ordinary Shares will, save for the change in nominal value and the entitlement of Shareholders in respect of a return of capital or other distributions arising there from, be identical in all respects to those of the Existing Ordinary Shares.

The Deferred Shares will have no voting rights and will not carry any entitlement to attend general meetings of the Company. They will carry only the right to participate in any return of capital to the extent of 0.75p per share but only after each New Ordinary Share of 0.25p per share has received in aggregate capital repayments totalling £100 per share.

Accordingly, the Deferred Shares will, for all practical purposes, be valueless and it is the Board's intention, at an appropriate time, to make application to the High Court for the Deferred Shares to be cancelled.

Research and development
Operating loss is stated after charging to the profit and loss account £0.2 million on research and development.

Directors and their Interests

A current list of directors is shown on page 4. Tony Caplin was appointed to the Board on 4 November 2005 and James Lugg joined the Board as an executive director on 31 January 2006.

Leigh Stimpson and Robert Unsworth both resigned from the Board on 11 April 2006. Gerard Thompson, the former chairman, resigned on 4 November 2005 and Stephen McNeice, who had been on long-term sick leave since March 2003, was removed from the Board on 14 February 2006 under the Company's Articles of Association.

Details of directors' interests in the Company's shares and options are set out in the Remuneration Report.

Directors' responsibility for the financial statements

The directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Company law requires directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies applicable to the Group and apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable 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 Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are 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.

The directors are responsible for ensuring that the Directors' Report and other information included in the Annual Report is prepared in accordance with company law in the United Kingdom. They are also responsible for ensuring that the annual report includes information required by the AIM Rules.

The maintenance and integrity of the Group's web sites 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 web sites.

Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in the annual reports may differ from legislation in other jurisdictions. The Board's statement on Corporate Governance is set out on page 9.

Substantial shareholdings

At 22 September 2006, the Company was aware of the following interests of 3% or more of the issued share capital:

	Ordinary shares of 1p each No.	% Interest
Triandra Limited	499,633,273	60.0
James Lugg	100,000,000	12.0
Pershing Keen Nominees Limited	50,468,829	6.1
	650,102,102	78.1

Directors' report

Environment
In an attempt to address the environmental and energy issues surrounding HVAC products, particular emphasis is placed in the product development programme 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 web site up to date with news affecting the business. All shareholders are encouraged to attend the Annual General Meeting.

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, ethnic 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 the 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 2006 were 76 (2005: 95).

Financial risk management objectives and policies
The exposure of the Group to price risk, credit risk, liquidity risk and cash flow risk is not material for the assessment of the assets, liabilities, financial position and loss of the Group.

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

There is no relevant audit information of which the company's auditors are unaware. The directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Annual general meeting
Notice of the 2006 Annual General Meeting is set out on page 33.

By order of the Board

R M Unsworth
Company Secretary

27 September 2006

Corporate governance

So far as possible given the Group's size and the constitution of the Board, the Directors comply with the principles of best practice as set out in the Combined Code on Corporate Governance published by the UK Listing Authority.

The Audit Committee
The Board has appointed an Audit Committee, consisting of the Chairman and Kevin Fallon. This Committee meets at least twice annually and is responsible for ensuring that the financial performance of the Group is properly reported and monitored and for meeting the auditors and reviewing their reports in relation to the financial statements and internal control systems.

The Audit Committee reviews the services provided by the external auditors at least on an annual basis. This review includes consideration of the confirmation of independence, which the external auditors provide to the Company on an annual basis, and of the services that they provide to the Group, in order to ensure that their independence is not compromised.

The Remuneration Committee
The Board has appointed a Remuneration Committee, which consists of the Chairman and Kevin Fallon. The Remuneration Committee is responsible for reviewing the performance of the Executive Directors and for setting the scale and structure of their remuneration and the basis of their service contracts. The Remuneration Committee also determines the allocation of share options to employees. Given the size of the Company, the Remuneration Committee will also act as the Nomination Committee responsible for considering and recommending to the Board changes in the Board's composition and membership.

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 audit
Due to the Group's small size and the active involvement of the operational 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.

Health and safety
The Group has recently appointed an external consultant to replace the former external consultant who no longer works for the Company. The intention is for this new consultant to visit the Group on a regular basis. This consultant specialises in Health and Safety in a manufacturing environment and will advise the Group accordingly as to its compliance and responsibility. The Group will ensure 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's Health and Safety manual.

By order of the Board

R M Unsworth
Company Secretary

27 September 2006

Remuneration report

The Remuneration Committee comprises the Chairman and Kevin Fallon.

Remuneration policy and directors' service agreements
Mr Lugg, an executive director, has entered into a letter of appointment with the Company dated 12 April 2006, pursuant to which he does not receive a salary but is reimbursed expenses incurred on behalf of the Company.

The Company has two non-executive directors: the Chairman and Kevin Fallon. Neither of the non-executive directors has a service contract with the Company. Both non-executive directors have entered into letters of appointment with the Company dated 12 April 2006, pursuant to which they are not paid an annual salary by the Company, but are reimbursed expenses incurred on behalf of the Company. They do not participate in any incentive or benefit scheme, or receive any benefit in kind.

Directors' remuneration
The remuneration of the directors was as follows:

	Salary and fees £000	Bonus £000	Benefits £000	**Total 2006 £000**	Total 2005 £000	Contributions to money purchase pension plans **2006 £000**	2005 £000
Executive directors							
J W Lugg	—	—	—	**—**	—	**—**	—
	—	—	—	**—**	—	**—**	—
Non-executive directors							
A L Caplin	6	—	—	**6**	—	**—**	—
K A Fallon	6	—	—	**6**	12	**—**	
	12	—	—	**12**	12	**—**	—
Former directors							
L A Stimpson	113	—	24	**137**	157	**12**	11
R M Unsworth	81	—	15	**96**	113	**9**	8
G M Thompson	49	—	—	**49**	53	**—**	4
S A Komlosy	11	—	—	**11**	29	**—**	—
S R McNeice	63	—	—	**63**	62	**6**	6
G R Mackenzie	—	—	—	**—**	34	**—**	—
	317	—	39	**356**	448	**27**	29
	329	—	39	**368**	460	**27**	29

Mr S R McNeice had been on long-term sick leave since March 2003. Since November 2003 the employment costs of Mr S R McNeice, excluding employers' national insurance and pension contributions, have been borne by a permanent health insurance policy. In addition to the above, Mr S R McNeice received £26,000 for compensation for loss of office.

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

Directors' Interests

The interests of the directors serving at 31 March 2006, all of which are beneficial, in the ordinary share capital of the Company were as follows:

	Ordinary shares of 1p each		
	27 September 2006 No.	31 March 2006 No.	*1 April 2005 No.
A L Caplin	**—**	—	—
J W Lugg	**100,000,000**	—	—
K A Fallon	**—**	—	—
L A Stimpson	**765,000**	765,000	765,000
R M Unsworth	**640,000**	640,000	640,000
S A Komlosy	**—**	—	—
	101,405,000	1,405,000	1,405,000

* Or later date of appointment.

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.

Share options currently outstanding to former executive directors are set out below:

	Date of grant	Number of new ordinary shares of 1p each	Exercise price (Pence)	Exercise period From	To
L A Stimpson					
1996 Approved Scheme	3 July 2001	631,578	4.75	3 July 2004	2 July 2011
1996 Unapproved Scheme	3 July 2001	368,422	4.75	3 July 2004	2 July 2008
1996 Unapproved Scheme	30 April 2004	1,000,000	5.45	30 April 2007	29 April 2011
		2,000,000			
R M Unsworth					
1996 Approved Scheme	5 June 2003	206,896	14.50	5 June 2006	4 June 2013
1996 Unapproved Scheme	5 June 2003	493,104	14.50	5 June 2006	4 June 2010
1996 Unapproved Scheme	30 April 2004	800,000	5.45	30 April 2007	29 April 2011
		1,500,000			
S R McNeice					
1996 Approved Scheme	3 July 2001	400,000	4.75	3 July 2004	2 July 2011
1996 Approved Scheme	31 July 2002	151,724	7.25	31 July 2005	30 July 2012
1996 Unapproved Scheme	31 July 2002	48,276	7.25	31 July 2005	30 July 2009
		600,000			

Remuneration report

The 1996 Executive Share Options are performance related and will normally be exercisable only after three years from the date of grant. The performance criteria for options issued up to 5 June 2003 is that those 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. For options issued on 30 April 2004, the performance criteria are that those options can only normally be *exercised if the share price at the time of exercising the option is 12 pence or higher. The share price performance* criteria will not apply in the event of a demerger, reconstruction or change of control of the Company in consequence of a general offer to shareholders.

The market price of the shares during the year has ranged from a low of 0.625 pence to a high of 3.375 pence. At 31 March 2006, the market price of the shares was 0.875 pence. The market value of the former directors' un-expired share options outstanding at 31 March 2006 was £nil.

Options outstanding to certain directors appointed on 14 June 2001
The 7,968,679 options outstanding to certain of the directors appointed on 14 June 2001 (and who have all since resigned) lapsed on 14 June 2006, five years after the date of grant of the options on 14 June 2001.

By order of the Board

R M Unsworth
Company Secretary

27 September 2006

Independent auditors' report

to the members of Energy Technique Plc

We have audited the group and parent financial statements ("the financial statements") of Energy Technique Plc for the year ended 31 March 2006, which comprise the Group Profit and Loss Account, the Balance Sheets, the Group Cash Flow Statement, the Group Reconciliation of Movements in Shareholders' Funds and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This 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

As described in the statement of Directors' Responsibilities on page 7, the company's directors are responsible for the preparation of the annual report and financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 and whether, in our opinion, the information given in the Directors' Report is consistent with the financial statements.

We also report to you if, in our opinion, 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 information specified by law regarding directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

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 Directors' Remuneration Report, the Chairman's Statement 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 International Standards on Auditing (UK and Ireland) 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. It also includes an assessment of the significant estimates and judgments 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 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.

Independent auditors' report

to the members of Energy Technique Plc

Opinion
In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the Company's affairs as at 31 March 2006 and of the Group's loss for the year then ended;

- the financial statements have been properly prepared in accordance with the Companies Act 1985; and

- the information given in the Directors' Report is consistent with the financial statements.

Milsted Langdon Milsted Langdon
Chartered Accountants and Registered Auditors
Taunton

28 September 2006

Group profit and loss account

for the year ended 31 March 2006

	Note	Continuing Operations £000	Discontinued Operations £000	2006 £000	2005 £000
Turnover	2-3	**6,884**	2,461	**9,345**	10,677
Cost of sales		**(5,403)**	(2,247)	**(7,650)**	(8,845)
Gross profit		**1,481**	214	**1,695**	1,832
Distribution costs		**(1,185)**	(880)	**(2,065)**	(3,233)
Administrative expenses		**(995)**	(191)	**(1,186)**	(953)
Operating loss					
Before exceptional items	4	**(628)**	(828)	**(1,456)**	(2,298)
Exceptional items	5	**(71)**	(29)	**(100)**	(56)
		(699)	(857)	**(1,556)**	(2,354)
Provision for onerous property lease	5	**—**	(115)	**(115)**	—
Loss before interest		**(699)**	(972)	**(1,671)**	(2,354)
Interest payable	9	**(82)**	(32)	**(114)**	(117)
Loss on ordinary activities before taxation		**(781)**	(1,004)	**(1,785)**	(2,471)
Tax on loss on ordinary activities	10	**—**	33	**33**	—
Loss for the financial year		**(781)**	(971)	**(1,752)**	(2,471)
Dividends on equity shares		**—**	—	**—**	—
Transfer from reserves	22	**(781)**	(971)	**(1,752)**	(2,471)
Loss per share:					
Basic	12	**(0.37)p**	(0.46)p	**(0.82)p**	(1.70)p
Diluted	12	**(0.37)p**	(0.46)p	**(0.82)p**	(1.70)p
Before exceptional items	12	**(0.33)p**	(0.40)p	**(0.73)p**	(1.66)p

Both the turnover and operating results shown above for 2005 are entirely in respect of continuing operations.

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 2006

	Note	31 March 2006 £000	31 March 2005 £000
Fixed assets			
Intangible assets	13	–	17
Tangible assets	14	**259**	329
		259	346
Current assets			
Stocks	16	**1,052**	1,580
Debtors	17	**1,850**	2,308
Cash at bank		**112**	–
		3,014	3,888
Creditors – amounts falling due within one year	18	**(3,324)**	(4,151)
Net current liabilities		**(310)**	(263)
Total assets less current liabilities		**(51)**	83
Provisions for liabilities and charges	19	**(200)**	–
		(251)	83
Capital and reserves			
Called up share capital	21	**3,026**	1,526
Share premium account	22	**3,490**	3,572
Other reserves	22	**7,449**	7,449
Profit and loss account	22	**(14,216)**	(12,464)
Equity shareholders' funds		**(251)**	83

Approved by the Board on 27 September 2006 and signed on its behalf by:

A L Caplin **J W Lugg**

IMPORTANT NOTE:
The Group was refinanced in May 2006 with a share placing of £1.25 million net of expenses. The pro-forma group balance sheet on page 32 shows the adjusted balance sheet position at 31 March 2006, on the assumption the £1.25 million share placing had been completed on that date.

Company balance sheet

at 31 March 2006

	Note	31 March 2006 £000	31 March 2005 £000
Fixed assets			
Investments	15	**3,405**	2,250
		3,405	2,250
Current assets			
Debtors	17	**761**	2,295
Cash at bank		**18**	—
		779	2,295
Creditors - amounts falling due within one year	18	**(1,683)**	(1,712)
Net current (liabilities)/assets		**(904)**	583
Total assets less current liabilities		**2,501**	2,833
Provisions for liabilities and charges	19	**(200)**	—
		2,301	2,833
Capital and reserves			
Called up share capital	21	**3,026**	1,526
Share premium account	22	**3,490**	3,572
Other reserves	22	**2,336**	2,336
Profit and loss account	22	**(6,551)**	(4,601)
Equity shareholders' funds		**2,301**	2,833

Approved by the Board on 27 September 2006 and signed on its behalf by:

A L Caplin **J W Lugg**

Reconciliation of movements in shareholders' funds

for the year ended 31 March 2006

	Group		Company	
	2006	2005	**2006**	2005
	£000	£000	**£000**	£000
Loss for the year	**(1,752)**	(2,471)	**(1,950)**	(4,531)
Issue of ordinary shares	**1,500**	780	**1,500**	780
(Reduction)/increase in share premium account	**(82)**	1,985	**(82)**	1,985
Movements in shareholders' funds	**(334)**	294	**(532)**	(1,766)
Shareholders' funds at beginning of year	**83**	(211)	**2,833**	4,599
Shareholders' funds at end of year	**(251)**	83	**2,301**	2,833

Group cash flow statement

for the year ended 31 March 2006

	Note	2006 £000	2005 £000
Cash outflow from operating activities		**(765)**	(2,077)
Returns on investment and servicing of finance	24	**(114)**	(117)
Corporation tax receipt	24	**33**	—
Capital expenditure and financial investment	24	**(31)**	(119)
Cash outflow before financing		**(877)**	(2,313)
Financing:			
Issue of share capital	24	**1,418**	2,765
Reduction in debt	24	**(429)**	(452)
Change in cash during year		**112**	—

Reconciliation of net cash flow to movement in net debt

	Note	2006 £000	2005 £000
Change in cash in year		**112**	—
Reduction in debt		**429**	452
Change in net debt resulting from cash flows		**541**	452
New finance leases		**—**	—
Reduction in net debt		**541**	452
Net debt at start of year	25	**(1,319)**	(1,771)
Net debt at end of year	25	**(778)**	(1,319)

Reconciliation of operating loss to operating cash flows

	2006 £000	2005 £000
Operating loss before exceptional items	**(1,456)**	(2,298)
Exceptional items	**(100)**	(56)
Operating loss after exceptional items	**(1,556)**	(2,354)
Depreciation and amortisation	**118**	107
Stocks	**528**	(257)
Debtors	**458**	346
Creditors	**(313)**	81
	(765)	(2,077)

Notes to the financial statements

1. Accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention.

Basis of consolidation

The Group financial statements consolidate the financial statements 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:

	Rate
Plant and equipment	between 10% and 33 1/3% 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 the profit and loss account so as to produce constant periodic rates of charge on the net obligations outstanding in each period. 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, except for the cost of patent applications, which is capitalised and written off over the expected life of the underlying revenue stream.

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. The provision for deferred tax is undiscounted.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the closing rate of exchange and differences taken to the 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 loss		Operating net assets	
	2006 £000	2005 £000	**2006 £000**	2005 £000	**2006 £000**	2005 £000
Diffusion Heating and Cooling						
Before exceptional items	**6,884**	7,052	**(76)**	(837)	**884**	1,587
Exceptional items	**—**	—	**(61)**	(56)	**—**	—
After exceptional items	**6,884**	7,052	**(137)**	(893)	**884**	1,587
Diffusion DX						
Before exceptional items	**2,336**	3,444	**(403)**	(257)	**(26)**	(180)
Exceptional items	**—**	—	**(29)**	—	**—**	—
After exceptional items	**2,336**	3,444	**(432)**	(257)	**(26)**	(180)
Diffusion Air Treatment	**125**	181	**(425)**	(833)	**77**	150
Central and Plc costs						
Before exceptional items	**—**	—	**(552)**	(371)	**(408)**	(155)
Exceptional items	**—**	—	**(125)**	—	**—**	—
After exceptional items	**—**	—	**(677)**	(371)	**(408)**	(155)
	9,345	10,677	**(1,671)**	(2,354)	**527**	1,402
Borrowings					**(778)**	(1,319)
Taxation					**—**	—
					(251)	83

3. Turnover by geographical destination

	2006 £000	2005 £000
United Kingdom	**8,158**	9,702
Rest of Europe	**1,187**	975
	9,345	10,677

Notes to the financial statements

4. Operating loss

		2006 £000	2005 £000
Operating loss is stated after charging:			
Depreciation of tangible fixed assets		**101**	107
Amortisation of intangible fixed assets		**17**	—
Hire of equipment		**26**	18
Research and development expenditure		**219**	263
Auditors' remuneration	- Group	**19**	27
	- Company	**5**	7
Operating leases	- Land and buildings	**499**	230
	- Plant and machinery	**195**	231

Remuneration paid to the auditors for non-audit services, comprising of tax compliance services, amounted to £3,000 (2005: £51,000).

5. Exceptional items

	2006 £000	2005 £000
Operating items		
Redundancies and employee termination costs	**100**	56
The exceptional items have been classified as follows:		
Cost of sales	**12**	56
Distribution costs	**52**	—
Administration expenses	**36**	—
	100	56
Non-operating items		
Provision for onerous property lease	**115**	—
	215	56

The tax effect of exceptional items is to increase trading losses carried forward.

6. Employees

	2006 No.	2005 No.
The average number of persons employed by the Group, including Directors, by category was:		
Manufacture	**43**	49
Sales and service	**40**	53
Administration	**11**	10
	94	112

	2006 £000	2005 £000
Employee costs:		
Wages and salaries	**2,485**	2,851
Social security charges	**271**	314
Pension costs	**67**	82
	2,823	3,247

7. Pensions

The total pension charge of £67,000 (2005: £82,000) shown in note 6 comprises contributions to money purchase schemes only. Amounts due to money purchase schemes at the year end amounted to £5,000 (2005: £10,000).

8. Directors' emoluments

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

9. Interest payable and other similar charges

	2006 £000	2005 £000
Bank in hand balances	—	(11)
Invoice discounting	114	124
Hire purchase and finance lease agreements	—	4
	114	117

10. Taxation

	2006 £000	2005 £000
UK corporation tax on loss for the year	33	—

The tax assessed for the year is lower than the 30% (2005: 30%) standard rate of corporation tax in the UK. The differences are explained below:

Loss on ordinary activities before tax	(1,785)	(2,471)
UK corporation tax at 30%	(535)	(741)
Adjusted for:		
Expenses not deductible for tax purposes	21	48
Tax losses carried forward	503	661
R&D tax reclaim	33	—
Capital allowances in excess of depreciation	7	32
Movement in other short term timing differences	4	—
Current tax recovery for the year	33	—

The Company has tax losses in respect of excess management expenses of £5.3 million (2005: £4.1 million) and trading losses of £3.6 million (2005: £3.4 million) available indefinitely for offset against future taxable profits. Capital losses of £3.1 million (2005: £1.3 million) and surplus ACT of £0.6 million (2005: £0.6 million) have also been carried forward. A deferred tax asset of £2.7 million (2005: £2.7 million) has not been recognised because recovery is not considered reasonably certain.

11. Loss attributable to parent company

	2006 £000	2005 £000
The loss for the financial year dealt with in the accounts of the Company is:	1,950	4,531

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

Notes to the financial statements

12. Loss per share

The 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.

	Continuing Operations £000	Discontinued Operations £000	2006 £000	2005 £000
Basic				
Loss after tax	**(781)**	(971)	**(1,752)**	(2,471)
Before exceptional items				
Operating loss	**(628)**	(828)	**(1,456)**	(2,298)
Interest payable	**(82)**	(32)	**(114)**	(117)
Tax payable	**—**	—	**—**	—
Loss after tax	**(710)**	(860)	**(1,570)**	(2,415)

	2006 No.	2005 No.
Weighted average number of shares in issue	**213,449,934**	145,334,603
Weighted average number of shares on a diluted basis	**213,449,934**	153,303,282

Supplementary basic loss per share calculations exclude the effect of redundancy costs and the provision set up in 2006 for liabilities and charges. Shares that could potentially be issued under outstanding share options are not dilutive. Details of the outstanding share options can be found in Note 26 on page 31.

13. Intangible fixed assets

Intellectual property	Group £000
Cost:	
At 1 April 2005 and 31 March 2006	**17**
Amortisation:	
At 1 April 2005	—
Provided in the year	(17)
At 31 March 2006	**(17)**
Net book value:	
At 31 March 2006	**—**
At 1 April 2005	17

The intangible assets represented fees payable in connection with patent applications for the Nightingale UVGI air treatment product and related technology. These have been fully provided for in the current year, following the decision to reclassify this activity under Discontinued Operations.

14. Tangible fixed assets

Plant and equipment	Group £000	Company £000
Cost:		
At 1 April 2005	1,488	—
Additions	31	—
Disposals	(74)	—
At 31 March 2006	**1,445**	**—**
Depreciation:		
At 1 April 2005	1,159	—
Disposals	(74)	—
Provided in the year	101	—
At 31 March 2006	**1,186**	**—**
Net book value:		
At 31 March 2006	**259**	**—**
At 1 April 2005	329	—

Included in the net book value of Group fixed assets at 31 March 2006 is £nil (2005: £9,000) of assets held under finance leases and hire purchase agreements on which depreciation of £9,000 (2005: £20,000) has been charged in the year.

15. Fixed asset investments by parent company

	Shares in group undertakings £000
Cost or valuation:	
At 1 April 2005	13,674
Reallocation from inter-company debtors	1,155
At 31 March 2006	**14,829**
Provisions:	
At 1 April 2005	11,424
Provided in year	—
At 31 March 2006	**11,424**
Net book value:	
At 31 March 2006	**3,405**
At 1 April 2005	2,250

Notes to the financial statements

15. Fixed asset investments by parent company (continued)

At 31 March 2006, the Group undertakings included in the consolidation were all wholly owned and incorporated in the United Kingdom and comprised:

Subsidiary	***Locations***	***Principal activity***
ET Environmental Limited (Trading as Diffusion and Energy Technique)	West Molesey	Manufacture and distribution of commercial air conditioning and heating products
Bradfield No. 11 Limited (Formerly Diffusion DX Air Conditioning Limited)	Basingstoke	Distribution of Panasonic, LG Electronics and Fujitsu 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 50% interest in the share capital of UVGI Systems Limited (representing 50% of the voting rights), at a cost of £50. UVGI Systems Limited had not commenced trading at 31 March 2006 and had no assets or liabilities at that date. Consequently, it has been excluded from the consolidated accounts. The Group's 50% shareholding in UVGI Systems Limited was sold in August 2006.

16. Stocks

	2006 £000	2005 £000
Raw materials and consumables	**506**	723
Work in progress	**10**	11
Finished goods	**536**	846
	1,052	1,580

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

17. Debtors

	Group		Company	
	2006 £000	2005 £000	**2006 £000**	2005 £000
Amounts falling due within one year				
Trade debtors	**1,587**	1,910	**—**	—
Amounts owed by group undertakings	**—**	—	**626**	2,090
Prepayments and accrued income	**263**	398	**135**	205
	1,850	2,308	**761**	2,295

18. Creditors – amounts falling due within one year

	Group		Company	
	2006	2005	**2006**	2005
	£000	£000	**£000**	£000
Invoice discounting	**890**	1,312	**—**	—
Hire purchase and finance lease liabilities	**—**	7	**—**	—
Trade creditors	**1,692**	2,076	**73**	75
Amounts owed to group undertakings	**—**	—	**1,340**	1,352
Other creditors and accruals	**560**	417	**285**	258
Other tax and social security	**182**	339	**(15)**	27
	3,324	4,151	**1,683**	1,712

At 31 March 2006, the Group has provided NatWest Bank Plc and RBS Invoice Finance Limited with fixed and floating charges over all of the Group's assets, including cross guarantees, as security for the invoice discounting facilities provided. These charges have been settled post year end. Invoice discounting has been advanced on trade debtors of £1.6 million (2005: £1.9 million).

Since the year end, the Group changed its bankers to Barclays Bank Plc. The Group has provided Barclays Bank Plc with fixed and floating charges over all of the Group's assets, including composite cross guarantees between Energy Technique Plc and ET Environmental Limited, as security for the invoice discounting facilities provided.

19. Provisions for liabilities and charges

	Group		Company	
	2006	2005	**2006**	2005
	£000	£000	**£000**	£000
Onerous property lease	**200**	—	**200**	—

This provision represents the estimated costs of surrendering one of the Company's property leases, which is no longer used for operational purposes.

Notes to the financial statements

20. Financial instruments
Short term debtors and creditors
Short term debtors and creditors have been excluded from all of the following disclosures, except foreign exchange risk.

Interest rate risk
Interest is payable on the invoice discounting facility based on NatWest Bank's base rate.

Foreign exchange risk
The Directors consider the risk to foreign exchange fluctuations is small.

Financial liabilities
The interest rate exposure on financial liabilities at 31 March 2006 is set out below:

	Total Liability	Floating rate 31 March 2006	Fixed rate	Total Liability	Floating rate 31 March 2005	Fixed rate
	£000	£000	£000	£000	£000	£000
Invoice discounting	**890**	**890**	**—**	1,312	1,312	—
Hire purchase and finance leases	**—**	**—**	**—**	7	—	7
	890	**890**	**—**	1,319	1,312	7

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

Invoice discounting is repayable on demand. Interest is charged on invoice discounting at 1.75% over base rate.

Maturity of debt

	Group		Company	
	2006 £000	2005 £000	**2006 £000**	2005 £000
Hire purchase				
Liabilities due under 1 year	**—**	7	**—**	—

Committed facilities
At 31 March 2006, the Group had an invoice discounting facility with RBS of up to 80% of approved eligible debts, which in common with all such facilities is repayable on demand. The undrawn committed invoice discounting facility is dependent on the level of approved eligible debts at any time and amounted to £160,000 at 31 March 2006. Since the year end, the Group changed its bankers to Barclays Bank Plc, who offers an invoice discounting facility of up to 50% of approved eligible debts. The Barclays Bank invoice discounting facility is undated as to its duration.

21. Share capital

	2006 £000	2005 £000
Authorised		
350,789,120 Ordinary shares of 1 pence each	**3,508**	3,508
Allotted called up and fully paid		
302,628,016 (2005: 152,628,016) Ordinary shares of 1 pence each	**3,026**	1,526

At an Extraordinary General Meeting held on 26 October 2005, shareholders approved the issue of £1.5 million of convertible loan notes, which were converted on 4 November 2005 into 150 million ordinary shares at an issue price of 1p per share.

Since the year end, at an Extraordinary General Meeting held on 10 May 2006, shareholders approved the issue of 530 million ordinary shares at an issue price of 0.25p per share. At the same meeting, shareholders also approved an increase in the authorised share capital to £10 million.

To facilitate the share placing approved by shareholders on 10 May 2006, it was necessary to reduce the nominal value of the Company's authorised and issued shares from the previous level of 1p per share. To achieve this, each Existing Ordinary Share was sub-divided into:

One New Ordinary Share (with a nominal value of 0.25p each); and

One Deferred Share (with a nominal value of 0.75p each).

The rights attaching to the New Ordinary Shares will, save for the change in nominal value and the entitlement of Shareholders in respect of a return of capital or other distributions arising there from, be identical in all respects to those of the Existing Ordinary Shares.

The Deferred Shares will have no voting rights and will not carry any entitlement to attend general meetings of the Company. They will carry only the right to participate in any return of capital to the extent of 0.75p per share, but only after each New Ordinary Share of 0.25p per share has received in aggregate capital repayments totalling £100 per share.

22. Reserves

	Share premium account £000	Other reserves £000	Profit & loss account £000
Group			
At 1 April 2005	3,572	7,449	(12,464)
Shares issued	(82)	—	—
Loss for the year	—	—	(1,752)
At 31 March 2006	**3,490**	**7,449**	**(14,216)**
Company			
At 1 April 2005	3,572	2,336	(4,601)
Shares issued	(82)	—	—
Loss for the year	—	—	(1,950)
At 31 March 2006	**3,490**	**2,336**	**(6,551)**

Goodwill previously written off against Group "Other reserves" is £4.3 million (2005: £4.3 million).

Notes to the financial statements

23. Commitments

	Land & buildings		Other	
	2006 £000	2005 £000	**2006 £000**	2005 £000
Group operating leases				
Annual commitments expiring:				
Within one year	**—**	10	**9**	54
Between two and five years	**162**	57	**47**	57
In more than five years	**192**	274	**—**	—
	354	341	**56**	111
Company operating leases				
Annual commitments expiring:				
Between two and five years	**102**	—	**—**	17
In more than five years	**—**	102	**—**	—
	102	102	**—**	17

24. Analysis of cash flows

	2006 £000	2005 £000
Returns on investment and servicing of finance		
Interest received on in hand balances	**—**	11
Invoice discounting charges	**(114)**	(124)
Interest element of hire purchase and finance lease payments	**—**	(4)
	(114)	(117)
Corporation tax		
Corporation tax receipt	**33**	—
Capital expenditure		
Purchase of tangible fixed assets	**(31)**	(119)
Financing		
Issue of share capital	**1,418**	2,765
Debt due within one year:		
Reduction in invoice discounting	**(422)**	(331)
Repayment of bank loan	**—**	(96)
Capital element of finance lease payments	**(7)**	(25)
Reduction in debt	**(429)**	(452)

25. Analysis of net borrowings

	Beginning of year £000	Cash flow £000	Non cash changes £000	**End of year £000**
Cash at bank	—	112	—	**112**
Invoice discounting	(1,312)	422	—	**(890)**
Finance lease agreements	(7)	7	—	**—**
	(1,319)	541	—	**(778)**

26. 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				
3 July 2001	1,765,350	4.75	3 July 2004	2 July 2011
31 July 2002	503,448	7.25	31 July 2005	30 July 2012
5 June 2003	206,896	14.50	5 June 2006	4 June 2013
30 April 2004	800,000	5.45	30 April 2007	29 April 2014
	3,275,694			
1996 Unapproved option scheme				
3 July 2001	368,422	4.75	3 July 2004	2 July 2008
31 July 2002	96,552	7.25	31 July 2005	30 July 2009
5 June 2003	493,104	14.50	5 June 2006	4 June 2010
30 April 2004	2,166,228	5.45	30 April 2007	29 April 2011
	3,124,306			

The 1996 Executive Share Options are performance related and will normally be exercisable only after three years from the date of grant. The performance criteria for options issued up to 5 June 2003 is that those 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. For options issued on 30 April 2004, the performance criteria are that those options can only normally be exercised if the share price at the time of exercising the option is 12 pence or higher. The share price performance criteria will not apply in the event of a demerger, reconstruction or change of control of the Company in consequence of a general offer to shareholders.

The market price of the shares during the year has ranged from a low of 0.625p to a high of 3.375p. At 31 March 2006, the market price of the shares was 0.875p. The market value of the un-expired share options outstanding at 31 March 2006 was £nil.

Options outstanding to certain directors appointed on 14 June 2001

The 7,968,679 options outstanding to certain of the directors appointed on 14 June 2001 (and who have all since resigned) lapsed on 14 June 2006, five years after the date of grant of the options on 14 June 2001.

27. Post balance sheet event

Since the year end, at an Extraordinary General Meeting held on 10 May 2006, shareholders approved the issue of 530 million ordinary shares at an issue price of 0.25p per share to raise £1.25 million after expenses. The pro-forma group balance sheet on page 32 shows the adjusted balance sheet position at 31 March 2006, on the assumption the £1.25 million share placing had been completed on that date.

Pro-forma group balance sheet

at 31 March 2006

	31 March 2006 Audited £000	Adjustment for Share Placing in May 2006 £000	**31 March 2006 Pro-forma £000**
Fixed assets			
Tangible assets	259	–	**259**
	259	–	**259**
Current assets			
Stocks	1,052	–	**1,052**
Debtors	1,850	–	**1,850**
Cash at bank and on deposit	112	360	**472**
	3,014	360	**3,374**
Creditors – *amounts falling due within one year*			
Borrowings	(890)	890	**–**
Other creditors	(2,434)	–	**(2,434)**
	(3,324)	890	**(2,434)**
Net current (liabilities)/assets	(310)	1,250	**940**
Total assets less current liabilities	(51)	1,250	**1,199**
Provisions for liabilities and charges	(200)	–	**(200)**
	(251)	1,250	**999**
Capital and reserves			
Called up share capital	3,026	1,325	**4,351**
Share premium account	3,490	(75)	**3,415**
Other reserves	7,449	–	**7,449**
Profit and loss account	(14,216)	–	**(14,216)**
Equity shareholders' funds	(251)	1,250	**999**

The pro-forma balance sheet shown above has been extracted from the audited balance sheet at 31 March 2006, adjusted only for the impact of the £1.25 million share placing, net of estimated expenses, on the assumption the proceeds had been received on 31 March 2006. No adjustments have been made for trading since 31 March 2006 or for any other adjustments.

Notice of annual general meeting

of Energy Technique Plc

Notice is hereby given that the 2006 Annual General Meeting of the members of Energy Technique Plc will be held at 35 Park Lane, London W1K 1RB on 26 October 2006 at 3.00 pm for the following purposes:

ORDINARY BUSINESS

1. To receive and adopt the directors' report and financial statements for the year ended 31 March 2006.
2. To adopt the Board's Report on Remuneration.
3. To re-elect as a director, Mr Tony Caplin, who was appointed to the Board on 4 November 2005. He does not have a service contract.
4. To re-elect as a director, Mr James Lugg, who was appointed to the Board on 31 January 2006. He does not have a service contract.
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."

SPECIAL BUSINESS

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 be and they are hereby generally and unconditionally authorised to exercise all of the powers of the Company to allot relevant securities (within the meaning of Section 80 of the Act) up to an aggregate nominal amount of £2,367,000, and this authority, unless it is (prior to its expiry) duly revoked or varied or is renewed, shall expire on the date falling on the earlier of 15 months from the date hereof or the date of the 2007 Annual General Meeting of the Company save that the Company may, before such expiry, make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired."

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

   "Subject to the passing of the previous resolution, the directors be and they are hereby given power in accordance with Section 95 of the Companies Act 1985 ("the Act") to allot equity securities for cash (within the meaning of Section 94 of the Act) pursuant to the general authority given to them by the previous resolution, as if Section 89(1) of the Act did not apply to the allotment, provided that this power is 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 £2,325,000

   and this authority, unless it is (prior to its expiry) duly revoked or varied or is renewed, shall expire on the date falling on the earlier of 15 months from the date hereof or the date of the 2007 Annual General Meeting of the Company save that the Company may, before such expiry, make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot equity securities in pursuance of any such offer or agreement as if the power conferred hereby had not expired."

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
Company Secretary
28 September 2006

Registered in England No. 13273

Registered office
47 Central Avenue
West Molesey
Surrey
KT8 2QZ

Shareholder information

Financial calendar

The preliminary announcement of the results for the year	28 September 2006
2006 Annual Report and Financial Statements posted to shareholders	28 September 2006
Annual General Meeting	26 October 2006
Half-year results to 30 September 2006 announced	31 October 2006

Registered office

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

Website address

www.diffusion-group.co.uk

Share price information

Information on our share price can be found in the Engineering Section of the Financial Times newspaper.

Products

Fan coils
Fan coils are 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.

Over door heaters
Over door heaters are fitted over the external doors of many retail and commercial buildings. Heated by either hot water or electricity, these units 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 convectors
Fan convectors are traditionally fitted into ceiling voids or on walls and/or behind decorative casings. They have heat exchangers, which when fed with hot water, discharge heated air into the working environment.

Spares and service
Product support and after sales service predominantly for own branded products.

Shareholders' notes